



Legislature of American Samoa's Joint Position MINIMUM WAGE HEARING

Honorable Chairwoman Donna Christensen, Honorable Faleomavaega Eni Hunkin, and Members of the Committee, and staff; Allow us, on behalf of the Legislature of American Samoa, to add our warm welcome to those already extended by our Acting Governor, along with our deep sense of appreciation to the convening authorities, and to all of you who made this arduous trip to ascertain first hand testimonies from government, business, traditional leaders, and the general public on the minimum wage issue. Your physical presence in the Territory exudes a sense of reassurance that maybe we do have some say on this critical issue which affects the lives of Samoan Americans inhabiting the remotest piece of United States real estate south of the equator. We hope that you will have the chance to see and experience the very essence of our cultural values.

Last year, when American Samoa's minimum wage issue gained Congressional attention because of bipartisan political maneuvering and the speed with which the minimum wage legislation was approved without granting American Samoa time to offer testimony, our Governor dispatched a passionate plea, urging the elimination of the automatic \$0.50 annual increase to the Territory of American Samoa's minimum wage, until it reaches the prevailing Federal minimum wage rate. It was our collective belief that this legislation will, without a doubt, trigger an economic tsunami that will absolutely wipe out the Territory of American Samoa's economic system; thereby causing catastrophic social chaos, with sufficient effects, which will clearly be felt by the 50 states of the union and the Congress of the United States. Legislative resolutions were sent, attempting to clearly state fierce concerns over the effort to legislate the minimum wage without analyzing the capacity of American Samoa's economic system to financially accommodate the annual rise in the Territory's minimum wage. The Legislature is again submitting a Concurrent Resolution opposing the automatic 50 cents addition to American Samoa's minimum wage until the federal minimum is reached.

As leaders and residents of the territory, we want our people to earn more and to have the additional disposal income, to improve their quality of lives. While short time economic benefits will be realized, unfortunately, this short lived Utopian state will be followed by a period of drastic economic devastation. This is not a prognosis. It will be American Samoa's reality. The Governor and the leaders of the Legislature are fighting to ensure and to preserve our people's long-term economic future. For a very long time, and now culminating with the introduction of this legislation, some have held and harbored beliefs that the two tuna fish canneries have done little to advance the Territory of American Samoa's economy. We contend that the two tuna fish canneries have been profitable,

otherwise they would have left the Territory. This is the nature of business. No person or company enters business with the intention to lose money. The question that has been asked many times by us, who permanently live in American Samoa, is, if the canneries leave, what is going to happen to the people of American Samoa?

If American Samoa's economic system was sufficiently diversified, the adverse economic impact will not be as destructive, if the canneries were to leave. Unfortunately, the two tuna fish canneries are the only economic game in town. The canneries departure will immediately curtail 29% or 5,000 jobs over night. Within six (6) months, 37% or 6,501 more jobs will be abridged. Within six (6) to twelve (12) months 2,875 or 16.5% of government jobs will be lost. Clearly, substantial amount of purchasing power will no longer be available in the Territory's economy. The economic and social destruction will be pervasive and unrelenting. Some have held the notion that the canneries will never leave American Samoa because there is so much money to be made. This is a very naïve perception and it does not merit any discussion for the mere fact that the economics of the industry continually change, but more adversely against the two canneries located in American Samoa. Wages paid represent one of the major costs of production. The wage rates paid by the two canneries in American Samoa is about five (5) times higher than the other tuna fish processing countries of the world. By this measure alone, the local canneries are already competitively disadvantaged.

The speculation that the canneries will relocate its facilities to other locations where their competitive advantages will improve has long been dreaded by the territory because its economic system is driven by these giant conglomerates. Perspectives on the degree of importance of the canneries on the economy of American Samoa varies depending on the source, however, the common response will always be "critically important". While we all acknowledge the importance of the canneries to the territory's economy, very little financial data is available to quantify this perceived critical relationship with the two tuna fish canning companies.

In recognizing the value of the canneries to the territory, the American Samoa Government has aggressively and vociferously expressed its position against any legislative action which may cause the canneries to relocate facilities elsewhere. The extension of IRS Section 936 for an additional ten (10) years sought last year did not yield any positive response. This federal incentive expired December 31, 2007. The salient thought was the preservation of the canneries' competitive advantage to ensure their continued presence in the Territory. Additional efforts are being explored for the

purpose of maintaining the canneries' competitive advantage. The \$0.50 annual increase in the minimum wage for American Samoa contradicts the collective efforts of the American Samoa Leaders to preserve economic opportunities for American Samoa.

One might wonder what the canneries are doing to support local efforts. There is no doubt that the canneries are doing everything in their powers to assure their stay in American Samoa. However, it can be safely assumed that astute business management dictates that the canneries have already formulated and implementing their alternative operating strategies the moment the first 50 cents was effective last year. This may appear callous but it is just good business. Del Monte and COS Samoa Packing did not gain conglomerate status by being negligent. Business existence is driven by profits and returns on investments. The current economic climate for the American Samoa canneries and for the industry as a whole is not very conducive. The mercury content proliferation threatens global sales of fish products. Spiraling fuel prices, wage rates, environmental regulations, OSHA regulations, emission control regulations, fishing grounds proximity, loss of federal incentives, and geographical location are some of the delimiting factors to the profitability of the local canneries. It would not be unreasonable to say that the approval of the next \$0.50 to the minimum wage will represent the straw that will break the camel's back.

What happens to the 66,500 residents of American Samoa when the minimum wage is increased? This is the question that the leaders are frantically trying to determine. It appears that the American Samoa Government is not prepared nor might fully understand the magnitude of the economic, social, and political devastation that will materialize if the minimum wage is increased by \$0.50 increments. In the mid-seventies to the early eighties, when American Samoa suffered an economic recession, a mass exodus of local residents to the United States was evident. This trend will certainly be repeated as soon as the operations of the canneries are downsized or completely closed. The dislocated American Samoan workers will become the social problems for the U.S. mainland cities and states targeted by the American Samoa immigrants.

In the 1899 Washington Convention, the United States gained control of all the eastern islands of the Samoa archipelago from Germany and Great Britain. The United State's interests in American Samoa were compelled by its obvious desire to secure the Pago Pago harbor to accommodate its coaling station. Pago Harbor was also considered to have strategic value as a staging area for troops and to launch military offenses in the Pacific

Region. Obviously, these interests have ceased but recently, questions have been raised over the extent of the United States obligations to the people of American Samoa. The United States sought to gain control over American Samoa because it needed the harbor and the leaders quietly acquiesced. Unlike other insular territories, American Samoa was never annexed by the United States, as a result of war or conquest. In the years 1900 and 1904 the traditional chiefs of the islands of Tutuila, Aunu'u, and Manu'a, by means of executing two separate treaties of cession, freely ceded their islands to the United States of America. The two treaties of cessions still stand as the foundation or basis upon which American Samoa can claim a political relationship with the United States.

The economic, social, and political devastation that will result with the addition of the next 50 cents to the minimum wage levels points to the United States' failure to adequately prepare its protectorate to attain economic, social, and political self-sufficiency and self-reliance: the Federal Government's goal for American Samoa. An argument can be made in favor of the United States for the millions of dollars poured into the territory since 1900. Unfortunately, these millions of dollars came with strong strings attached, thus precluding the allocation of funds to activities that would build the territory's economic system. American Samoa's economic infrastructure system remains ineffective and incapable of supporting any sustained economic development strategy.

The cost and reliability of the air and surface transportation systems undermine efforts to advance American Samoa's economic goals. The steady rise in the overall cost of doing business in the territory precipitated in part by the application of federal rules and regulations discourages investment and further erodes its competitive posture. Ironically, trade treaties executed by the United States to increase its influence with foreign countries represent the very instruments that are destroying the territory's economic development capacity. One thing that the United States Government has successfully accomplished is the transformation of American Samoa into a totally dependent country.

The Legislature of American Samoa attempted to comprehensively quantify, to the maximum extent possible, the economic impact if the canneries were to leave the Territory. Much has been said about the economic, social, and political desolation that will be caused by the departure of the canneries however, quantification of these beliefs has not been thoroughly addressed. The following attempts to place in proper perspective the importance of the canneries to American Samoa and resulting consequences should their presence is abated.

Canneries’ Direct Contributions to American Samoa’s Economic System

There are two tuna canneries operating in American Samoa, Star-Kist Samoa (owned by Del Monte Inc.) and Chicken of the Sea (COS) Samoa Packing Company. Star-Kist Samoa is the largest tuna cannery in the world, processing and canning about 650 tons of tuna per day and employing about 2,600 workers. Samoa Packing’s production is about 450 tons per day with about 2,400 employees. Both canneries export their products duty-free to the U.S. market under the U.S. Head note 3(a) tariff incentive scheme for U.S. Insular Areas. The canneries are still receiving preferential tax treatment over income and profits earned in American Samoa under the IRS Section 936 for a few more years.

The two tuna fish canning operations (Star-Kist and Samoa Packing) represent the only primary industry in American Samoa. Every business in the territory, including the public sector, is dependent on the canneries for their livelihood. The direct financial contributions of these two companies are itemized in the schedule provided below. It is our belief that the figures are understated because they do not include the amount of funds spent to purchase raw fish for production. While current figures are not available, the existing numbers provide some insights to the impact of the canneries on the Territory of American Samoa.

Description of Contributions by the Canneries	Actual 2003	Estimated 2005
No. of Employees	4,664	4,664
Payroll	\$ 42,896,320	\$ 45,470,099
Public Relations	\$ 61,000	\$ 100,000
Land Leases	\$ 750,000	\$ 750,000
Electricity & Water	\$ 6,840,000	\$ 7,250,400
Butane Gas	\$ 706,800	\$ 749,208
Fuel	\$ 2,960,000	\$ 3,137,600
Local Purchases	\$ 19,190,000	\$ 20,341,400
Educational Contributions	\$ 158,000	\$ 150,000
Total Tangible Contributions	\$ 73,562,120	\$ 77,948,707
Multiplier Effect (3)	3	3
Total Direct Tangible Contributions	\$ 183,905,300	\$ 233,846,122

Source: Actual 2003 Figures Supplied by the Canneries. Year 2005 Figures were estimated based on local economic conditions.

The canneries employ over 33% of the territory’s workforce. Together with the American Samoa Government they provide 70% of total jobs and produce a predominantly service oriented private sector, which supplies employment for the remaining 30% of American Samoa’s total employed work force. The canneries individual income taxes contributions

provide about \$3 million to \$5 million annually. Based on the figures itemized in the schedule above, the canneries directly generated economic stimulation valued at approximately \$223.8 million in 2005. The extent of the canneries economic reach is very deep in American Samoa's society. The fisherman and the farmer depend on the canneries for their livelihood. Small entrepreneurs owe business existence to the canneries in some form or fashion. Small civic organizations benefit from donations provided by the canneries. The influence of the canneries over the territory's economic and social systems is pervasive and irrefutable. The departure of the canneries will wreak havoc in these two systems.

Canneries' Influence over the Territory's Future Economic Perspective:

Since assuming oversight responsibilities over the Territory of American Samoa by the Department of the Interior in 1950, the canneries have been the only two investment success stories. Watch manufacturing, clothing manufacturing, textile manufacturing, corned beef processing, and others have come and gone. The economics were never right for these ventures. The American Samoa Government is aggressively seeking outside investments. But these efforts are being hampered by logistical and operating impairments. Logistical impediments include the cost and frequency of surface transportation to markets for final products and ascertainment of raw materials. Operating hurdles include the high cost of labor, infrastructure, escalating fuel prices, and government red tape. These economic development stumbling blocks have been dwarfed by the existence of incentive schemes such as the IRS Section 936 and the Headnote 3(a). These federal incentive schemes are supplemented by the 10 years of income tax moratorium offered by the American Samoa Government. Unfortunately, some of the federal incentive schemes, which raised American Samoa's competitive advantage, have been neutralized by other national trade agreements executed by the United States with foreign countries. The termination of IRC Section 936 severely undermines American Samoa's economic competitive advantage. The United States has entered into friendly relations agreements with many countries. Most of these countries, including our neighbor to the east, have far superior incentive packages than those offered by American Samoa. The net effect of American Samoa's efforts to entice investment would be zero.

The presence of the canneries provides the stabilizing affect to prospective investors. It is a positive testament to American Samoa being the haven for investors. It supplies investment confidence to the investor from the perspective that high investment yields can be achieved and the investment is secured. It is also an authentication that the

Territory of American Samoa has the best investment climate. The American Samoa Government cannot verbally try to instill these characteristics in any literature that it prepares to attract investment. The presence of the canneries in American Samoa for over fifty years is positive evidence and a most effective promotional tool to attract new investments. The departure of the canneries from American Samoa will send a very negative investment message to any prospective investor. Based on the multitude of economic barriers, coupled with lingering questions on the departure of the canneries, American Samoa's future economic perspectives are very bleak indeed.

The American Samoa Government is aggressively launching its tourism development campaign. The famed Rainmaker Hotel has been gutted with one half of the facility being leased to Dateline Inc. The Tradewinds Hotel that provides 100 luxurious rooms is in place, buttressed by individual owned motels. These efforts will be exercises in futility if the canneries were to depart the territory.

The proposed agricultural development thrust is on maximizing the production of agricultural products to contain imports and to create economic surplus through satisfying the needs of the fishing fleet and the community. The canneries' existence expands the market for vegetables and locally grown produce. Since the inception of the canneries, this market has never been fully satisfied because of the dwindling number of farmers or lack of technical knowledge to successfully raise vegetables on a commercial scale. One of the canneries' products is fishmeal. Much talk ensued in the past on the possible use of fishmeal to make livestock and poultry feed. No actual step was pursued to determine the feasibility of this economic alternative. Late last year a U.S. company engaged in talks with the canneries for the conversion of sludge into bio-diesel. Over the weekend another U.S. Company engaged in discussion with the canneries for the conversion of sludge to high priced protein supplements. These possibilities will no longer be available in the event the canneries depart.

Since the establishment of the canneries, the American Samoa Government struggled to engage in the business of supplying raw fish to the canneries: a feat now achieved by Western Samoan fishermen. The goal of the endeavor is obvious; to capture the money paid by the canneries to foreign fishermen for raw fish. It appears that Samoans can be acclimated to the life of a fisherman as demonstrated by our neighbors to the east. Some of the local residents own fishing vessels facilitating redirection of funds to the local economy. As a parallel development, efforts were energized to seek maximum benefits from miscellaneous fish brought in by the fishing vessels. Some of these initiatives

included the introduction of a miscellaneous fish tax. The other initiative that is still being pursued is vacuum packing fish fillets from the miscellaneous fish destined for the United States Market. One local company is in the process of completing its physical plant. The other local company is in the process of completing its physical plant. These potential economic alternatives will disappear with the departure of the canneries from American Samoa.

Canneries' Impact over Surface and Air Transportation Systems

Surface and air transportation links to markets for final products and the obtainment of raw materials is the centerpiece for any economic development strategy. Its cost impacts the feasibility of any economic development project. Surface and air transportation links to the outside are considered to be inadequate: in frequency and freight rates. Despite these claims, American Samoa is fortunate to have the present surface and air transportation systems even with the presently identified deficiencies. This realization stems from the understanding that current economic conditions can only support the level of service being received. Surface and air services depend on economic need. Economic need is defined by profit yields that could be achieved. With the spiraling price of fuel the economic yields are reduced without a comparable rise in rates to reflect the changes in fuel prices. Maximum profit yield is attained when the ship or airplane carries maximum income generated load. Profit margin levels, determined by the break-even point up to the maximum peak of market tolerance, determine the frequency and cost of freight rates. Without the back-haul of canned fish products and fertilizers, the current frequency of trips and the present freight rates to American Samoa, would not be sustained. It is entirely possible that the number of cargo vessel trips to American Samoa could easily be reduced in half with the freight rates soaring beyond economical levels.

The above scenario would further destroy American Samoa's capacity to forge any level of economic development program. Importing raw materials for producing or fabrication in American Samoa would no longer be economically viable. American Samoa's competitive advantage will be annihilated.

Products imported to sustain the resident's livelihood will become cost prohibited, thus causing more families to live in poverty. It has been estimated that over 95% of American Samoa's consumables are imported, thus causing absolute reliance on air and surface transportation. It is the lifeblood of American Samoa's economic system. Without it American Samoa will experience social and economic devastation. Transportation costs

affect the financial ability of every resident and it will cause some to live in poverty. This state of affairs can exacerbate the already strained financial abilities of many residents to meet the rising cost of living.

Canneries’ Impact over the Territory’s Infrastructure System

Air and surface transportation system, which is one of the vital components of the economic infrastructure system, is covered in the above discussion. It is stated therein that the impact of air and surface transportation link with the outside is pervasive because it affects every life on the island. The same scenario applies to the production of electricity, water, wastewater, solid waste, roads, ports, airports, education, health, public safety, and communication. The presence of the canneries on island has helped reduce the rates charged for the present infrastructure system. To illustrate the point, electricity will be discussed to highlight the impact of the canneries over the rates charged by the American Samoa Power Authority. The figures provided in the schedule show the distribution of electricity payers.

MONTHLY BILLING RANGE	NUMBER OF CUSTOMERS*	% of Total RESIDENTIAL CUSTOMERS
Less THAN \$50	4,353	48%
\$ 50-\$100	2,399	27%
\$101-\$150	975	11%
\$151-\$200	509	6%
\$201-\$350	534	6%
\$351-\$450	127	1%
\$451-\$600	88	1%
\$601-\$1,000	50	1%
Over \$1,001	17	0.20%

Of the total 9,052 customers, 75% or 6,752 pay less than \$100 of electricity on a monthly basis. Total revenue generation for the American Samoa Power Authority for the first two layers of customers would be \$ 332,280 (\$152,355 + \$179,925) monthly or \$3,987,360 yearly. The American Samoa Power Authority reported net sales for electricity of \$34,203,204 for fiscal year 2004. Compared to the \$3,987,360 of revenues generated from 75% of residential customers, it only represents 11.7% of ASPA’s total revenues. The total cost of electrical production is 92.7% of sales. It is quite clear from this discussion that the people of American Samoa would have had to shoulder the burden of higher electricity rates if the canneries were not customers. The American Samoa Power Authority is able to attain an electrical production system with the proper

built-in economies of scale because it has a more expansive clientele base that is supported by the two canneries.

The departure of the canneries from the territory creates a consumption void, which will have to be met by increased rates, and reduced production. Both actions increase the cost of electricity. The same reasoning can be applied to the other elements of American Samoa's infrastructure system.

Canneries' Impact on Fuel Imports

Fishing vessels offloading raw fish to support the canneries' operations purchase fuel in addition to the procurement of supplies for the next fishing trip. High volume of fuel consumption establishes an economic need for the local fuel suppliers to increase the frequency of tankers bringing in fuel. The fuel needs of the canneries, the fishing vessels, the government and the private sector have supported the present frequency and volume of fuel being imported in the Territory. The Government receives revenues estimated in the amount of \$5,196,800 annually through the application of an excise tax rate of \$0.1792 per gallon of imported fuel. Like any otherworld commodity the price is influenced by the purchased volume. The fuel needs of the canneries, coupled with the support fishing fleet, help the territory with the price at which its fuel is purchased from Singapore. If the canneries' and fishing fleet's fuel consumption is factored out, the frequency of tankers bringing fuel to the territory will be noticeably reduced and the price will rise. The stability of American Samoa will be placed in a very delicate balance because electricity rates will rise, air fares will climb, gas prices will spiral out of control, the cost of riding the bus or a taxi ascends, and the general cost of living will rise to levels that would force more residents of American Samoa to live in poverty. Further, the economic development process for American Samoa will be severely stifled. The land transportation industry will be summarily contracted, as some bus and taxi owners will find the level of profit margin too confining to make the effort economically viable. The same could be said about the small local fresh fish industry. The cost of fuel may render their operations unprofitable because the cost of imported fish would be cheaper.

Canneries' Impact on the Private Sector

The pervasive impact the canneries have on every facet of life in the Territory of American Samoa should now be more evident. The all-encompassing influence of the canneries on air and surface transportation, basic infrastructure, and fuel imports, and

direct financial infusion into the territory's economic system automatically affect every business that makes up the private sector. The private sector is supported by the \$233,486,122 million (2005 estimate) that the canneries inject annually into the economy. The canneries indirectly support every mom and pop store in all the villages thus discounting the affect on the cost of key economic elements and directly supported by cannery workers who buy goods from their stores.

The Ronald Reagan Marine Railway ship repair yard predominantly depends on the fishing vessels supplying raw fish to the canneries for its survival. There is insufficient government or private work to sustain this facility. Consequently, if the canneries move, the fishing fleet will move with it and the demise of the Ronald Reagan Shipyard is abundantly evident. Closure of this facility will alter negatively the status of the government's revenue portfolio.

Independent machine shops have been established strictly to address the needs of the fishing vessels and the canneries. Like the Ronald Reagan Repair Shipyard, without this market, their continued survival is curtailed. The government is also the loser as tax revenues will be lost when these operations are closed.

The construction industry is sustained by the canneries through its capital improvement projects that are implemented annually. These projects do not include small and mid-size repair work that it executes intermittently. These construction projects trigger increased sales in the building material outlets. The potential for increased revenues for the government through higher taxes is enhanced.

The wholesale and retail industry is directly supported by the canneries through the payment of \$45.7 million (2005 estimate) in payroll. The 4,664 employees of the canneries spend their wages to purchase food, clothing, cleaning supplies, toiletries, and other basic necessities of life from the wholesale and retail industry. The canneries' payroll yields about \$3 million to \$5 million in individual income tax revenues to the American Samoa Government.

The service industry exists because of opportunities created by the affluent sector of the population driven by the desire to purchase convenience, security, and social amenities. For example, people are more apt to dine out in restaurants than eating at home. The number of residents earning \$50,000 and more is rising at the rate of 12.2% annually. The

management workers of the canneries are among those who fall within this salary threshold. At the lower end of the scale, the cannery workers use their income to purchase traditional basic foods and fresh fish from the market or along the roadside.

The impact of the canneries over the petroleum companies doing business in American Samoa is already documented in the earlier section. This influence is significant and very controlling. American Samoa has already experienced the impact of fuel shortages and its harmful consequences are instantly felt in the people's lives.

Canneries' Impact over the American Samoa Government

Throughout this discussion the canneries' direct financial contributions to the American Samoa Government have been identified and documented. Through their respective payrolls approximately \$3 to \$5 million worth of individual income taxes are paid to the American Samoa Government. Their existence allows the American Samoa Government to achieve proper economies of scales for its utility operations in addition to direct financial contribution (\$7,250,400) through the payment of utility charges and fees. Fuel imports, transportation systems, economic stimulation, internal land transportation system, and others have been positively impacted by the presence of the canneries and certainly aiding the efforts of the government to forge a sustained economic development program.

The moment the canneries depart, the American Samoa Government will face an unemployment rate of at least 70%. At an average salary of \$15,935 for both the private and public sector, total amount of income taken out of the economy is approximately \$156,000,000 or 9,800 jobs lost. The wholesale and retail outlets will be left with large unsold inventory, which will force business closure for many. Restaurants, fast food operations, service station owners, beauty salons, clothing outlets, bus owners, taxi owners, local airline owners, and other business activities will face bankruptcies. The local banks have revealed that the majority of American Samoa's population is in debt. Abrupt termination of employment opportunities precipitated by the closure of the canneries will severely impact the commercial banks loan portfolios. The federal government will have to bear the financial burden of losses incurred by the financial institutions. The American Samoa Government will have to bailout the American Samoa Development Bank for all defaulted home and business loans. With the loss of the

canneries, the American Samoa Government will not have the financial capacity to reimburse the American Samoa Development Bank for its losses.

The canneries' impact on the government's ability to advance its economic development goals has been addressed in the earlier section. The departure of the canneries is the net result of the shrinking impact of federal incentive schemes that were available to improve economic viability. For American Samoa, the departure of the canneries invariably destroys any government capacity to push its economic, social, and political goals.

Will the Canneries Leave If The Minimum Wage is Incrementally Increased?

The economic advantages supporting the existence of the canneries in American Samoa include duty-free entry of canned tuna into the U.S. market, soon to lapse IRC Section 936, local government ten (10) years of tax moratorium, proximity to fishing grounds, direct delivery of raw tuna from U.S. and foreign fishing fleets, relatively cheaper wage rates than other United States insular possessions, the absence of risk from being nationalized, and the threat from foreign currency fluctuations.

The disadvantages to the canneries attributed to being located in American Samoa include but are not limited to the delimiting impact of federal regulations, vast distances to the markets for canned tuna products, high infrastructure cost, continued neutralization of the Headnote 3(a) tariff scheme benefits, and very stiff competition from the canned tuna processing operations located in South East Asia, Europe, South Africa, Andean countries, and Caribbean countries. The prevailing minimum wage rates in American Samoa far exceed those paid by the canneries' competitors.

While the United States advances its national policy of seamless trade barriers, its insular possessions like American Samoa, are desperately fighting for their economic, social, and political survival, made possible only through the granting of special trade protection for the only industry that props its economic system. The U.S. tariffs for tuna imports from Mexico, Costa Rica and the Dominican Republic under the North American Free Trade Act (NAFTA) and the Caribbean Basin Trade Partnership Act are being phased down to zero by the end 2007. Similarly countries like Samoa under the Generalized System of Preferences, and Ghana, Mauritius, Seychelles, Namibia and South Africa under the African Growth and Opportunity Act presently enjoy duty-free status for canned tuna imports into in the U.S. market. Congress approved the Andean treaty providing

preferential treatment of canned tuna processed nearby South American countries including Ecuador, Columbia, Bolivia and Peru. It is increasingly difficult for the canneries to remain competitive with low-cost foreign tuna processors. The advantages of duty-free entry of American Samoa canneries' tuna products into the U.S. is vitally important in helping offset the increasing competition from low-cost processors, i.e. Thailand, Indonesia, the Philippines, Mexico, Ecuador, etc. Despite the significant additional cost of U.S. duty, foreign imports of canned tuna and frozen loins have grown from less than 30% to over 53% of the total canned tuna sold in the U.S. in the last 12 years. Even greater competition and market penetration by foreign imports will likely result from new tariff concessions being granted by the U.S. to these and other countries with low-cost tuna processors.

Duty-free status and tariff phase down for these countries will severely erode American Samoa canneries' competitiveness and improves the advantage of much lower cost structures aided by much lower wages. The savings to the canneries due to U.S. tariffs waiver were estimated to be \$66.6 million dollars in 1999. Obviously, the American Samoa canneries will be severely hard pressed to recoup this huge loss of cost advantage and still be able to compete with now duty-free, low cost tuna processors. The \$66.6 million lost in government revenues dwarfs the value of the canneries' contributions to the American Samoa economic system.

Another comparative disadvantage for the American Samoa canneries, compared to the low cost foreign tuna processors, is the requirement that virtually all of supplies required for production must be shipped in from afar. Cartons, cans and ends, labels, vegetable oil, pallets, equipment and machinery, etc. must be logistically scheduled and shipped in at substantial additional cost. This is not the case in Thailand, Ecuador and other low cost foreign processor countries where most of the supplies are provided in-country or delivered from nearby, less costly sources. Being on major shipping routes, these countries also have the advantage of lower shipping costs to the U.S. and other markets.

Such national trade agreements such as those listed earlier are examples of actions taken by the Federal Government without regard to reciprocal social and economic damages inflicted on American Samoa. These trade instruments erode the competitive advantage of American Samoa's canneries. The other forces continuing to be at place include the fishing grounds that are now closer to these other tuna fish canning locales; adding to the deteriorating competitive ability of the canneries.

Every two years the United States Department of Labor convenes a Minimum Wage Industry Committee to review the minimum wages for American Samoa. It is the mandate of the Department of labor to raise American Samoa's minimum wage as expeditiously as possible to the US minimum wage, which is exceeding \$6 per hour. American Samoa imports its fuel from Singapore. The tuna canning operations located in South East Asia does not pay the same amount of freight rates for their fuel. Shipping to these areas is more frequent and more reliable based on the amount of cargo entering and leaving these canned tuna fish producing Asian countries. The canneries are subjected to any new environmental regulations, which at times have artificially raised operating costs to the installation of new equipment to reduce physical and airborne contaminants. These federal regulations are not enforceable in the independent countries with canned tuna fish productions facilities. The elasticity of demand for tuna fish products in the United States is very sensitive and the rising concern for mercury content in the fish threatens to global market for fish products and could shift consumption patterns to meat and fowl products.

As summarized earlier, the canneries represent American Samoa's sole primary industry. The canneries and the American Samoa Government are the basic sectors of the Territory's economy. Although there is limited and underdeveloped potential for tourism, garment assembly and limited light industry, import-substituting agriculture and fisheries, the economic well being of American Samoa is intrinsically dependent on the canneries. The canneries generate a minimum of \$100 million in personal income if the multiplier effect is 3. It is unlikely therefore, that the limited opportunities for economic diversification either singularly or collectively will have the capacity to replicate the canneries economic significance to the Territory in the foreseeable future.

An area of immediate and significant prospect is the development of local albacore fisheries to supply the canneries and local demand. Due to limited worldwide supply, both canneries are increasingly relying on the increasing amount of albacore tuna that is being supplied mostly from (Western) Samoa. Samoa Packing alone purchased almost \$7.0 million of albacore from American and (Western) Samoan fishing interests in 2000 and look to purchase much more as can be supplied. Although both canneries frequently work with both local and Samoa fishermen to advise and train on maintaining acceptable fish handling, icing and quality standards, fishermen in (Western) Samoa deliver the great majority of albacore supply due largely to the (Western) Samoan Government's program to encourage and develop this important export industry. Similarly, ASG should target

these fisheries for development by local fishermen including, the provision of soft-term financing and technical assistance.

Businesses exist primarily to realize a predetermined rate of return on investment. Companies do have a social conscience but it is limited to the amount that exceeds the predetermined rate of return on investment. The canneries have demonstrated their community mindedness over the years and there is a genuine interest to remain in American Samoa in perpetuity.

The question that is being asked is “will the canneries leave the territory if the propose minimum wage hike is approved”?

We contend that the canneries will, within five years from the imposition of the first \$0.50 minimum wage hikes, have fully transplanted their operations in more economically conducive locales or fully convert local operations to loining. This is understandable as this represents a sound business decision. The rise in the minimum wage will significantly alter the rate of return on investment. An argument will be made, stating that the canneries cannot afford to close operation because of their existing investments. It is a logical argument however conglomerates such as the two canneries forecast and project income earnings far into the future. If the projected rate of return is not possible due to an uncontrollable factor, an economically feasible decision might be to cut loses by curtailing the present operation, irrespective of the amount of investment already made.

This type of decision-making has already been demonstrated by one of the canneries. For example, an investment of approximately \$10 to \$15 million was implemented culminating with an operational can manufacturing plant. This can plant did not produce one can before it was closed down. Based on this demonstrated decision mode practiced by these huge companies, it supports firmly the contention that the canneries will not hesitate to close shop if the economics are no longer favorable, measured by the achievement of predetermined rate of return on investment.

As much as American Samoa will do everything at its disposal to keep the canneries from relocating their facilities, externally imposed decisions as the legislated minimum wage increase for American Samoa, will transform the operations of the canneries in American

Samoa. The resulting mutation will certainly not be in the favor of the people of American Samoa.

Mass out migration will be observed as residents seek their future elsewhere in the United States. The United States will bear the consequences of its actions as the Samoan immigrants seeking enrollment on welfare programs. Samoans who cannot make the adjustment to life in the United States will end up in over populated correctional facilities straining limited financial resources of law enforcement system. Children leaving the territory for educational advancement will become major deterrents to the public education system of the state chosen to be their new home. American Samoans who have poor health will relocate to the States to facilitate ready access to healthcare services. These immigrants do not have insurance or the financial wherewithal to defray their healthcare costs. Most likely, these immigrants will be on welfare seeking qualification under the State's Medicaid programs. American Samoa's technically skilled human resources will be among the immigrants seeking new lives in the United States. While they may be welcomed overseas and may be able to transition seamlessly into the workforce, their departure leaves a great void in the human resource capacity of American Samoa to spearhead its recovery programs.

Air and surface transportation will be scaled back to the 1960 era. Lack of income to purchase food and other necessities of life reduces the amount of inventory kept by businesses and thus reduce the frequency of cargo vessels calling into Pago Pago. With the absence of backhaul cargo, the freight rates charges will be much higher thus raising the cost of goods beyond the economic capacity of many of the remaining residents of American Samoa. Air transportation will also experience drastic cutback, because the residents lack the finances to pay the airfare to visit the United States. Conversely, lack of tourism development will negate the need to travel to American Samoa. Consequently, the airline will find it economically infeasible to make frequent trips to American Samoa.

We were utterly demoralized and filled with questions over the equity of the decision to raise the minimum wage for American Samoa without being afforded the opportunity to submit testimony hoping to sway the execution of such a devastating decision on our economic system. We wondered why this same type of opportunity was not accorded when merits of raising the minimum wage were being deliberated on last year. We are afraid that it takes much more effort to undo something that is already in the books irrespective of the prevailing adverse impacts. This opportunity is acknowledged with

much gratitude. At least it gives us a sense of control over our own destiny even though this is just a dream or an illusion.

Let me say without equivocation that no one opposes the raising of the minimum wage if the prevailing economic system can support the increase. It should be made crystal clear that the government, canneries, and the private sector do provide wage and salary increases periodically to their employees based on the economic carrying capacity of their respective operations. It is also important to note that the United States' prevailing minimum wage is the reflection of its economic capacity. It defies economic logic therefore to force the application of the Federal minimum wage level in American Samoa when the latter's economy is infinitesimally small compared to the most robust and biggest economic system in the world. Sufficient documented evidence exists to validate American Samoa's fear that huge employment curtailment will materialize when the federal minimum wage is imposed.

In spite our desperate attempt last year, and every two years the United States Department of Labor minimum wage hearings are conducted, to bring attention to the economic devastation that will result if the canneries leave or reduce its presence in American Samoa because of its reduced competitive advantage in the global market, Congress went ahead and approved the measure anyway. Instead of the regular two year review, we are once again frantically struggling to bring attention to the fact that what we have been saying all along is becoming our current realities. The U.S. Department of Labor Report will probably state that no evidence of employment curtailment is noted although we were not privy to a copy. We will presume that the McPhee Report, since the Legislature was not afforded a copy, will state the opposite view point and in support of the concerns vocalized and documented last year and every year the U.S. Department of Labor minimum wage hearings are held. Every Industry Committee, commissioned by the U.S. Department of Labor to review the minimum wage, incorporated in their recommendations the suggestion to grant American Samoa the authority to determine its own minimum wage based on the prevailing economy. Nothing eventuated.

Madame Chairwoman Christensen, we are beginning to have grave doubts if this is not another exercise in futility because the same passionate pleas made last year did not change the outcome. Please know how appreciative we are, and we are sure, all of us present here today, that you made this arduous journey, demonstrating your genuine concern for our welfare. But we also knew that our fate was sealed last year because our minimum wage became a national issue that triggered bipartisan politics. Even the last minute intervention by our very influential patriarchs, Honorable Senator Dan Inouye, Senator Daniel Akaka and their Senate colleagues did not alter our fate. What dynamics

have changed in our Nation's Capital to give us hope that our plea for suspension of the imposition of the next 50 cents hike to our minimum wage will be averted?

The dynamics here in American Samoa have changed for the worst. The Chamber of Commerce will testify that business activities are on the decline. The Executive Agencies of the American Samoa Government will testify that employment curtailment will eventuate if the canneries relocate their facilities or alter the configuration of their operations, opting for mechanization to reduce the financial impact of continually increasing minimum wages on their profitability and expected return on investments. It is my hope that the canneries will testify to give you first hand information on their plans to cope with the imposition of legislated periodic escalating minimum wage levels until the federal minimum is reached. The canneries have been silent except for the encouraging announcement by Del Monte Star Kist Samoa that it will proceed with the production of tuna pouch. This welcome news is underscored by information to the effect that it is a scaled down version of its original plans. We have not received information on the canneries plans regarding operational conversion to fish loins. This operating configuration will drastically reduce the canneries' workforce. The imposition of the next 50 cents could very well confirm the conversion decision.

The Legislature depends on the Executive Agencies of the American Samoa Government, the canneries, and the private sector to supply empirical data to support our claim for economic devastation perpetrated by the rise in our minimum wages. We can only provide anecdotal information based on statements received from the community by the Legislators decrying their current status. The common cry heard from the people who visited their Senators and Representatives is that daily living challenges are becoming difficult to accommodate. This disclosure is confirmed by the increased frequency with which financial assistance is being solicited from us Legislators. Moreover, we are witnessing the emergence of small privately owned loan businesses competing with the commercial banks for small short-term loans. We have observed the rise in the number of family based businesses selling food plates and other food items of traditional appeal to make ends meet. The number of individuals seen selling flower leis and other products is on the rise. Unfortunately, the continually spiraling energy prices has exacerbated the situation and forced the redistribution of disposal income away from the purchase of life sustaining goods.

We firmly believe that the minimum wage is just one of the factors that triggered the economic downturn for American Samoa. Our failure to secure replacement incentives for the demised IRC Section 936 forced the canneries to reassess its continued presence in the Territory which reflected in the volume and value of its imports into American

Samoa in 2006. The minimum wage however, reaffirmed whatever strategies formulated by the canneries relative to its presence in American Samoa. Bilateral agreements entered into with other tuna producing countries reduced the inherent competitive advantage American Samoa used to have which gave economic reason to the canneries to remain on island.

Let us provide for your information government revenues generated from the imposition of excise taxes on imports. In fiscal year 2004 total revenue collections was \$24,632,820; fiscal year 2005 total revenue collections was \$23,740,032; fiscal year 2006 total revenue collections was \$22,457,085; and finally in fiscal year 2007 total revenue collections was \$20,738,343. Between fiscal years 2004 and 2007, total revenue collections from excise taxes plummeted by 18.8% or 4.7% annually. The above figures are from the reports prepared by our Department of Treasury. There has been a steady decline in the total revenues collected from excise taxes meaning that consumption, reflected by imports, has methodically declined over the period of four years. This information should provide proof that American Samoa's economy is worsening and it will not stand the adverse impact of adding an additional 50 cents to the Territory's minimum wage. It also supports the claim from the private sector that business activity is declining.

You will hear testimonies from some of our people stating that the additional \$50 cents will go far in making their lives more tolerable. We do hear their plea for help however we are more concerned about their long-term survival because if the additional 50 cents forces the mass curtailment of jobs, he or she might end up, without a job totally; then they will be worst off than their current predicament. Artificially raising the minimum wage without the economy to absorb its impact is morally irresponsible.

We know what needs to be done to alter our current economic dilemma. However, it takes the support and commitment of the Congress to assist us put to work strategies to bolster economic growth. We need federal incentive schemes to entice investment into the territory. We need special treatment under the cabotage rule because of our remoteness and the associated cost to travel to American Samoa; factors which retard our ability to advance our tourism industry. We need federal agencies to amend their program policies creating impediments or preempting full application of their programs in American Samoa. We need a venture capital pool to be made available through loans to American Samoans so they can participate fully and become beneficiaries of their our country's economic development successes.

The preponderance of the evidence against the imposition of the next 50 cents to the minimum wage is overwhelming. This sentiment is also reflected in the legislation being

proposed by our Congressman Faleomavaega to abort the minimum wage escalation clause and to base future minimum wage adjustments on the capacity of our economic system. In conclusion, we want to extend once again my thanks to you and your committee for this opportunity to share with you our aspirations. We hope you will remember us with fond memories when you return back to our nation's capital. We also take this chance to thank our Congressman Faleomavaega for the introduction of legislation to abate this nemesis. May the good Lord keep you safe as you attend to the business of our people.

Lolo M. Moliga
President of the Senate

Savali Talavou Ale
Speaker of the House of Representatives