

AMERICAN SAMOA BUSINESS OPPORTUNITIES REPORT

**PREPARED FOR THE UNITED STATES DEPARTMENT OF THE INTERIOR
OFFICE OF INSULAR AFFAIRS**



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EXECUTIVE SUMMARY

Tuna canneries have long been the driving force in American Samoa's economy. They employ a third of the Territory's available labor, and account for much of the secondary employment. In their more than four decades of operation, the canneries have brought more than just income to the Territory; they have also driven the development of an infrastructure that is among the best in the Pacific.

Now American Samoa is looking beyond the canneries, seeking to diversify its economy away from its current narrow base. Although the Territory faces the same difficulties of size and geography that confront many island economies, it has a rich set of assets to draw on as it explores new avenues for growth.

Chief among those assets is a robust telecommunications infrastructure that is helping to shrink the distance between American Samoa and its major trading partners on the U.S. mainland and elsewhere. High-speed internet connects businesses both within- and off-island. Forward-thinking initiatives have supplied the Territory with advanced capabilities such as teleconferencing and distance learning facilities.

Other advantages include:

- Reliable and affordable power, water, and waste disposal.
- A favorable wage rate, with minimum wages varying by industry between \$3-4.
- An educated, English-speaking population.
- A stable government and a legal framework based on the U.S. rule of law.

Numerous business opportunities await the right partners. Among the more attractive near-term possibilities are the following:

- **Ocean resources.** American Samoa sits among the most abundant fishing grounds in the world. Numerous markets for high-quality fish exports are waiting to be tapped.
- **Port facilities and shipping infrastructure.** Pago Pago is home to one of the best natural deep-water ports in the Pacific. Additional capital expenditures and improved management will yield handsome returns.
- **Distance learning and telemedicine.** As demand grows for advanced vocational skills and medical care, technology will play a crucial role in filling the gap.
- **Alternative energy.** Long an energy innovator, American Samoa is looking to alternative sources of power as diesel costs and transportation costs continue to rise.
- **Real estate development.** Land is a precious commodity in American Samoa, and proper development of hotels and retail spaces is essential to economic growth.

American Samoa seeks partners in its future growth: investors who can bring much-needed capital to fuel the entrepreneurial aspirations of its people; operational experts who bring specialized skills to the management of American Samoa's increasingly sophisticated private sector; foreign corporations who seek to expand in a dynamic region of the world; and contractors to help implement American Samoa's new economic vision.

BACKGROUND

Geography

American Samoa is comprised of five islands and two coral atolls with a total land area of 76 square miles. Located in the tropics roughly halfway between Hawaii and New Zealand, American Samoa is the only U.S. territory south of the Equator.



Tutuila Island

Tutuila is American Samoa's largest island, the center of all administrative and economic activity, and home to over 90% of American Samoa's population of 57,902. Steep but picturesque mountains cover most of Tutuila's 56 square miles.

Pago Pago harbor, one of the deepest and most sheltered harbors in the Pacific, belongs to Tutuila. Also on the island are an exceptionally beautiful national park, the highly acclaimed national marine sanctuary of Fagatele Bay, and the world's largest tuna canning facility, Starkist Samoa.

Manu'a Islands

Approximately 1,379 people live on the narrow coastal fringes of **Ofu**, **Olosega**, and **Ta'u**, which together comprise the Manu'a island group. The pristine landscape and serenity make these islands a highly desirable vacation destination, although remoteness and lack of infrastructure have led to underdevelopment of the tourist industry.

Aunu'u, Swains Island & Rose Island

With negligible populations and infrastructure, these remote islands and atolls are unequipped to support significant economic activity.

BACKGROUND

Economy

Key Economic Statistics

Population	57,902	Estimated Gross Island Product	\$500 million
Total Labor Force	17,627	% Tuna Exports	60%
Total Employment	16,718	% Government Revenues	30%
Private Sector	11,712	% Other	10%
Local Government	5,002	Estimated GIP Per Capita	\$8,000
Unemployment Rate	10.5%	Imports	\$506 million
		Exports	\$346 million

Sources: TPC Report April 2003, CIA 2003 Fact Book, DOL Economic Report April 2003. Statistics are most recent available, ranging from 2000 to 2004.

The growth rate of the population has steadied to approximately 2% in recent years (based on 10 year averages). Although the Territory has kept pace with mainland U.S. inflation rates of approximately 2%, real income has not grown at the same rate. Per capita income estimates in 1999 showed American Samoa at approximately \$4300.

The median age in the Territory is 22.4 years; 33 years is the median in the mainland U.S. Estimates from the most recent census data show that over 50% of the population of the Territory is below the age of 24, suggesting an immediate need for substantial developments in health, education, and employment services in the Territory. With appropriate educational and vocational training programs, American Samoa has high skilled-labor potential.

As recently as 2002, it was estimated that roughly 80% of American Samoa's private sector was based directly or indirectly on canned tuna exports. The tourism industry, miscellaneous private sector interests, and federal grants accounted for the remainder. The American Samoa Government (ASG) and the tuna canneries together employ nearly two thirds of the available labor and account for most of the secondary employment in the Territory through their expenditures.



The ASG has historically operated at an average budget deficit of nearly \$34.5 million, with an annual budget of approximately \$140 million and revenues in the range of \$105 million. The Territory's debt is estimated at around \$18-\$24 million as of 2002. In response to U.S. Congressional concerns and under the auspices of American Samoa's new administration, the government is in the process of implementing a Fiscal Reform

BACKGROUND

Package to reduce this debt. According to the latest fiscal reports from the Territory, this debt has been all but eliminated and the Government is well on its way to operating without a budget deficit for the first time in many years.

With recent advances in technology and other related infrastructure, the economy is primed for substantial growth and diversification with the appropriate infusion of finance and knowledge capital.

Society

American Samoans are among the last remaining true Polynesians. Despite the strong influence of Western industrial culture, ethnic Samoan culture – ‘*fa’a samoa*’ – remains robust and pervades nearly every aspect of Samoan social and cultural life. Most people are bilingual in English and Samoan.



The basic unit of the Samoan society is the ‘*aiga*’ (the family or extended family), headed by a ‘*matai*,’ or chief. The culture also recognizes the village and the church as predominant organizations that influence personal and communal activities.

At the county and district level, village chiefs deliberate and choose the highest-ranking chiefs to serve in the Senate, where eighteen seats are reserved for the traditional leaders of the society. Together with the popularly elected House of Representatives, the Senate makes up the bicameral body also called the ‘*Fono*,’ which handles all legislative and tax affairs.

Potential for Trade

American Samoa has direct air links to a number of neighboring islands, and the best deep-water port in proximity to an international airport in the South Pacific. Three international airline carriers provide multiple flights per week between American Samoa, Hawaii, Western Samoa, and the Cook Islands. In addition, a Boeing 747 cargo plane provides fast weekly shipment services between American Samoa, Hawaii, and Guam.

Facilities at Pago Pago Harbor include a container storage yard, marine railway, boat repair yard, and one of the few dry docks in the region. Over 1,000 containers a month move through the port, and direct shipping lines connect American Samoa to the U.S. mainland, Hawaii, Western Samoa, the Cook Islands, Tonga, and elsewhere.

Governance

American Samoa has a strong legal framework, with a body of case law and an appellate system bound to the U.S. federal and state courts. Nevertheless, as an “unorganized” and “unincorporated” U.S. territory, American Samoa is not bound by the U.S. Constitution in all matters affecting the Territory. The local government has the ability to create and administer its own immigration and taxation laws, for instance, rather than being subject to INS or IRS regulations. It also controls the sale of its land to local and foreign businesses and has the right to govern the licensing of offshore businesses as it deems appropriate. This freedom affords businesses the opportunity to derive special tax and licensing incentives generally unavailable in most U.S. states, all under the umbrella of the American judicial system.

The residents of American Samoa are U.S. nationals, eligible for all rights and privileges that U.S. citizens enjoy, except the right to vote in presidential elections. Federal wage laws allow American Samoa to have its own minimum wage levels by industry classification (typically between \$3 and \$4) and offer a very attractive employment market for talented foreign nationals from the region.

Recent reports from the Organization for Economic Cooperation & Development and the Center for Independent Studies, a Sydney-based think tank, indicate that political stability and ethnic tensions are still a major concern for most Pacific island nations. American Samoa, with its strong political institutions under U.S. governance, is ideally positioned to become a stabilizing force in the Pacific economy and reap the associated benefits.

Assets

Natural Resources. American Samoa’s Pago Pago Bay is known for its well-protected, natural, deep-water port. However, as the remnant of an ancient caldera, it is also a stunning visual delight of high ridges and mountains, home to scenic rainforests and reef areas. The National park of American Samoa is spread across the three islands of Tutuila, Ofu and Ta’u and is home to white sand beaches, coral reefs, azure waters and

INVESTMENT CLIMATE

spectacular coves and cliffs. Along with Fagatele Bay Marine National Sanctuary, with its pristine coral reefs, it offers phenomenal opportunities in ecotourism. The abundance of various marine species (especially yellowfin, bigeye, and albacore tuna) in American Samoa's territorial waters has been responsible for the tremendous success of the tuna industry in the past and also holds great promise for new coastal fishing, charter services and aquaculture businesses.

Culture. American Samoans, among the last remaining true Polynesians along with Hawaiians, Tongans, Maoris, and Tahitians, have a rich and vibrant culture that includes scintillating dance and vocal performances and customs such as the fire-knife dancing, 'siva' dances and the outdoor, stone ovens known as the 'umu'. These along with myriad other rituals, customs, handicrafts and cuisine make American Samoa an extremely viable destination for cultural tourism.

Incentives

The Tax Exemption Board of the ASG may grant temporary income tax exemptions to activities that will further the economic development of the Territory. These exemptions are negotiated on a case-by-case basis. American Samoa, similar to other U.S. territories, is outside the customs territory of the United States. However, its products are accorded duty free entry into the U.S. if they contain no more than 70% foreign component value (50% for textiles).

Section 936 of the U.S. Tax Code allows domestic corporations to claim a tax credit equal to the tax liability from the active conduct of a trade or business in the U.S. Territories. As a result, income derived from operations in American Samoa is effectively exempted from federal U.S. corporate income taxes. (Note: Section 936 provisions will expire in April 2006 unless extended by the U.S. Congress.)

Section 936

The IRC Section 936 possession credit is an elective alternative to the Foreign Tax Credit (FTC). The possession credit entirely replaces any FTC or deduction for taxes paid that are otherwise allowable with respect to possession sourced income. There are two pre-requisites to the possession credit.

1. 80% or more of the gross income for the 3-year period immediately preceding the close of the taxable year must be from sources within a possession (or possessions), and
2. 75% or more of the gross income must be derived from the active conduct of a trade or business within a possession (or possessions).

Source: 4.61.9.1 IRC Section 936 Credit for Possession Corporations

INVESTMENT CLIMATE

Infrastructure

Two competing retail banks in American Samoa, the Bank of Hawaii and ANZ, provide a full range of financial services at competitive rates. Both are FDIC insured, and have branches throughout the Pacific.

Several years of focused capital expenditures have left American Samoa with an enviable infrastructure that is better than most other islands in the Pacific basin. In addition to a well-established international airport and one of the Pacific's only deep-water natural harbors, container docks and other maritime facilities, and excellent roads, American Samoa has an extremely reliable power, water and sewage system.

Telecommunications within the island itself and off-island are robust. Three ISPs offer high-bandwidth internet service; two telecommunications companies offer cellular service; and multiple satellite links provide voice and high-speed data connections to the mainland. In the fall of 2004, American Samoa will join the North American Numbering Plan, which means dialing American Samoa from the continental U.S. will no longer be an international call.

The robust infrastructure has led to the development of one of the most advanced industrial parks in the region. The island also boasts a nationally accredited community college soon to offer a 4-year degree program, high literacy rates, a comprehensive medical center with CAT scan and other facilities unique to the region, and a competitive banking system.



OPPORTUNITIES FOR GROWTH

Growth Industries

Opportunities for private investment, business partnerships, export, and contracting abound in American Samoa. This section outlines a handful of the most compelling near-term opportunities.

- **Ocean resources:** Fish processing and export.
- **Port facilities:** Marina development, boat repair yard.
- **Telecommunication and information industries:** Distance learning, telemedicine.
- **Alternative energy:** Wind and other alternative energy sources.
- **Real estate development:** Tourism, retail shopping.



OPPORTUNITIES FOR GROWTH

Ocean Resources

Fish Processing and Export. Long line fishermen bring about 8 million pounds of yellowfin, bigeye, and albacore tuna to American Samoa each year, the vast majority of which is sold to the tuna canneries for processing. While no substantial growth is anticipated in the tuna canning industry itself, opportunities exist for independent fish processors to use this steady supply to tap into several profitable ancillary markets.

- The South Pacific yields the highest-quality tuna in the world, as well as blue marlin, swordfish, mahimahi and other export-quality fish. Sashimi-grade fish can fetch over four times the price of fish sold to the canneries. Local entrepreneurs are already taking advantage of this price premium on a small scale by air freighting fresh tuna to Hawaii.
- Fillets, slabs, loins, and fully-processed portion control products are suitable for sale to mainland restaurants and distributors.
- Frozen loins, which can be shipped inexpensively by boat, can also be sold to mainland food distributors and food service providers.
- The canneries themselves will buy fresh loins from independent processors, because their production is limited by the processing of the tuna.

Island Contact	Partnership need
Tony Langkilde Tautai Fisheries Company, Inc. PO Box 4310 Pago Pago, AS 96799	Equity investors or creditors to provide funding for a processing plant including cold storage facility and quality control lab.

OPPORTUNITIES FOR GROWTH

Port Facilities

One of the best deep-water harbors in the Pacific, Pago Pago Harbor is a great – and underutilized – natural asset. Although the port offers good facilities to the cargo ships, fishing vessels, cruise ships, and pleasure craft that move over 1,000 containers of cargo through the harbor each month, additional capital improvements offer an attractive return on investment. The numerous opportunities include facility privatization, improved operational management of facilities, and construction contracts.

Shipyard. Southwest Marine of American Samoa is accepting bids for the shipyard in Pago Pago Harbor. It is estimated in regional maritime reports that fishing fleets supplying the canneries spend nearly \$40-\$60 million annually on supplies and fleet maintenance and repair services.

The yard covers 7.1 acres and has over 600 feet of deep water pier space. Equipment includes a 3,000-ton capacity marine railway capable of drydocking some of the largest purse seining vessels in the American fleet; an 800-ton capacity marine railway capable of hauling foreign-flagged long-line fishing vessels and local fishing vessels, tug boats and ferries; and a variety of rolling and floating equipment, including a 60-ton crane barge.

Southwest Marine of Samoa is the only full-service shipyard in the region. Vessels looking for comparable facilities must go as far as New Zealand. Southwest Marine leases the yard from the American Samoan government under highly favorable terms. The lease has a remaining term of about 17 years.

The shipyard is an especially attractive opportunity when considered in conjunction with some of the infrastructure improvements proposed in the Port Authority’s Port Master Plan. For example, the addition of a repair/maintenance facility for smaller vessels such as local fishing boats and transiting yachts would open up new revenue streams. An upgrade of the marina would increase the number of berths and expand the market for supplies and services such as waste removal, water, fuel, showers, etc.

Island Contact	Partnership Need
Todd Roberts Vice President, Southwest Marine of Samoa 1311 First St. Coronado, CA 92118 (619) 437-6999 ex. 15	Buyers with experience operating shipyards.

OPPORTUNITIES FOR GROWTH

Telecommunications & Information Technology

In addition to a robust technical infrastructure, American Samoa boasts a variety of programs to develop local technical and human resources. For example, through the non-profit Distance Education, Learning, and Telehealth Applications (DELTA) Consortium, American Samoa has connected schools, government agencies and businesses via a high-speed fiber-optic network. A partnership with the University Hawaii has brought advanced teleconferencing capabilities to the island. Through a combination of trained, English-speaking workforce, low wage rate, strong technical infrastructure, and access to Pacific markets, American Samoa will open up a range of private sector opportunities.

Education and Distance Learning. The American Samoa Community College has recently completed construction of a new computer and distance learning center. The first courses being offered include technical certification in Cisco, Microsoft, and Oracle. These classes represent an early step in what may become a dramatic expansion of island educational resources.

The relative isolation of the Territory make distance learning the only sustainable means of effective workforce development in American Samoa. Significant growth is expected in enrollment in advanced technology and vocational trades distance education programs as demand for these skills rises in the local and regional economy. Already, an acute need is felt for trained nurses, computer technicians, financial managers, etc. In addition, vocational trade skills such as carpentry, plumbing and electrical repair are in short supply. The community college actively seeks mainland partners to help bring these skill sets to the islands. Over time, American Samoa could develop into a regional center for students seeking an American-quality education.

Island Contact	Partnership Need
Adele Satele-Galea'i President, American Samoa Community College PO Box 2609 Pago Pago, AS 96799	Educational institutions to provide distance learning courses, teacher training and accreditation, infrastructure support.

Telemedicine. A number of capital investments in communication infrastructure have positioned the Lyndon Baines Johnson Hospital to benefit from global developments in telehealth applications. U.S. companies specializing in remote diagnosis tools, electronic records management, and the creation of peer networks for doctors in rural/isolated areas are actively soliciting American test markets to launch their products. American Samoa could partner with these companies to substantially differentiate itself regionally.

Island Contact	Partnership Need
Andra Samoa CEO, DELTA Consortium PO Box PPB Pago Pago, AS 96799	Telemedicine providers and partners, including private companies and public hospitals.

OPPORTUNITIES FOR GROWTH

Alternative Energy

The American Samoa Power Authority (ASPA) provides power, water, and waste disposal services to Tutuila and Manu’a. Driven by the exacting needs of the tuna canneries, ASPA has achieved an impressive record for quality and reliability. Even through droughts and hurricanes, ASPA has maintained service without interruption.

Nevertheless, American Samoa, like all Pacific islands, faces severe challenges as it attempts to provide reliable, affordable utilities and services to residents and local businesses. Rising fuel and transportation costs make diesel-powered electricity generation expensive; limited landfill space makes waste disposal difficult; and continuing economic development puts further strain on the entire system.

Wind. Wind offers a clean, renewable energy source that has the potential to be price competitive with diesel. Studies conducted by ASPA reveal that American Samoa has favorable characteristics for development of a wind farm.

Although any projects are contingent on further feasibility analysis, a few applications of wind energy immediately suggest themselves. A small wind/diesel hybrid plant might be used to provide energy to the remote outer islands. And a larger wind farm could be operated by an independent power provider on the main island to sell power directly into the existing grid.

Other Alternative Energies. ASPA continues to explore other alternative energy sources, as technology improves and new options become commercially viable.

One such source is **geothermal energy**, which has the attractive quality that it is nonintermittent – unlike wind or solar energy, geothermal power isn’t subject to fluctuations based on weather. However, geothermal is still an emerging technology, and one that requires very particular geologic conditions to be viable. At this point, ASPA is seeking only to do a preliminary survey of local geothermal activity, for which it will need private sector partners.

Another emerging technology with potential to address several pressing issues at once is **waste-to-energy conversion**. American Samoa produces about 70 tons of solid waste per day. Waste-to-energy plants use high-temperature plasma reactors to release energy from the waste and reduce the unused portion to environmentally friendly slag.

Island Contact	Partnership Need
Utu Malae Executive Director, ASPA PO Box PPB Pago Pago, AS 96799	Suppliers of wind power generation equipment and independent power providers who can provide funding, construction and operational management of a wind energy plant.

OPPORTUNITIES FOR GROWTH

Real Estate Development

Tourism. The global tourism industry has gradually shifted focus to specialized packages, vacation bundling options and niche tourism markets targeted at culture, history and the natural world. American Samoa has several natural assets that allow it to take advantage of this trend.

The territory is home to the only U.S. national park in the southern hemisphere. Spread across three picturesque islands, the park includes the only mixed-species paleotropic rainforest in the United States, habitat of rare flying foxes, and pristine coral reefs. American Samoa is also one of the last remaining true Polynesian cultures and home to a wealth of history and tradition unfamiliar to most of the Western world. Particularly when bundled with neighboring islands within easy flight distance, such as Western Samoa and the Cook Islands, American Samoa makes a very attractive travel destination.

Although the tourism industry in American Samoa has shrunk since its heyday – when tens of thousands visited each year to enjoy the islands’ tropical climate and Polynesian culture – the region still receives a steady supply of travelers, mostly business and visiting relatives. Recent years have seen a resurgence in the number of quality hotel rooms on the island – most notably with the opening of the 100-room Tradewinds hotel – and the trend is set to continue.

The gradual re-establishment of a viable tourist infrastructure should spark a virtuous cycle in which greater facilities stimulate greater demand, leading to the growth of a variety of tourist support services. Already a number of cruise ships visit American Samoa each year, dropping off thousands of tourists at a time to take advantage of local attractions and facilities.

Several existing properties are suitable for development, either as ecotourism facilities or as small upmarket hotels. For example, a local landowner seeks to develop her property to include a full restaurant and 10-room lodge. Not only does the land in question have an extremely desirable location overlooking the beach, but it is also privately owned by the developer, sidestepping any issues related to land use rights or costs.

Island Contact	Partnership Need
Betty Cavanagh Managing Director, Pago Pago Tradewinds Tours and Rentals PO Box 968 Pago Pago, AS 96799	Equity or debt investors to provide \$250,000 - \$350,000

FURTHER OPPORTUNITIES

Although the following list is not meant to be comprehensive, it gives a sense of the range of high-quality business opportunities available in American Samoa. Mainland partners have a number of ways to get involved: as investors, as operational managers, and as suppliers and contractors. Please contact that Department of Commerce for more information.

Project	Partnership Need
Manufacturing	
Bun bakery. A large scale bakery could provide bread products to restaurants and fast food chains in American Samoa and neighboring islands.	Investment capital, equipment suppliers, and operational expertise.
Component assembly. Foreign companies can save considerably on tariffs by setting up transshipment and light manufacturing or component assembly operations.	Manufacturing company looking to expand exports to the U.S. mainland.
Military supply. With its low wage rate and historic connection to the U.S. military, American Samoa is ideally suited to take advantage of the military's "Buy American" purchasing requirements.	Investors with experience supplying the U.S. military.
Sales and Distribution	
Computer reselling. Computer equipment is extremely expensive in the Pacific islands, due to an inadequate supply chain. Opportunities exist to establish a regional distribution center.	Investors, equipment distributors, and hardware OEMs.
Solar water heater distribution. An increasing number of homes and businesses in American Samoa have hot water. If bundled into a mortgage, solar heaters promise an affordable and environmentally sound source of hot water.	Equipment distributors.
Health and life insurance. The insurance market in American Samoa is underdeveloped, with most islanders turning to off-island providers for insurance.	Insurance underwriters, preferably with experience in the Pacific market.
Mainland retail chains. The extraordinary success of mainland fast food restaurants in American Samoa, coupled with the general shortage of vocational trade skills, highlight the opportunity for mainland retail chains.	Retails chains focused on either service or goods, including automotive repair, office supplies, etc.
Infrastructure	
Container yard rehabilitation. Supply has not kept up with demand for container storage space in Pago Harbor. With a moderate rise in storage fees, this project is has the potential for a large return on investment.	Investors, operational managers, and construction firms.
Surface water treatment plants. Additional surface water treatment plants are needed to meet Territory water needs.	Suppliers of water treatment technology, construction firms.
Solid Waste Incinerators. Two modular solid waste incinerators are needed for solid waste disposal to minimize dependency on landfill sites.	Suppliers of solid waste incinerators, construction firms.
Tourism	
Sport fishing. Despite a steady stream of visitors and abundant supply of fish, American Samoa lacks sports fishing tour operators.	Entrepreneurs interested in owning and operating a tour outfit. Possibilities exist for partnership with local hotels.

FURTHER OPPORTUNITIES

Project	Partnership Need
<p>Scuba and snorkel. The dive equipment rental and dive tour operator industry is almost completely undeveloped.</p>	<p>Entrepreneurs interested in owning and operating a tour outfit. Possibilities exist for partnership with local hotels.</p>
<p>Privatization of Ili'ili golf course. American Samoa's one golf course could generate significant additional income with additional investment and improved operational oversight.</p>	<p>Investors, operational managers.</p>
<p>Conference tourism. Hawaiian businesses looking for offsite meetings spaces are one obvious market for small conference tourism.</p>	<p>Investors, tourism wholesalers.</p>
<p>Hotel development. A private developer has plans to renovate two wings of the government-owned Rainmaker hotel, but additional wings are available for development. The Rainmaker sits on prime beach real estate in downtown Pago Pago.</p>	<p>Investors, hotel management firms.</p>
<p>Export</p>	
<p>Handicraft export. Beautiful Polynesian handicrafts are both a means of preserving cultural traditions and spreading economic benefits to an underserved group of people.</p>	<p>Distribution and marketing partners.</p>
<p>Giant clam aquaculture. Giant clams represent a growing segment of the multibillion dollar aquarium trade. Giant clam aquaculture is an environmentally sound way to tap into this trade. Capital infrastructure costs are relatively low.</p>	<p>Distribution and marketing partners, private investors.</p>

DEPARTMENT OF COMMERCE



Togiola T. Tulafono
Lt. Governor

American Samoa Government
Pago Pago, American Samoa 96799
Tel: (684) 633-5155 FAX: (684) 633-4195

March 5, 2003



Ali'imau H. Scanlan, Jr.
Director

TO: Prospective Business Investor(s)

FROM: Alex P. Zodiacal
Business Development Specialist/EDD Manager
Department of Commerce

SUBJECT: Investment in American Samoa

Lelei Peau
Deputy Director

In reply refer to:
Serial No: DOC-

Talofa and Welcome to American Samoa, "Where America's Day Ends." This briefing paper highlights the Territory of American Samoa's progressive economic environment, and the generous incentives available for offshore investment. Our Territory boasts a modern infrastructure, which places us at the forefront of the dynamic economic growth sweeping through the Pacific Basin. Some of these features include a worldwide communications satellite facility, full range of telecommunications services, and expansive industrial development park, and international airport and deep-water harbor.

The American Samoa Government remains strongly committed to strengthening our local economy. The trend for economic development will continue to focus on expanding current private business activities, increasing outside investment with local participation, and diversifying the economy.

Unique advantages and incentives of establishing industries in American Samoa

1. American Samoa is a U.S. territory. We have a stable government and stable relationship with the U.S. We use the U.S. currency and the U.S. price level drives our price level (inflation rate). The local consumer price index (CPI) reflects the increase in the price of imported goods, primarily from the U.S. Currently, the local inflation rate has been running at an annual rate of 2-4 percent. According to Department of Commerce (DOC) Fourth Quarter 2002 Consumer Price Index, the rate of inflation measured at the end of 2002 was 2.7 percent.

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2. American Samoa presents significant opportunities for export-oriented manufacturing. We have **preferred access to the U.S. through Headnote 3. (a)**. Most items with at least 30 percent of their value created here enter U.S. duty free. The Headnote 3. (a) of the U.S. Customs Code provides for duty and quota free access to the U.S. market for products manufactured, processed or assembled in American Samoa that have no more than 70 percent (50% for textiles) of their total appraised value in foreign materials. Eligible products must be manufactured or produced either wholly from local materials or from imported materials, which are substantially transformed in American Samoa. A substantial transformation occurs when a new and different product is produced, having a distinctive name, character, or use. The cost of the transportation of the materials from source to American Samoa is included in the computation of foreign value, while the cost of transportation of product to the U.S. is excluded from its value for purpose of the calculation.

For more than 40 years the tuna processing industry has recognized the advantages of locating here; today more than 5000 workers are employed by Star Kist and VCS Samoa Packing Company and as a consequence we have developed the industrial and institutional infrastructure required by large-scale operations. Furthermore, American Samoa benefits from the Headnote 3. (a). This provision gives exports such as canned tuna a competitive advantage in the U.S. mainland market. Also, American Samoa is qualified for favorable duty treatment under the Generalized System of Preference.

3. We are centrally located in the South Pacific with access to markets and resources in New Zealand, Australia, Western Samoa, Tonga and Fiji. We have close contacts with Taiwan and Korea.

4. We have a well-developed infrastructure: harbor facilities, airport, roads, communications, water, sewer, power and hospital.

Pago Pago Harbor is one of the finest all-weather, deep-draft harbors in the Pacific. It has a total water surface area of 2 square miles and depths range from 40-160 feet throughout the inner harbor. The main dock is 1,000 feet long, handling ships of up to a 32-foot draft. Pago Pago harbor provides the full complement of equipment and facilities, and has a ship-repair facility with a 3,000-ton marine railway. The port provides full service port facilities, containerized cargo holding, warehousing, transshipment operations and tugboat services.

5. Our population is over 60,000 and the labor force consists of about 17,000 persons. American Samoa is currently covered by the U.S. Fair Labor Standards Act. Minimum wages are set every two years, and currently range between \$2.57 and \$4.09 per hour.

Employees in American Samoa usually work 40 hours per week. Most companies offer fringe benefits such as paid holidays, vacation and sick leave. Some employers also provide pension/retirement benefits and medical insurance. All employers are required to provide Worker's Compensation insurance against work connected injuries or death and

APPENDIX

must comply with the provisions of the U.S. Occupational Safety and Health Act, which regulate working conditions pertaining to the health and safety of employees.

Although the U.S. National Labor Relations Board has extended its jurisdiction to American Samoa, making it possible for U.S. unions to expand into American Samoa, there are no labor unions in American Samoa.

The ASG's manpower training program includes a **subsidized pre employment-training program for manufacturing and significant employment producing activities**. Under this program (U.S. Job Training Partnership) the government supplements 50% of workers' wages for up to one year.

6. We have the same tax structure as the U.S. with a few minor exceptions: there is a minimum 4% tax rate on personal income; 34% of so much of the taxable income as exceeds \$75,000 but does not exceed \$650,000; the highest tax bracket is 44% of so much of the taxable income as exceeds \$650,000. There is a 5 % excise tax on items imported for commercial resale. There is no gross receipt, property, export or value-added taxes. Moreover, tax exemptions can be granted by the Governor of American Samoa on some or all taxes (except for individual income tax) for up to 10 years for the establishment or expansion of qualifying industrial or business enterprises under the Industrial Incentives Act.

Foreign Sales Corporations established in the Territory may receive an eleven-year exemption on corporate income taxes, dividend distributions, customs duties and other taxes. There are no requirements to maintain an office or agent or to hold shareholders meetings in the Territory.

American Samoa is qualified under **Section 936 of the Internal Revenue Code, which** exempts from U.S. income tax the profits of U.S. corporations operating in U.S. possessions. Basically under Section 936 income earned by U.S. corporations from business operations in the possessions such as the Territory of American Samoa, are exempt from the Federal corporate income tax, along with income from certain types of financial investment. To qualify, a firm must be incorporated in the United States, receive 80% of its income in a possession, and 75% of its income must be from the active conduct of a trade or business in the possessions. However this Section will be phase out in 2005.

7. The American Samoa Government, through the Real Property Management Board formerly Industrial Park Commission, runs the 90-acre Sen. Daniel Inouye Industrial Park. A twelve-inch water main serves the area and electrical power is available for all industrial purposes. The Industrial Park is fully drained and connected to a sewage treatment plant. Lots are available for up to 55 years at a rate of \$0.25 to \$0.45 per square foot per year.

8. There is no restriction on the repatriation of funds, earnings, etc., except the following:

APPENDIX

30.0150 Amounts Payments:

- a. The amount of authorized capital stock of any corporation organized under this chapter may not be less than \$2,000.
- b. The amount of paid-in capital with which any such corporation shall commence business may not be less than \$1,000.
- c. No corporation may be permitted to issue stock except for an equivalent in money or labor done, or property actually received and applied to the purpose for which the corporation was created; and neither labor nor property may be received in payment of stock at a greater value than the actual value at the time the labor was done or property delivered, and all fictitious increases of stock or indebtedness are void.

30.0153 Dividends-Source-Prohibited payments:

- a. A corporation may, by resolution of its board of directors, declare and pay dividends in cash or property only out of earned surplus; earned surplus being defined as the remaining amount of accumulated net income, after adequate deductions for depreciation and obsolescence, and exclusive of any amounts resulting from unrealized appreciation or an upward revaluation of assets.
- b. No dividends may be paid or declared at a time when:
 1. the corporation is unable to pay its debts as they mature or when the payment declaration of the dividend would render the corporation unable to pay its debts as they mature;
 2. its net assets are less than its stated capital or when the payment or declaration thereof would reduce its net assets below its stated capital.

Every foreign corporation, in order to receive a permit to do business in American Samoa, must have at least \$10,000 of authorized capital stock and \$5,000 of paid-in capital stock. (Title 30, chapter 0308 entitled "Monetary requirements" of the American Samoa Code.)

9. Long-term and working capital loans are available to eligible enterprises through various business financial assistance programs administered by the U.S. Small Business Administration at the Honolulu District Office. These credit programs include both direct loans and loan guarantees.

10. The American Samoa Government is authorized to issue industrial revenue bonds to provide financing for acquisition of fixed assets in approved industrial projects. Interest earned on revenue bonds is not subject to local income taxes.

APPENDIX

11. The Bank of Hawaii and ANZ Amerika Samoa Bank provide full international banking services with correspondent banks in the U.S. and the Pacific region. Both banks are FDIC approved.

12. The American Samoa Telecommunication Authority (formerly the Office of Communication), has one of the most complete and modern telecommunication systems in the Pacific Islands. As a member of a 102-nation International Telecommunications Satellite Organization, American Samoa is in direct 24-hour contact with 20 countries in the Pacific Ocean region and more than 100 nations worldwide. The local COMSAT satellite station has many separate telephone channels to the U.S. mainland, Hawaii, and New Zealand. Rapid telex, telegraph and facsimile services are also available. The COMSAT satellite system also provides commercial television and radio broadcasts.

13. Regarding other tax matters (e.g., exemptions for import duties on equipment and raw materials and exemptions for corporate and business taxes), these will be expanded upon as our discussions progress and will be addressed in your application to the Tax Exemption Board for tax exemption. You can also write to the following address:

Treasurer/Chairman Aitofele Sunia
Tax Exemption Board
Treasury Department
American Samoa Government
Pago Pago, AS 96799
Telephone 684-633-4155 Fax.: 684-633-4100

14. Questions about import of foreign labor to the Territory should be addressed to the Attorney General's Office:

Fiti Sunia, Attorney General
Department of Legal Affairs
American Samoa Government
Pago Pago, AS 96799
Telephone 684-633-4163 Fax.: 684-633-1838

However, our Immigration policies and requirement must be met, with some exception depending on the economic merit of the project. For instance, the steps for establishing business in American Samoa are as follows: (1) file for appropriate incorporation permit (local incorporation and foreign incorporation permits); (2) file applications to American Samoa Immigration Board for permits for specialized foreign labor, including country of origin, health and police clearances required for each applicant, documentation that positions have been advertised in the local newspapers for a period of two weeks, local applications received, interviews, decisions, etc., and the hiring of a community liaison, who must be Samoan and should be considered at middle management level, for the purpose of labor and public relations between the Samoan workforce and the company's middle management level.

APPENDIX

The hiring of a Samoan community liaison will certainly encourage the Samoan workforce to meet the expected level of production and working morale, given adequate training; (3) file application to the Real Property Management Board for a minimum of one acre lot at the Industrial Park; (4) file application for tax exemption with Chairman of the Tax Exemption Board; (5) file with the Department of Commerce (DOC) for all necessary license applications, (6) and file with DOC for land use permit and Department of Public Works for building permits.

Please understand that extra efforts by ASG to expedite the processing of the proposed project through related regulatory agencies are subject to all federal regulations applied to American Samoa and local statutes pertaining to the proposed project. To facilitate the expedition of the proposed project, we strongly suggest that the company to retain the services of a local attorney.

We trust the information provided in this briefing paper will provide you with an overview of our territory's business climate, and to assist you in investing in American Samoa's bright economic future. Should you require any further assistance please do not hesitate to contact me at (684) 633-5155. Please visit our website at www.amsamoa.com for information about transacting business in the Territory.

cc: Aliimau H. Scanlan, Jr., Director
Lelei Peau, Deputy Director
EDD Investment File

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