



Office of the United States Representative
Kolonia, February 13, 1988

Excellency:

I have the honor to refer to conversations which have recently taken place between representatives of our two Governments relating to economic activities in the Federated States of Micronesia which promote the development of the economic resources and productive capacities of the Federated States of Micronesia and to investment insurance (including reinsurance) and guaranties which are backed in whole or in part by the the credit or public monies of the United States of America and are administered either directly by the Overseas Private Investment Corporation ("OPIC"), an independent government corporation organized under the laws of the United States of America, or pursuant to arrangements between OPIC and commercial insurance, reinsurance and other companies. I also have the honor to confirm the following understandings reached as a result of those conversations:

His Excellency

Andon L. Amaraich

Secretary of External Affairs of

The Federated States of Micronesia

Article 1

As used herein, the term "Coverage" shall refer to any investment insurance, reinsurance or guaranty which is issued in accordance with this Agreement by OPIC, by any successor agency of the United States of America or by any other entity or group of entities, pursuant to arrangements with OPIC or any successor agency, all of whom are hereinafter deemed included in the term "Issuer" to the extent of their interest as insurer, reinsurer, or guarantor in any Coverage, whether as a party or successor to a contract providing Coverage or as an agent for the administration of Coverage.

Article 2

The procedures set forth in this Agreement shall apply only with respect to Coverage relating to projects or activities, including contracts involving the provision of goods or services, registered with or otherwise approved by the Government of the Federated States of Micronesia through the President of the Federated States of Micronesia or his designee, whose identity shall be specified in writing, or to Coverage relating to projects with respect to which the Government of the Federated States of Micronesia, or any agency or political subdivision thereof, has entered into a contract involving the provision of goods or services.

Article 3

(a) If the Issuer makes payment to any party under Coverage, the Government of the Federated States of Micronesia shall, subject to the provisions of Article 4 hereof, recognize the transfer to the Issuer of any currency, credits, assets, or investment on account of which payment under such coverage is made as well as the succession of the Issuer to any right, title, claim, privilege, or cause of action existing, or which may arise, in connection therewith.

(b) The Issuer shall assert no greater rights than those of the transferring party under Coverage with respect to any interests transferred or succeeded to under this Article. Nothing in this Agreement shall limit the right of the Government of the United States of America to assert a claim under international law in its sovereign capacity, as distinct from any rights it may have as Issuer.

(c) The issuance of Coverage outside of the Federated States of Micronesia with respect to a project or activity in the Federated States of Micronesia shall not subject the Issuer to regulation under the laws of the Federated States of Micronesia applicable to insurance or financial organizations.

(d) Funds introduced or acquired in the Federated States of Micronesia or withdrawn from the Federated States of Micronesia by the Issuer shall be exempt from all taxes upon income, real property or sales, from customs duties, and from any other similar taxes or levies in the Federated States of Micronesia.

Article 4

To the extent that the laws of the Federated States of Micronesia partially or wholly invalidate or prohibit the acquisition from a party under Coverage of any interest in any property within the territory of the Federated States of Micronesia by the Issuer, the Government of the Federated States of Micronesia shall permit such party and the Issuer to make appropriate arrangements pursuant to which such interests are transferred to an entity permitted to own such interests under the laws of the Federated States of Micronesia.

Article 5

Amounts in the lawful currency of the Federated States of Micronesia, including credits thereof, acquired by the Issuer by virtue of such Coverage shall be accorded treatment by the Government of the Federated States of

Micronesia no less favorable as to use and conversion than the treatment to which such funds would be entitled in the hands of the party under Coverage. Such amounts and credits may be transferred by the Issuer to any person or entity and upon such transfer shall be freely available for use by such person or entity in the territory of the Federated States of Micronesia.

Article 6

(a) Any dispute between the Government of the United States of America and the Government of the Federated States of Micronesia regarding the interpretation of this Agreement or which, in the opinion of one of the Governments, involves a question of public international law arising out of any project or activity for which Coverage has been issued shall be resolved, insofar as possible, through negotiations between the two Governments. If, at the end of three months following the request for negotiations, the two Governments have not resolved the dispute by agreement, the dispute, including the question of whether such a dispute presents a question of public international law, shall be submitted, at the initiative of either Government, to an arbitral tribunal for resolution in accordance with Article 6 (b).

(b) The arbitral tribunal for resolution of disputes pursuant to Article 6(a) shall be established and function as follows:

(i) Each Government shall appoint one arbitrator; these two arbitrators shall designate a president by common agreement who shall be a citizen of a third state and be appointed by the two Governments. The arbitrators shall be appointed within two months and the president within three months of the date of receipt of either Government's request for arbitration. If the appointments are not made within the foregoing time limits, either Government may, in the absence of any other agreement, request the Secretary General of the International Centre for the Settlement of Investment Disputes to make the necessary appointment or appointments, and both Governments agree to accept such appointment or appointments.

(ii) The arbitral tribunal shall base its decision on the applicable principles and rules of public international law. The arbitral tribunal shall decide by majority vote. Its decision shall be final and binding.

(iii) Each of the Governments shall pay the expense of its arbitrator and of its representation in the proceedings before the arbitral tribunal; the expenses of the president and the other costs shall be paid in equal parts by the two Governments. The arbitral tribunal may adopt regulations concerning the costs, consistent with the foregoing.

(iv) In all other matters, the arbitral tribunal shall regulate its own procedures.

Article 7

This Agreement shall continue in force until six months from the date of receipt of a note by which one Government informs the other of an intent no longer to be party to the Agreement. In such event, the provisions of the Agreement with respect to Coverage issued while the Agreement was in force shall remain in force for the duration of such Coverage, but in no case longer than twenty years after the denunciation of the Agreement.

Upon receipt of a note from Your Excellency indicating that the foregoing provisions are acceptable to the Government of the Federated States of Micronesia, the Government of the United States of America will consider that this note and the reply note of the Government of the Federated States of Micronesia constitute an Agreement between our two Governments on this subject, to enter into force on the date of Your Excellency's reply note.

Institution of this Agreement is an important step in furtherance of economic cooperation between our two Governments. Within the framework of the OPIC program, the Government of the United States of America will encourage US private investment in the Federated States of Micronesia.

Accept, Excellency, the renewed assurances of my highest consideration.

MSW

Certified as a true copy of the original. May 20, 1988

Edward J. Michal
Edward J. Michal
American Consul

Department of External Affairs
Kolonias, Pohnpei
Federated States of Micronesia
03 March 1988
Ref: DEA/011-88

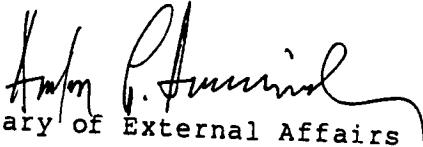
Excellency:

I have the honor to acknowledge receipt of your note dated 13 February 1988, setting out the proposed understandings between your Government and the Government of the Federated States of Micronesia with respect to investment insurance (including reinsurance) and guaranties administered either directly by the Overseas Private Investment Corporation ("OPIC"), or pursuant to arrangements between OPIC and commercial insurance, reinsurance and other companies.

I have the further honor to inform you that the understandings stated in your note are acceptable to the Government of the Federated States of Micronesia. It is agreed that this exchange of notes consisting of your note dated 13 February 1988 and this reply note constitutes an agreement between our two Governments, which shall enter into force on the date of this note.

I have the further honor to inform you that the President of the Federated States of Micronesia has designated the Secretary of Resources and Development to serve in the capacity set forth in Article 2 of the understandings contained in your note. Should a change be proposed in this respect, the Government of the Federated States of Micronesia will promptly notify your Government.

Accept, Excellency, the renewed assurances of my highest consideration.


Secretary of External Affairs

His Excellency,
The Honorable Michael Wygant
Ambassador of the United States of America
Kolonias, Pohnpei