

**REPUBLIC OF VANUATU
OFFICE OF THE OMBUDSMAN**

**PUBLIC REPORT
ON THE
IMPROPER CONDUCT
BY
GOVERNMENT OFFICIALS
IN DEALING WITH
MONDRAGON'S PROPOSED
FREE TRADE ZONE
IN
BIG BAY, SANTO**

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SUMMARY

This report depicts a legend of connections between interested parties on the island of Espiritu Santo dating back to the colonial era of Vanuatu. These parties have over the last 20 years of Independence, been in contact with the political leaders of the Union of Moderate Parties (UMP). Their aim is to set up an autonomous jurisdiction exempt from all duties and taxes on the island of Santo called a free trade zone. While technically not illegal, this may result in attracting unscrupulous investors to settle in the country.

The Office of the Ombudsman found that a US citizen, Mr. Michael Oliver initiated the proposal for a free trade zone in Santo. Mr. Oliver has had a long history in connection with land in Santo prior to Vanuatu's Independence on 30 July 1980. Mr. Oliver's investment plans were unsuccessful then but he subsequently joined alliances with Bramad Pty Ltd, Cody Investments Ltd and Israel Mondragon Group to return to Vanuatu to fulfil the plans for a free trade zone. A more recent attempt has been crafted by Mr. Stefan Mandel, a close business associate of Mr. Oliver and who is a member of the Israeli Mondragon Co-operative Society. Mr. Mandel is the Managing Director of the Cody Investments Ltd. Mr. Mandel has been appointed by Mondragon to facilitate their proposed free trade zone project with the Vanuatu Government.

The investigation of the Ombudsman also found that in 1991 when UMP went into power the President of UMP, Mr. Serge Vohor and the Treasurer, Mr. Willie Jimmy, signed an agreement for land in Santo with Bramad Pty Ltd. The signed document detailing the proposed free trade zone shows that the amount of land required covers an area of not less than 80,000 hectares. In 1992, Bramad Pty Ltd. sold this lease agreement to an Irish registered company called Cody Investments Ltd.

Cody Investments, Mondragon and others entered into a Financial Guarantee Bond with the government of Vanuatu to the amount of USD3,000,000. This is to be used by Mondragon to purchase 49% of Air Vanuatu. Mr. Avi Edelman, the Secretary General of Mondragon Group confirmed that Mondragon arranged for a guarantee/performance Bond, through an American Insurance Company. However, the negotiations were unsuccessful and the Bond was returned to the American company. This information was later refuted by Mondragon's lawyer who claimed the Bond has been issued.

The Ombudsman also found that MP Willie Jimmy, Mr. Roy Mickey Joy and Mr. Emil Mael requested financial assistance from Mr. Mandel outside of official government procedures. Mr. Howard Aru benefited from this assistance by attending a course in Ireland. Such assistance given outside of the government established procedures was improper. The Israeli Mondragon Group have a vested interest in setting up a free trade zone project in Vanuatu. It was improper for Government officials to request financial assistance from them as this act may have undue influence on the officials to act impartially. Furthermore, those public officials who made such a request and have received and benefited from such financial and other assistance 'in kind' were directly involved in the policy decision to grant a certificate and business license to the Mondragon Group.

The Ombudsman made the following findings of alleged misconduct on the part of certain public officials implicated in this report:

1. Mr. Willie Jimmy, as former Deputy Prime Minister in the Government of Vanuatu was found to have breached Articles 66(1)(a)(c) & 67 of the Constitution. He had placed himself in a position in which he could have a conflict of interest and used his office for personal gain by using his position in the Government to fulfil his political party's promise. His conduct to sign a document and commit the Government of Vanuatu to

the proposed project was improper and premature as the Vanuatu Government knew very little about the investors involved. Such activities raises questions about Mr. Jimmy's integrity as the State Minister at that time, his current position as Member of Parliament, and as a leader.

Mr. Jimmy may have also breached Section 23 of the Leadership Code Act when he improperly requested financial assistance from Mr. Mandel.

2. The Ombudsman found that Mr. Roy Mickey Joy may have also breached Articles 66(1) & (2) of the Constitution. Mr. Joy allowed his integrity to be called into question when he used his position as Chairman of the Vanuatu Foreign Investment Board (VFIB) to ask for and obtain financial assistance for Mr. Howard Aru and Mr. Emil Mael from Mr. Mandel. This request has given rise to doubt in the public mind as to whether such benefits may have influenced the decision of the VFIB on Mondragon Group's application to invest in Vanuatu.

Mr Joy was also found to have allegedly breached Section 23 of the Leadership Code Act. Mr Joy is the Chairman of the VFIB, which have the obligation under the Foreign Investment Act to give approval to grant business licenses to any investors who have an interest to invest in Vanuatu. Mondragon Group has lodged an application to the VFIB when Mr Joy requested financial assistance from Mr Mandel.

3. Mr Howard Aru, Chief Executive Officer of the Foreign Investment Board was found also to have allegedly breached Articles 66(1) & (2) of the Constitution. Mr. Aru allowed his integrity to be called into question when he appeared to have used his position and office to his advantage and benefit in accepting the financial assistance from Mr. Mandel to attend the training course in Ireland. This financial assistance has given rise to doubt in the public mind as to whether such benefits and advantage have influenced the decision of the Foreign Investment Board when considering Mondragon's application to invest in Vanuatu.

Mr Aru may have breached Section 23 of the Leadership Code Act. Mr Aru is the CEO of the VFIB, which has the obligation under the Foreign Investment Act to give approval to grant business licenses to any investors who have an interest to invest in Vanuatu. Mondragon Group has lodged its application to VFIB when Mr Aru had benefited from the financial assistance requested from Mr Mandel and the Mondragon Group.

4. Mr. Emil Mael, Member of the Foreign Investment Board may have breached Articles 66(1) & (2) of the Constitution. Mr. Mael allowed his integrity to be called into question when he appeared to have used his position and office to his advantage and benefit, when he requested and obtained financial assistance from Mr. Mandel. Mr. Mael claims the financial assistance provided by Mr. Mandel. The money was used to carry out a feasibility study of the proposed area in Big Bay for Israeli Mondragon Group's project. Such financial assistance has given rise to doubt in the public mind as to whether such benefits may be used as an advantage to influence the decision of the Foreign Investment Board on Mondragon Group's application to set up a Free Trade Zone in the country.

The Ombudsman found that Mr. Mael may have also breached Section 23 of the Leadership Code Act, when he requested and received financial assistance from Mr. Mandel.

The Ombudsman recommends that:

1. The Government of Vanuatu make a declaration that the Contingent Contract of Lease and Memorandum of Understanding signed by government officials and representatives of the Mondragon Group is neither official nor legally binding under the laws of Vanuatu.
2. The Ministry of Lands delay signing a land lease for this proposed free trade project until the VFIB verifies the true intent and investment capability of the Mondragon Cooperative Society to the Government, land owners and the people of Vanuatu.¹
3. The position of the Chairman of VFIB be awarded to an independent person well versed with investment matters preferably from the business community. Senior public servants should not hold such positions, either in the VFIB or other public statutory bodies.
4. The Public Prosecutor decide if there are sufficient grounds to lay charges to prosecute Mr. Roy Mickey Joy, Mr. Emil Mael, Mr. Howard Aru and MP Willie Jimmy for alleged breaches of the Leadership Code and other offences committed under the laws of Vanuatu.
5. The Public Service Commission consider taking disciplinary action against Mr. Roy Mickey Joy, Mr. Emil Mael and Mr. Howard Aru if the allegations of misconduct in office made against them in this report pursuant to the provisions of the Public Service Act No.11 of 1998.
6. The Vanuatu Government cease to deploy government officials and resources on this proposed project until such time that public officials understand their functions and comply with the laws of Vanuatu. By allowing themselves to be influenced and manipulated by the promise of financial gain or other benefits shows that public officials are unaware of, or deliberately choose not to follow established procedures under the laws which govern their respective ministries.
7. The Foreign Investment Act be reviewed and amended to include provisions for building its investigative and regulatory capacity to be able to quickly identify genuine from unscrupulous investors to prevent them from operating in Vanuatu.

¹ This should include practical examples of past and current projects being carried out in other parts of the world. At the very least, the VFIB ought to obtain a prospectus, or profile of the Israeli Mondragon Group and its legal standing in Israel.

1. MAIN ISSUES IN THIS REPORT

- 1.1 Alleged improper requests for financial assistance and other benefits by government officials.
- 1.2 Alleged bribery of government officials.
- 1.3 Alleged breaches of the Leadership Code by public officials.

2. JURISDICTION

- 2.1 The Ombudsman made this report under the provisions of the Constitution, Leadership Code Act and the Ombudsman Act. The above laws give power to the Ombudsman to inquire into the alleged breaches of the Leadership Code and solicitation of bribes of government officials by certain foreign investors. In this report, an enquiry was made into the conduct of some officers of the Vanuatu Foreign Investment Board, Lands Department and Members of Parliament who all come under the jurisdiction of the Ombudsman.
- 2.2 The main issues identified during the enquiry were; **alleged breaches of the Leadership Code and alleged bribery of government officials by investors.**
- 2.3 This Office collects information and documents through informal request, summons, letters, interviews and research.²

3. RELEVANT LAWS, REGULATIONS AND RULES

A brief summary of the law is provided in this section while the full text is attached as **Appendix "AAA"**.

3.1 Constitution:

The Constitution defines who is a leader and lists the duties and conduct expected from a leader.

3.2 The Leadership Code Act:

The Act provides for the leaders' code of conduct, defines duties of the leaders and outlines breaches of the Leadership Code.

3.3 Foreign Investment Act:

The Act defines the criteria an interested investor must meet to invest in Vanuatu and be issued with a certificate before any investment is carried out. It also provides for the investor to declare information on personal particulars such as criminal records, tax evasion convictions and bankruptcy records.

3.4 The Financial Transactions Reporting Act

This act provides for the establishment of the Financial Intelligence Unit and its obligation to report suspicious transactions.

² Certain documents classified as "restricted" or "prohibited" obtained during the course of this enquiry were included in the confidential working paper pursuant to section 27(6) of the Ombudsman Act. This was to provide a complete understanding of the report to those implicated. The Ombudsman is not disclosing this prohibited or restricted information in the public report pursuant to section 27 (1) (a) of the Ombudsman Act.

4. THE FACTS
4.1 DECLARATION OF PRINCIPLE

On 14 October 1991, the Declaration of Principle was signed by the Union of Moderate Parties (UMP). The signatories were Mr. Serge Vohor, the President and Custom-owner, Mr. Jean Marie-Leye, Vice-President and Mr. Willie Jimmy, National Treasurer

The Declaration of Principle stated that upon winning the forthcoming national election in 1991, UMP agreed to form a government dedicated to free trade to enhance and develop the economy of Vanuatu. The intention was to implement a free trade enclave pattern following the present Hong Kong structure. Such a free trade zone would have an area of not less than 80,000 hectares.

The free trade zone would be established through a lease with a term of ninety-nine years. The lessee would be Bramad Pty. Ltd of St. Kilda Road, Melbourne, Australia. Alternatively its nominee would buy an annual lease for that portion of land actually used or selected for development by Bramad Pty. Ltd or its nominee at an annual rate determined in United States currency per hectare.

The lessee would have the right to assign or sub-lease the property or any portion thereof in accordance with the laws of Vanuatu, for those purposes set forth in the Declaration. Each successive sub-lessee or assignee shall have the same right (see **Appendix "A"** for details of the Declaration of Principle).

4.2 CONTINGENT CONTRACT FOR LEASE

On 14 October 1991, the Contingent Contract for Lease was signed between Mr. Serge Vohor, (custom land-owner) and Bramad Pty Ltd. According to this lease contract, the sum of one hundred and fifty thousand US dollars would be provided to UMP for expenses in connection with the election. The funds would be provided upon presentation of bona fide receipts for expenditures by UMP and would be expended solely for the purpose for providing UMP a fair chance of reaching the voters of Vanuatu with their message and platform in the upcoming election.

The agreement would come into effect to the benefit of the parties and be binding upon the parties and their heirs and their assigns. The parties agree that the lessee may assign its interest in this agreement to a third party. The agreement would be subject to the laws of Vanuatu (see **Appendix "B"** for details of the Contingent Contract for Lease).

4.3 THE DEED MADE BETWEEN BRAMAD AND CODY INVESTMENTS

On 20 January 1992, a Deed was signed between Bramad Pty Ltd and Cody Investments Limited, a company registered in Ireland. This allowed Cody Investments to buy one hundred per cent (100%) ownership of the Contingent Contract of Lease and rights under the Declaration of Principle from Bramad Pty Ltd for the sum of US\$60,000.00 (see **Appendix "C"** for details of the Deed)

4.4 THE DEED SIGNED BETWEEN CODY INVESTMENTS AND CARMAL PROPERTIES INC.

On 27 of September 1998, a Deed was signed between Cody Investments Ltd and Carmal Properties Inc, a company registered in the British Virgin Islands. The Deed was for Carmal Properties Inc. to take over about 15% ownership of the Contingent Contract Lease and rights under the Declaration of Principle. The Deed mentioned that Carmal Properties Inc. undertakes to invest or cause the investment of US\$ 2.5 million in the development of land in Vanuatu, over a period of three years from the date of this Deed (see **Appendix "E"** for details of this Deed).

4.5 MEMORANDUM OF UNDERSTANDING

On 22 July 1999, a Memorandum of Understanding (MOU) was signed in London between Mr. Willie Jimmy, Deputy Prime Minister of Vanuatu and the Honorable Lord Keyes of the Mondragon Group/Cody Investments.

Subject to obtaining the relevant approval from the authorities in Vanuatu and complying with the relevant laws the country, the parties to the MOU confirmed their interest and agreed to cooperate for the execution and promotion of the following projects:

Free Trade Zone: The Mondragon Group intends to lease or buy an area of 80,000 hectares of land on the island of Santo for establishing a free trade zone with full exemption from all taxes, duties and other levies.

Consular Services: The operation of consular offices of the Republic of Vanuatu with financial support from Mondragon Group world wide, starting in Israel and Belgium.

Internet: Internet operation on an exclusive basis of a specialized internet technology entailing the use of the Vanuatu internet suffix prefix "VU" to be established, operated and funded by the Mondragon Group.

Air Services: The Government of Vanuatu confirmed its interest and commitment to upgrade and enlarge its international airport and the Mondragon Group confirmed its interest in purchasing at least 49% of Air Vanuatu.

Fishing: Fishing rights within the territorial waters of the Republic of Vanuatu would be given to the Mondragon Group upon terms and condition to be agreed upon by the parties. (See **Appendix "I"** for the details of the MOU)

4.6 CODY INVESTMENTS LIMITED

Cody Investments Ltd is a company registered in Ireland. The company has an authorized capital of 10,000 British pounds sterling, which is equivalent to 2,054,000 vatu. The paid up capital of the company is equivalent to 2 British pounds sterling in two shares valued at one British pound sterling each. Cody Investments Ltd. is based in Ireland (see **Appendix H**).

4.7 UNITED FIDELITY CORPORATION.

The United Fidelity Corporation was created and operates under the laws of the Cook Islands. The Company appointed Mr. Sanford Lee Wolok as one of its "true and lawful Attorneys in Fact" in the Financial Guarantee Bond given to the Vanuatu Government. United Fidelity Corporation and Mr. Wolok had also been involved in financial transactions in the Cayman Islands, the USA and with two other companies from South Africa and Bulgaria. Mr. Wolok was named in these three separate documents that United Fidelity Corporation has been involved in as Bonding Agent and Attorney in Fact (see **Appendix D1**).

4.8 FINANCIAL GUARANTEE BOND

In this Financial Guarantee Bond, Cody Investments Ltd., Economic Development Corporation Investments Ltd (EDCI), and the Mondragon Co-operative Society Ltd are named as "**The Principal**", United Fidelity Corporation is "**The Surety**" and the Government of the Republic of Vanuatu is held as "**The Obligee**". The Bond says that the Principal and the Surety are held and firmly bound unto the Obligee to the sum of \$3, 000, 000 (three million USD), provided the purchase option has been activated by the Principal and accepted by the Obligee. The Principle has agreed to an option to purchase forty-nine percent (49%) of Air Vanuatu from the Obligee and the Obligee has agreed to sell to the Principal. This interest in Air Vanuatu pursuant to the Purchase Option Agreement between the parties. (see **Appendix D1**)

4.9 THE MONDRAGON COOPERATIVE SOCIETY LIMITED

The Mondragon model in Spain was created as a cooperative model, functioning successfully since 1956 in the town of Mondragon in the Basque region, in Northern Spain. Mondragon Spain has developed into a self-sufficient "economic-enclave". The capital value of Mondragon Cooperative in Spain is estimated to be 15 million US dollars. The cooperative provides to its members employment and social services, schools, a university, hospitals, retirement homes, cultural institutions, banks and other establishments. Based on the above model, a group of business people and professionals have created the Israeli Mondragon Cooperative Society Ltd. This is to develop an autonomous and international economic, cultural and social enclave. Participation in the initial capital of the Society, to the amount of \$15 million, shall not entail any financial or other risk on the part of the members. One of the goals of the Israeli Mondragon Group is to acquire a ninety-nine year lease in an offshore environment, in order to establish a Free Trade Zone and Financial Center. They decided to choose Vanuatu to do this (**see Appendix EEE**)

4.10 FREE TRADE ZONE

A Free Trade Zone is an isolated, enclosed and policed area in or adjacent to a port of entry. It does not have a resident population, it is furnished with facilities for loading and unloading, for supplying fuel and ship's stores, for storing goods, and for reshipping them by land and water. It is an area within which goods may be landed, stored, mixed, blended, repacked, manufactured and reshipped without payment of duties and without the intervention of custom officials.

A free trade zone allows for the free entry of raw materials, components and finished goods of foreign origin and their subsequent re-exportation without being subject to customs duties and import and export regulations and controls. The aim of a free trade zone is to encourage and expedite foreign trade by eliminating the payment of customs duties unless and until foreign merchandise is imported into the host country's custom territory.

The free trade zone includes the right to absorb immigrants. It has full exemption from all taxes, duties and other levies and from banking, currency, postal and other regulations. The free trade zone would establish its own bank, insurance company, postal service, currency, departmental stores, manufacturing plants, hotels and agricultural ventures. Within the framework of the Mondragon Group principles, the Free Trade Zone area to be established in Big Bay, Santo would also serve as an International Financial Center. Examples of free trade zones include: Sky City, Brisbane, Australia, the Isle of Man, Mauritius, United Arab Emirates and Uruguay. The intention of the Israeli Mondragon Cooperative Society is to establish a Free Trade Zone in Big Bay area in Santo covering an area of 80, 000 hectares of land. (**see Appendix EEE**).

4.11 APPLICATION BY THE ISRAELI MONDRAGON GROUP TO THE FOREIGN INVESTMENT BOARD

The Israeli Mondragon Group submitted an application of interest to invest in Vanuatu to the Vanuatu Foreign Investment Board (VFIB). The project description in the application is to develop a Free Trade Zone in an area designated by the Government of Vanuatu. n (**see Appendix Z**).

4.12 MR. STEFAN MANDEL

Mr. Stefan Mandel, is the Managing Director of Cody Investments who has business ties with Israeli Mondragon. Mr Mandel is negotiating with the Government of Vanuatu on behalf of his company Cody Investments Ltd and the Israeli Mondragon Cooperative Society. Mr. Mandel is a member of the Israeli Mondragon Group but he does not hold any positions in the Board of the Mondragon Group. The Australian Security Commission (**ASC**) has investigated Mr. Mandel over his involvement in the Australian Lottery activities.

On 17 August 1995 Mr. Mandel was declared bankrupt in Australia. Mr. Mandel was not living in Australia when the court made the declaration of his bankruptcy. (see **Appendix V1**).

4.13 THE RIGHT HONORABLE LORD KEYES

Lord Keyes represented Cody Investments Ltd and the Israeli Mondragon Group during the signing of the MOU with public officials of the Government of Vanuatu in London on 22 July 1999 (see **Appendix I**).

5 OUTLINE OF EVENTS

- 5.1 On 14 October 1991, the Declaration of Principle was signed between the following UMP leaders, Mr. Serge Vohor, President, Mr. Jean Marie-Leye, Vice-President, Mr. Willie Jimmy, National Treasurer. Mr. Vohor also signed as Custom Owner in this document (see **Appendix A**).
- 5.2 On 14 October 1991, Mr. Serge Vohor signed the Contingent Contract for Lease as custom owner with Bramad Pty Ltd of St. Kilda Rd. Melbourne, Australia (see **Appendix B**).
- 5.3 On 20 January 1992, Bramad Pty Ltd sold the rights of the Declaration of Principle and Contingent Contract of Lease to Cody Investment Ltd, a company registered in Ireland for US\$60,000.00 (see **Appendix C**).
- 5.4 In July 1993, Mr. Stefan Mandel published an article about the investigations carried out by the Australian Security Commission (ASC) over his involvement in Australian Lottery activities (see **Appendix D**).
- 5.5 On 27 September 1998, Cody Investments Ltd sold 15% of the rights of the Declaration of Principle and Contingent Land Lease to Carmal Properties Incorporation. Carmal intended to invest or cause the investment of an amount of US\$ 2.5 million in the development of land in Vanuatu, (see **Appendix E**).
- 5.6 On 6 July 1999, Lord Keyes sent an invitation to the former Deputy Prime Minister, Mr. Jimmy, on behalf of the Vanuatu Government to attend a business conference in London scheduled for 21 July 1999. Cody Investments Ltd organized this conference based on preliminary discussions held between Mr. Michael Oliver and Mr Mandel (see **Appendix F**).
- 5.7 On 13 July 1999, Mr. Jimmy confirmed that a number of discussions were held between himself, Mr. Mandel and Mr. Oliver for the project in Big Bay. Mr. Jimmy also confirmed his participation in the conference which was held in London on 21 – 23 July 1999. He requested Mr. Mandel pay for the airfares of the Vanuatu Government delegation to the conference. The members of the delegation were Mr. Jimmy, Deputy Prime Minister, Mr. George Maniuri, Director General, Ministry of Trade & Business Development, Mr. Hamlison Bulu, the Attorney General and Mr. Roy Mickey Joy, Director, Department of Trade, Industry & Investment (see **Appendix G**).
- 5.8 On 13 July 1999, Vanuatu Financial Services Commission informed the Ministry of Trade and Commerce that the report received on Cody Investments Ltd. indicated that the company did not have the financial strength for proposed projects such as Free Trade Zone. The report shows that the company has an authorized capital of 10,000 pound sterling which is equivalent to 2,054,000 vatu. The paid up capital of the company is two (2) shares valued at 2 pounds sterling (see **Appendix H**).
- 5.9 On 22 July 1999, Mr. Jimmy, Deputy Prime Minister of the Government of Vanuatu and Lord Keyes of the Mondragon Group/Cody Investments signed the Memorandum of Understanding (MOU) in London. The parties to the MOU confirmed their interest and agreed to cooperate for the execution and promotion of the following projects, a Free Trade Zone, Consular Services, Internet, Air Services and Fishing Rights. (see **Appendix I**).

- 5.10 On 23 July 1999, Mr. Leon Katty of Santo sent a handwritten fax to Mr. Oliver to advise that he had found an area to build the free trade zone in Santo. Mr Katty explained that he had earlier sent the plan of the area and the map of Santo Mr. Oliver. **(see Appendix J).**
- 5.11 On 3 August 1999, Mr. Jimmy sent a letter to Lord Keyes to thank him for the invitation to attend and participate at the Business Conference in London. He stated that the Government would provide the necessary administrative support through various forms of concessions to ensure that the projects were carried out with minimal delay and disruption **(see Appendix JJJ).**
- 5.12 On 5 August 1999, the Foreign Investment Board members made a visit to Matantas village in Big Bay. The purpose of the visit was to introduce the idea of the proposed, Free Trade Zone project to the chiefs and the custom land owners of Big Bay **(see Appendix K).**
- 5.13 On 9 August 1999, Director of Trade, Industry & Investment, Mr. Roy Mickey Joy sent a fax to Mr Mandel to inform him about the Foreign Investment Board visit to Big Bay. He stated that the chiefs and custom land owners in Big Bay expressed support for the project **(refer to Appendix KKK).**
- 5.14 On 16 August 1999, Mr. Mandel sent a letter to Mr. Joy and asked for Air Vanuatu's latest balance sheets, including current (unaudited) financial reports and the amended version of the Foreign Investment Bill **(see Appendix LLL).**
- 5.15 On 23 August 1999, the Principal Lands Officer, Mr. Emil Mael sent a letter to Mr. Mandel and requested financial assistance to assist Lands officers to visit the proposed project site in Big Bay. Mr. Mael requested US\$1,000.00 from Mr. Mandel. Mr. Mael advised him to send the amount through his personal account in the National Bank of Vanuatu via Chase Manhattan Bank in New York, USA **(see Appendix L).**
- 5.16 On 23 August 1999, Mr. Joy sent a letter to Mr. Mandel and advised that he had discussed the project with the two Members of Parliament for Santo, Mr. Serge Vohor and Mr. James Imbert and they confirmed their support for the project. Mr. Joy also stated that the Council of Minister had decided on 11 August 1999 to sell 49% shares of Air Vanuatu to Israeli Mondragon Group and Cody Investments Ltd. Mr. Joy advised Mr. Mandel that he could not obtain a copy of Air Vanuatu's unaudited accounts as requested by Mr. Mandel. Mr. Joy also requested Mr. Mandel to establish a slush fund between Mr. Mandel and the Lands Department. Mr. Joy had instructed Mr. Mael, Principal Lands Officer to request money from Mr. Mandel **(see Appendix M).**
- 5.17 On 23 August 1999, Mr. Japhet Peter of the Natano Trading Company in Santo sent a letter to Mr. Oliver to advise that the Vanuatu Government has its own institution, the Foreign Investment Board that deals with foreign investors interested in investing in Vanuatu. He also advised Mr. Oliver that there are no provisions in any law that gives any rights to the Government to own land. A custom land owner has the legal right to stop any project, or dispute the use of the land if he is not satisfied with the project proposals. Mr Peter gave this advice because Mr. Oliver had indicated his interest to set up a project in the Big Bay area rather than Fanafo area which was previously proposed. Mr. Peter went on to advise Mr. Oliver that the custom land owners of Big Bay had nominated him as their agent in Luganville to facilitate and negotiate any projects **(see Appendix N).**
- 5.18 On 25 August 1999, Mr Mandel advised Mr Joy by fax that he had sent \$1,000 through telegraphic transfer to Mr Mael. This financial assistance was sent to facilitate the Department of Land officers to carry out their activities in relation to the gaining consensus among the chiefs in regard to Mondragon Group's proposed free trade zone project **(see Appendix O).**

- 5.19 On 26 August 1999, Mr Mael sent a letter to Mr Mandel to thank him for his prompt action and response for financial assistance. He confirmed that part of the money would be given to Chief Solomon of Matantas Village, Big Bay who also asked for funds in order to convene the meeting with other chiefs in Big Bay.
- 5.20 On 6 September 1999, Mr. Mael sent a report on how the US\$1,000.00 was used to Mr Mandel. Mr Mael confirmed that \$500 was given to the chiefs. Mr. Mael also made a request for further financial assistance to Mr. Mandel. He advised that in order for the land officers to be able to convene further meetings with the chiefs of Big Bay on the proposed Mondragon project, they required an amount of US\$2,500.00. He again advised Mr. Mandel of his National Bank personal account number so that this amount could be transferred via Chase Manhattan Bank of New York, USA **(see Appendix P for details)**.
- 5.21 On 21 September 1999, Mr. Mandel confirmed his association with Mr. Oliver in a letter to their plans in the MOU. Mr. Mandel advised that Economic Development Corporation Israel Ltd. (EDCI Ltd.) is an investment arm of the whole Cody/Mondragon project. Mr. Mandel advised that EDCI Ltd. is the entity that is purchasing the 49% shares in Air Vanuatu, indicated in the memorandum signed in London **(see Appendix R)**.
- 5.22 Mr. Oliver sent a fax to Mr. Japhet Peter and others to say that he decided to withdraw his support from any group which is now working towards establishing a free trade zone in Vanuatu **(see Appendix S)**.
- 5.23 On 7 October 1999, the Head of the Environment Unit, Mr Ernest Bani wrote a letter to the Prime Minister, Mr Donald Kalpokas to voice his concerns about the proposed free trade zone project. Mr Bani raised questions about whether the project was genuine and why the Environment Unit had been excluded from the negotiations when they have been working within the Big Bay area on the National Reserve area for the past five years. Mr Bani raised concerns about the involvement of various Government bodies such as the Foreign Investment Board's approval of the project, project application documents, absence of negotiator certificates, how funds are being committed in the negotiation process so far and the sources of funding. Mr. Bani stressed the importance of the CRP principle of transparency and accountability **(see Appendix T)**.
- 5.24 On 11 October 1999, the Director General of the Prime Minister's Office, Mr. Jean Sese sent a memo to Mr Bani of the Environment Unit. Mr. Sese confirmed that his office was not aware of any decision by the Vanuatu Government authorizing Mondragon Group to carry out a free trade zone project in Big Bay or anywhere in Vanuatu **(see Appendix TTT)**.
- 5.25 On 11 October 1999, the Attorney General advised Mr. Bani by letter that a meeting has been called for all parties involved in this project for 13 October 1999, at the Council of Ministers' conference room to discuss these issues raised by Mr. Bani (see Appendix **UUU**).
- 5.26 On 11 October 1999, Mr. Oliver declared to have severed all ties with Mr. Mandel and any of his associates, companies or other entities **(see Appendix U)**
- 5.27 On 12 October 1999, Mr. Mandel sent a fax to Mr. Allan Kalfabun at the National Tourism Office and stated that the Mondragon Group is involved in negotiations with Vanuatu Government for the purchase of 49% shares of Air Vanuatu. Mr. Mandel also stated that Mondragon would also be involved in the development of other projects on Santo and the establishment of a Vanuatu Consulate in Israel. The Deputy Prime Minister, Mr. Jimmy had suggested that Mr. Mandel contact the National Tourism Office. Mr. Mandel requested promotional material on Vanuatu like publications or videos to be sent to him via DHL **(see Appendix VVV)**.

- 5.28 On 12 October 1999, Mr Mandel sent a fax to Mr Joy and Mr Willie to advise that Mr Oliver was trying to damage the plans for the proposed project in Big Bay. Mr. Mandel also confirmed in this fax that he had paid for Mr. Oliver's expenses to attend and participate in a business conference held in London because of Mr. Oliver's involvement in the Free Trade Zone in Big Bay since 1991. Mr. Mandel also asked for the list of the Vanuatu Government delegation attending a meeting in Geneva on 15 October 1999 **(see Appendix V)**.
- 5.29 On 14 October 1999, the Deputy Prime Minister, Mr. Jimmy raised his concern in a letter to the Prime Minister, Mr. Kalpokas about the proposed Mondragon project. In that letter, he confirmed that the project had not yet been considered for approval by the Council of Ministers **(see Appendix WWW)**.
- 5.30 On 7 December 1999, MP Willie Jimmy (Mr. Jimmy was no longer in Government) sent a hand written fax to Mr Mandel to ask for financial support in order to get back into Government. Mr. Jimmy indicated that he was elected the President of UMP. He mentioned that the funds were needed to set up an office in Port Vila, buy a fax machine, photocopier, computer, stationary, install a telephone and pay the salary for a part time secretary. Mr. Jimmy stated that by having an office, he as Deputy Opposition Leader and President of UMP will be in a better position to meet other Parliamentarians to try to convince them to join his group in order to get back into Government as soon as possible **(see Appendix W)**.
- 5.31 On 17 December 1999, the Director of Trade, Industry and Investment, Mr Roy Mickey Joy sent a letter to Mr. William Tari, First Political Secretary of the Ministry of Foreign Affairs. In that letter, Mr. Joy advised that the Council of Ministers **(COM)** made a collective decision and approved the proposed investment undertaking by Israeli Mondragon Group in Vanuatu.
- Mr. Joy also stated that the COM recommended that the Government would consider and decide upon the candidate to be appointed as Honorary Consul of Vanuatu in Israel. Mr. Joy said the proposed candidate nominated by the Government was Major General Daniel Rothschild. He advised the Foreign Ministry that in his opinion, the Minister of Foreign Affairs, Mr Serge Vohor should consider the appointment of Israeli Consul immediately. Mr Joy further advised that the Government accept the offer that the Cody/Mondragon Group would fund the establishment of a Vanuatu Embassy in Brussels **(see Appendix X)**.
- 5.32 On 28 January 2000, the Council of Ministers (COM) met and appointed Major General Daniel Rothshild as Vanuatu's Honorary Consul in Israel **(see Appendix Y)**.
- 5.33 On 31 March 2000, Israeli Mondragon Group submitted an application to the Vanuatu Foreign Investment Board (VFIB) to invest in Vanuatu. The project description indicated in the application form was to develop a Free Trade Zone in an area designated by the Government of Vanuatu **(see Appendix Z)**.
- 5.34 On 6 April 2000, the Training Manager of the Strategic Investment Program Course in Ireland sent an email to Mr. Howard Aru to inform him about a course that would be held in Dublin from 19 – 30 June 2000. Mr. Aru was nominated to attend that course. The total cost was \$5,500 US dollars **(see Appendix A1)**.
- 5.35 On 11 April 2000, the Chairman of the VFIB, Mr. Joy requested funding assistance from the Prime Minister's Office for Mr. Aru to attend the training course in Dublin. The total amount requested was Vt986, 200, to include accommodation, per diem allowance, tuition, documentation, study tours and return airfare **(see Appendix B1)**.
- 5.36 On 15 June 2000, Mr. Joy wrote a letter to Mr. Mandel and requested funding assistance for Mr. Aru to attend this training course in Dublin. He requested 2,700 pounds sterling from Mr. Mandel to pay the course fees for Mr. Aru **(see Appendix C1)**.
- 5.37 On 5 July 2000, Mr. Aru arrived back in Vanuatu after attending the course partly funded by Mr. Mandel in Dublin.

- 5.38 On 12 July 2000, the Financial Guarantee Bond with a liability of US\$3,000,000 was presented to the Vanuatu Government with the intention of purchasing 49% shares of Air Vanuatu. Signatories to the Guarantee Bond were representatives of Cody Investment Ltd, EDCI & Mondragon Cooperative Society as the Principal to the bond, and the United Fidelity Corporation as the Surety. The Vanuatu Government is held as the Obligee in this Financial Guarantee Bond (**see Appendix D1**).
- 5.39 On 26 July 2000, the Foreign Investment Board met and approved in principle the Mondragon Group's application for the free trade zone project in Santo (**see Appendix G1**).
- 5.40 On 28 July 2000, Mr. Aru of the VFIB advised Mr. Mandel in a letter that the Board had approved the Mondragon Group's application in principle to establish the Free Trade Zone and other economic sector proposal projects in Santo. Mr. Aru also advised that a requirement for the approval of the Mondragon proposal would be for Mondragon to acquire all necessary documents in accordance with the appropriate laws of Vanuatu (**see Appendix H1**).
- 5.41 On 8 August 2000, Ala & Co Barristers & Solicitors advised Mr. Aru about a libel action against the Vanuatu Trading Post to be launched by Mr Mandel. Mr. Ala advised that before the libel action could be sustained Mr. Mandel must show that what was published in the Trading Post was false and defamatory. Mr. Ala also advised that the information published by Trading Post came from an Israeli paper, Yediot Acharonot. Mr. Ala further advised Mr. Mandel to take action against the Israeli paper first. Mr. Ala recommended for Mr. Mandel to refute the information published in the Trading Post by telling the Vanuatu public his side of the story with evidence from law enforcement authorities in the country of his citizenship, and in those countries where he normally resides in. (**see Appendix K1**).
- 5.42 On 9 August 2000, Mr. Joy informed Mr. Mandel of the newspaper article from the Trading Post and Israeli Newspaper about the proposed project in Vanuatu. Mr. Joy stated that he is a believer in and an advocate of the Mondragon concept. He also informed Mr. Mandel that the State Law Office has been cautioning the Foreign Investment Board about the proposed deal. In his letter Mr. Joy stated that the State Law Office may have done credit checks with the subsidiaries and corresponding agencies overseas and are questioning the credibility of the Israeli Mondragon Group and the individuals behind the project. He stated that he would send some of these documents from the State Law Office and newspapers to Mr. Mandel for verification (**see Appendix KKK2**).
- 5.43 On 10 August 2000, Mr. Mandel sent a letter to the Prime Minister Mr Sope and stated that the Mondragon Group has lodged a criminal charge against the Israeli newspaper. He also remarked that libel charges were due to be lodged on September 1 2000 against the Vanuatu Trading Post (**see Appendix L1**).
- 5.44 On 15 August 2000, Mr. Mandel sent a letter to Mr. Ala and thanked him for the advice he received from him through the Foreign Investment Board. He stated again that the Mondragon Cooperative Society has lodged criminal charges against the Israeli newspaper. He also mentioned that he intended to sue the publisher of the Trading Post. He asked Mr. Ala to represent him in this case in return for US\$64,000.00 (**see Appendix LLL2**).
- 5.45 On 16 August 2000, Mr. Mandel sent a fax to the Prime Minister, Mr Sope confirming that legal action would be taken against the Israeli newspaper Yediot Acharonot and the Vanuatu Trading Post (**see Appendix M1**).
- 5.46 On 18 August 2000, Mr. Aru sent a memo to the Chairman of the Foreign Investment Board, Mr. Joy about the proposed mission to Israel. Mr Aru admitted that he hesitated to join the mission to Israel. The State Law Office had verbally cautioned VFIB not to issue an approval certificate for the Mondragon project. Mr Aru confirmed that the VFIB

had not received such documents to prove whether the parties involved in the proposed Free Trade Zone project are genuine investors or not. Mr Aru suggested that the mission to Israel proposed by Mr. Mandel be postponed until these issues against the Mondragon Group are cleared **(see Appendix MMM)**.

- 5.47 On 21 August 2000, Mr Ala sent a letter to Mr Mandel to advise that he received a copy of a letter sent to the Prime Minister, Mr Sope informing him of the legal action taken against the Israeli newspaper. Mr Ala advised that any legal action taken against the Trading Post newspaper in Vanuatu would depend on the outcome of the case against the Israeli paper. Mr. Ala declined to represent Mr. Mandel in the case **(see Appendix MMM3)**.
- 5.48 On 31 August 2000, Mr. Aru sent a memo to the State Law Office and stated that the Mondragon Group's proposed project had been the subject of criticism by the media even though the VFIB had, in principle, approved the project. He stated that the Prime Minister was quoted in the news as also questioning the Mondragon Group to clarify their status in relation to criticism raised locally and abroad. Mr. Aru pointed out that to date VFIB has not received any positive legal advice from the Government of Vanuatu or Israel in favour of or against Mondragon Group. The VFIB requested the State Law Office to attend the Board meeting on September 1 2000 in order to provide a legal opinion on the matter **(see Appendix MMM4)**.
- 5.49 On 7 September 2000, Mr. Aru sent another memo to the State Law Office to convey the Board's gratitude for the frank legal advice given on the Mondragon Group's proposed project. The State Law Office had advised VFIB to treat Mondragon with extreme caution and carry out due diligence checks on appropriate investors proposing to do business in Vanuatu **(see Appendix MMM6)**.
- 5.50 On 21 September 2000, Geoffrey Gee & Partners Barristers & Solicitors advised the Ombudsman in a letter that they act on behalf of Mondragon Group and Mr. Mandel. They also advised that they were in the process of completing a Writ of Proceedings against the Trading Post for defamation in respect of its news articles. They advised that Mr. Mandel would provide them with documents to prove the articles in the Trading Post were false **(see Appendix N1)**.
- 5.51 On 22 September 2000, Mr. Mandel sent a fax to the Chairman of VFIB, Mr. Joy to confirm that General Rothchild is a member of Mondragon Group. General Rothchild was appointed by the Council of Ministers on 28 January 2000 as the Vanuatu Consul in Israel. Mr. Mandel requested for a precise plan of action to be prepared by both Mr. Joy and himself to outline what the Chiefs of Big Bay expect and what Mondragon should offer to ensure the successful completion of the project **(see Appendices X & Y)**.
- 5.52 On 25 September 2000, Mr. Mael of the Lands Department sent a fax to Mr. Mandel to inform him that they have sent the land use map of the island of Santo following the request from the Chairman of VFIB, Mr. Joy **(see Appendix NNN)**.
- 5.53 On 3 October 2000, in a letter to the Ombudsman, Mr. Aru, CEO of VFIB confirmed that VFIB has in principle approved the Free Trade Zone concept. As such, no approval certificates have been issued to any investor as yet. He also confirmed that Mr. Joy met Mr. Mandel to assist him (Aru) in meeting the cost of attending a training program in June 2000. Mr. Aru claimed that he accepted the offer in good faith. He also confirmed that on 1 September 2000, the State Law Office issued a caution relating to future dealings with Mr. Mandel or Mondragon . **(see Appendix O1)**.
- 5.54 On 9 October 2000, the Chairman of VFIB, Mr Joy, denied that any requests were made to Mr Mandel for financial assistance by the VFIB officials. He stated that any personal financial assistance requested from Mr. Mandel would be a matter of discretion by Mr. Mandel and the individual concerned. Mr. Joy denied having any information or record of Government officials who received financial assistance from Mr. Mandel. **(see Appendix P1)**.

- 5.55 On 11 October 2000, Mr. Jimmy responded to the enquiry by the Ombudsman and confirmed that he was aware of the agreement that Mr. Serge Vohor signed with the Australian Bramad Pty Ltd. Mr. Jimmy claimed that he did not know who authorized Mr. Vohor to sign the agreement on behalf of the custom owners. Mr. Jimmy denied having any information about the UMP receiving the amount of US\$150,000.00 in exchange for the 80,000 hectares of land to be leased. He denied any knowledge about the signed land lease agreement by Bramad Pty Ltd that was sold to Cody Investments Ltd and later to the Israeli Mondragon Group. Mr. Jimmy confirmed signing the MOU in 1999 in front of the Attorney General. He denied receiving any financial assistance or gifts in kind or cash from Mr. Mandel in London since signing the agreement. Mr. Jimmy confirmed that all travel and accommodation expenses for the Vanuatu delegation for the business conference in London to sign the MOU was paid for by Cody Investment Ltd and the Mondragon Group. Mr. Jimmy maintained that nothing whatsoever contained in the MOU can be implemented unless it has obtained the relevant approval from the appropriate authorities in Vanuatu and has complied with all relevant laws of Vanuatu **(see Appendix Q1)**.
- 5.56 On 12 October 2000, Mr. Mael, Principal Lands Officer confirmed in a letter to the Ombudsman that he had requested financial assistance from Mr. Mandel. Mr. Mael claimed that the financial assistance was not for personal purposes. He confirmed that he requested Vt150, 000 from Mr. Mandel. This amount was used to finance some Government officers to travel to Santo to carry out feasibility studies and awareness meetings regarding the free trade zone proposal. The Department of Lands did not have sufficient funds to pay for this feasibility study. He stated that it was important that this study be conducted for technical assessment purposes to assist the Government and the landowners in knowing the advantages and disadvantages of such an important undertaking **(see Appendix R1)**.
- 5.57 On 29 March 2001, officials from IMondragon and the 17 landowners of Big Bay area in Santo signed another document for the Group to establish a Free Trade Zone Project in the area **(see Appendix U1)**.
- 5.58 On 3 April 2001, Mr. Aru wrote a letter to the former Minister of Lands, Mr. Maxime Carlot Korman and urged the Minister to consider and sign the land lease. He stated that as far as the Department of Lands is concerned, the lease is in order **(see Appendix U1)**.
- 5.59 On 9 April 2001, Mr Joy wrote to the Director of Lands, Mr George Tambe over a statement made by Lands Valuation Officer, Mr Alick Kalmelu that the lease document signed by the investors and the landowners of Big Bay were unofficial documents **(see Appendix UUU2)**.
- 5.60 On 23 April 2001, Mr. Joy wrote to Mr. Kalmelu indicating that the outgoing Lands Minister, Mr. Korman did not want to sign the schedules to the lease of the proposed land area. He said that although Mr. Korman was given an opportunity as well as proper brief by technical experts in the Lands Department that the proposed schedules were in order and did satisfy all the provisions of the Land Lease Act Mr. Korman did not sign the schedules. Mr Joy stated that the Lands officers proposed the legality of the Land Lease arrangements as submitted by the landowners and the investors were to be considered by the new Minister of Lands as a matter of urgency. Mr. Joy also stated that the agreement to lease land signed by the landowners of Big Bay and the Mondragon Group officials was official but not legal. **(see Appendix UUU3)**.
- 5.61 On 20 June 2001, 16 chiefs of Big Bay sent a 10-point petition to the Honorable Prime Minister, Mr. Edward Natapei. The petition asked the Government not to allow Mondragon Group to invest in Big Bay **(see Appendix UUU4)**.
- 5.62 On 29 June 2001, the Official Trustee of Bankrupt Estate in Australia, Mr Kenneth Lamb confirmed that Mr Stefan Mandel was declared bankrupt on 17 August 1995. He owed money in excess of \$500,000.00 Australian dollars as commissions for life insurance policies sold. He was declared bankrupt when he left Australia and lived in Romania. Mr. Lamb also confirmed that Mr. Mandel was involved with Bramad Pty Ltd **(See Appendix V1)**.

- 5.63 On 12 July 2001, Mr. Michal Neva-Barak, Director of the Department of Enforcement of the Israeli Securities Authority (ISA) sent an email to the Ombudsman Office to confirm that the court in Israel had granted a temporary injunction against Mondragon Cooperative Society. The injunction stipulated that Mondragon refrain from offering memberships in their society which entitled their members to a piece of land in Vanuatu. The offering of shares in a company without a prospectus is a criminal offence in Israel **(see Appendix W1)**.
- 5.64 On 18 July 2001 the Ombudsman received a copy of the Israeli court order imposing a temporary injunction on the Mondragon Group to stop offering shares for land in Vanuatu without approved prospectus. The court order was in Hebrew with an English translation **(refer to Appendix XX7 for a copy of the Court Document in Hebrew and the English translation)**
- 5.65 On 23 July 2001, Mr. Avi Edelman, the Secretary General of Mondragon Cooperative Society advised in a fax to the Ombudsman that Mondragon Cooperative Society Ltd was founded and registered on September 16, 1998. He also denied that Mondragon Group had been involved in any agreement seven years earlier, simply because it was not around that time **(refer to Notarised Certificate of Formation attached to Appendix XX5)**. Mr. Edelman stated that Mr. Mandel assisted in the conceptual design but he only became a member of Mondragon in October 1998 and he has never held office nor any official position in the Mondragon Group **(see Appendix XX5)**
- 5.66 On 31 July 2001, Mr. Edelman advised that Mr. Mandel is a private person and his past and present actions do not relate in any way to Mondragon Cooperative Society. Mr. Mandel is not a member of the Executive of the Mondragon Cooperative Society. With regard to the injunction against Mondragon, Mr Edelman confirmed there was a dispute between the Israeli Authorities and Mondragon over the application by the Securities Authority for an injunction to prevent Mondragon from making an offer to the public without an approved prospectus. On the financial guarantee bond issued by Mondragon to Vanuatu Government, Mr Edelman advised that they arranged for a guarantee/performance Bond, through an American Insurance Company. However, the negotiations were unsuccessful and the Bond was returned to the American company **(see Appendix XX6)**.
- 5.67 On 5 August 2001, Mr. Jacob Harkavy, Advocate for the Mondragon Group, responded to the Ombudsman's queries about the financial guarantee bond and temporary injunction and stated that Mondragon has never issued a falsified financial guarantee bond to the Vanuatu Government. He stated that Mondragon is not a bank nor a financial institution and cannot issue a bond. On the issue of temporary injunction imposed by the court, Mr. Harkavy confirmed the decision by the court however he stated that Mondragon would be appealing the decision. Mr. Harkavy confirmed that Mr. Mandel has never held a position in the Mondragon Group. However, Mondragon does have business ties with Cody Investments where Mr. Mandel is Managing Director **(see Appendix XX8)**.
- 5.68 On 21st August 2001, Mr Shani Erez and Mr Elazar Meir, (who claim to be members of the Mondragon Cooperative Society) visited the Office of the Ombudsman. They advised that Mr. Mandel initiated the idea of free trade zone in Vanuatu with the Mondragon Group. They confirmed that Mandel does not hold any position in the executive of the Cooperative Society. They also advised that Mr. Mandel had the approval by the Mondragon Group to lead the negotiations with the Vanuatu Government because of his knowledge about this part of the world. Mr Erez and Mr Meir agreed that any investors coming to Vanuatu must respect the laws of this country. They stated their dissatisfaction when informed about Mr. Mandel giving financial assistance to public officials outside of official procedures. They stressed that Mondragon Cooperative Society is a genuine Cooperative society in Israel.

6. RESPONSES TO THE WORKING PAPER

Copies of the Working paper were sent to those persons implicated in this report and heads of authorities that would assist to resolve outstanding issues in this matter. Public authorities and persons who assisted the Ombudsman in this enquiry were also given copies of the Working Paper to comment on the issues of facts and findings made in the Working Paper before the Public Report is issued.

The summaries of the responses are as follows:

6.1 Mr Howard Aru:

In a letter dated 31 July 2001 Mr. Aru denied in his the allegations made in the Working Paper against him with a statement that he did not received direct financial assistance from Mr. Mandel. The funds paid by Mr. Mandel for his course fee were paid directly to the Training Manager of the Course in Ireland.

However, he admitted to have made a mistake in accepting Mr. Roy Mickey Joy's proposal for Mr. Mandel to pay for his participation fee at a training program in Ireland in June 2000. Mr. Aru also confirmed that the VFIB failed to make a thorough check on Mr. Mandel and the Mondragon Group's background as stipulated by Section 6(2)(i)(j) & (k) of the Foreign Investment Act.

Mr. Aru further stated that after attending the training partly funded by Mr Mandel, he has taken a very clear stand on certain issues concerning the Israeli Mondragon Group. This would be evidence to show the falsity of the accusations that the financial assistance he received influenced any decision made by VIFB towards Israeli Mondragon Group's application to invest in Vanuatu. The evidence Mr. Aru gave included his regular contacts with a local law firm, Ala & Co Barristers & Solicitors and Financial Intelligence Unit in the State Law Office. Mr. Aru stated that the advice and information given to him helped him make the decision not to join the delegation to Israel. He advised the Chairman of VFIB that when questions and doubts about Mondragon Group are not cleared yet to the citizens of Vanuatu, he is not going to Israel. He claimed that he cooperated with the Financial Intelligence Unit (FIU) in the State Law Office for advice and he assisted the Ombudsman Office with the enquiry.

Mr Aru's argued in his response that he did not receive financial assistance from Mr. Mandel for personal gain. He argued that it was essential that he attended this course for the benefit of the Foreign Investment Board and the Government of Vanuatu. It was essential that he attended this training course in Ireland to assist with the advancement and the development of the VFIB.

Mr. Aru also claimed in his response that his letter to urge the Minister of Lands to sign the land lease for Big Bay was based on technical advice received from technical personnel from the Lands Department. Mr. Aru wrote the letter to the Minister of Lands to sign the land lease for the Project as the land lease documents were in order (**refer to Appendix XX1 for details of Mr Arus's response**)

(The Ombudsman's comments on Mr Aru's response can be found in "Finding of Facts" No 7.7 and 7.8)

6.2 Mr Roy Mickey Joy:

On July 26 2001, in a letter to the Ombudsman Mr. Joy claimed that the request for the financial assistance from Mr. Mandel to pay the course fees for Mr. Aru to attend the course in Ireland was done in good faith. The course attended by Mr. Aru has enormously benefited the VFIB and the Government.

Mr. Joy also claimed that arrangements were made for Mr. Aru to attend this course when it became inevitable that they could not find the funds to pay for his course fees. The financial support given by Mr. Mandel to finance Mr. Aru's course was done without any favor or without any strings attached. Mr. Mandel paid the funds directly to the Institute in Ireland.

The initial Mondragon Group's application to the VFIB was processed and considered in the same transparent manner as the other investment projects. There was no favor or personal support attached other than the merits and the economics of the project. The Board met in July 2000 and approved the Mondragon Group's application in principle pending a fully fledged submission and break down of the projects that the Group may wish to begin implementing in Santo.

With regards to the financial support given to Mr. Emil Mael, Mr Joy claimed that the initial work relating to the proposed land in Big Bay and the land owners consent to the use of their land was fundamental to the free trade zone project. As Principal Lands Officer, Mr. Mael has the responsibility to fully inform the custom owners and ensure that they are aware of the various components of the project.

The Department of Lands did not budget for such project but it was its responsibility to ensure that land owners are fully aware of the advantages and disadvantages of any development that is intended to be imposed on their land. Mr. Joy confirmed in his response that he initiated the idea for Mr. Mandel to give financial assistance to Mr. Mael.

Mr Joy also confirmed that the funds paid to Mr. Mael's account were principally to assist in his visits to Santo to conduct consultations with the appropriate custom owners and chiefs in respect to the proposed project. It was done in good faith basically to ensure that initial work and other technical preparations for the proposed projects are implemented according to the laws of Vanuatu.

Mr. Joy claimed that Mr. Mandel's financial assistance to Mr. Mael was on the basis of facilitating and accelerating the process for the land lease to be finalized and signed. He confirmed that to date, there is an impasse surrounding the land lease and Mondragon Group's proposed project (**refer to Appendix XX2 for details of Mr. Joys's response**)

(The Ombudsman's comments on Mr Joy's response can be found in "Finding of Facts" No 7.10)

6.3 Emil Mael:

In a response dated 8 August 2001, Mr. Mael stated that he requested financial assistance from Mr. Mandel in good faith to facilitate the wishes of the investor, the custom owners and the Government in order to promote investment in Vanuatu. In his verbal response earlier on to the report, he confirmed that he was approached by Mr. Joy to assist in this project and to request funding from Mr. Mandel. He indicated that with his experience in the Land Use Planning Office he was given the task to facilitate awareness meetings and workshops to bring out advantages and disadvantages of the various components of the proposed project to the land owners. Mr. Mael confirmed that the Lands Department did not have the budget to undertake such facilitation, nor did the VFIB.

Mr. Mael stated that after the signing of the MOU in London by the former Deputy Prime Minister Mr. Jimmy, followed by the approval of the project in principal by VFIB there were requirements for the Department of Lands to undertake feasibility studies at Big Bay. Mr. Mael stated that it was the size of the land, 80,000 hectares, that was the main concern to him and other lands officers to motivate them to ensure that the land owners are well educated and are fully aware of the various components to the use of their land.

Mr. Mael confirmed that Mr. Joy advised him to write to Mr. Mandel and request financial assistance. He confirmed to have received the money in his private account in the National Bank of Vanuatu. The reason to transfer the funds to his personal account was because the transfer would be much faster than sending the money to the Government treasury.

Mr. Mael claimed that the issue of requesting funds directly from Mr. Mandel was approved and resolved in a meeting held on 13 October 1999 by some Director Generals and the Attorney General. Mr. Mael claimed that the Attorney General had advised in that meeting that the Government would be facing budget problems because of the Comprehensive Reform Program (CRP). Therefore if individuals wish to pursue investments in Vanuatu, they may do so and provide government officials with financial assistance to facilitate the requirements and laws of Vanuatu regarding investments. **(refer to Appendix "XX3" for details of Mr Mael's response)**

(The Ombudsman's comments on Mr Mael's response can be found in "Finding of Facts" No 7.4)

6.4 Mr. George Maniuri – Director General of the Ministry of Trade & Economic Cooperation.

On the 31st July 2001, in a letter to the Ombudsman, Mr. Maniuri stated that the role of the Ministry of Trade & Investment responsible for the Foreign Investment Board is to coordinate the formulation and implementation of the Government's policy in the area of trade, tourism, investment and economic cooperation.

Mr. Maniuri further stated that attracting and facilitating foreign direct investment into the country is a major challenge of the Ministry. The Government's allocation of budgetary resources to the VFIB is inadequate. With respect to Mondragon, VFIB officials are pressured when the approval in principal had been made by the Council of Ministers to adopt the MOU signed in London as Government policy. Mr. Maniuri claimed that when VFIB officials were faced with such circumstances with no budget to carry out a Government policy, they would have to take some risks based on their professional judgement and assessment as long as the established legal framework is respected.

Mr. Maniuri claimed that circumstances such as this had forced the VFIB officials to request financial assistance from private sponsors (Mr. Mandel) to assist the process of advancing the proposed free trade zone project in Santo. He also claimed that such assistance is accepted and does not constitute a breach of any legislation.

Mr. Maniuri confirmed the financial assistance was requested by the officials from Mr. Mandel. He further claimed that financial assistance provided by Mr. Mandel and Mondragon Group does not constitute a crime or an act or omission prohibited and punishable by an Act of Parliament. However, he agreed that such actions taken by Mr. Joy and others may amount to a breach of legislation. Mr. Maniuri argued that when such actions are not yet proven by any court of law, the Ombudsman's report should not label the allegations as serious crime such as bribery and corruption against the officers of the VFIB. **(see Appendix XX4 for details of Mr Maniuri's response)**

(The Ombudsman's comments on Mr Maniuri's response can be found in "Finding of Facts" No 7.11)

7 FINDING OF FACTS

7.1 Facts to show the connection between Michael Oliver, Stefan Mandel, Lord Keyes & UMP leaders to set up a free trade enclave in Santo.

Mr. Michael Oliver, Mr. Stefan Mandel, Lord Keyes and UMP leaders are found to be associated with Bramad Pty Ltd and Cody Investments when the Contingent Contract for Lease and the Declaration of Principle were signed on 14 October 1991. (see **Appendices A, B, C, D & V1**). The documents are connected to the proposed land to establish a free trade zone for businesses. This was confirmed in letters of 6th July 1999 and 13th July 1999 between Lord Keyes and Mr Willie Jimmy (see **Appendices F & G**).

The proposed plan for the Free Trade Zone was affirmed by all parties when they met in London to sign the Memorandum of Understanding on 22nd July 1999 (see **Appendix I**). This interest was further confirmed in the letters sent to Mr. Oliver by Mr Leon Katty (23rd July 1999 and Mr. Japhet Peter 23rd August 1999) (see **Appendices J & N**). Mr. Mandel also confirmed his association and connection with Mr. Oliver to establish a free trade zone in Santo which he claimed dated back to 1991 in a fax sent to Mr. Roy Mickey Joy on 12th July 1999 (see **Appendix V**).

Mr. Mandel also further confirmed his connection to Bramad Pty Ltd in a document he issued in July 1993, when he formed a "Watchdog Association" with the same address to that of Bramad Pty Ltd mentioned in the Contingent Contract of Lease (see **Appendix D**). The Registered Bankruptcy Trustee in Australia confirmed Mr Mandel's involvement with Bramad Pty Ltd (see **Appendix V1**).

7.2 Facts about Mr. Mandel.

The Australian Security Commission carried out investigations against Mr. Mandel for suspected illegal activities in lotteries (see **Appendix D**). The Registered Bankruptcy Trustee in Australia confirmed that Mr Mandel was declared bankrupt on 17 August 1995. Mr. Mandel was not living in Australia when the bankruptcy occurred. Mr. Mandel was made bankrupt on the petition of Regal Life Insurance Co. Ltd who which owed in excess of \$500,000.00 Australian dollars (see **Appendix V1**).

7.3 Facts to indicate that MP Willie Jimmy requested financial assistance from Mr. Mandel and the Mondragon Group.

In a letter to Lord Keyes on 13 July 1999 Willie Jimmy requested that Cody Investments Ltd pay for their airfares from London to attend a business conference to sign the Memorandum of Understanding for Mondragon to invest in Vanuatu (see **Appendix G**). Mr. Jimmy also requested financial assistance from Mr. Mandel in a hand written letter on 7 December 1999. He requested funds to buy a fax machine, photocopier, stationary, install a telephone, pay a salary to a part time secretary and establish an office in order to get back into Government (see **Appendix W**). However, in a letter dated 11 October 2000, Mr. Jimmy denied receiving any financial assistance from Mr. Mandel. He also denied any knowledge of UMP receiving the amount of US\$150,000.00 in 1991 for the land lease signed between Bramad Pty Ltd and Mr. Serge Vohor. (see **Appendix A & B**). Mr. Jimmy was the National Treasurer of UMP in 1991 when the lease was signed (see **Appendix B**). He was also the Minister of Finance in the Government of Vanuatu from 1991 to 1995.

7.4 Facts to show that Mr Mael requested financial assistance from Mr Mandel.

Mr Emil Mael requested US\$1,000.00 from Mr Mandel in a letter dated 23 August 1999. He gave his personal bank account in the National Bank of Vanuatu to Mr. Mandel. The Account Number is 500 44164 30 (refer to **Appendix L**). The National Bank Office in Port Vila confirmed this number as belonging to Mr. Mael (*corrections made by NBV that last digit in the account is not 30 but 31*). In a fax dated 25 August 1999, Mr. Mandel advised Mr. Roy Mickey Joy that he had sent US\$1,000.00 through

telegraphic transfer to Mr. Mael (**see Appendix O**). Mr. Mael confirmed that he had received the US\$1,000.00 as indicated in the letter to Mr. Mandel dated 6 September 1999. Mr. Mael advised that he gave US\$500 to the chiefs of Big Bay (**see Appendix P**). Mr. Mael requested a further US\$2,500.00 from Mr. Mandel on 6 September 1999 (**also refer to Appendix P**). On 12 October 2000, Mr. Mael confirmed to the Ombudsman Office that he requested and received Vt150, 000 from Mr. Mandel (**see Appendix R1**).

7.5 Facts showing the request for financial assistance by government officials was improper

On 23 August 1999, Mr. Mael requested financial assistance from Mr. Mandel (**see Appendix L**). Mr. Mandel advised in a letter to Mr Joy that he had sent the amount to Mr Mael's personal account in the National Bank on 25 August 1999 (**see Appendix O**). On 6 September 1999, Mr Mael requested further financial assistance from Mr Mandel (**see Appendix P**). On 13 October 1999, the Attorney General called a meeting for all parties who have concern about the Mondragon Group's proposed project. It was this meeting which Mr Mael claimed that legal advice was given to request financial assistance from private sponsors (**see Appendix UUU**). On 7 December 1999, MP Jimmy requested financial assistance from Mr Mandel (**refer to Appendix W**). On 15 June 2000, Mr Joy requested financial assistance from Mr Mandel for Mr Aru to attend a training course in Ireland (**see Appendix C1**). On 1 September 2000, the State Law Office advised VFIB on Mondragon Group's proposed project to treat the project with "extreme caution" and carry out due diligence checks on the appropriate investors (**see Appendix MMM6**). On 24 October 2000, the State Law Office also advised that the financial assistance given to VFIB by the private sponsor for Mr. Aru to attend the training course in Ireland should not have been accepted.

7.6 Facts to confirm that Israeli Mondragon Group submitted an application to Foreign Investment Board to invest in Vanuatu.

Israeli Mondragon Group submitted an application to invest in Vanuatu on 31 March 2000. The project description in the application is to develop a free trade zone in an area designated by the Vanuatu Government (**see Appendix Z**). The Foreign Investment Board issued a project paper dated 26 July 2000 indicating the Israeli Mondragon Group has passed the Board's criteria by scoring 23 out of 30. The Board Secretariat recommended that the Board grant approval to the business license requested (**see Appendix G1**). Mr. Aru advised Mr. Mandel in a letter dated 28 July 2000 that the VFIB has approved in principal the Israeli Mondragon Group's application to establish a free trade zone project (**see Appendix H1**).

7.7 Facts to show that Mr. Howard Aru accepted financial assistance from Mr. Mandel.

The CEO of the VFIB, Mr. Howard Aru was to attend a training course in Dublin, Ireland from 19 - 30 June 2000. The total cost of the course was US\$5,500.00. The Chairman of VFIB, Mr. Joy requested funding assistance from the Prime Minister's Office on 11 April 2000 for Mr. Aru to attend this course. The amount requested was Vt986,200 (**see Appendix B1**). The Prime Minister's Office responded and confirmed that they would only pay for Mr. Aru's airfares and subsistence allowance. Mr. Joy then sent a letter of request for financial assistance to Mr. Mandel on 15 June 2000. Mr. Joy requested Mr. Mandel to pay 2,700 pounds sterling for Mr. Aru's course fees (**see Appendix C1**). Mr. Aru went to Dublin to attend the course partly funded by Mr. Mandel. Mr. Aru arrived back from Dublin on 5 July 2000. Mr. Aru confirmed in a letter dated 3 October 2000 that he did receive financial assistance from Mr. Mandel in good faith to enable him to attend the course in Ireland (**see Appendix O1**). Mr. Aru confirmed attending this course in Dublin partly funded by Mr. Mandel in an interview with the Ombudsman on 9 May 2001. The financial assistance to support Mr. Aru to attend the course was requested from Mr. Mandel on 15 June 2000 (**see Appendix C1**). Mr. Mandel responded and paid the amount directly to the Institute in Ireland.

7.8 Facts to show that Mr. Aru and the VFIB failed to thoroughly check the particulars of the primary individuals behind the proposed free trade zone and continued to facilitate Mondragon Group's interest in establishing the project in Santo.

The Mondragon Group submitted their application to the VFIB on 31 March 2000 (refer to **Appendix Z**). Mr. Aru admitted in his response in a letter dated 3 July 2001 that the Office of the Foreign Investment Board failed to make a thorough check on the Mondragon Group right at the very start of the negotiations (see **Appendix XX1**). By such failure, Mr. Aru failed to comply with Section 6(2)(i), (j) & (k) of the Foreign Investment Act (see **Appendix AAA**)

On 12 July 2000, the Mondragon Group's delegation arrived in Vanuatu and presented the Government with the alleged fraudulent financial guarantee bond in an attempt to buy 49% shares of Air Vanuatu (see **Appendix D1**). Mr. Aru put the Mondragon Group's application before the VFIB on 26 July 2000 and recommended that the Board approve the application and grant an approval for the business license (see **Appendix G1**). VFIB only approved the application in principle. Mr Aru advised Mr Mandel about the Board's decision on 28 July 2000 (see **Appendix H1**). Ala & Co. Barristers & Solicitors also gave legal advice to the VFIB after the application was approved in principal (refer to **Appendix K1 and MMM3**). Despite this legal advice, Mr Aru continued to facilitate the Mondragon Group's interest to establish the proposed project in Big Bay. On 3 April 2001, Mr Aru urged the Minister of Lands in a letter to consider and signed the land lease for Big Bay.

7.9 Facts to show the attempts by Mondragon to obtain the Financial Guarantee Bond to purchase 49% shares of Air Vanuatu

The Financial Guarantee Bond dated 12 July 2000 was presented to the Vanuatu Government to purchase 49% Shares of Air Vanuatu. The bond has a liability of US\$3 million and was signed by Cody Investments Ltd, EDCI and Mondragon Group as the Principal, United Fidelity Corporation as the Surety of the bond and the Vanuatu Government as the Obligee. Mr. Sanford Wolok was named as one of the Attorney-of-fact for this Bond (see **Appendix D1**).

In a letter dated 31 July 2001, Mr. Avi Edelman, the Secretary General of Mondragon Group confirmed that they arranged for a guarantee/performance Bond, through an American Insurance Company. However, the negotiations were unsuccessful and the Bond was returned to the American company and, naturally, it is no longer in their possession (see **Appendix XX6**).

In another letter dated 5 August 2001, Mr Jacob Harkavy, Advocate for the Mondragon Group stated that Mondragon is not a bank or financial institution and cannot issue any bond. However, he confirmed that Mondragon approached a recognized financial institution with the securities and was given the bond. But he denied that the bond was fraudulent (see **Appendix XX8**)

7.10 Facts to confirm that Mr. Roy Mickey Joy was aware of the financial assistance given to him and other public officials despite his claims to the contrary.

The Chairman of VFIB Mr. Joy denied any requests for financial assistance from Mr. Mandel in a letter dated 9 October 2000 to the Ombudsman. He denied having any information or record of whether government officials are making financial deals with Mr. Mandel.(see **Appendix P1**). However, according to the fax dated 25 August 1999, Mr. Mandel advised Mr. Joy that he had sent US\$1,000.00 through telegraphic transfer to Mr. Mael. Mr. Mael is the official representative of Lands Department on the VFIB (refer to **Appendix O**). Mr. Joy also contacted Mr. Mandel by telephone to request financial assistance. Further to that telephone conversation, Mr. Joy, in a letter dated 15 June 2000 requested 2,700 pounds sterling for payment of the course fees for Mr. Aru to attend a training course in Ireland (see **Appendix C1**). This indicates that Mr. Joy was aware and assisted the officers in getting financial assistance from Mr. Mandel, and the Mondragon Group.

7.11 Facts to show that financial assistance given by Mr. Mandel may have influenced the decision of the Foreign Investment Board

The Chairman of the VFIB, Mr. Joy was part of the Vanuatu Government delegation that went to London in July 1999 to sign the MOU with the Mondragon Group (refer to **Appendix G & I**). On 5 August 1999, Mr. Joy and other members of the VFIB visited the proposed project site in Big Bay (see **Appendix K**). On 23 August 1999, Mr. Mael requested financial assistance from Mr. Mandel (see **Appendix L**). On 25th August 1999, Mr. Mandel advised Mr. Joy that he had sent the funds to Mr Mael as requested (see **Appendix O**). On 6 September 1999, Mr Mael requested further financial assistance from Mr. Mandel (see **Appendix P**). On 7 December 1999, Mr Jimmy requested financial assistance from Mr. Mandel (see **Appendix W**). On 17 December 1999, Mr. Joy wrote to the Ministry of Foreign Affairs and advised the Minister to appoint a member of the Mondragon Group as Vanuatu Consul in Israel in order to assist the Mondragon Group's proposed investment undertaking in Big Bay (see **Appendix X**). On 28 January 2000, the Council of Ministers approved Mr. Daniel Rothshild, a member of Mondragon Group as Vanuatu Consul in Israel (see **Appendix Y**)

On 31 March 2000, the Mondragon Group submitted their application to establish free trade zone project in Big Bay Santo, to the Foreign Investment Board (see **Appendix Z**). On 15 June 2000, Mr. Joy requested financial assistance to support Mr. Aru to attend the course in Ireland (see **Appendix C1**). Mr. Mandel responded and paid the funds directly to the Institute in Ireland and Mr. Aru attended the course from 19 – 30 June 2000. He arrived back in Vanuatu on 5 July 2000.

On 12 July 2000, the Mondragon Group's delegation presented the Vanuatu Government with the financial guarantee bond in an attempt to buy 49% shares of Air Vanuatu (see **Appendix D1**). On 26 July 2000, the Foreign Investment Board approved in principle the Mondragon Group's application (see **Appendix G1 & H1**).

On 26 July 2001, Mr. Joy confirmed that Mr. Mandel was appointed by Mondragon Group to liaise with Vanuatu Government in regards to the proposed project undertakings (see **Appendix XX2**).

7.12 Facts to confirm that Messrs Joy, Mael, Aru and Jimmy were leaders at the time of their alleged misconduct.

Mr Joy is the Director of Trade, Industry & Investment and Chairman of the VFIB. Therefore he is a leader under the Leadership Code Act.

Mr. Mael is the Principal Lands Officer in the Department of Lands. He is also a representative of the Lands Department on the VFIB. As such he is also held to be a leader under the Leadership Code Act No.2 of 1998.

Mr. Aru is the Chief Executive Officer of the Foreign Investment Board. Chief Executive Officers of Boards are held as leaders under the Code.

Mr Willie Jimmy was a Minister of State then and is currently a Member of Parliament at the time of these allegations. Ministers and Members of Parliament are leaders under the Constitution and the Leadership Code Act.

8. FINDINGS OF ALLEGED MISCONDUCT

The following are findings made against public officials of the Government of Vanuatu who have failed to comply with the laws of Vanuatu.

8.1 FINDING 1: MR WILLIE JIMMY MAY HAVE BREACHED THE PROVISIONS OF THE LEADERSHIP CODE UNDER THE CONSTITUTION & THE LEADERSHIP CODE ACT.

Mr. Willie Jimmy, as former Deputy Prime Minister in the Government of Vanuatu was found to have breached Articles 66(1)(a)(c) & 67 of the Constitution. He had placed himself in a position in which he could have a conflict of interest and used his office for personal gain by using his position in the Government to fulfil his political party's promise. His conduct to sign a document and commit the Government of Vanuatu to the proposed project was improper and premature as the Vanuatu Government did not know much about the investors involved. The engagement in such activity now raised questions about Mr. Jimmy's integrity as the State Minister of that time, and his current position as Member of Parliament, and as a leader.

The Ombudsman also found that Mr. Jimmy may have also breached Section 23 of the Leadership Code when he asked for and received from Mr. Mandel financial assistance for air tickets for his delegation to attend the business conference in London in July 1999. Mr. Jimmy also requested on 7 December 1999 financial assistance to establish an office in Port Vila. Mr. Jimmy was in a position at that time to have influenced the decision making body of the Vanuatu Government to adopt the proposed project as a Government policy and to implement the Mondragon Group's interest.

8.2 FINDING 2: MR ROY MICKEY JOY MAY HAVE BREACHED THE PROVISIONS OF THE LEADERSHIP CODE UNDER THE CONSTITUTION & THE LEADERSHIP CODE ACT.

The Ombudsman also found that Mr. Roy Mickey Joy may have also breached Articles 66(1) & (2) of the Constitution. Mr. Joy allowed his integrity to be called into question when he used his position, as Chairman of the VFIB to assist to ask for and obtain financial assistance for Mr. Howard Aru and Mr. Emil Mael from Mr. Mandel. Such financial assistance has given rise to doubt in the public mind as to whether such benefits may have influenced the decision of the VFIB on Mondragon Group's application and interest in investing in Vanuatu.

Mr Joy was also found to have allegedly breached Section 23 of the Leadership Code Act. Section 23 states, *"a leader must not corruptly ask for or receive, or agree to ask for or obtain any money or other benefit or advantage of any kind for himself, or another person in exchange for his acts or omissions as a leader being influenced in any way, either directly or indirectly"*. Mr. Joy is the Chairman of the VFIB, which has

the obligation under the Foreign Investment Act to give approval to grant business licenses to any investors who have an interest to invest in Vanuatu. Mondragon Group had lodged its application to VFIB when Mr. Joy requested financial assistance from Mr. Mandel.

8.3 FINDING 3: MR HOWARD ARU MAY HAVE BREACHED ARTICLE 66 OF THE CONSTITUTION AND THE PROVISIONS OF THE LEADERSHIP CODE ACT.

Mr Howard Aru, Chief Executive Officer of the Foreign Investment Board was found also to have allegedly breached Articles 66(1) & (2) of the Constitution. Mr. Aru allowed his integrity to be called into question when he appeared to have used his position and office for an advantage and benefit in accepting financial assistance from Mr. Mandel to attend the training course in Ireland. Such financial assistance has given rise to doubt in the public mind as to whether such benefits and advantage might influence the decision of the Foreign Investment Board on Mondragon Group's application to invest in Vanuatu.

Mr. Aru may have breached Section 23 of the Leadership Code Act in a similar fashion as Mr. Joy. Mr. Aru is the CEO of the VFIB, which have the obligation under the Foreign Investment Act to give approval to grant business licenses to any investors who have an interest to invest in Vanuatu. Mondragon Group had lodged its application to VFIB when Mr. Aru benefited from the financial assistance requested from Mr. Mandel and the Mondragon Group

8.4 FINDING 4: MR EMIL MAEL MAY HAVE BREACHED THE PROVISIONS OF THE LEADERSHIP CODE UNDER THE CONSTITUTION & THE LEADERSHIP CODE ACT.

Mr. Emil Mael, Member of the Foreign Investment Board may have breached Articles 66(1) & (2) of the Constitution. Mr. Mael allowed his integrity to be called into question when he appeared to have used his position and office for an advantage and benefit, when he requested and obtained financial assistance from Mr. Mandel. Mr. Mael claims the assistance provided by Mr. Mandel was used to carry out a feasibility study of the proposed area for the Mondragon Group's project. Such financial assistance has given rise to doubt in the public mind as to whether such benefits may be used as an advantage to influence the decision of the Foreign Investment Board on Mondragon Group's application to invest in Vanuatu.

The Ombudsman also found that Mr. Mael may have also breached Section 23 of the Leadership Code Act, when he asked for and received an advantage and benefit the from the financial assistance from Mr. Mandel.

9. RECOMMENDATIONS

Upon the establishment of the facts and alleged breaches of the laws of the Republic of Vanuatu, the Ombudsman has made the following recommendations:

9.1 Recommendation 1: The Foreign Investment Board must provide information to justify the proposed investment and reassure the Government, custom owners and the people of Vanuatu that the persons behind the Mondragon Group wishing to establish a free trade zone in Big Bay are genuine investors and have the financial capability to invest.

The Foreign Investment Board should immediately seek and obtain information from appropriate national and international Government agencies, law enforcement authorities and other professional entities on the Israeli Mondragon Group and the individuals behind this proposed free trade zone project.

- 9.2 Recommendation 2:** **The Ministry of Lands should delay signing any land lease for this proposed free trade project until VFIB finds evidence to verify the Government, land owners and the people of Vanuatu the project will attract genuine investors**

The facts in this report found that the proposed project would cover a large area of land in Big Bay. There is still no information given by the VFIB to justify to the Government, the custom owners and the general public that this free trade zone project would attract genuine investors. The Ombudsman recommends that the Ministry of Lands delay signing this land lease until VFIB makes such justification to the Government and the general public.

- 9.3 Recommendation 3:** **The VFIB must find out the full particulars of every member of the Mondragon Group intending to invest in Big Bay before they approve any certificates or business licenses for the Co-operative.**

This enquiry revealed that the Foreign Investment Board's approval in principle of the Mondragon Group's application has contributed to Mondragon making offers for membership to the Israeli public to join the Group, which would include a piece of land in Vanuatu. The Board failed to follow the provisions of Section 6(2) of the Foreign Investment Act by failing to find out the full particulars of the individuals behind the proposed free trade zone project in Vanuatu. Therefore, based on these facts, the Ombudsman recommends that the Board must find out the full particulars of any member of the Mondragon Group who intends to invest in Big Bay before they approve any certificates or business licenses to the co-operative.

- 9.4 Recommendation 4:** **The Chief Executive Officer of VFIB should provide detailed information about any money, gifts or financial assistance that members of the Mondragon Group has been providing to government officials in Vanuatu over the past years.**

The information in this enquiry has revealed some of the financial assistance that has been given to some of the public officials in the Foreign Investment Board and the Government. Some of these gifts or assistance given to the public officials by Mr. Mandel of the Cody Investment Ltd. has been made contrary to the laws of Vanuatu. The Ombudsman recommends that the Chief Executive Officer of the VFIB, Mr. Aru provide detailed information about all financial assistance and any other gifts that have been given to public officials connected with this project.

- 9.5 Recommendation 5:** **The Public Service Commission should consider taking disciplinary action against Mr. Joy, Mr. Mael and Mr. Aru.**

The finding of facts revealed that Mr. Joy, Mr. Mael and Mr. Aru benefited from a favor or advantage from financial assistance requested from Mr. Mandel. Such financial assistance has been held as having been done contrary to the Public Service established procedures and the laws of Vanuatu. Therefore, as public servants, the Ombudsman recommends that the Public Service Commission should consider taking disciplinary action against Mr. Joy, Mr. Mael and Mr. Aru, after the alleged offences made against them are proven in a court of law.

- 9.6 Recommendation 6:** **The Public Prosecutor should decide if there are sufficient grounds to lay charges and prosecute Mr. Roy Mickey Joy, Mr. Emil Mael, Mr. Howard Aru and MP Willie Jimmy.**

The facts and findings made in this report alleged that, Mr. Joy, Mr. Mael, Mr. Aru and Mr. Jimmy acted contrary to the provisions of the Leadership Code Act. The Ombudsman therefore recommends that, the Public Prosecutor should decide immediately if there are sufficient grounds to lay charges and prosecute Mr. Joy, Mr. Mael, Mr. Aru and Mr. Jimmy on alleged Leadership Code breaches.

- 9.7 Recommendation 7:** **The Vanuatu Government should cease to engage any government officials and resources on this proposed project until such time that the public officials learn to understand to observe and comply with the official rules and laws of Vanuatu governing their respective Ministries and Departments.**

There are enough indicators in this report to show that public officials neglected to observe and follow the laws of Vanuatu. The Ombudsman recommends that the Vanuatu Government should cease to engage any government officials and resources on this proposed project until such time that the public officials who are appointed to be engaged in the project again understand to observe and comply with the official rules and laws of Vanuatu.

- 9.8 Recommendation 8:** **The Government of Vanuatu should make an official declaration that the Contingent Contract of Lease and the Memorandum of Understanding are not official and legal documents under the laws of Vanuatu.**

The facts and findings made in this report have shown that Mondragon Group has taken advantage of the Contingent Contract of Lease signed in 1991 and Memorandum of Understanding signed in 1999. The Mondragon Group has been making offers for membership overseas by offering shares and packages for interested investors to buy land in Vanuatu. The Ombudsman recommends that the Government of Vanuatu make an official declaration that the Contingent Contract of Lease signed in 1991 and MOU are not official or legal documents under the laws of Vanuatu. Such a declaration should be sent to the authorities in the countries where the documents are being held and used as official documents.

- 9.9 Recommendation 9:** **The Foreign Investment Act should be reviewed and amended to include the provisions to build its investigative and regulatory capacity to be able to quickly identify fraudulent and unscrupulous investors to prevent them from operating in Vanuatu**

The proposed Free Trade Zone project has raised many questions in the government and the general public due to the huge land area involved in the proposed lease. There were also other indicators found in the report, such as the financial guarantee bond that have raised questions in the public mind as to whether Mondragon Cooperative Society and the individuals behind it are genuine investors. The provisions of the Foreign Investment Act do not satisfactorily provide initiatives for such information for the Foreign Investment Board to scrutinize potential investors proposals. The Ombudsman recommends that the Foreign Investment Act should be amended to cater for the provisions for investigation and regulatory capacity for VFIB officers to be able to use these provisions to quickly identify fraudulent and unscrupulous investors and prevent them from operating in Vanuatu.

- 9.10 Recommendation 10:** **The Chairman of the VFIB should be appointed amongst persons from the business community.**

The position of the Chairman of VFIB be awarded to an independent person well versed with investment matters preferably from the business community. Senior public servants should not hold such positions, either in the VFIB or other public statutory bodies.

10. CONCLUSIONS

- 10.1 Following this enquiry, the Ombudsman is of the view that Cody Investments Ltd and the Israeli Mondragon Cooperative Society do not have the capability to carry out the proposed Free Trade Zone project in Santo. There has been no legislation prepared or passed by Parliament for a Free Trade Zone. The Memorandum of Understanding signed by the former Deputy Prime Minister with the parties concerned does not constitute a formal agreement. The Government of Vanuatu is to take this matter seriously and should consider terminating any further discussions or negotiations with the Cody Investments/ Mondragon Group until proper investigation is conducted into the proposed project.
- 10.2 The Vanuatu Government must ensure that individuals in the institutions established under the laws of Vanuatu providing services for the social and economic development of the country, must observe and comply with all laws governing their jurisdictions. The Foreign Investment Board is found to have failed to comply with Section 6(2) of the Act which this institution was established. Such failure contributed to this complaint and this Ombudsman's report.
- 10.3 Public Officers and leaders should also be aware that they will be held accountable for any action contrary to the provisions of the Leadership Code Act.

Dated the 6th day of September 2001



Hannington G. ALATOA
OMBUDSMAN OF THE REPUBLIC OF VANUATU

11. APPENDICES OF THE REPORT

AAA	Relevant Laws and Regulations
A	Declaration of Principle.
B	Contingent Contract of Lease.
C	Deed between Bramad Pty Ltd and Cody Investments Ltd
D	Document from Mr Stefan Mandel.
E	Deed between Cody Investments Ltd and Carmal properties Inc.
EEE	Information about the Mondragon cooperative.
F	Letter of Invitation from Lord Keyes to Deputy Prime Minister, Mr Willie Jimmy to attend a Business Conference in London.
G	Acceptance letter from Mr Jimmy to Lord Keyes to indicate his attendance and his request for funding the airfares for the delegation.
H	Advice from Financial Services Commission to Ministry of Trade & Commerce about Cody Investments not having the financial strength.
I	Memorandum of Understanding.
J	Leon Kathy's letter to Mr. Mike Oliver.
JJJ	Mr Jimmy's letter to Mr Mandel for the Government to ensure that the projects are carried out without delay and disruptions.
K	Mr. Emil Mael's report on his fact finding mission to Big Bay.
KKK	Mr Joy's letter to Mr Mandel to inform him of the land owners interest after his visit to Big Bay.
L	Mr. Mael's request for US\$1,000.00 from Mr. Mandel.
LLL	Mr Mandel's fax to Mr Joy to request for Air Vanuatu's balance sheets of it financial reports.
M	Mr. Roy Mikey Joy's letter to Mr Mandel dated 23 August 1999.
N	Mr Japhet Peter's letter to Mr Mike Oliver.
O	Mr Mandel's letter to Mr Joy confirming sending US\$1,000.00 to Mr Mael.
P	Mr Mael's letter to Mr Mandel to confirm receiving US\$1,000.00 and requesting further US\$2,500.00.
R	Mr Mandel's letter to Mr Oliver to confirm their association.
S	Mr Oliver's fax to Mr Japhet Peter to advise of his withdrawal to support for the free trade zone in Vanuatu.
T	Mr Ernest Bani letter to Prime Minister, Mr Donald Kalpokas, in which he raises concern about the proposed free trade zone project in Big Bay.

TTT	Mr Jean Sese's memo to Mr Bani confirming that the prime minister's Office is not aware of any decision by the Government authorizing the project.
U	Mr Oliver's advice to have broken all relationship with Mr Mandel.
UUU	Mr Ham Bulu's letter to Mr Ernest Bani to inform him of the meeting to be held to discuss the above concern.
V	Mr Mandel's fax to Mr Joy and Mr Jimmy confirming his association with Mr Oliver and their plans for a free trade zone in Big Bay.
VVV	Mr Mandel's fax to Allen Kalfabun at the NTO requesting him to sent him promotion materials on Vanuatu.
W	Mr Jimmy's letter to Mr Mandel requesting financial assistance.
WWW	Mr Jimmy's letter to the Prime Minister to voice his concern about Mr Bani's comment on the project.
X	Mr Joy's letter to Foreign Affairs to advise of the Council of Minister's decision to appoint Mr Daniel Rothschild, as Vanuatu Consul in Israel.
Y	Copy of the Council of Minister's decision to appoint Daniel Rotschild as Vanuatu Consul in Israel.
Z	Israeli Mondragon Group's application to Foreign Investment Board.
A1	The fax to Foreign Investment Board on details on the training course to be attended by Mr Howard Aru in Ireland.
B1	Request for financial assistance from Prime Minister's Office from Foreign Investment Board for Mr Aru to attend the course.
C1	Mr Joy's request to Mr Mandel for financial assistance to pay course fees for Mr Aru.
D1	Financial Guarantee Bond.
G1	Foreign Investment Board document indicating that the Mondragon Group Project has passed the Board's criteria and recommended that the Board grant a business license.
H1	Mr Aru's letter to Mr Mandel to advise him about the Board's decision to approve the Mondragon's proposed project in principle.
K1	Mr Ala's advice to Mr Mandel to provide information to prove that the articles about Mondragon published in the Trading Post are false.
KKK2	Mr Joy's Letter to Mr Mandel to inform him about the articles that the Prading Post has published against the Group and the State Law Office expressing extreme caution on the project.
L1	Mr Mandel's letter to Mr Sope to claim that he has lodged a case in court against the Israeli Newspaper.
LLL	Mr Mandel's letter to Mr Ala to request him to act for him.
M1	Mr Mandel's letter to Mr Sope to indicate the court case he has lodged in court against Israeli newspapers.
MMM	Mr Aru's memo to Mr Joy to advise that the proposed mission to Israel be postponed.

- MMM2 The Israeli journalist denied being taken to court by Mr Mandel in a Trading Post newspaper article.
- MMM3 Mr Ala's letter to Mr Mandel to advised that he declined to act for him.
- MMM4 Mr Aru's letter to the State law Office requesting them to give a clear legal advice to the Board about the Mondragon project.
- MMM6 Mr Aru's letter to Mr Rowan Downing to thank him for the extreme caution legal advice.
- N1 Geoffrey Gee's letter to the Ombudsman to advise that they have been appointed by Mr Mandel as Mondragon's Lawyer.
- NNN Mr Mael sent a fax to Mr Mandel to inform him that they have sent him the maps of Santo.
- O1 Mr Aru's letter to the Ombudsman to confirm that Mr Mandel has paid for his course fees in Ireland.
- P1 Mr Joy's letter to the Ombudsman denying receiving any financial assistance from Mr Mandel..
- Q1 Mr Jimmy's letter to the Ombudsman denying the receipt of any financial assistance from Mr Mandel.
- R1 Mr Mael's letter to the Ombudsman to confirm having received financial assistance form Mr Mandel.
- U1 Mr Aru's letter to Mr Maxim Carlot Korman, Minister of Lands requesting him to sign Land lease in Big Bay.
- UUU2 Mr Joy's letter to Mr George Tambe to voice his concern about a statement made in the Trading Post by Mr Alick Kalmelu.
- UUU3 Mr Joy's letter to Mr Kalmelu about the article he made in the Trading Past about Mondragon's project in Big Bay.
- UUU4 16 Chiefs of Big Bay sent a ten (10) point petition to the Prime Minister.
- V1 Information from the Official Appointed Trustee of Bankrupt Estate in Australia, Mr Kenneth Wayne Lamb to confirm that Mr Mandel was declared bankrupt on 17 August 1995.
- W1 The Israel Security Authority 's information on court injunction against Mondragon
- XX1 Mr Howard Aru's response to the Working Paper
- XX2 Mr Roy Mickey Joy's response to the Working Paper
- XX3 Mr Emil Mael's response to the Working Paper
- XX4 Mr George Maniuri's response to the Working Paper
- XX5 Mr Avi Eldelman's comments to the enquiry
- XX6 Mr Avi Eldelman's response to the main issues to the Working paper
- XX7 The Court documents (in Hebrew with translation in English) to confirm the courts decision to imposed temporary injunctions
- XX8 Mr Jacob Harkavy's response to the main issues to the Working Paper

APPENDIX "AAA"

RELEVANT LAWS, REGULATIONS AND RULES

CONSTITUTION

Chapter 10

Leadership Code

CONDUCT OF LEADERS

66. (1) Any person defined as a leader in Article 67 has a duty to conduct himself in such a way, both in his public and private life, so as not to-
- (a) place himself in a position in which he has or could have a conflict of interests or in which the fair exercise of his public or official duties might be compromised;
 - (b) demean his office or position;
 - (c) allow his integrity to be called into question; or
 - (d) endanger or diminish respect for and confidence in the integrity of Government of the Republic of Vanuatu
- (2) In particular, a leader shall not use his office for personal gain or enter into any transaction or engage in any enterprise or activity that might be expected to give rise to doubt in the public mind as to whether he is carrying out or has carried out the duty imposed by subarticle (1).

DEFINITION OF A LEADER

- 67 For the purposes of this Chapter, a leader means the President of the Republic, the Prime Minister and other Ministers, members of Parliament, and such public servants, officers of Government agencies and other officers as may be prescribed by law.

"AAA-L"

LEADERSHIP CODE ACT

LEADER'S BEHAVIOUR

3. A leader holds a position of influence and authority in the community. A leader must behave fairly and honestly in all his or her official dealings with colleagues and other people, avoid personal gain, and avoid behaviour that is likely to bring his or her office into disrepute. A leader must ensure that he or she is familiar with and understands the laws that affect the area or role of his or her leadership.

LEADERS

- 5 In addition to the leaders referred to in Article 67 of the Constitution, the following are also declared to be leaders :

- (e) directors-general of ministries and directors of departments
- (f) members and the chief executive officers (however described) of the boards and statutory authorities;

MEANING OF "INTEREST"

- 6 A leader has an interest in a matter in either a business or personal capacity if the leader or his or her close family, either alone or with someone else :

- (a) owns, directly or indirectly, property or other assets of any kind related to the matter, or
- (b) in the case of a company or other body corporate related to the matter owns shares in the company or body; or
- (c) is in a position of control in relation to the matter.

CONFLICT OF INTEREST

- 7(1) A leader has a conflict of interest in a matter if the matter relates in any way to:

- (a) property the leader directly or indirectly owns or controls; or
- (b) property owned or controlled, directly or indirectly, by a member of the leader's close family; or
- (c) property in which the leader has a beneficial interest of any kind, whether through a trust or otherwise

- (2) A leader has a conflict of interest in a matter if the leader, or a member of the leader's close family, could benefit directly or indirectly from a decision on the matter, except as a member of a community or group.

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(e) illegal; or

(f) against the requirements of the Act under which the person was appointed; or

(g) contrary in any other way to the requirement of the person's office or position.

(2) A leader must not influence or attempt to influence or exert pressure or threaten or abuse or interfere with, person carrying out statutory functions.

BRIBERY

23 A leader must not:

(a) corruptly ask for or receive; or

(b) agree to ask for obtain; or

(c) corruptly offer;

any money, property, or other benefit or advantage of any kind, for:

(d) himself or herself; or

(e) another person or body;

in exchange for his or her acts or omissions as a leader being influenced in any way, either directly or indirectly.

OTHER OFFENCES PUNISHABLE UNDER THIS ACT

27(1) A leader who is convicted by a court of an offence under the Penal Code Act (CAP.135) and as listed in subsection (2) is:

(a) in breach of this Code; and

(b) liable to be dealt with in accordance with in accordance with sections 41 and 42 in addition to any other punishment that may be imposed under any other Act.

(2) The offences are:

(j) making a false statement;

(m) corruption and bribery of officials;

(t) forgery or uttering forged documents;

Figure 1. The study area and the location of the sampling sites. The map shows the location of the study area in the north-east of Iran, near the border with the Soviet Union. The map also shows the location of the sampling sites, which are marked with numbers 1 through 10.

MEANING OF "BENEFIT"

8 A reference in this Code to a benefit derived by a person includes a reference to:

- (a) a benefit derived indirectly by the person; and
- (b) a benefit derived, directly or indirectly, by another person at the request or direction of the first person.

DUTIES OF LEADERS

13(1) A Leader must:

- (a) comply with and observe the law;
- (b) comply with and observe the fundamental principles of leadership contained in Article 66 of the Constitution;
- (a)
- (c) comply with and observe the duties obligation and responsibilities established by this Code or any other enactment that affects the leader; and
- (d) not influence or attempt to influence or exert pressure on or threaten or abuse persons carrying out their lawful duty.

ACCEPTANCE OF LOANS

21 A leader must not accept a loan, (other than on commercial terms from a recognised lending institution and only if the leader satisfies the lending institution's usual business criteria for in accordance with the customary practice of a particular place for a during a traditional ceremony), advantage or fother benefit, whether financial or otherwise, from a person.

UNDUE INFLUENCE

22(1) A leader must not exercise undue influence over, or in any other way bring pressure to bear on, a person who is:

- (a) another leader; or
- (b) any other person holding public office;

so as to influence, or attempt to influence, the person to act in a way that is:

- (c) in breach of this Code; or
- (d) improper; or

OBEYING THE LAW

28. A leader acting in his or her capacity as a leader who fails to abide by an enactment that imposes on the leader a duty, obligation, or responsibility is in breach of this Code.

SPECIFIC PROVISIONS

29. Without limiting the generality of Section 28 a leader who fails to abide by the provisions of an Act that provides for :
- (2) the public service; or
 - (d) government contracts or tenders;

OFFENCES BY OTHER PERSONS

- 30(1) A person other than a leader who:

73takes part in conduct that is a breach of this Code; or

- (b) obtains a benefit, directly or indirectly, from an act or omission that is a breach of this Code

is guilty of a breach of this Code.

- (2) A person other than a leader must not exercise undue influence over or in any other way bring pressure to bear on a leader, so as to influence, or attempt to influence, the leader to act in a way that is in breach of this Code.
- (3) A person who is found guilty of a breach under this section is liable, on conviction, to a penalty of:
 - (a) a fine not exceeding VT5,000,000; or
 - (b) imprisonment for a period not exceeding 10 years;or both the fine and imprisonment
- (4) If the person obtains a benefit as a result of acting in breach of this section, the court may make an order that the benefit be recovered in accordance with section 45 or 46.

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"AAA-5"

FOREIGN INVESTMENT ACT

APPLICATION FOR APPROVAL CERTIFICATE

6(2) An investment proposal must contain full particulars of:

- (i) a statutory declaration that no criminal or taxation evasion convictions have been entered against the foreign investor or investor who is a legal or beneficial owner of the foreign investor and persons who will require work or residence permits and if convictions have been entered, the date of conviction, the offence and the penalty imposed;
- (j) whether the foreign investor or any investors who are the legal or beneficial owners of the foreign investor or its officers are or have been in liquidation or bankrupt and if so, full details of the circumstances;
- (k) the value of bank deposits together with bank references and the location and value of unencumbered assets of the foreign investor and investors who are the legal or beneficial owners of the foreign investor relative to the proposed investment;
- (l) other information as may be prescribed.

APPENDIX "A"

DECLARATION OF PRINCIPLE

This Declaration of Principle is made this 14th day of October, 1991 by the Union of Moderate Parties, which is a duly constituted and established political party in the Republic of Vanuatu, and which is hereinafter referred to as UMP.

W I T N E S S :

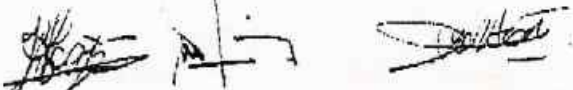
Whereas UMP believes that free enterprise and a government freely elected by the people of Vanuatu, which government operates on the principle of free enterprise, democracy, and a limited interference with the rights of its citizens is the best guarantee to safeguard the individual rights of all persons living in Vanuatu and to enhance the people's spiritual and economic well being, and

Whereas UMP has previously established a policy of a free trade zone and political principles as set forth in more detail in this declaration, and wish to define the terms and conditions of that policy with the intention of expressing and implementing, in a public fashion its goals and plans;

NOW THEREFORE, it Declares as follows:

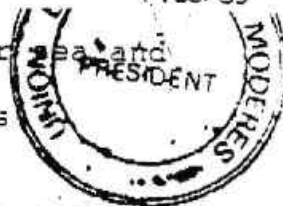
1. Upon winning the forthcoming national election in Vanuatu, UMP have agreed to form a government in Vanuatu, dedicated to democratic principles and the protection of individual rights and free trade and to enhance and develop the economy of Vanuatu.

2. That those persons who will form the government, in accord with its political principles, and in an open and public fashion, declare their intention to implement one free trade enclave patterned after the present Hong Kong structure. Such free trade zone shall have an area of not less than eighty thousand (80,000) hectares, and shall have at least





eight (8) miles of ocean frontage suitable to accomodate a major shipping port and hotels or other buildings with beach frontages



3. That those persons who will form the government, in accord with its political principles, and in an open and public fashion, declare their intention to implement the leasing of land of at least eighty thousand (80,000) hectares for the purpose of establishing such free trade zone, agreeing that such leasehold is in the best interests of the custom owners of the land; the indigenous citizens of Vanuatu having an interest in the land, even when not the custom owner; the community in whose locality the land is situated; and in the best national interest of the Republic of Vanuatu, as provided in chapter 12, Article 77 of the Constitution of the Republic of Vanuatu.

4. That those persons who will form the government, in accord with their political principles, and in an open and public fashion, declare their intention to implement a policy of encouraging immigration into such free trade zone for people who are political or economic refugees and whose immigration shall encourage the development of the economies of the free trade zone and therefore of Vanuatu.

5. That the free trade zone shall be established through a lease for a term of ninety-nine (99) years. The lessee, who shall be Bramad Pty. Ltd. of 424 St. Klida Rd. Melbourne, Australia, or its nominee, shall pay an annual lease for that portion of land actually used, or selected for development by Bramad Pty. Ltd. or its nominee at an annual rate of One dollar (\$1) in United States currency per hectare for the first five years of the Lease, and an annual rate of Five Dollars (\$5) in United States currency per hectare thereafter.

6. Because the free transfer of property, within the free trade zone, is conducive to favourable economic development the Lessee shall have the right to assign or sub-lease the leased property or any portion thereof in accordance with the laws of Vanuatu, for those purposes set forth in this

[Handwritten signatures]



Declaration. Each successive sub-lessee or assignee shall have the same right.



7. UMP agrees to petition the government of Vanuatu, and to use all reasonable efforts to effectuate an agreement with the government of Vanuatu that the leased land shall be exempt from all taxes duties and other levies and from all banking, currency, postal and other like regulations of the government of Vanuatu.

8. UMP agrees that the leased land shall be used for lawful purposes only.

9. Roads, power facilities, water, telephone facilities, sewerage, plants and facilities and other infrastructure facilities shall be paid for and maintained by the lessee, in the designated leased area and shall in no way become the financial responsibility of the Republic of Vanuatu.

10. The undersigned representatives of the UMP agree that the following measure as set forth below, would improve the conditions of their republic, and would be proper subjects for consideration by the Parliament of the Republic of Vanuatu, and to that end, agree to recommend legislation to the Parliament of the Republic of Vanuatu, for the purpose of facilitating the development of the free trade zone as described in this Declaration:

Legislation as set forth in this Declaration to establish one free trade enclave in the Republic of Vanuatu patterned after the present Hong Kong structure.

11. This Declaration is signed by those rightful land owners who agree with the principles and goals as set forth herein. The signature of the custom owner of land shall serve as that owner's agreement that the land designated by the owner, and attached to this Declaration (attachment "A") when signed by the land owner, shall be offered for consideration as the parcel of leased land for a free trade enclave as described in this Declaration, following and conditioned upon the election of the government of the UMP



IN WITNESS WHEREOF, the Union of Moderate Parties has set forth its
hand and seal on this 14th day of October, 1991.

UNION OF MODERATE PARTIES by:



Serge Vohor
Serge Vohor, President

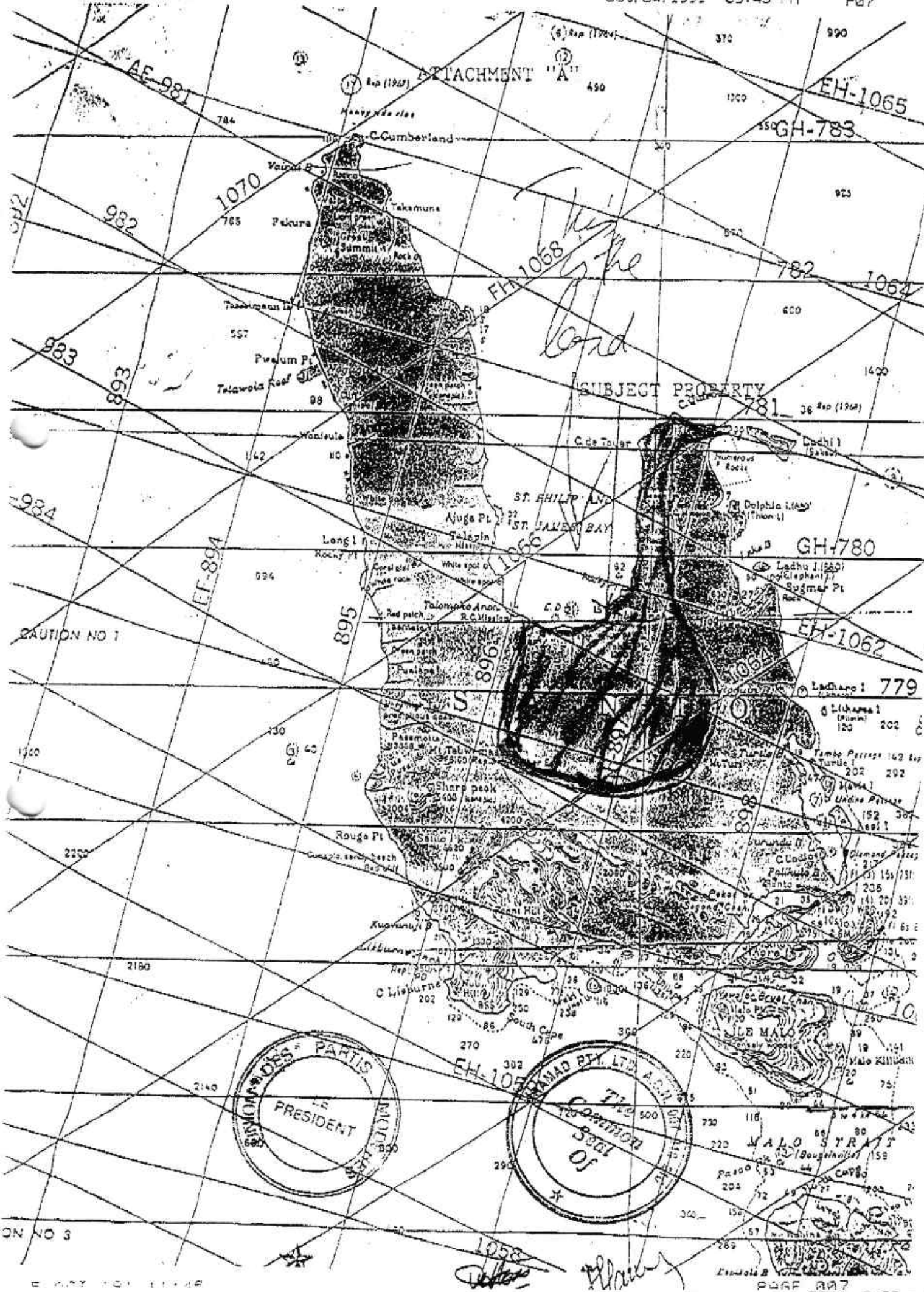
Willie Jimmy
Willie Jimmy, National Treasurer

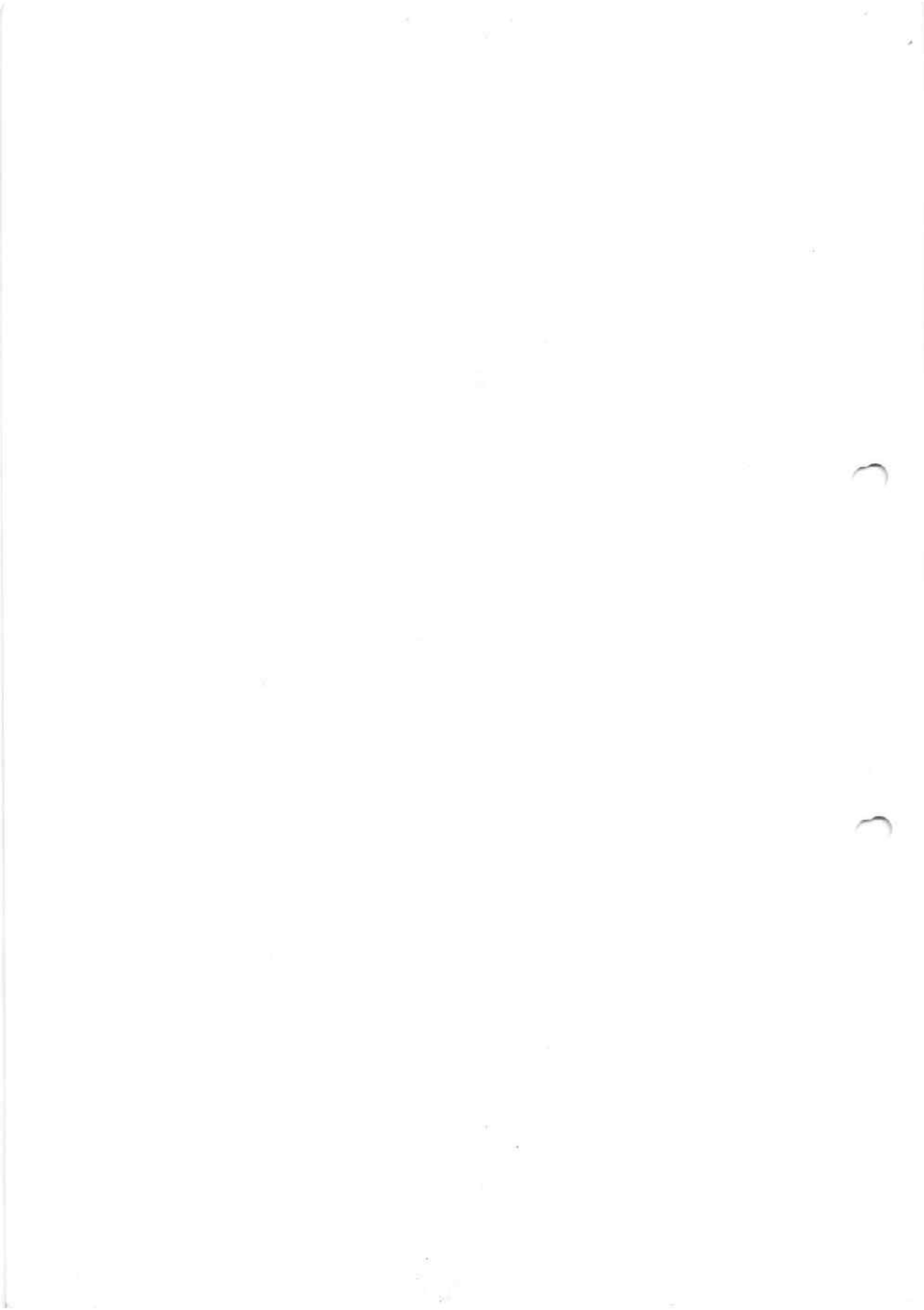
Jean Marie Leye
Jean Marie Leye, Vice-President

Signed by the Custom Owner

Serge Vohor
Serge Vohor, Custom Owner

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APPENDIX "B"

CONJUNCT CONTRACT FOR LEASE



This Agreement is made on the 14th day of October, 1991 by and between Serge Vohor, Custom Owner of that land described in attachment "A" hereto, and hereinafter referred to as "Custom Owner" and Bramad Pty. Ltd. of 424 St. Kilda Rd. Melbourne, Australia, or assignee, hereinafter referred to as "the lessee",

WITNESS:

This Agreement is made under the terms of and subject to the Declaration of Principle made by the Union of Moderate Parties dated 14th October, 1991 which is hereinafter referred to as "The Declaration Principle"

NOW THEREFORE, the parties agree as follows:

1. Custom Owner agrees to make that land as is described in Attachment "A" hereto, "the land", consisting of eighty thousand (80,000) hectares available to Lessee for a lease as described in the Declaration of Principle, and on the terms and conditions set forth in that Declaration.
2. This Agreement shall be conditioned upon the election of the United Moderate Parties as set forth in the Declaration of Principle.
3. As further consideration for the effectuation of this Agreement, the parties shall, acting together, attempt to raise that sum equivalent to one hundred and fifty thousand dollars (\$150,000) in United States currency, which shall be provided to UMP for their expenses in connection with the election. Said funds shall be provided upon presentation of bona fide receipts for expenditures by UMP, and shall



"B-1"

ADDENDUM AND BINDER

THIS ADDENDUM to the Contingent Contract for Lease, dated 14th October, 1991:

WHEREAS it is traditional that Contracts be confirmed by the parties in accord with Melanisan custom and practice;

NOW THEREFORE, the Custom Owner as a party to the Contingent Contract for Lease, dated 14th October, 1991, hereby ratifies and confirms that this tradition and condition has been fulfilled with the receipt of the value of Two Hundred United States Dollars (\$200 U.S.) received by the undersigned.



Serge Vohor, Custom Owner

be expended solely for the purpose for providing UMP a fair chance of reaching the voters of the Republic of Vanuatu with their message and platform in the upcoming election.

4. This Agreement shall inure to the benefit of the parties hereto and be binding upon the parties hereto and their heirs and their assigns

5. The parties agree that the lessee may assign its interest in this agreement to a third party.

6. The parties hereto warrant their authority and ability to enter into this agreement.

7. This agreement shall be subject to the laws of the Republic of Vanuatu.

IN WITNESS WHEREOF, the parties hereto have set their hand and seal this 14th day of October 1991.



Serge Vohor, Custom Owner



Director
For and on behalf of Bramad Pty. Ltd.

FAXIN
25/9/00

THIS DEED is made the 20th of January, One thousand nine hundred and ninety-two.

BETWEEN

BRAMAD PTY. LTD. of 424 St. Kilda Road, Melbourne,
Australia (hereinafter referred to as "Bramad") of the one part

- and -

CODY INVESTMENTS LIMITED, a Company registered in Ireland
(hereinafter referred to as "Cody" of the second part

WHEREAS

- A. BRAMAD is the owner of a Contingent Contract for lease of land (hereinafter referred to as the "Lease") between BRAMAD and Serge Vohor, Custom Owner of the said land in Vanuatu, attached hereto as Exhibit "A"
- B. CODY has agreed to purchase from BRAMAD one hundred per cent (100%) of ownership in the aforesaid lease and rights under the Declaration of Principle, attached hereto as Exhibit "B".

NOW THIS DEED WITNESSETH AS FOLLOWS:

1. BRAMAD assigns to CODY one hundred per cent (100%) of its ownership in the aforesaid lease and rights under the Declaration of Principle, attached hereto as Exhibit "B"
2. In consideration of the assignment of one hundred percent (100%) of BRAMAD's ownership in the aforesaid lease and rights, CODY will pay to BRAMAD the sum of SIXTY THOUSAND U.S. DOLLARS (\$60,000.00).
3. At the signing of this Agreement BRAMAD will hand over to CODY all materials, documents and maps relating to the aforesaid lease and will convey to the latter all relevant information.
4. CODY may transfer or assign the benefit of this DEED in accordance with the provisions of the lease.

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5. Time shall be of the essence of the obligations of the parties hereunder.
6. No waiver by the parties of any of their rights powers or remedies shall be of affect unless in writing and no waiver by the parties of any breach shall be deemed a waiver of any continuing or recurring breach.
7. A variation of this Deed must be in writing, within sixty days from the signing of this agreement, and signed by both parties.
8. IT IS AGREED between the parties hereto that there are no conditions warranties or other terms affecting the agreements herein contained between the parties other than those embodied herein and the parties shall not be entitled to rely on any representations whether verbal or written made by either party to the other except such as unmade conditions of this Deed.

IN WITNESS WHEREOF the parties have hereunto set their hands and seals the day and year first hereinbefore written.

THE COMMON SEAL of BRAMAD)
PTY. LTD. was hereunto affixed in)
accordance with its Articles of)
Association in the presence of:)



[Signature]
..... Director

[Signature]
..... Secretary

THE COMMON SEAL OF CODY)
INVESTMENTS LTD. was hereunto)
affixed in accordance with its Articles of)
Association in the presence of)



[Signature]
..... Director

[Signature]
..... Secretary

[Signature]
.....

Witness



APPENDIX "D"



*Stefan
Mandel*

42470 Milda Road
Melbourne 3004
Victoria, Australia
Telephone 820 3778
Facsimile 820 3676

26 AUG 1993

July 1993

Dear Friend,

It has been a long trip but we have finally arrived!

When we embarked on this venture, nobody would have foreseen that our path would be barred by those who hold themselves above the law.

I would like to take this opportunity to thank you for your patience, understanding and support. It is also opportune to review the milestones in our short history so that you have a clearer understanding of what really went on.

Perhaps the most alarming event, in terms of its unjustness and malice, was the smear campaign conducted against the Fund by the all-powerful Australian Securities Commission (ASC). Those attacks had a single goal—to destroy the ILF. As you will see, the seeds to that episode had been sown some years before by Tattersall's.

In 1987, the Victorian Government passed a piece of legislation dubbed "the Stefan Mandel Amendment". This discriminatory amendment was introduced at the behest of Tattersall's for the specific purpose of prohibiting the formation of "commercial syndicates". Now, some of you may question whether this is fair, or even legal, particularly since it was introduced because Tattersall's coaxed the Government into believing that I presented a threat to the game. Nothing could have been farther from the truth. Even a child knows that, no matter how many lotto tickets I or anybody else buys, it would not affect the odds. The amendment proved to be an exercise in futility and a waste of taxpayers' money. Neither the Government nor Tattersall's had sought to ascertain whether I would even be interested in forming a commercial syndicate for the purpose of playing Tattslotto games. Had the question been put, my answer would have been unequivocal—Tattslotto dividends are too paltry and the odds of winning are too remote for a commercial investment.

Nonetheless, on 1st August 1989, Tattersall's suddenly changed the rules of its game. The circumstances which brought about this reversal are, in themselves, interesting. For two months previously, Tattersall's had widely promoted a Superdraw and tickets had been sold throughout Victoria and other states. During this promotion, they had learned that a group of people had entered the draw as individuals and that, collectively, the group had covered all possible combinations. Perhaps that, by itself, might not have precipitated such a rash response by Tattersall's but the added provocation that I had

organized the winning system was the catalyst for its subsequent actions. Twelve days before the draw, Tattersall's changed the rules of the game. It simply decided that, irrespective of what had transpired in the past, the conditions of entering coupons will differ so as to prevent "my group" from entering the 12th August Superdraw. It didn't make much difference. I chartered three small planes, shipped the coupons to other states and entered the game anyway. As a result of those efforts, a couple of our original unitholders, Thomas and Ludmila Bischof, won the first prize of \$642,000 in that Superdraw. A fortnight later, they went to collect their winnings and guess what happened! Tattersall's delayed, prevaricated and finally refused payment. Why? Because the Bischofs were "associated" with my company.

After a three year law suit costing \$168,000 (which I funded), the Supreme Court ordered Tattersall's to pay the Bischofs their rightful winnings plus interest and costs. However, the trauma of being badgered by Tattersall's lawyers and the dashing of their dreams of financial independence had cost the Bischofs two nervous breakdowns. Quite a difference to the image of charity and benevolence that Tattersall's likes to portray.

In December 1989, one day before entering the Superdraw of 9th December, the Victoria Police invaded our offices. Again, that action was traceable directly to the offices of Tattersall's. On that occasion, the police carted away all our equipment, coupons and records, virtually emptying the office.

Within hours, we were in the Magistrate's Court demanding the return of our property. The case was clear-cut. The police were ordered to return all of the equipment forthwith. The case was subsequently heard in the Supreme Court and costs were awarded against the government. Again, despite Tattersall's shenanigans, we entered the Superdraw and won thousands of prizes.

The following year, the Victorian Government passed a piece of legislation dubbed "the Stefan Mandel Amendment Mark II". It aimed to stop me from playing the game by limiting the amount one person could invest. Since I had already announced publicly my unequivocal intention not to play in Australia, let alone Victoria, this amendment not only adversely affected millions of players, but was also an arrogant waste of taxpayers money. This really annoyed me. So, I placed full page advertisements in Melbourne newspapers. The favourable response to my indignation lit the switchboards of Tattersall's and the responsible Government departments.

On 27th September 1991, we closed the Fund (ILF), having sold all of its 5,000 units. Within days we were visited by two officers from the ASC, who demanded our unitholders' register. The officers claimed they were conducting an investigation as a result of a complaint "from a member of the public". They refused to tell us the nature of the complaint, who the complainant was, when it was registered or, indeed, provide any information whatsoever which might ease our confusion. So we took them to court.

In the meantime, the ASC wound up its publicity machine. Statements went out to the press implying that we were breaking the law and they would close us down. It worked. The judge compelled us to hand over to the ASC the unitholders' register and all other documents belonging to the ILF. We complied but appealed that decision. Possession of

our register and documents didn't give the ASC the answers they were groping for. None of us had misappropriated any funds. None of us was driving a Rolls Royce or living in the Bahamas. Simply put, there was no nest of financial conspirators. Perhaps this is the point where disillusionment set the ASC's future course. Who knows? Either way, the ASC decided to destroy the ILF in order to save face. The means by which it set about doing this would be alarming in a non-democratic regime, let alone Australia. The maxim, "power corrupts and absolute power corrupts absolutely" has particular significance when applied to the behaviour of bureaucrats scrambling to cover their tracks or, worse, bent on promotion.

On Friday, 1st November 1991, our lawyers were in court, waiting for the judge's reasons for ordering us to hand over the documents to the ASC. Behind the backs of our lawyers, the ASC went to another judge, in chambers, and asked for an injunction to freeze our Fund and for the appointment of a receiver. There is no precedent for the appointment of receivers to successful businesses which have no creditors, no missing funds and no dissatisfied unitholders. But that didn't deter the ASC. Nor did it prevent them from offering false testimony, withholding material information adverse to the ASC claims and, for all we know a host of other omissions, assumptions or unsupported allegations to bolster its case. We were handed the injunction papers at noon on the same Friday for a court appearance on the following Wednesday morning. We were left half a day, a long weekend and Tuesday's Melbourne Cup Day to assemble responses to the ASC's unjustified demands. Their tactics were to be commended; the timing was intended to impose such workload strains on us that the demands could not be met. For the next 96 hours our offices were alight. None of us slept. We faxed to all our unitholders the court documents together with the full story of what tricks the ASC was up to and what it was trying to do. We offered all our unitholders the alternative to withdraw from the Fund with a full refund of all their monies (in case they were worried). We also offered the opportunity for unitholders to express their views in writing, whether in support of the ILF or not, to the ASC. By Tuesday night, people were flying in from Perth, Sydney, Hobart, Adelaide, Brisbane and New Zealand, their briefcases filled with letters. The letters written by them and other unitholders, unanimously opposed the ASC's actions. Wednesday morning saw us in the Federal Court with four barristers, four solicitors, 1,084 letters of support and a court room packed with our unitholders. What a sight for very sore eyes. And what dismay for the ASC. Our lawyers advised us to ask for an adjournment until 27th November to gather the balance of the letters from our unitholders.

On 27th November, we showed up in court with 2,560 letters, none of which, I am proud to say, sought a withdrawal from the Fund. Again, not a seat in the house! Our plan was to put Jason Taylor (our principal ASC investigator) and his fellow antagonists on the stand, under oath. The notion of a settlement out of court was "floated" between the opposing lawyers. From the ASC's point of view, they could see the difficulty of defying a solid wall of unitholder opposition (and Jason Taylor probably wanted to get as far away from that court room as possible). From our point of view, we did not commercially relish the prospect of a protracted court battle. Our primary responsibility was to the business interests of our 2,560 unitholders and that entailed winning lotteries, not contesting legal challenges. So, we settled out of court.

As part of the settlement, the ASC demanded that we make yet another offer to our unitholders to have their monies refunded. Obviously—if illogically—it hoped that a policy of attrition would work. Wrong! Only seven of the 2,560 unitholders were persuaded by the ASC's intimidation tactics and of those seven, four sought re-admission to the Fund. I am sure you will agree with me that the endorsement of unitholders was not only an expression of their confidence in our abilities and integrity but, of more fundamental importance, a demonstration of democratic independence. We were also instructed to appoint a new Trustee for the Fund, one approved by the ASC. In return, the ASC undertook to process all our applications expeditiously. Not even in the dictionaries of "Bureaucratic Speak" could the word "expeditiously" have such a different interpretation than that which the ASC applied to it. In fact, the ASC's deliberate postponements, threats and excuses almost prevented our success in Virginia. On 8th December, the "Sunday Herald-Sun" published a very damaging article about the Fund. It listed the names of some prominent people who were unitholders. It was obvious that the ASC, in contempt of court, had leaked information and names to the press. The author of the article, Bronwen Martin, was present in the Federal Court on 27th November where she indicated to a unitholder that she had a professional association with Jason Taylor. In a later statement as to the source of her information, Martin cited documents provided by the Federal Court. Subsequent checks showed that to be a lie. On 9th December, 39 days after obtaining the injunction and 12 days **after the settlement out of court**, the ASC issued a deliberately misleading press release. It strongly implied that it (the ASC) had just obtained an injunction and, in consequence, had applied for the appointment of a receiver for the Fund. Clearly, the press release was scaremongering, again aimed at destroying unitholders' confidence in the Fund. The press release had a ripple effect in several newspapers and a few worried unitholders called us up, asking whether we had to go back to court.

We immediately set about having the articles retracted and we pointed out the ASC's deception. Typically, the resultant notices of retraction were published in obscure parts of the newspapers (somewhere on page 28) but the acknowledgements had been made and they were noticed by our unitholders. On 24th December, 54 days after the ASC injunction and 27 days **after the settlement out of court**, the National Australia Bank froze all our bank accounts. This action was taken solely on the basis of an ASC letter to the bank, dated 19th December, which was attached to copies of the court documents from 1st and 6th November. The bank informed us that, on the basis of those documents, we were in receivership. The bank had formed that judgement without even asking the rudimentary question, "where is the court order". There is little doubt that the bank's hasty and highly irregular action was influenced by the ASC's letter—although the bank could not justify its behaviour on those grounds. Again, we took remedial measures and the frozen funds were eventually released.

As a part of the out-of-court settlement, we proceeded to seek the appointment of an approved Trustee to our Fund. We knocked on the door of almost every Trustee Company in the country but, mysteriously, nobody wanted to talk to us. Having since found out that errant ASC investigators often slur a company's reputation by a few discreet words mentioned here and there, ("such and such a company is under investigation") it is not difficult to surmise that we were victims of the same mischief.

By now, we were getting desperate. If we couldn't find a Trustee, the Fund would collapse. The ASC would merely convince the court of the "necessity" to appoint a receiver, (and no receiver has a grain of experience in our unique business in any case), and we would have been quickly sucked dry.

Through our overseas contacts, we obtained from Barclays Bank on the Isle of Jersey, a written undertaking to act as Trustee. The ASC learnt of that commitment and within 24 hours we received a letter from Barclays telling us they changed their mind.

In the end, Lowe Lippmann Chartered Accountants of Melbourne agreed to become Trustees. The ASC used every trick in the book to sabotage this appointment, including unreasonable demands such as \$500,000 liquidity and \$20 million in a professional insurance policy. One by one, we eliminated every obstacle, provided the cash to satisfy the unreasonable "liquidity" requirement and Lowe Lippmann became the ILF Trustees.

On 15th February 1992, we won the Virginia Lottery and "... the rest (should have been) history".

But three weeks later we faced the threat of having our winning ticket invalidated by the Virginia Lottery. We subsequently discovered, under the Freedom of Information Act (FOI), that the ASC had supplied the Virginia Lottery with documents and newspaper articles. That and telephone discussions had caused the Virginia officials to doubt our bona fides. We found ourselves under investigation by the FBI, CIA, Interpol and Secret Service, all seeking to link us to a criminal organization of one description or another. Whether we were members of an international mafia, arms smugglers, drug dealers or simply money launderers was never made clear. Eventually, we were shown to be only business entrepreneurs. Certainly, our collective skills had enabled us to scoop the largest lottery ever held in Virginia, assemble the largest lotto syndicate in history and win the largest amount any syndicate had ever won but, for all of that, we were still ordinary businessmen. Our ticket was validated.

Our next challenge was from the Richmond, Virginia office of the Internal Revenue Service. It was unaware of the taxation treaty between the US and Australia. With its pennants flying that badge of error, the Richmond branch ordered the Lottery Commission to withhold 34% in taxes from our winnings.

Following long and intensely frustrating months of negotiations with the IRS in Richmond and Washington, we found ourselves unable to obtain a clear ruling regarding our taxation status. To skip the inevitability of further obstructions, we issued an injunction to prevent any withholding of taxes from our winnings. We won the case hands-down in the US District Court. The IRS preferred not to challenge the judge's opinion. Throughout all of those manoeuvrings, the spectre of the ASC was hovering in the background—undermining here, intimidating there and still charged with the misdirected energies of a zealot. It was revealed to us at this time that the ASC had held seven secret meetings with the General Manager of Tattersall's, Peter Gillooly, to discuss the "ILF/Mandel problem". We decided to transfer our ILF units off-shore, beyond the ASC's jurisdiction and unwarranted interference. Our initial efforts were thwarted by the ASC threatening us with prosecutions. Even though the transfer plans

"D-5"

had been endorsed by our lawyers, we regarded any challenge to the ASC's bluff as being commercially non-viable at that stage. Our plans were therefore delayed. As in all the best movies however, justice and righteousness prevail. Our units in the ILF were successfully transferred to the Pacific Basin Fund (PBF), which is resident in Hong Kong.

Our next step was to discount the income stream from the annuity and to obtain a lump sum payment. Without that, we would be unable to resume our plan of playing six international lotteries a year.

One of the chief difficulties in arranging transactions of this nature is the unfamiliarity of financial institutions with the mechanics of such an instrument. This, coupled with the inherent conservatism of the finance sector, was a delaying factor in the decision-making process of some of the entities we were dealing with. In two instances, it caused us to terminate negotiations. Added to those considerations was the 90-day period allowed for the IRS to appeal the court decision regarding the withholding of taxes. That expired on 11th January 1993. No discounting transaction could have been completed before the appeal period had lapsed. Finally, the months of bargaining, verifications, sorting out legal complexities and so forth paid off. The settlement was achieved through Globalot Limited, a qualifying company in Gibraltar.

Among the conditions we had sought throughout our dealings with various institutions was to have in place a mechanism which would streamline the conversion of annuities resulting from our future wins. Most of the parties we had approached were hesitant about committing themselves to such long-term arrangements and, even then, the separate transactions promised to be prolonged. The agreement we have struck with Globalot Limited avoids those problems: there is a guaranteed acceptance of our future annuity payments and the discounting of the income stream from those annuities will be a three day exercise only.

One of the most frustrating aspects of this entire saga was our inability to communicate with you freely and frequently. Experience constantly reminds us of the reasons for our mistrust of the ASC and the experiences of so many others serves only to reinforce that view. Only recently, we have been presented with evidence that each and every item of correspondence we have distributed to unitholders has been handed over to the ASC (including this one, ha! ha!) which, in turn, "edits" it before leaking selected pieces to the media. It is regrettable that the ASC should continue its prejudices in this manner but it is more unfortunate that one of our own unitholders should be a willing party to those activities. As for the ASC, I assure you that they will be kept busy for a while. About 8 months ago, I called a press conference to announce the formation of *Watchdog Association Incorporated*, a national association whose aim is to bring the wayward behaviour of the ASC under the public spotlight. At that time, I pledged \$25,000 towards funding Watchdog.

Watchdog has conducted a vigorous campaign of identifying the extent of the abuses of power committed by the ASC and what has emerged is an alarming picture of harassment, victimization and denials of individual rights.

" D-6 "

But Watchdog is not the only organization interested in the ASC's record of destruction. Queensland Senator Bill O'Chee has initiated a Senate enquiry into the way the ASC handles its investigations.

Watchdog estimates that the ASC is responsible for the destruction of \$300-400 million worth of active businesses in Australia annually. There are thousands of small businesses which can ill-afford the immense legal costs involved in fighting a bureaucracy acting well beyond its charter. It is vital to halt these abuses by government and its encroachment on individual civil liberties. You can contribute to this effort by taking up membership of Watchdog Association Incorporated. Simply write a cheque for A\$50 for a Company or A\$25 for an individual to *Watchdog Association*, attention Andrew Wade, Co-ordinator, 424 St. Kilda Road, Melbourne 3004, Australia and become involved. You will receive a regular informative newsletter and the benefit of advice, including general legal guidance relating to your entitlements vis-a-vis the ASC.

I should emphasize to you that the point of my letter is not to persuade you to join Watchdog but to explain the persistent efforts of the ASC to destroy our Fund. You and I have been close partners throughout this venture and have shared the frustrations, disappointments and gladness of the past few years. Because of our close involvement, it is only proper that you should be familiar with the facts. As you have seen, our plans have been spiked so often—and so needlessly—by the ASC. No democracy can tolerate a relentless and systematic encroachment on individual liberties. The ILF's experiences should stand as an example as to how fragile the balance between state power and individual rights really is.

I look forward to communicating with you within the next few weeks regarding our next draw. In the meantime, you will have received communication from IFM in Hong Kong with respect to the payment.

Kindest regards,



Stefan Mandel

APPENDIX " E "

THIS DEED is made the 27th of September, One thousand nine hundred and ninety-eight

BETWEEN

CODY INVESTMENTS LIMITED, a company registered in Ireland (hereinafter referred to as "Cody") of the first part

and

CARMAL PROPERTIES INC. a company registered in the British Virgin Islands (hereinafter referred to as "CARMAL") of the second part

WHEREAS

- A. CODY is the owner of a contingent Contract for lease of 80,000 hectares (800,000 dunam) of land (hereinafter referred to as the "Lease") between BRAMAD LTD. and Serge Vohor, Custom Owner of the said land in Vanuatu, attached hereto as Exhibit "A"
- B. CARMAL has agreed to purchase from CODY fifteen point six two five per cent (15.625%) of ownership in the aforesaid lease (125,000 dunam) and rights under the Declaration of Principle, attached hereto as Exhibit "B".

NOW THIS DEED WITNESSETH AS FOLLOWS:

1. CODY assigns to CARMAL fifteen point six two five per cent (15.625%) of ownership in the aforesaid lease (125,000 dunam) and rights under the Declaration of Principle, attached hereto as Exhibit "B".
2. In consideration of the assignment of fifteen point six two five per cent (15.625%) of CODY's ownership in the aforesaid lease and rights under the Declaration of Principle, attached hereto as Exhibit "B", CARMAL will pay to CODY the sum of two dollars US (\$2.00) per hectare per annum, for the first five (5) years and ten dollars US (\$10) per hectare per annum thereafter.
3. CARMAL undertakes to invest, or cause the investment of, an amount of two and a half million dollars (\$2,500,000) in the development of the said land in Vanuatu, over a period of three (3) years from the date of this Agreement.
4. Should CARMAL not fulfil its undertaking from paragraph (3) above, all the rights enuring from the lease and this Agreement will revert to CODY and this Agreement shall be deemed null and void.
5. At the signing of this Agreement CODY will hand over to CARMAL all materials, documents and maps relating to the aforesaid lease and will convey to them all relevant information.

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- 2 -

6. CARMAL may only transfer or assign the benefit of this DEED in accordance with the provisions of the Lease and the Declaration of Principle, upon fulfilment of its undertaking from paragraph (3).
7. Time shall be of the essence of the obligations of the parties hereunder.
8. No waiver by the parties of any of their rights, powers or remedies shall be of affect unless in writing and no waiver by the parties of any breach shall be deemed a waiver of any continuing or recurring breach.
9. A variation of this DEED must be in writing, within sixty days from the signing of this agreement, and signed by both parties.
10. IT IS AGREED between the parties hereto that there are no conditions, warranties or other terms affecting the agreements herein contained between the parties other than those embodied herein and the parties shall not be entitled to rely on any representations whether verbal or written made by either party to the other except such as unmade conditions of this DEED.

IN WITNESS WHEREOF the parties have hereunto set their hands and seals the day and year first hereinbefore written.

THE COMMON SEAL of CODY
INVESTMENTS LTD. was hereunto
affixed in accordance with its Articles
of Association in the presence of:

..... Director

For and on behalf of
Hill Street Registrars Limited

.....
authorised signatory

THE COMMON SEAL OF CARMAL
PROPERTIES INC. was hereunto
affixed in accordance with its Articles
of Association in the presence of:

..... Director

For and on behalf of
Hill Street Registrars Limited

.....
authorised signatory



CARMAL PROPERTIES INC.

THE "MONDRAGON" COOPERATIVE SOCIETY LTD.

Introduction

The purpose of this document is to introduce the Cooperative Society, the idea behind it, its operative plans in Israel and abroad and its intrinsic potential.

It is a well known fact that from the beginning of time man kind has aspired to formulate an economic philosophy based on principles of equality, economic sovereignty and democracy, which would enable it to reach a high standard of living as well as a high degree of social and economic harmony. This aspiration has yet to be fulfilled in most parts of the world while the socio-economic gap between people has grown further and further apart. All the economic models/philosophies such as Distributism, Communism and State Socialism, where remedy could only be attained by way of a complete re-distribution of wealth by revolutionary means, have failed. Even the capitalist model, while being the least of four evils, has failed to narrow the socio-economic gaps and has been plagued by severe inequality (the three richest people in the world hold assets that exceed the combined gross domestic product of the 48 least developed countries in the world).

The only economic model in the world that over the past 43 years has consistently and successfully acted as a protecting buffer for its members against some of the economic evils, such as inflation, recession and unemployment has been the one that materialized in the town of Mondragon, in Spain.

The "Mondragon" model in Spain

This economic model was created as a cooperative model, functioning successfully since 1956 in the town of **Mondragon** and its surrounds. located in the Basque region, in Northern Spain. What used to be a tiny, poor village 43 years ago is now a bustling town of 55,000 inhabitants. Today, the Mondragon network has over 25,000 members and is made up of a cluster of 170 cooperatives, most of which are involved in heavy, light and building industries, trade, research and agriculture. The Mondragon network also features a few dozen educational institutions, on a cooperative basis, from kindergartens to a university, a research centre and other institutions of high learning. Research and training of management and professionals is also centralized. All these businesses are fully owned by members of the cooperative.

Two institutions - the bank and the insurance company - are the umbrella organizations serving all the cooperatives. The bank is the tenth largest in Spain and plays a central role in the development of the cooperatives, supplying funding and credit. Mondragon's chain of supermarkets and hyper-markets is the third largest and fastest growing in Spain. Its manufacturing plants are the largest exporters of machine tools in Spain and third largest suppliers of automotive components in Europe. All these have made Mondragon into the only self-sufficient "economic enclave" whose success has never been tarnished by the perils of inflation, recession or unemployment. The number of employees in the Mondragon system has steadily grown, even in periods of crisis, recession and growing unemployment in Spain. This success translates into a \$7.5 billion annual turnover and an annual growth rate of 34% (1997) while the value of one share stands at \$560,000 certainly making it a success story which has no equal in the world.

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The three basic elements which account for Mondragon's success to-date are:

1. Full personal involvement of all members in the affairs of the organization.
2. A management decision making process based on internal polling of all members prior to embarking on any new venture; only if the results of the polling indicate an internal consumption of the product or service provided by the proposed venture of at least 30% will the decision be made **for** embarking on the particular venture.
3. A downsized management structure which renders it more efficient and generates substantial cost savings.

Aims

The aim of the Israeli Mondragon Cooperative Society Ltd. is, to establish an autonomous and international economic, cultural and social enclave, based on the Mondragon model in Spain. This enclave shall act as an entrepreneurial and technological think-tank and as a Closed Membership Club, that will endeavour to protect its members from some of the economic evils, such as inflation, recession and unemployment. The organizational structure of the Society does not allow any internal or external elements to gain control over the decision making process of the organization. **Participation in the initial capital of the Society, in the amount of \$15 million, shall not entail any financial or other risk on the part of the members.**

Goals

The goals of the Mondragon Cooperative Society Ltd. in Israel, are:

- To achieve a membership level of 25,000 members, covering the full range of professions and occupations.
- To organize The Society's activities in the spirit of the principles of private property, equality, mutual and professional assistance, with the purpose of improving their social, economic and cultural conditions.
- To implement the principles of the Mondragon, Spain, socio-economic model in all The Society's activities.
- To grant franchises for the establishment of similar Cooperative Societies in other countries, which will widen the range of economic activities, increase the size of the internal market, provide new sources of equity capital and profits to its members.
- To conduct business in Israel and overseas; to establish new business ventures and/or joint ventures with current ones.
- To establish social and cultural institutions for the benefit of the members and their families.
- To acquire a 99 year lease in an off-shore environment, in order to establish a Free Trade Zone and financial centre.
- To establish a "two-way" consumers club.

The Right Honourable Lord Keyes of Zeebrugge and Dover, Baronet



House of Lords

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Tel: (0)1622 812785
Fax: (0)1622 814353

The Honourable Willic Jimmy Tapanga Rarua, MP,
Deputy Prime Minister of the Republic of Vanuatu,
Private Mail Bag 056,
Port Vila, Vanuatu,

6, July 1999

Your Excellency,

Pursuant to the preliminary discussions conducted by our associate Mr Mike Oliver with Your Excellency and in accordance with our company's strategic planning, Cody Investments Ltd, has the pleasure in extending an invitation to His Excellency, The Honourable Donald Kalpokas, the Prime Minister of the Republic of Vanuatu and Your Excellency, as well as accompanying officials, to attend a business development conference.

Cody Investments Ltd, of which I am the Chairman of the Board of Directors is a company registered in the Republic of Ireland, with its management offices at present in Israel.

If convenient to Your Excellencies, we propose to hold the meeting in London on the 21 of July, when a lunch at the House of Lords will be held. To that end we suggest that our honoured guests should arrive on the 20th (departing from Vanuatu on the 19th) and stay until the 23rd.

We hope that these dates are acceptable, but if not, that you will propose an alternative date for this meeting on a weekday in July, to enable us to make the necessary travel and accommodation arrangements, which will be borne entirely by our company.

We also need to know the names of the other persons accompanying Your Excellencies.

As we understand that H.E. the Ambassador of Israel to New Zealand, Mrs Lydia Shukron, is flying to Vanuatu on the 21st July and will be presenting her credentials to the President on the following day, we hope that these respective dates will not conflict.

I suggest that regarding all arrangements and confirmations, Your Excellencies' assistants liaise with Mr Stefan Mandel, at Tel. 00972-3-624-2433 or 00972-3-525-6206 or Fax 00972-3-624-2279.

The proposed agenda for the conference is:

1. Upgrading of airports
- *2. Ni-Vanuatu Business Development Centre ✓
3. National Housing Corporation Projects
4. Membership of IPC-IUFO
- *5. Free Trade Zone ✓
- *6. Honorary Consulate in Israel ✓

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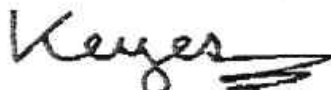
In view of the above, we would like to make the following comments:

1. One of the members of our Group is a company by the name of Jet Aviation Inc. whose business is building aircraft, while one of its divisions develops airports. They would undertake the upgrading of the airports in partnership with us and would be prepared to fund the upgrading of the fleet as well.
- 2&3. With regard to the Ni-Vanuatu Business Development Centre and The National Housing Corporation Projects, these are interesting projects in which we would like to be involved and to receive further details, in order to determine the extent of our participation.
4. We have secured an invitation for the Government of Vanuatu to become a member of IPC-IUFO (The International Project Centre - The International Union for Family Orientated Organisations), an organisation within the United Nations, which, among other things, will provide aid and funding for various projects that "... contribute towards the improvement of the living conditions of the populations".
5. Most importantly, however, our group is in a position to provide assistance in the areas of water and electricity, as it has at its disposal Modular Power Stations of up to 25MGW as well as a unique water treatment system, which would also enhance our ability to develop the Free Trade Zone in the Big Bay area on Espiritu Santo.
6. As to diplomatic representation from Vanuatu in Israel, our preliminary discussions with the Foreign Minister indicate that the Israeli Government would look favourably upon such an application from Vanuatu, providing the project is backed financially by our Group.

Furthermore, we understand that there is a group of trainees from Vanuatu in Israel who are undergoing training in the field of agriculture. This is an area in which our Group could lend significant assistance, given Cody's connections in Israel and the latter's standing as one of the most advanced countries in the world in agricultural technology.

We greatly look forward to meeting Your Excellencies and are confident of a positive and constructive outcome.

I have the honour to be your obedient servant.



The Right Honourable Lord Keyes of Zeebrugge and Dover

Chairman, Cody Investments Ltd

GOUVERNEMENT
DE LA
REPUBLIQUE DE VANUATU

BUREAU DU
VICE PREMIER MINISTRE
MINISTRE DU COMMERCE
ET DU
DEVELOPPEMENT DES ENTREPRISES



GOVERNMENT
OF THE
REPUBLIC OF VANUATU

OFFICE OF THE
DEPUTY PRIME MINISTER
MINISTER OF TRADE
AND
BUSINESS DEVELOPMENT

FACSIMILIE TRANSMISSION

The RT. Hon. Lord Keyes of Zeebrugge and Dover
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Kent ME 18 5AU
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Our Ref: MTBD/103/14/WJ/fg

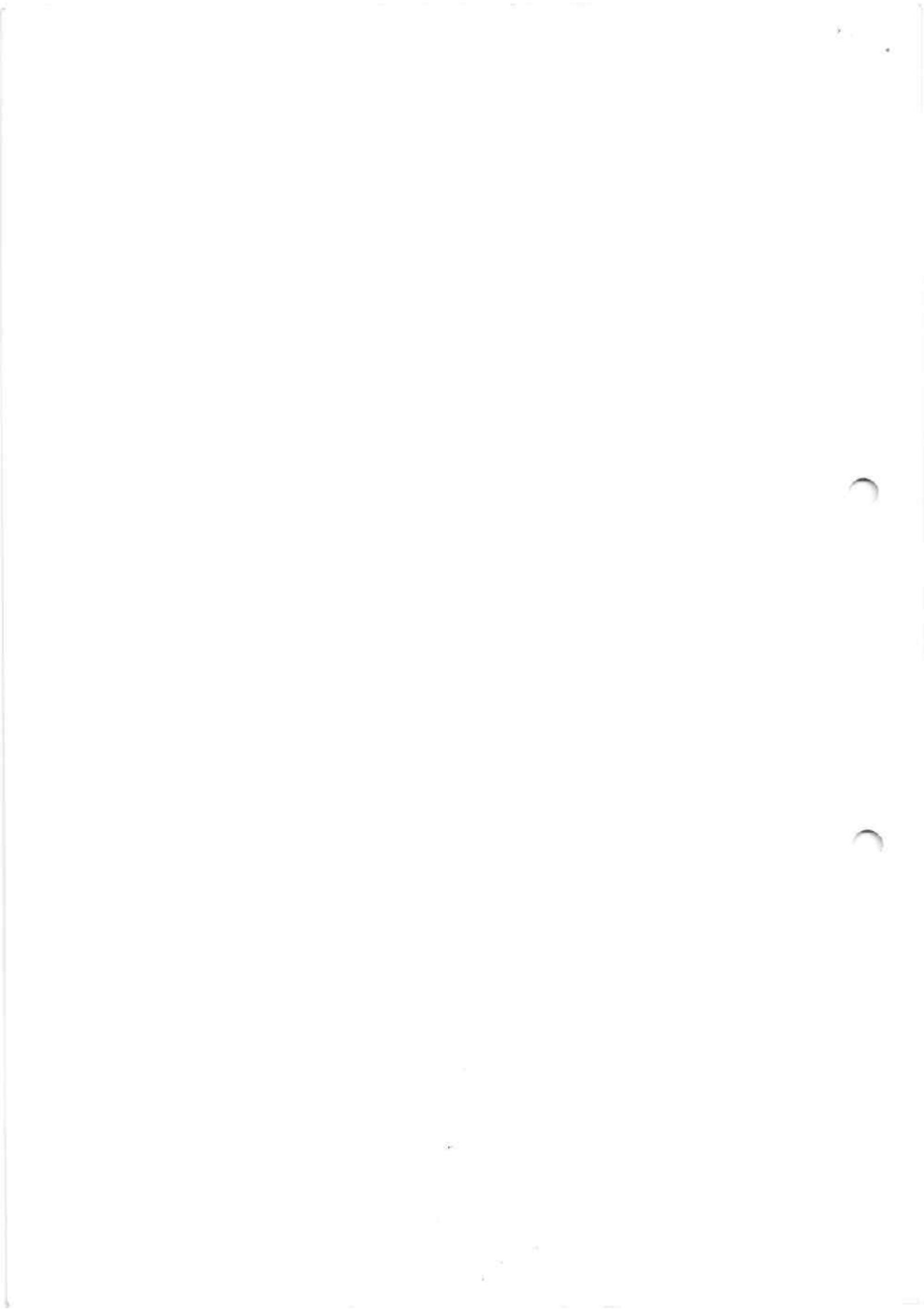
13th July 1999

Dear Right Honorable Lord Keyes,

**Subject: Confirmation of my participation at the Business Development
Conference in London, 21 – 23 July, 1999.**

Thank you so much for the number of discussions we have had and also the discussions with Mr Mike Oliver in regards to the proposed invitation for myself and the Right Honourable Prime Minister to visit London to attend to the proposed Business Development Conference schedule for 21 – 23 July, 1999 in London.

I have had a very extensive consultation with the His Excellency, the Rt. Hon. Prime Minister, Hon. Donald Kalpokas Masike Vanua on Monday 12th July and again yesterday to brief him on the nature of the conference and importantly on the various projects that will be the subject of our joint discussions in London with the view to possibly sourcing external financial and technical assistance in assisting the people and Government of Vanuatu in realizing the long term benefits of these investments.



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As I alluded in my telephone conversation yesterday with your Mr. Mike Oliver, the Prime Minister whilst applauding and endorsing this initiative, regrettably cannot attend in person due to various pressing commitments in preparation for the up coming Parliamentary session and the 19th Independence anniversary celebrations on the 30th of this month. The Prime Minister has however, confirmed my participation as his representative to attend to this important and historical Business Development Conference as your guest in London from 21-23 July, 1999.

The Prime Minister had advised me of his recognition and support of the initiatives and steps being undertaken by the Cody Investments Limited in an effort to assist the economic development of the Republic of Vanuatu.

As such and by virtue of the Rt. Hon. Donald Kalpokas MASIKE-VANUA, Prime Minister of Vanuatu's confirmation, I will be leading a team of three officials to London to attend the proposed conference as planned..

My proposed delegation will comprised of the following officials:

1. Rt. Hon. TAPANGA RARUA Willie Jimmy (MP)
Deputy Prime Minister & Minister of Trade & Business Development
2. Mr Georges MANIURI
Director General
Ministry of Trade & Business Development
3. Hon. Hamlison BULU
Attorney General
State Law Office
4. Mr Roy Mickey JOY
Director
Department of Trade, Industry & Investment

Given the limited timing now available to organize our travel plans to London, I have instructed my officials to organize our travel plans to London from Port Vila through our usual travel Agent. It is in this respect that I propose that you refund our travel fares payable by cheque to the Vanuatu Government upon arrival in London and which will subsequently be transferred back to our normal Overseas Mission Budget. I believe you will appreciate this arrangement in view of the time constraint we are both faced with.

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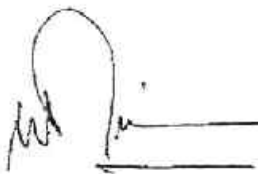

In doing so, we will foot the entire airfares for the delegation here and be expected to be reimbursed once we are in London for the conference. //

The proposed agenda for the conference is accepted and we look forward to our meeting in London on the dates proposed.

I am sending herewith a copy of our travel itinerary and would be grateful if you could confirm in writing by facsimile the proposed airfare arrangement as mentioned.

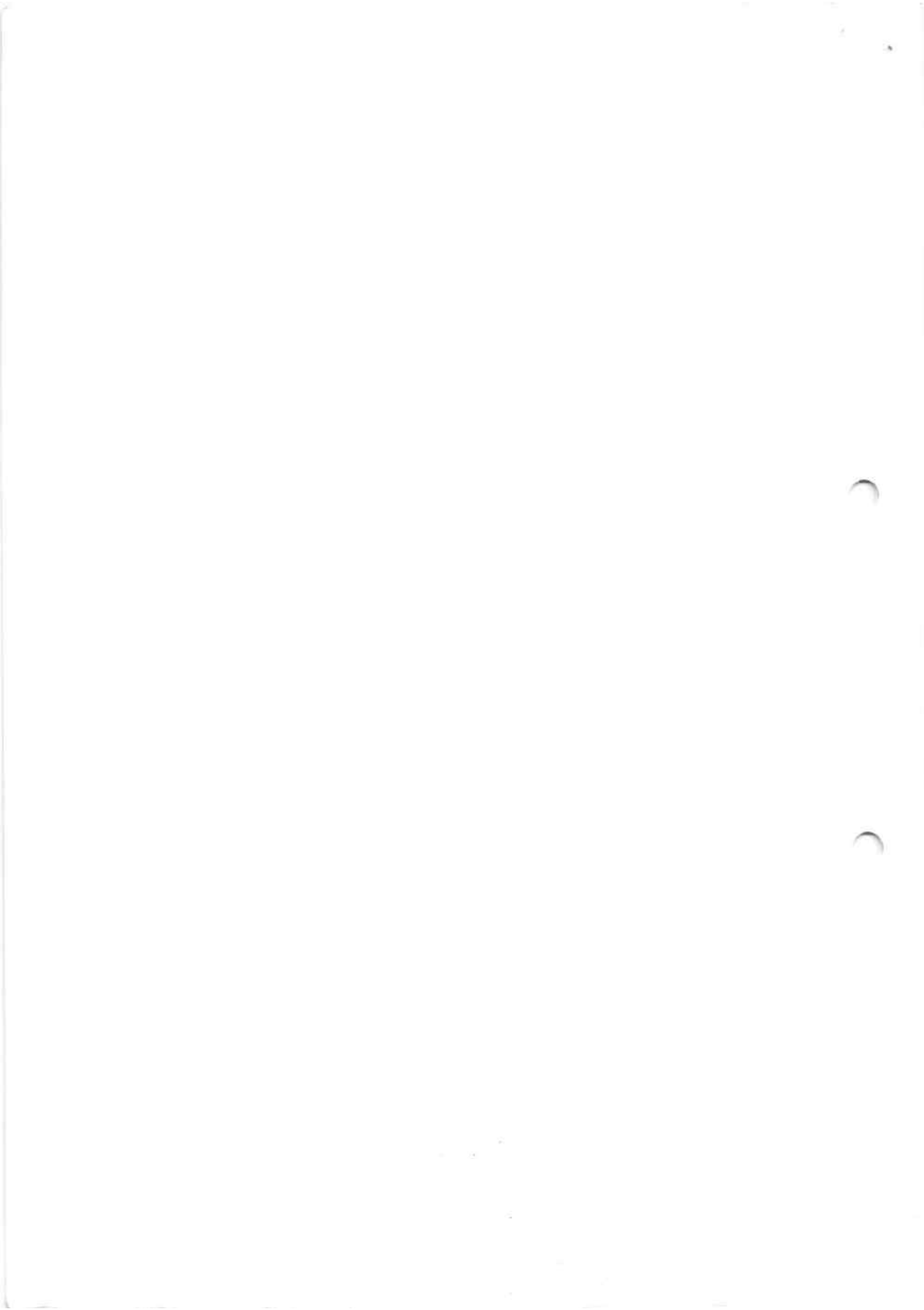
I look forward to meeting you and the rest of the entire Cody Investment Directors in London on the 21st July as planned.

Accept dear Excellency, the assurances of my Government's highest consideration.

Hon. TAPANGA RARUA Willie Jimmy (MP)
Deputy Prime Minister &
Minister of Trade & Business Development.

CC: Rt. Hon. Donald KALPOKAS
Prime Minister of the Republic of Vanuatu.



VANUATU FINANCIAL SERVICES COMMISSION

Your Ref:

Our Ref:

Please quote the name of the
company in all correspondenceCompanies House
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Republic of VanuatuTelephone: (678) 22247
Fax: (678) 22242/23915
E-mail: compous@vanuatu.com.vuFAX TRANSMISSION

DATE: 13 July 1999

TO: Ministry for Trades & Commerce
FAX: 25677FAO: Mr. George Maniuri
The Director General

CONFIDENTIAL

URGENT !

This transaction consists of five pages including this one. Please advise if it has not transmitted satisfactorily.

Dear Sir,

re : CODY INVESTMENTS LIMITED

I refer to your query with regards to the aforementioned company.

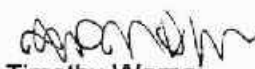
Please find attached herewith the result of the company search done by one of our information sources in the Republic of Ireland.

I am still waiting on information from the Federal Police in Australia who are running a search on the principals of the company, including the Chairman.

Based on the attached report, it seems that the company does not have that financial strength for such proposed projects. For your information, the report shows that the company has an authorised capital of 10,000 pound sterling, which is equivalent to VT.2,054,000. The paid up capital of the company is two (2) which indicates that only 2 pound sterling was paid to the company, as one share values at one (1) pound sterling.

Should you require more assistance, please do not hesitate to contact this Office.

Yours faithfully,


Timothy Womai**ASSISTANT REGISTRATION & COMPLIANCE OFFICER**

6th Floor, Ministry of Finance & Economic Development, Port Vila

Company Printout

Company : 154881 CODY INVESTMENTS LIMITED
 Previous Name(s) :
 Registered Office : 20, Clanwilliam Terrace,
 Dublin 2.

Type : Private Limited By Shares
 Date Incorporated : 09/02/1990 Designation : Normal
 Last Annual Return : 11/06/1998 Date of Designation : 09/02/1990

Register of Particulars of Charges Including Mortgages Pursuant to Sections 103, 105 and 99(10) of the Companies Act 1963 in Respect of the Above Named Company. Computerised information for charges may be truncated on this print-out, please refer to the company file or images for complete particulars on Charges.

Directors Special Note : Computerised information for directors of this company is only available in respect of appointments notified to the registrar on or after 1st May, 1994. Please refer to the company file or images for complete particulars on directors.

Brian Bell Director
 26/4 Har Sinai Street,
 Raanana,
 Israel.

John Gainsford Director
 Rosemarina Court,
 2 Joshua Ben Nun Street,
 Herzlia, Penuach,
 Israel.

Company Secretary :
 Hill Street Registrars Limited Secretary
 4, Brook Street,
 Hanover Square, London W.1.
 England.

Documents	Status	Number	Submission	Date Effective	Date Received/ Registered
	REG	1359369	New Company With Memo&Arts Attached (For All Converted Incorpor		09/02/1990
	REG	1359370	Change In Director Or Secretary		02/04/1990
	REG	1359371	Change Of Registered Office	01/09/1990	24/07/1991
	REG	1359374	Change Of Registered Office	10/08/1992	30/09/1992
	REG	1359375	Change In Director Or Secretary	01/07/1992	30/09/1992
	REG	1359376	Annual Return With Accounts Annexed	20/06/1991	13/07/1993
	REG	1359377	Change Of Registered Office	30/12/1993	24/01/1994
	REG	1359372	Change In Director Or Secretary		02/06/1994
	REG	1359373	Change In Director Or Secretary		02/06/1994
	REG	1359378	Annual Return With Accounts Annexed	23/06/1992	22/05/1995
	REG	1359379	Annual Return With Accounts Annexed	22/06/1993	22/05/1995
	REG	1359380	Annual Return With Accounts Annexed	20/06/1994	22/05/1995
	REG	1359381	Annual Return With Accounts Annexed	28/08/1995	03/01/1996
	REG	1359382	Annual Return With Accounts Annexed	09/07/1996	16/08/1996
	REG	1359383	Change Of Registered Office	31/07/1996	17/09/1996
	REG	1359384	Change In Director Or Secretary	01/07/1997	05/09/1997
	REG	1359385	Annual Return With Accounts Annexed	29/07/1997	05/09/1997
	REG	2072377	Annual Return Short Version	11/06/1998	10/08/1998



Annual Return under the Companies Acts, 1963 to 1990

This return is to be used when the certification
overleaf can be completed with in full and when
there are no more than nine shareholders. In
other cases the full return should be used.

Company Number

1 5 4 8 8 1

B1s

Company name

CODY INVESTMENTS

Return made up to

11th. day of JUNE

Financial year

from

1-04-1997

Address of registered office

20, CLANWILLIAM TERRACE,
DUBLIN 2.

Limited

19 98

to 31-03-1998

Secretary

Surname

HILL STREET REGISTRARS LIMITED

Former surname

Former forename

Home address

4, BROOK STREET,
LONDON, W1Y 1AA.

Share Class

Number of shares

NONE

Capital

Nominal

Issued - Amounts

Nominal share capital

£ 10,000.

Paid up on shares issued for cash

£ 2

Considered paid on other shares

£ -

Total

£ 2

Issued - Numbers of Shares

Class
ORDINARYNumber
2Value per
share
£ 1
£
£
£

Consideration -

All Cash

2

Other

-

Total Number

2

Totals

2

2

2

Indebtedness

£ NONE

Total amount of indebtedness of the company in respect of all mortgages and charges which
are required to be registered with the Registrar of Companies under the Companies Acts or
which would have been required to be registered if created after 1st July 1908

Presenter's Name

Address

Lanka Concrete Consultants Limited
20 CLANWILLIAM TERRACE,
DUBLIN 2

"H-3"

Directors (including shadow directors) and their shareholdings

Surname	GAINSFORD	Forename	JOHN
Former surname	-	Former forename	-
Business occupation	ACCOUNTANT	Date of birth	19 Day 09 Month 1932 Year
Home address	ROSEMARINE COURT, 2, JOSHUA BEN NUN STREET, HERZLIA PETUAQH, ISRAEL.	Nationality	ISRAELI
		Share class	ORDINARY
		Registered at	Company number
Other directorships	SEE LIST		
		Number of shares	1

Surname	BELL	Forename	BRIAN
Former surname	-	Former forename	-
Business occupation	ACCOUNTANT	Date of birth	27 Day 08 Month 1939 Year
Home address	26/4, HAR SINAI STREET, RAANANA, ISRAEL.	Nationality	BRITISH
		Share class	ORDINARY
		Registered at	Company number
Other directorships	SEE LIST		
		Number of shares	1

Surname		Forename	
Former surname		Former forename	
Business occupation		Date of birth	Day Month Year
Home address		Nationality	
		Share class	Number of shares

Documents Annexed

Mark "X" in the box relative to each annexed document

Balance Sheet
S. 128, Companies Act,
1983 (CA - 83); S. 7 and
S. 18, Companies
(Amendment) Act, 1998
(CAA - 86)

☐

Other directorships

Other shareholders

Name and address

Registered at

Company number

Share class

Number of shares

Profit and Loss A/C
S. 7 and S. 18, CAA - '86

☐

Directors Report
S. 129, CA - 83; S. 7 and
S. 18, CAA - '86

☐

Date of full listing

29th. Day

JULY

Month 1997 Year

Auditors Report
S. 129, CA - 83; S. 7 and
S. 18, CAA - '86

☐

Certification

We the undersigned hereby certify that

Guarantee
S. 17, CAA - '86

☐

Declaration
S. 17, CAA - '86

☐

Notification to
shareholders of Guarantee
S. 17, CAA - '86

☐

Note stating company
name and address

☐

1. this form contains the particulars in respect of the above named company as at the date up to which the return is made;
2. all share capital of the company was fully paid up on that date;
3. no shares were transferred since the date of the last return (or the date of incorporation if this is the first return);
4. no shares were issued at a discount;
5. no premium was paid on any share;
6. no shares were forfeited;
7. no commission was paid in respect of any shares or debentures;
8. the registers of members/debenture holders/directors' service contracts and/or memoranda are kept at the registered office;
9. the company has not, since the date of the last annual return (or the date of incorporation if this is the first return) issued any invitation to the public to subscribe for any shares or debentures in the **disregard on behalf of**

HBI Street Registrars Limited

Memorandum of Understanding

MADE IN LONDON ON 22nd July 1999

- Between: The Government of The Republic of Vanuatu by The Honourable Willie Jimmy Tapanga Rarua (MP).
Deputy Prime Minister of The Republic of Vanuatu and
Minister of Trade & Business Development and
- Between: The Cody-Mondragon Group, Cody Investments Ltd, by The Honourable Lord Keyes of Zeebrugge and Dover (Hereinafter: "The Mondragon Group.")
- Whereas: The Government of Vanuatu is seeking to improve its economic situation, and welfare of it's people, by way of foreign assistance, aid, know how, and investments, and
- Whereas: The Mondragon Group has confirmed it's interest to act and conduct business in The Republic of Vanuatu, inclusive by bringing know how, human management resources, and foreign investments by way of funding projects, as hereunder set forth, and
- Whereas: The parties have agreed to cooperate on the basis as hereby described.

The following has been discussed, and agreed

1. The preamble constitutes an integral part of this Memorandum.
2. The parties have confirmed their interests, and agreement to cooperate for the execution, and promotion of the following projects; subject to obtaining the relevant approvals from the appropriate Authorities in Vanuatu and complying with the relevant laws of Vanuatu.

Free Trade Zone

- 2.1 The Mondragon Group intends to lease and /or buy an area of 80.000 hectares of land on the island of Espiritu Santu, for establishing a free trade zone, inclusive of at least 8 miles of ocean frontage, full exemption from all taxes duties and/or any other levies.

Consular Offices

- 2.2 The operation of consular offices of The Republic of Vanuatu, by The Mondragon Group world wide, starting in Israel, and Belgium. The above will include all state, and consulate services inclusive, state and trade representation, and all off-shore services of The Republic of Vanuatu.

Internet

- 2.3 Internet operation on an exclusive basis of a specialised internet technologies entailing the use of the Vanuatu internet prefix "V.U", to be established, operated and funded by The Mondragon Group.

Air Services

- 2.4 The Government of Vanuatu has confirmed its interest, and commitment to upgrade and enlarge its international airport. Based on the above, The Mondragon Group confirms it's interest in purchasing at least 49% of Air Vanuatu. The parties will cooperate in promoting Air Vanuatu's business, inclusive by way of tourism, traffic volume infrastructure and landing rights.

Fishing

- 2.5 Fishing rights within the territorial waters of The Republic of Vanuatu will be given to The Mondragon Group upon the terms and condition to be agreed upon by the parties.

IPC-VIOF

- 2.6 The Mondragon group has obtained an invitation for The Republic of Vanuatu to join as a founding member of The United Nations Organisation known as IPC-VIOF (International Project Centre). First funding if necessary for this venture will be done by The Mondragon Group.
- 3 The Parties will do all necessary actions, inclusive issuing of licenses and/or permits and funding in order to establish, and/or promote and/or execute This Agreement on an immediate basis.

The Parties have duly signed



The Government of The Republic
Republique de Vanuatu
By The Hon. Tapanga Rarua Willie
Jimmy (MP)
Deputy Prime Minister
Minister of Trade & Business
Development



The Cody-Mondragon Group
Cody Investments Ltd
By The Hon. Lord Keyes
of Zeebrugge and Dover and
Mr Stefan Mandel
Managing Director



P.04
TOTAL P.04

I-3

98%

0202 022 1210

I-3

21-JUL-1999 02:41 6661-701-12

20/07 '99 TUE 16:01 FAX

0003

20/07/99

12:41

ITPA DUBLIN IRL

NO. 525

003

02/06/1994

0005

REGI

B10 CHANGE IN DIRS/SEC

REGI

B10 CHANGE IN DIRS/SEC

REGI

02/06/1994

0004

Current Status

Company has a normal registration status

End of Report

20/07 '99 TUE 16:00 FAX

20/07/99

12:41

ITPA DUBLIN IRL

NO. 525

0002

002

THIS IS A COMPACT REPORT BASED ON CURRENT INFORMATION
 RESPONSIBILITY FOR INACCURACIES IS DISCLAIMED

Your Reference Russell Baker

Registered Name & No. CODY INVESTMENTS LIMITED / 154881
 Date Incorporated 9/02/1990
 Legal Form PRIVATE LIMITED BY SHARES

Capital Structure AUTHORISED CAPITAL # 10,000.00
 ISSUED CAPITAL # 2.00

Latest Annual Return 11/06/1998

Date of Indebtedness 11/06/1998
 Company Activities Management of real estate on a fee or contract basis

8398
 7032

PROPERTY MANAGEMENT
 Management of real estate on a fee or contract basis

Registered Office 20, CLANWILLIAM TERRACE, DUBLIN 2.
 Directors Not Ascertained

Board Members & Shares BELINDA CROSHAW (Company Secretary)
 C.R.O. List

BRIAN BELL / 26/4 HAR SINAI STREET, RAANANA,
 ISRAEL.
 JOHN GAINSFORD / ROSEMARINE COURT, 2 JOSHUA BEN
 NUN STREET, HERZLIA, PETUACH, ISRAEL.

Secured Charges

Charges Registered 0
 Charges Outstanding 0
 Judgements/Settlements None Registered

Documents Filed at C.R.O.

11/06/1998	0019	ACCOUNT DETAILS
		REGI
11/06/1998	0018	B1S ANNUAL RETURN SHORT VERSION
		REGI
29/07/1997	0017	B1C ANNUAL RETURN WITH ACCOUNTS AN
		REGI
01/07/1997	0016	B10 CHANGE IN DIRS/SEC
		REGI
31/07/1996	0015	B2 CHANGE IN SITUATION OF REG OFFI
		REGI
09/07/1996	0014	B1C ANNUAL RETURN WITH ACCOUNTS AN
		REGI
28/08/1995	0013	B1C ANNUAL RETURN WITH ACCOUNTS AN

23-JUL-99 07:13

NISCOL

678 36005

P.01

Mr Mike. OLIVER.

Dear Mike,

I already found the area which you can build your free-trade zone. The area is so beautiful, had a beautiful beach, beautiful bay and it was so quiet.

So I had already sent you the plan of the area and the map of Santo where it was situated ^{or located} X Bay Mail.

I'm asking you please can you come to Vanuatu at Santo to see the beautiful area, and I'm sure you will interest to build your project there.

Please come, don't wait and don't miss it.

Thank you for your consideration

Mr ANARSAL. LEON. Katty.
LUGANVILLE, SANTO.

Fax. No

Mr LEON. KATTY. WARSAL
Co = Mr KATTY. VOKER.
NISCOL. Co. LTD.
Fax. 00-678-36 085.
SANTO.

Mr Mike Oliver,

Dear Sir,

- I've been try so many time to fax you
Some urgent fax but is not possible, so
I already sendet them by mail.

- Please I want to talk to you urgently
at the phone, for the purpose of the
Free trade Zone, etc.

- I already found the area then I had
negociet for.

Thank you

Mr WARSAL Leon Kerty
Luganville, SANTO.

my Fax. N°

Mr LEON. KERTY. W. :
C/O Mr HALMUK VOKOR
FAX 00-(678) 36. 085.
NISCOL..
SANTO- REP. OF VAN.

GOUVERNEMENT
DE LA
REPUBLIQUE DE VANUATU

BUREAU DU
VICE PREMIER MINISTRE
MINISTRE DU COMMERCE
ET DU
DEVELOPPEMENT DES ENTREPRISES



GOVERNMENT
OF THE
REPUBLIC OF VANUATU

OFFICE OF THE
DEPUTY PRIME MINISTER
MINISTER OF TRADE
AND
BUSINESS DEVELOPMENT

Our Ref: MTBD/103/3/WJ/fg

3rd August, 1999

COPY

Mr. Stefan MANDEL
Managing Director
Cody-Investments and Mondragon Group Limited
4 - 6 Hataasiya Street
Tel-Aviv
67138 Israel
ISRAEL

Fax No : 972 - 3 - 624-2279

Dear Mr. Mandel ,

Re : Proposed Investment Undertakings in the Republic of Vanuatu

We arrived back safely in our shores after an hectic flight from London to Sydney via Bangkok and had a pleasant journey as we were travelling on business class and that definitely made a difference. In Port Vila, we went straight to the festivities celebrating our 19th Anniversary of Independence which took almost 3 days ,

Anyway, I write basically to express my heartfelt gratitude and appreciation to you .RT Hon . Lord Keyes and the other Directors of the Cody- Investments and the Mondragon Group for having invited us to attend the joint Business Development Conference in London , the United Kingdom from 20 -23 July 1999 . The meeting and in particular our very open and constructive manner whereby we had contacted these Business and Investment Consultations and the way we all agreed to further pursue these huge Investment Initiatives must be commended , in particular as we now have in-place a joint Memorandum of Understanding as a basis of providing a framework in practically monitoring and implementing these Investment proposals .

319 9/8/99



"JJJ-1"

I have no doubt whatsoever that given the rationality of these projects and the commitment that yourself and Lord Keyes have undertaken when signing the principal document is a clear reflection and demonstrates our vision to continue to co-operate together, as we strive to ensure that your plans and objectives are met and that our Government will provide the necessary administrative support through various forms of concessions to ensure that these projects are carried out with as much minimal delay and disruption to our implementation plans .

I am somewhat impressed that we have all agreed to consider the project proposals which in my view , will certainly create a change and of course a significant development in the Republic of Vanuatu .

Given the importance of the projects and the magnitude of these Investments in the Island of Santo ,and considering the various parameters that will definitely needs to be adhered as far as land-lease policy and issues are concerned and taking into account the usual lengthy process of negotiating these leases , my Director of Trade will be travelling to Santo early next week with the Director of Lands Department to begin discussions with the respective land owners and other Authorities and equally try and visit the proposed site before a final confirmation can be sought from them in regards to the Investment proper .

You may appreciate that Santo is indeed the largest island in the entire Vanuatu archipelago and the Authorities concern are rather eager and keen to see at least some developments taking place there as soon as possible .

I will keep you posted on the progress of this first fact-finding visit to Santo in regards to the proposed Big Bay Investment and look forward to be of continous assistance to you and to the Cody -Mondragon Investments Limited as we embark on these massive project proposals .

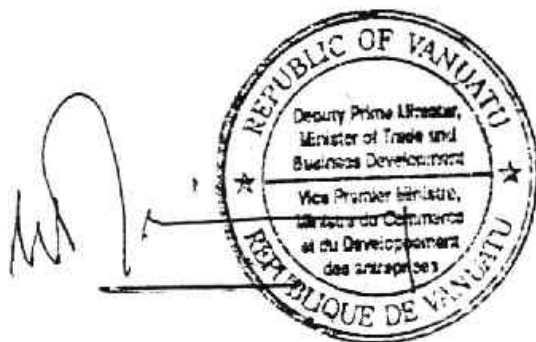
Please convey my deepest and warmest regards to Mr . Amos DORAN and of course yourself and your good wife .

Take good care and may God richly bless us until we meet again ,soon .

Yours sincerely,



" JJJ-2 "



Hon. Willie Jimmy TAPANGA RARUA (MP)
Deputy Prime Minister & Minister of Trade & Business Development.

CC: Mr Georges MANIURI
Director-General
Ministry of Trade and Business Development

: Hon. Hamlison BULU
Attorney General
State Law Office

: Mr Roy Mickey JOY
Director
Department of Trade, Industry & Investment.

APPENDIX "K"

FOREIGN INVESTMENT BOARD

FACT FINDING MISSION

Date: 7 August 1999

REPORT:

Introduction:

Vanuatu Foreign Investment Board has the obligation under the Foreign Investment Act to oversee any foreigners who wish to invest their money in Vanuatu by way of undertaking developments and by other means there maybe available.

The Board may grant licenses, refuse or approve licenses with conditions, to any foreigners who wish to invest in Vanuatu. Furthermore, the Board has a very clear mandate on its functions and any decisions taken are final. Any, discrepancies presiding over any matters on the conduct of operations of foreigners will be dealt with accordingly by member line agencies submissions to the Board and this will be entirely subject to the discretion of the Board. Likewise, the Board may conduct any fact finding mission on any proposed or potential developments through its arms as was the case here.

TEAM MEMBERS

A four (4) man member team from the Foreign Investment Board visited the Matantas area in Big Bay, Santo on Thursday 5th August 1999. Team members include; Mr Roy Miki Joy (Director of Trades & Economics Department and Chairman of the Foreign Investment Board), Mr Ephraim Mathias (Acting Commissioner of Labour), Mr Emil Mael (Principal Lands Officer-Planning & Enforcement: Lands Department) and Mr Georgewin Garae (the Secretariat to the Foreign Investment Board: Department of Trades & Economics). They were joined by Mr Robin Toka (Lands Officer-Planning, Planning & Enforcement section, Department of Lands-Northern) and Mr Peter Kalmos (Private) from the Sanma Province.

Mission:

The mission was to introduce the idea of the proposed project to the chiefs and the custom landowners of the area in question and to obtain their views.

The mission was not to pre-empt the development or either raise too much expectations from the chiefs and the landowners at this stage.

Out-come of the mission:

The team introduced the idea to chief of Matantas, Chief Solomon. After much sharing, discussions and deliberations on the idea of the proposed project between the chief (apparently his wife was present who also shared women's views), the principle views of parties was that there was a positive stand and support from the chief which was supported by his wife and a couple of other teenagers.

Immediate Action:

1. It was agreed that chief Solomon convene a meeting on 16th August 1999 to introduce the idea of the proposed project to his other colleague chiefs that will be directly affected by the proposal.
2. It was also agreed that Messers Mael, Toka and Kalmos, make a return visit to



Matantas on the 17th August to obtain the general views of all the chiefs.

3. It was also agreed that a report be made of the meeting of 17th August 1999 to the chairman of the VFIB.
4. It was agreed that Mr Mael draw up a budget for the return visit of 17th August 1999 and plan the trip. This plan plus the budget to be passed on the chairman of the VFIB who will then seek and allocate funding to that purpose.

Advisory Note:

The Mission is obliged to stress that the agreements reached are only for the purpose of the fact finding mission and to further delicate the information on the project proposal to chiefs and landowners that will be affected by the proposal.

Further and future agreements on the implementations of the project are to be subject to the agreements of the project team and the chiefs and custom landowners and also in full compliance of the relevant laws of Vanuatu.

Chief Solomon with the presence of his wife, was made clear that this was only an initial stage of a series of meetings and consultations as pertained to the project proposal and that nothing was legally binding at this stage..

Report compilation: Emil Mael



GOVERNMENT
OF THE REPUBLIC OF VANUATU
GOUVERNEMENT DE LA REPUBLIQUE DE VANUATU



VANUATU FOREIGN INVESTMENT BOARD

Private Mail Bag 030
PORT VILA, Vanuatu

Telephone : (678) 22770
Facsimile : (678) 25640

FACSIMILE TRASMISSION

COPY

Our Ref: TII/201/1/206/99

9th August, 1999

Mr Stefan MANDEL
Managing Director
Mondragan Limited
4-6 Hattasiya Street
Tel Aviv 67138
Israel.

Fax No: (03) 624 2279

Dear Mr Mandel,

Subject: Visit to Santo (Big Bay Project)

I refer to our phone conversation of yesterday in which I informed you of the Vanuatu Foreign Investment Board members visitation to Matantas, Big Bay area in Santo. This visit was undertaken by myself and three (3) members of the Board to basically hold initial discussions with some chiefs and landowners in Big Bay area to inform them of the proposed investment activities that the Mondragan recently plans to establish in that area.

The reaction from the responsible authorities in Matantas and Big Bay was quite receptive and there was a general feeling of support and excitement expressed by the authorities in particular, the fact that these massive investment undertakings will definitely create substantial employment opportunities and put-

10/8/99



"KKR-1"

in-place adequate and necessary infrastructure to link the Big Bay area to the township of Luganville and the rest of the world.

As a result of the first consultation in Santo, the respective chiefs who actually have an interest in the Big Bay project site will be convening a meeting on the 16th of this month to further discuss the proposal before a final consensus and agreement can be reached on their part. Mr Emil MAEL, Head of the Land Use Planning Office in Port Vila and member of the VFIB will be travelling to Santo on the 17th of August and will be holding a meeting with these chiefs to seek their views and opinions as well as gather any relevant information which we could use as a basis of further dialogue and negotiation on the Mondragon Investment projects proper. I believe this modus operandi is necessary at this stage, if we are to seriously adhere to the time frame allocated for the project implementation.

The second extra-ordinary session of our Parliament commences this morning and I am confident that the Hon. Deputy Prime Minister will find time on the margin of their important meeting to discuss briefly the Prime Minister before he actually seeks the approval and views of the Cabinet on the proposed Memorandum of Understanding reached between our two (2) parties in London.

I have infact initiated the process of consultation on the land issue and will be keeping you posted on the developments as we proceed forward.

I look forward to assisting you and the Cody Mondragon Investment in spear-heading and facilitating your proposed plans in the Republic of Vanuatu.

Accept dear Sir, the assurances of my highest consideration.

Yours sincerely,



Roy Mickey JOY
Director of Trade, Industry & Investment
& Chairman - Vanuatu Foreign Investment Board.

CC: Hon. TAPANGA RARUA Willie Jimmy (MP)
Deputy Prime Minister & Minister of Trade & Business Development



"KKK-2"

- : Mr Georges MANIURI
Director General – Ministry of Trade & Business Development

- : Mr Hamlison BULU
Attorney General
State Law Office

- : Mr Ephraim MATHIAS
Commissioner of Labour
Dept of Labour

- : Mr Emil MAEL
Director
Land Use Planning Office

- : Mr Georgewin GARAE
Senior Research Officer – VFIB.



REPUBLIC OF VANUATU
DEPARTMENT OF LANDS
PORT VILA



VANUATU LAND USE PLANNING OFFICE
Planning for sustainable development

MINISTRY OF NATURAL RESOURCES MINES GEOLOGY AND RURAL WATER SUPPLY
PO Box 576, Port Vila
Phone: 27602 Fax: 27715

23rd August 1999

Mr. Stefan MANDEL
Managing Director
Mondragon Limited
4 - 6 Hattasiya Street
Tel Aviv 67138
ISRAEL.

COPY

Fax No: (03) 624 2279

Dear Mr. Mandel,

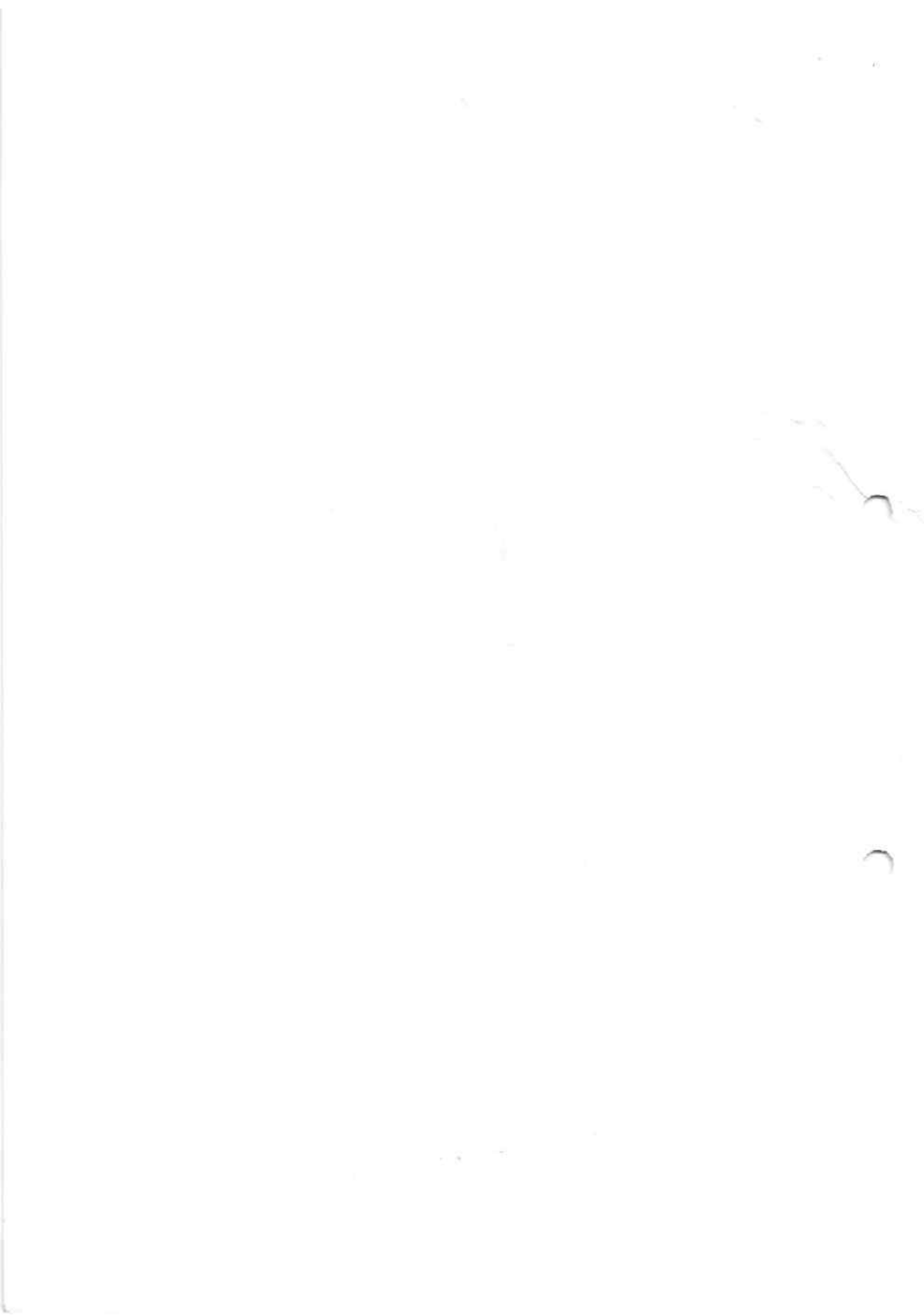
Subject: SANTO BIG BAY PROPOSED PROJECT
FINANCIAL REQUEST FOR CONSULTATION

I understand that you must have received the fax from the Director of Trade, Industry & Investment, Mr. Roy Mickey Joy of 9th August, 1999 regarding the "visit to Santo (Big Bay Project)".

I wish to further inform your good office that we are doing all we can to help facilitate initial meetings with the chiefs, landowners and the community on your proposal of the Big Bay area and further familiarize them on your business proposal. As an advice, we are carrying out the facilitation through the Ministry of lands system and channel. Things are currently running smoothly at this end.

However, we are at the moment in urgent need of financial assistance and request if you could assist us meet the following costs:

1. Traveling costs: Airfares Vila/Santo/Vila (\$200.00 US)
2. Road Transport costs: Luganville/Matantas/Luganville (for 3)
Transport for collecting chiefs to Matantas for
Further Meeting. (\$400.00 US)
3. Accommodation costs: In Luganville (for 3) (\$100.00 US)
4. Perdiuims for 4 people for 5 days \$300.00 US).



"L-1"

We would really appreciate a total of \$1,000.00 US. To assist us further in our meetings with the people concerned.

Please sent the money to the following account:

EMIL MAEL

500 44164 30

National Bank of Vanuatu P O Box 249

Port Vila

Republic of Vanuatu.

Telex No: (771) 55017

Fax No: (678) 22761

The National Bank of Vanuatu has an account with the following bank in which the money can be transferred through to the National Bank of Vanuatu here:

CHASE MANHATTAN BANK
N.A. 1 CHASE MANHATTAN PLAZA
NEW YORK
NY 10081
USA

A/C 001- 692951

I am planning another trip to Santo on Wednesday 25th of this month.

Thank you for your support in this.

Regards


Emil Mael





body INVESTMENTS LTD.

16th August, 1999

COPY

Mr. Roy Mickey JOY
Director of Trade, Industry & Investment
& Chairman - Vanuatu Foreign Investment Board
Government of the republic of Vanuatu
Private Mail Bag 030
PORT VILA, VANUATU

Dear Mr. Joy,

I acknowledge with thanks your letter of 9th August, 1999 in which you confirmed our telephone conversation of the previous day, regarding the VFIB members' visit to Santo. As I intimated in our conversation, my colleagues and I are greatly encouraged by the expeditiousness with which the members of the Board chaired by yourself, have undertaken the preliminary contacts with the chiefs and landowners in the Big Bay area and by the reaction of the latter.

We are confident that both sides to the Memorandum of Understanding will continue to display the will and ability to maintain the momentum necessary to bring about the materialization of the projects discussed in London, for the mutual benefit of the parties involved. In that respect and in an effort to afford our group the opportunity to measure up to the industrious lead set by your endeavours so far, I would be most grateful if you could provide me with a copy of Air Vanuatu's latest balance sheets, including current (unaudited) financial reports and the amended version of the Foreign Investment Bill.

As it has just occurred to me that today's date matches, in fact, the date the chiefs were supposed to convene to further discuss the proposal and precedes by one day the date when Mr. Emil MAEL, Head of the Land Use Planning Office is supposed to travel to Santo, I feel I must infuse some haste in replying to your letter, in order to avoid the embarrassment of receiving your up-date on these events before my reply.

In closing, I would like to take this opportunity to convey to you my delight to having had the opportunity to meet you, coupled with my sincere appreciation for the valuable contribution you have made to the successful conclusion of the Business Development Conference in London and your commitment to assist our group in carrying out the proposed projects in the Republic of Vanuatu.

I look forward to hear from you soon and remain, with the utmost respect,

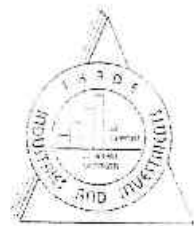
Yours sincerely,

Stefan Mandel
Stefan Mandel
Managing Director

FAX RECEIVED
DATE 17/8/99



GOUVERNEMENT DE LA REPUBLIQUE DE VANUATU
GOVERNMENT OF THE REPUBLIC OF VANUATU
SERVICE DU COMMERCE, DE L'INDUSTRIE,
ET DES INVESTISSEMENTS
DEPARTMENT
OF TRADE, INDUSTRY AND INVESTMENT
APPENDIX "M"



Mr. Stefan MANDEL
Managing Director
Cody-Mondragon Investments Limited
4-6 Hataasiya Street
Tel-Aviv 67138
ISRAEL

URGENT

COPY

36 2422 79
Fax: (972) ~~36242433~~

23rd August 1999

Dear Mr. Mandel,

I acknowledge with gratitude your facsimile communication of 16th August 1999 and am pleased to provide you with additional developments taking place in regards to the Cody-Mondragon Investments proposal as transpired from our previous visit to Santo but also on our consultations with the stake-holders in particular on the proposed site proper.

Indeed, the respective Chieives of the BigBay area and also to some extent those in Matantas have already convened their meeting as planned and Mr. Emil MAEL, my Head of the Land Use Planning Office and a member of the Foreign Investment Board will now be travelling down to Santo on Wednesday, the 25th of this month to follow up with the Chieives their outcome of the proposed meeting and report back to me before I can be in a position to liaise with you confirming the understanding reached by the Landowners and the Chieives as to how best we can all facilitate and expediate this proposal in the best interests of everybody.

At the outset, I wish to further stress that in my initial interaction with the few Chiefs I met in Santo in our last visit and the recent discussions I had with the two (2) Santo Members of Parliament, namely Messrs. Serge VOHOR and James IMBERT they fully support the proposal and have confirmed their utmost support in ensuring that the project will no-doubt be given their total support including the Sanma Provincial Council. I am not sure whether you really do understand the exact site that you have requested on the basis of the proposed 80,000 hectares of land in the Bigbay area. Santo, as you know is the largest Island in the entire Vanuatu archipelago and it is my humble opinion that a substantial area covering the Bigbay and the Matantas land area is still untouched as it does require some difficulty in gaining access to the area proper.

54/5/99

" M-1 "

Now that the Chieives in Santo have had the opportunity to discuss and brain-storm on the proposal as envisaged earlier, I am sure that Mr. Emil MAEL's visit to Santo in the next two days will provide a clear focus and direction on the views of the respective Authorities and a decision as to how we can effectively begin the implementation of these Investments in a timely manner.

I have requested Mr. Emil MAEL to assist you and the esteemed Members of the Cody-Mondragon Investments Limited with an up-to-date land use maps pertaining to the Island of Santo with self-explanatory details outlining the potential and the prospectus of the entire Santo archipelago. I am confident that the provision of this maps will no-doubt assist you in developing a clear appreciation and understanding of the proposed sites.

On the Air Vanuatu proposal, the Council of Ministers at their extra-ordinary meeting on 11th August 1999 representing the major shareholders of the Air Vanuatu Limited agreed to sell to ant interested bona-fide Parties total of 49% share as it cannot afford to inject the additional 500 Million Vatu as required by the Airline's management. This is a decision strongly supported by the Deputy Prime Minister Hon. Willie JIMMY (MP) and I thought that it is imperative that I inform you of this Decision which now forms the current policy covering the Airline.

In order to assist you understand the situation surrounding the Management of AirVanuatu, I am sending you a copy of the Council decision in Bislama as well as a copy of the last-weekend Trading Post newspaper running a front page story on the fate of our national carrier for your good information.

I have tried several times to obtain a copy of the Airlines unaudited accounts as per your request, however with no success and ONLY the Deputy Prime Minister will be in a position to get this for you perusal.

As I alluded to you on the phone this morning during the course of our conversation, it is imperative that a slush-fund be established between you and our Lands Officials to facilitate the mobilisation of using other non-Government employees in rural Santo to assist in travelling to the Bigbay area for further consultations and equally to meet the cost of local transportation for the Chieives to be able to hold meetings between and amongst them in different locations and villages in the area. This facility will be undertaken on a strict basis and receipts relating to various expenditures will be submitted to you for purposes of accountabillity and transparency. I am sure you will have no objections to this proposal for the sake of advancing and accelerating the issue surrounding the land-lease issue which as in the past proven to be area of major obstacle to Foreign Investments in Vanuatu.

I have advised Mr. Emil MAEL to prepare a draft budget breakdown for this purposes and which I am sending along with this transmission.

"M-2"

The other important documentations are being sent via DHL Express Mail service and should reach your hands in the next 3-4 days time .

Stefan, this is all for now and I will no doubt keep you posted on developments as they progress forward .

Please advise on the slush-fund proposal with a view of facilitating the meeting with the Chieves as soon as possible .

Please convey my warmest regards to Mr.Amos DORON ,Carmen NAFTALI ,yourself and not forgetting your good wife ,CATHY .

Yours Sincerely ,



Roy Mickey JOY

Director of Trade, Industry and Investment and
Chairman, Vanuatu Foreign Investment Board .



INVESTMENTS LTD.

25th August 1999

Mr. Roy Mickey JOY
Director of Trade, Industry & Investment
& Chairman - Vanuatu Foreign Investment Board
Government of the Republic of Vanuatu
Private Mail Bag 030
PORT VILA, VANUATU

Dear Mr. Joy,

Re: Santo Big Bay Project

Thank you for your letter dated 23rd August 1999 and attached letter from Mr. Emil MAEL, Head of the Land Use Planning Office.

I was pleased to learn that the meeting with the Chiefs in Santo, on the 17th August 1999, was a success and that the project has the support of the other Chiefs as well as of the two Santo Members of Parliament, Messrs Serge VOHOR and James IMBERT. I look forward to hear details of today's visit to Santo (25.8.1999) by Mr. MAEL.

As to the magnitude of the project and its potential (and undoubtedly positive) impact on the level of employment and general development of the Big Bay and Matantas areas and their respective populations, as well as on Vanuatu as a whole, I wish to assure you that we really do understand the exact site, we have considered the task and possess the resources to face the challenge.

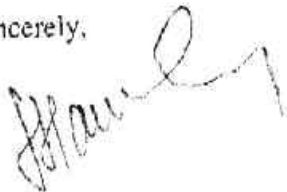
I am attaching a copy of the IT (telegraphic transfer) of \$1,000 to Mr. Emil MAEL, which I instructed our Bank to execute today (a SWIFT code would have helped make it faster) in order to establish the slush fund that will facilitate the Department's activity relating to the process of gaining consensus with and among the Chiefs in regard to our project.

Ultimately, however, upon conclusion of the valuable ground work done by Mr. MAEL and his team, in canvassing the "opinions and reactions" of the Chiefs, I expect that these negotiations will have to be finalized by the Cody-Mondragon Group, under your auspices, directly with the Chiefs. To that end it would be of great assistance to obtain a topographic map of the area in discussion, with a list of names of the respective Chiefs (each name to match the area he is connected with) and I assume that this matter would be at the latitude and in the competence of the Department of Lands, who would be in a position to deal with such a request.

"O-1"

Once again, I wish to convey my appreciation for your valiant effort and to thank you for the invaluable assistance in putting these pieces together in order to lay the foundation for what may become the most important development project in the South Pacific and certainly a no less exciting project from our point of view.

Yours sincerely,



Stefan Mandel
Managing Director

CC: Mr. Emil MAEL,
Head of Vanuatu Land Use Planning Office

"O-2."

המסמך נמצא בבעלות: משרד המשפטים, תל אביב

77 ✓ 0077

1375 RIZOV

REPUBLIC OF VANUATU
DEPARTMENT OF LANDS
PORT VILA



VANUATU LAND USE PLANNING OFFICE
Planning for sustainable development

COPY

MINISTRY OF NATURAL RESOURCES MINES GEOLOGY AND RURAL WATER SUPPLY

PO Box 576, Port Vila
Phone: 27602 Fax: 27715

6th September 1999

Mr Stefan MANDEL
Managing Director
Mondragon Limited
4 - 6 Hattasiya Street
Tel Aviv 67138
ISRAEL

922-3
Fax No: (08) 624 2279

Dear Mr Mandel,

Subject: SANTO BIG BAY PROPOSED PROJECT
BRIEF REPORT ON SANTO TRIP OF 2ND AND 3RD SEPTEMBER
FINANCIAL ASSISTANCE

Greetings from Vanuatu.

First of all I would like to inform you that my last trip to Santo to meet with chief Solomon was another great success. The momentum keeps rolling and they cannot wait to see the progress of the project. The chiefs are all really excited for the project. So far so good and we note success and progress so far.

This is a brief report on my recent trip to Santo regarding the Big Bay Proposed Project.

Report:

1. I flew up to Santo on Thursday 2nd September and returned on Saturday 4th.
2. I convened a meeting at the Lands Department on Thursday with Chief Solomon Of Matantas and my two other Lands Officers (Planning) in Santo.
3. During the meeting of which I was very, very impressed, we had a lot of valuable Discussion and Chief Solomon gave a us the latest information about the works that he was carrying out with his colleague chiefs and the chief Spoke-persons. During this meeting I handed Chief Solomon the money he had requested for the meeting with his other friend chiefs. The Chief informed us that there are a total of 23 chiefs who are to be involved in this project and all have pledged their support for the proposal of the project in their area. I have attached the names of the chiefs plus their village names as you can see. I am sure this is exactly what you had so much desired. Upon receiving the money, Chief Solomon was so pleased and have asked me to convey his appreciation and words of thanks to you for sending the money over. He said that he will begin informing the other

FAX SENT
DATE 6/9/99

chiefs today (Monday 6th) that he had actually received the money and they can begin arranging and preparing for the meeting.

4. During the meeting we had all agreed that the meeting be held on this coming Friday, 10th and Saturday 11th September 1999. The meeting will be held at Matantas, Big Bay.

Purpose of the meeting:

The purpose of the meeting is to explain the Aim/Purpose of the Big Bay Project to the 23 chiefs. Purposefully it is an educational awareness to bring the level of education of the chiefs and the communities to a level in parallel so as to fully understand the nature of the project. This is quite important and this can only be done during this meeting. Another purpose for having this meeting is explain the project to the 23 chiefs before you and your team come over to Vanuatu. In that way they will be well prepared.

In addition, we will be explaining all the legal aspects concerning land dealings and the procedures thereof plus the relevant laws and Acts that pertains to such undertakings as Big Bay Project. We will also relate and explain the administrative roles within various government line agencies that will be involved in such projects as this.

At this stage I am anticipating a very, very important session with the chiefs and I am really preparing for my presentation of which I will present to the chiefs. I will do it the Lands Department way. I am really excited about my presentation and I know that I will launch a very valuable presentation at the meeting. As you will no doubt know, these chiefs and the communities must be made clear on the potential impacts of large developments as this one. I would like to give you my full assurance that you can pledge your full trust on me to get down to the real custom landowners and their chiefs to get more of their support and appreciation and no doubt build and maintain their confidence on the Big Bay Project.

Team Members:

I am planning to get the following officers as my team members for this presentation:

2 Lands Officers

1 Planning Officer - Planning & Enforcement Section of Lands Department

1 Environment Officer

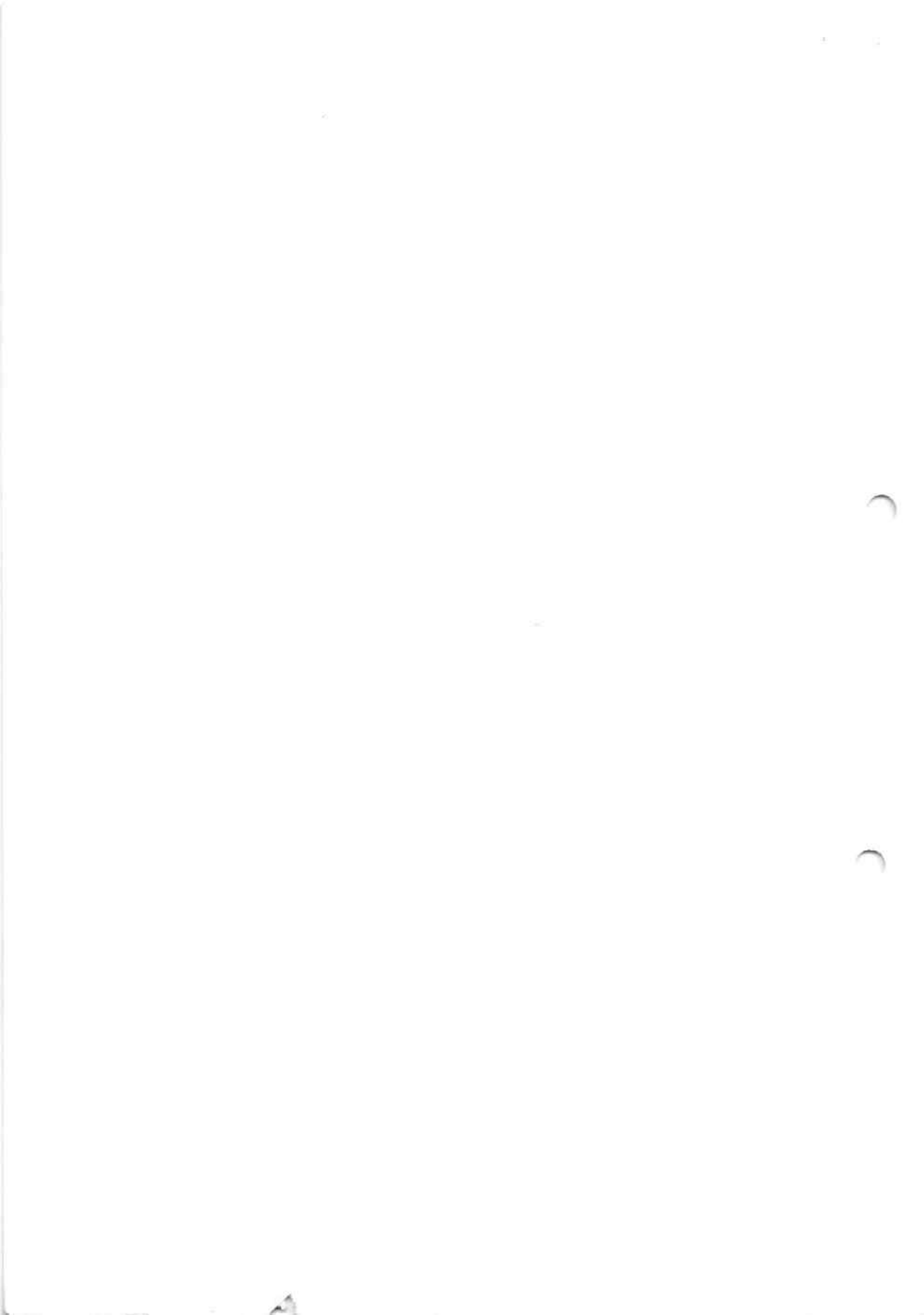
1 Provincial Planner

1 Provincial Economics

I will lead the team.

For your information, I have also informed and discussed the Proposal to the officers named above and they all have seen this as a vital opportunity to boost rural development in Santo and also one of the vital one in the region of the South Pacific as well.

5. Chief Solomon had also informed us that the other chiefs have requested that during the meeting, they will form and establish a Sub-Committee for the chiefs which will be their main in Big Bay Area regarding the Project. This committee will be the working committee on behave of the chiefs and the communities affected by the project.
-



"P-2"

Report on the last financial assistance:

This is a brief report on the last \$1,000,000 US. You sent:

Travel: (Air) \$200

Accommodation: \$100

Transport: (Land) for chief Solomon (Matantas/Luganville/Matantas) \$100

Request for Chiefs: \$500

Food \$50

Allowance: \$50

Financial request:

Sir, for me to convene the Matantas 10th meeting and to deliver my presentation to the chiefs, I cannot do so without financial assistance. I now once again request that I would really appreciate if you could assist me with some financial assistance to enable me to convene the meeting and deliver my presentation to the chiefs on the 10th.

I am requesting an amount of \$2,500.00US.

This fund will be used on the following:

Air Tickets for 3 (Vila/Santo/Vila)

Accommodation for 3 for 3 nights

Land transport for team (Luganville/Matantas/Luganville)

Food

Allowance for team members

Presentation materials

Plus an extra in case in case of any unforeseen circumstances.

I hope and anticipate that you will appreciate this request as we cannot convene the meeting without your financial assistance. In that regard I would greatly appreciate your kind assistance by way of financial support.

I would advise that you transfer the money to the same account as before:

My Bank Account Number is 500 44164 30

National Bank of Vanuatu

Port Vila

REPUBLIC OF VANUATU

Telex No: (771) 55017

Fax No: (678) 22761

The National Bank of Vanuatu has an account with the following bank in which the money can be transferred through to the National Bank of Vanuatu here. They have advised of the following bank:

CHASE MANHATTAN BANK

N.A. 1 CHASEMANHATTAN PLAZA

NEW YORK

NY 10081

USA

A/C 001- 692951

"P-3"

The sooner I receive this money I will immediately inform you and at the same time fly over to Santo for the meeting. For the time being I will await your transfer.

Once again you can trust me in this important undertaking and I am looking forward for the Santo trip.

Thank you for your support in this regard.

Regards,



Emil Mael.





Names of the Chiefs of North Santo.

The Inland Chiefs

Chief Sarkie - Ankoro Village
John Mark - Navele
Uliuli - Vutkar
Viviru - Sunatu
Susurovo - Junatavara
Daniel - Orotakara
Supero - Mataloi
John Ti - Nawelala
George Tavui - Posaiolo
Robert - Posaiolo
Linpos - Maljia
Tince - Vusiroro
Matthias - Winsao
Linpoel - Tovot

The Coastal Chiefs

Chief Solomon Tavue - Matantas
Chief Moses Ova - Matantas
Chief William mara - Pelvus
Chief William - Tuturi
Chief None Ova - Jereviu
Chief Pascal - Tolomako
Chief Saeros - Malao
Chief Joseph - Malao
Chief Mathias - Talatas



APPENDIX "R"



7.7.7 בע"מ

Z.N.K. LTD.

21st September 1999

Mr. Mike Oliver
504 Mary Street
Carson City
Nevada, 89703
U. S. A.

Dear Mr. Oliver,

This is to confirm our verbal agreement whereby, in consideration for your valuable contribution to the advancement of the Cody-Mondragon project, your presence at the Business conference with representatives of the Vanuatu Government in London, hosted by Lord Keyes and your continuous assistance with and involvement in the project, you receive 5 (five) shares in the Z.N.K. Ltd. management company, valued at \$6,000 per share (total \$30,000).

As I have intimated previously, Z.N.K. Ltd. is an Israeli company whose share capital consists of 500 shares @ \$6,000 each.

E.D.C.I. Ltd. (Economic Development Corporation Israel Ltd) is the investment arm of the whole Cody-Mondragon project and consists of a share capital of 125,000 shares, of which 101,500 shares (81.2%) are held by the Mondragon Cooperative Society Ltd. on behalf of its 25,000 members (currently less than 6,000) and the balance of 23,500 shares (18.8%) are held by Z.N.K. Ltd. (see diagram attached).

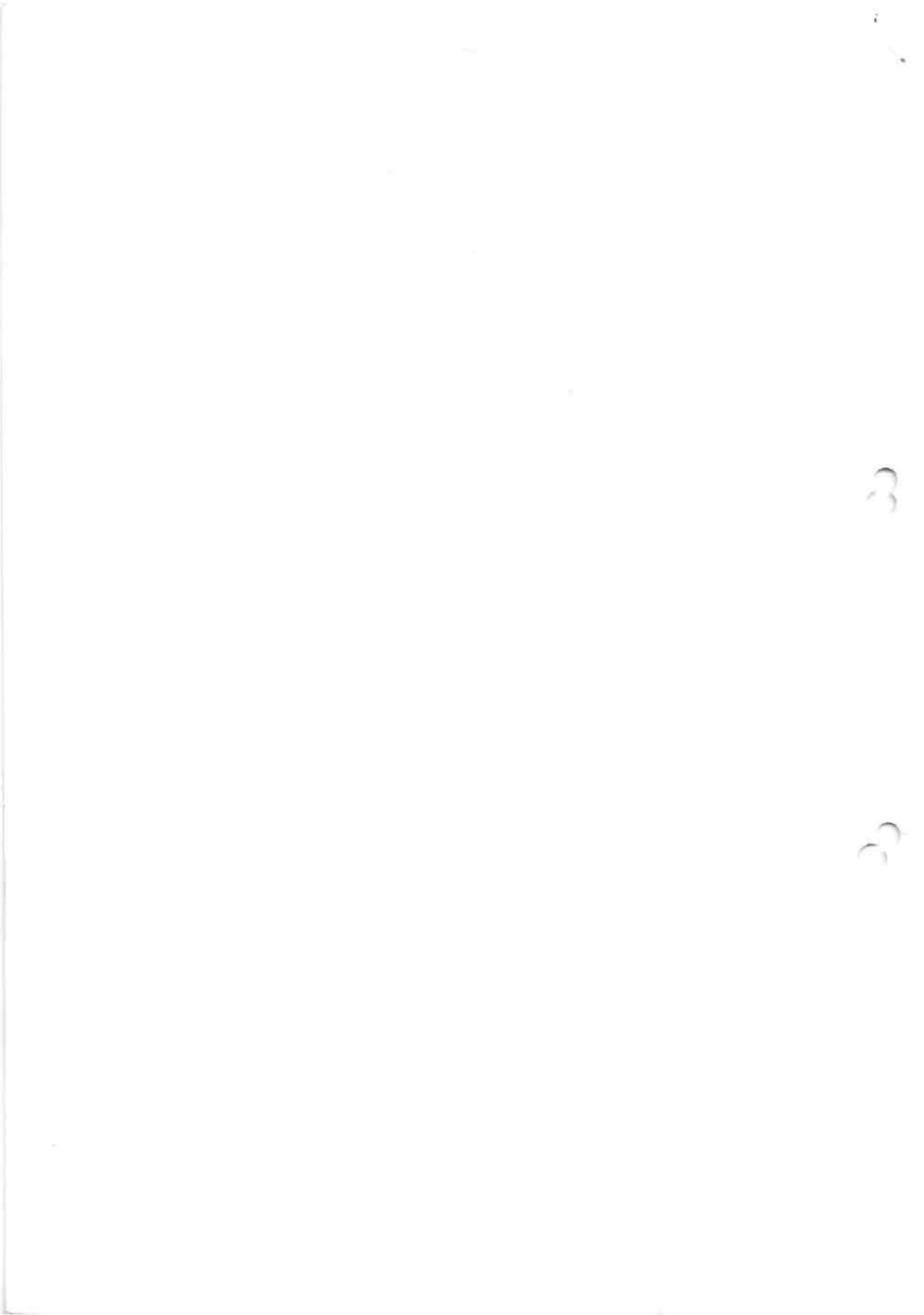
E.D.C.I. Ltd owns 81% of the Avnet Insurance Agency, which is the financing arm of the whole group, deriving its revenues from the commission it receives for each policy it sells to the Mondragon members (25,000 x \$500 = \$12,500,000). As you can see the members participation in the group's capital is at absolutely no risk to them, as in fact they buy a life insurance policy from their own insurance agency, which uses the commission (usually pocketed by the agent) as the member's contribution to the capital, thus rendering his membership totally FREE and at no risk. The Balance of the E.D.C.I. Ltd. shares (19%) are held by Cody Investments Ltd. (chairman - Lord Keyes), which is responsible for launching the project in the first place.

I am also attaching a list of all the other shareholders in Z.N.K. Ltd. and hope that this is not too confusing. Should you have any questions, I shall be delighted to answer them.

Yours sincerely,

7.7.7 בע"מ
51-216804-8

Stefan Mandel
Managing Director



Mondragon

4-6 Hamaasiya St., TEL AVIV, 67138.

ISRAEL

FAX

Date: 21/9/99

Number of pages including cover sheet: 5

To:

Mike Oliver

Phone: 013-1775-883-0903

Fax phone: 013-1775-883-6408

CC:

From:

Stefan Mandel

Phone: 972-3-624-2433

Fax phone: 972-3-624-2279

REMARKS:

☒ Urgent☐ For your review☐ Reply ASAP☐ Please comment

Dear Mike,

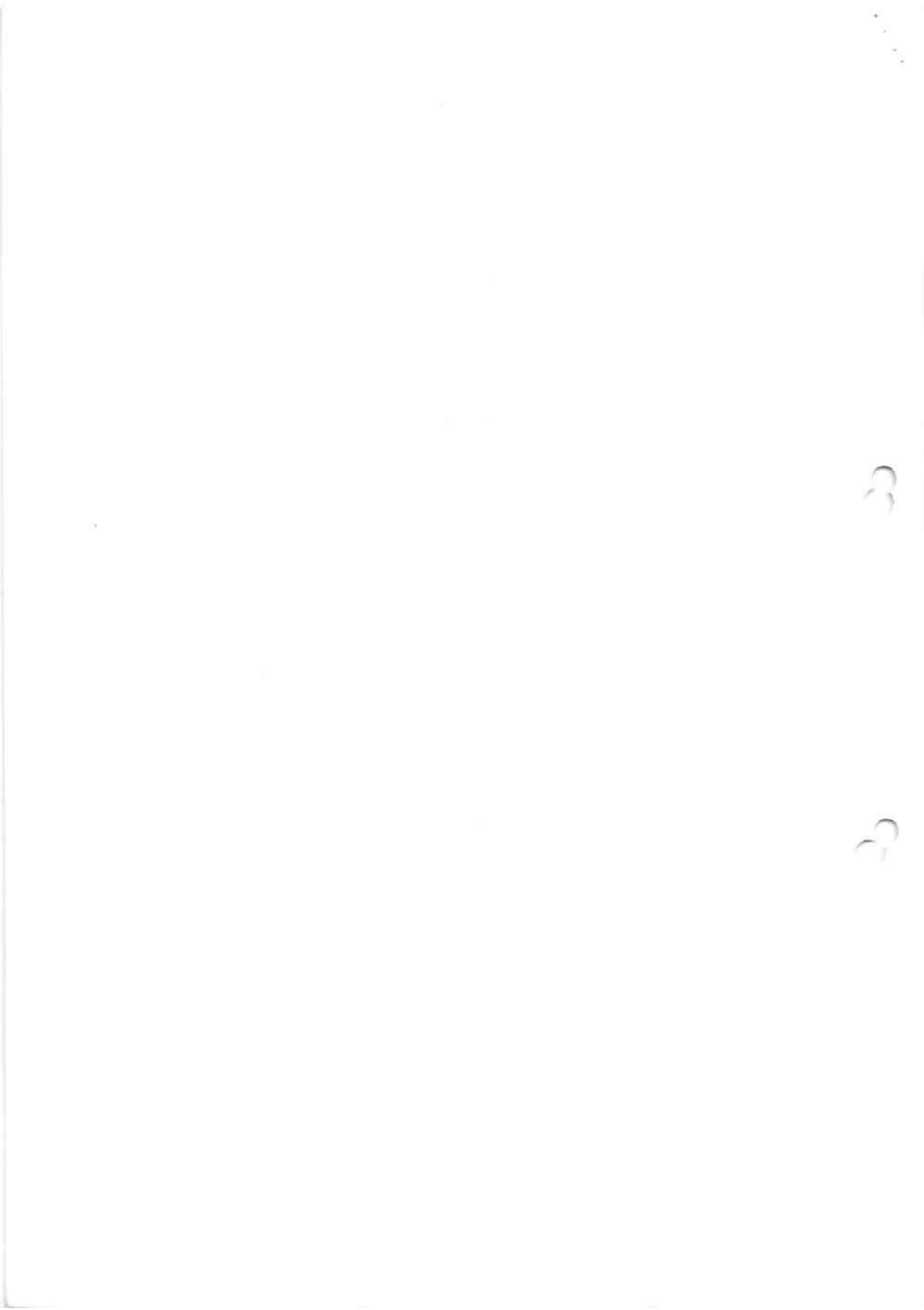
Please find attached:

1. the letter that was missing from my earlier fax today, outlining your shareholding in Z.N.K. Ltd.
2. the diagram
3. the list of Z.N.K. Ltd. shareholders.

I forgot to mention that EDCI Ltd. is the entity that is purchasing the 49% in Air Vanuatu, as per the memorandum signed in London. It has also just signed an agreement to purchase 50% of a major travel agency in Tel Aviv. In a nut-shell, EDCI will be running the show for the whole Cody-Mondragon group.

Kindest regards,

Stefan



D-23

Mike Oliver
804 Mary Street
Carson City, Nevada 89703
Phone (775) 883-0903; fax (775) 883-6408, e-mail mco@pyramid.net

September 26, 1999, U.S. Date: September 27, 1999, vanuatu Date

2 PAGES, VIA FAX NUMBER 678-36046

ALSO TO J.J. HANIN VIA FAX NUMBER 678-36126

To: Mr. Japhet Peter, Mr. Solomon Tavu Paul, Mrs. Susan Stevens and Mr. Timothy Welles

Dear friends:

Within the last two days, I decided to withdraw my support for the group which is now working towards establishing a freeport in Vanuatu. I say nothing good or bad about this project, but just do not wish to have my name associated with it. I am presently sending this letter to Mr. J. J. Hanin, so he can forward it to you without delay.

Sincerely,

Mike Oliver
Mike Oliver

ENVIRONMENT UNIT
Private Mail Bag 063
Port Vila



BUREAU DE L' ENVIRONNEMENT
Sac Postal Prive 063
Port Vila

REPUBLIC OF VANUATU

REPUBLIQUE DE VANUATU

Tel: (678) 25302 Fax: (678) 23565 E-mail: environment @ vanuatu.gov.vu

COPY

Ref:

07th October, 1999

The Hon. Donald Kalpokas Masikevanua
Prime Minister of the Republic of Vanuatu
Private Mail Bag 043
PORT VILA.

Dear Hon. Prime Minister,

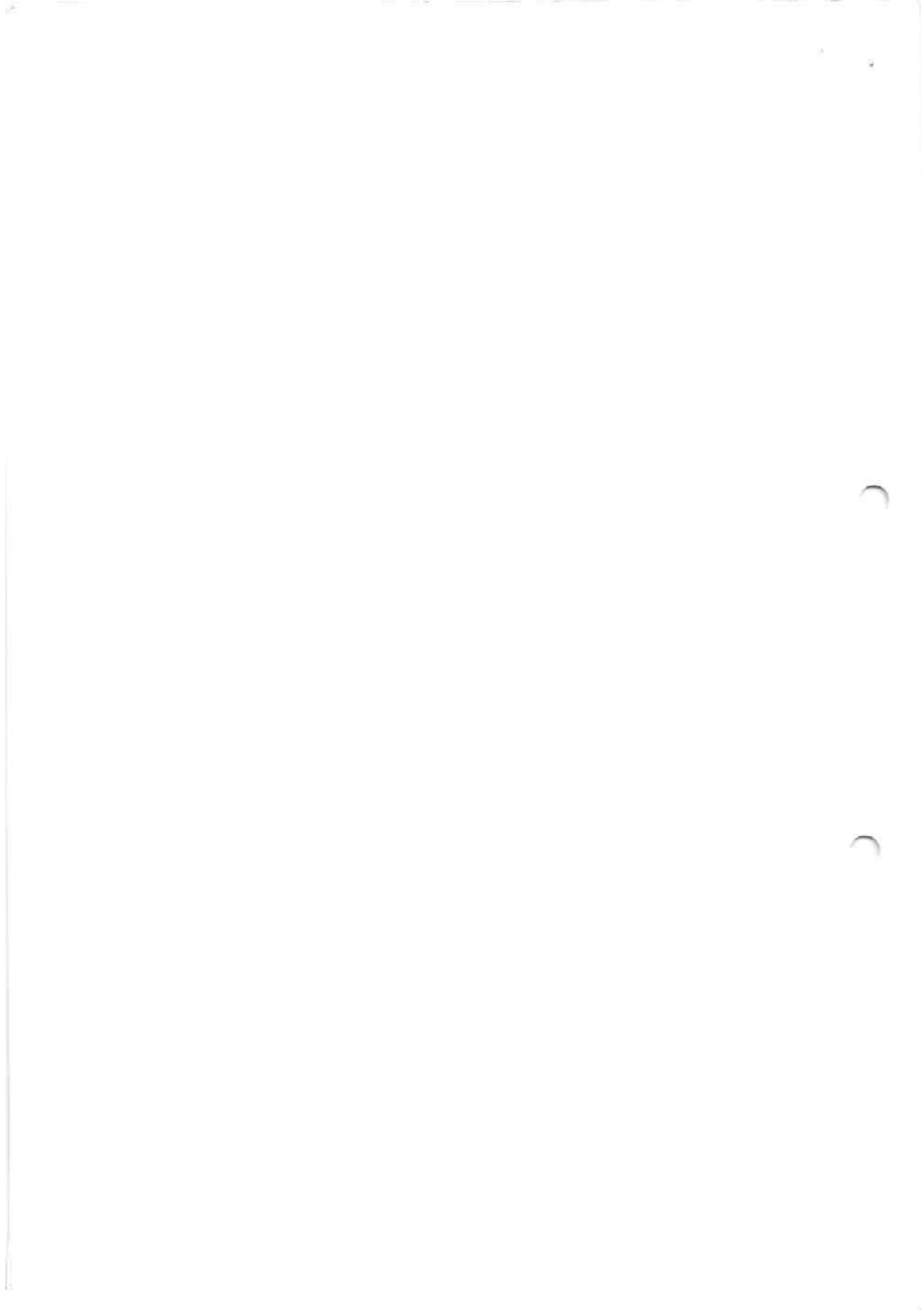
Re: CODY INVESTMENT LTD/THE CODY-MONDRAGON GROUP

It is with great honour and respect that we bring to your attention some of the issues surrounding some undertakings by some of the senior government officials on behalf of the above company and demand explanations and clarifications with regard to the processes and procedures endure in this project.

As you and your high office may be aware of some negotiations currently being undertaken by some senior government officers on behalf of the above company and the people of Big Bay, Santo. As far as this office is aware a series of meetings have been conducted earlier this year and are currently planning for a much bigger one on the 15th October with representations of the company, the Vanuatu Government and the chiefs of Big Bay.

This letter serves to raise to you and your office of our utmost disappointments over the ways in which this project has been dealt with so far and pose these questions and demand, your immediate response.

1. Any project of such a magnitude (construction of a pre-planned city and requires 80,000 hectares) must surely get through the Council of Ministers for approval. I am wondering whether or not this project has obtained the blessings of either the COM nor VFIB.
2. We are not aware of any proper project application document as yet apart from brief summary reports as part of the correspondences between the company and the Deputy Prime Minister. These information has been used as the basis of the negotiations. It is a very unprofessional approach to scrutinising any project proposal.
3. If it is a genuine project, why is it that this office was kept out of it while we have been working within the Big Bay area for over five (5) years and understand the people and their culture more than any other organisation of the government? There is no Environmental Impact Assessment (EIA) report that we are aware of up to date.
4. Who has authorised the negotiations to proceed with the local people of Bay Bay, Santo in the absence of a negotiator certificate from the Department/Ministry of Lands?



"T-1"

5. It would be interesting to know how much funds is being committed in the negotiations processes so far and where the money is coming from?

In the view of the above and the way in which the project negotiations has been handled so far has put into questions the spirit of CRP in terms of transparency and accountability. We are pretty convinced by now that this project is another scam coming in the name of the people of Vanuatu but benefiting few individuals within the system. It raises the question of who's interests are we pushing here and what are the motives behind this project to fast track this initiative by taking short cuts.

It is therefore in the interest of this office, the people of Big Bay area and the general population of Vanuatu to demand immediate explanation and clarifications on the issues and questions raised through this letter.

Thanking you in advance for your great understanding and looking forward to your immediate responses before 15th October, 1999. If we don't hear from you by then, we shall then forward these complaints to the office of the Ombudsman for their investigations.

Yours faithfully



Ernest Bani

Head of Environment Unit



Cc: Hon. Clement Leo, Minister of Foreign Affairs
Hon. John Morsen Willie, Minister of Natural Resources
Hon. Sela Molisa, Minister of Finance & Economic Management
Hon. Willie Jimmy Tapanga Rarua, Deputy Prime Minister
Mr Hamlison Bulu, Attorney General
Mr Roy Miky Joy, Chairman of VFIB
Mr Lennox Vuti, Director, DESD
Director General, PM's Office
Director General, Ministry of Natural Resources



APPENDIX "TTT"

MEMORANDUM

CODY

Date: 11 October 1999

From: J Sese, DG, Prime Minister's Office

To: Mr. E. Bani, Head of Environment Unit

Re: CODY Investment Ltd/ The Cody – Mondragon Group

I refer to your letter of 07/10/99 on the above matter addressed to the Prime Minister and I wish to comment as follows:

1. This Office is not aware of any decision by the Vanuatu Government authorising the above company to carry out a project in Big Bay or anywhere else in Vanuatu. We would appreciate further information from you.
2. I find it difficult to relate the status of your position, as Head of Department, to the tone of your letter which was addressed to the Prime Minister directly. I suggest that you observe the basic rules of diplomacy in your future official communications with the Prime Minister and/ or other Ministers.

Jean Sese
Director-General



133 13 10-99

- Cc:
- Hon. C Leo, Min of Foreign Affairs
 - Hon. J. Morsen Willie, Min of Natural Resources
 - Hon. S. Molisa, Minister of Finance
 - Hon. W. Jimmy T. DPM, Minister of Trade
 - Mr. H. Bulu, AG
 - Mr. R M Joy, Chairman of VFIB
 - Mr. L. Vuti, Director, DESD
 - DG, Ministry of Natural Resources

12/11/1999 13:02 7758836408

APPENDIX "U"

PAGE 02

ATT: Mr. Hamilton Buler - ATTORNEY GENERAL of The Republic of Vanuatu.

Mike Oliver

504 Mary Street

Carson City, Nevada 89703

Phone (775) 883-0903; fax (775) 883-6408, e-mail mco@pyramid.net

October 11, 1999, U.S. Date October 12, 1999, Vanuatu Date

OCT 13 1999

TO WHOM IT MAY CONCERN:

This message serves as notice that I have broken all relationships with Mr. Stefan Mandel and any and all of his associations, companies, and other entities.

Sincerely,

Mike Oliver

12/11/99

Private Mail Bag 048
Port Vila
Vanuatu
South West Pacific

Telephone : (678) 22362
Fax : (678) 25473



Our Ref. :

Your Ref. : AG / /TJB

STATE LAW OFFICE

11th October 1999

Mr Ernest Bani
Head of Environment Unit
Environment Unit
PMB 063
PORT VILA

Dear Sir,

Re: CODY INVESTMENT LTD/THE CODY - MONDRAGON

I refer to your correspondence dated 7th of October 1999 and acknowledge receipt thereof.

Your letter serves to inform the office of the Prime Minister of your utmost disappointment over the way in which some senior Government officials are dealing with the above Company to build a pre-planned city at Big Bay area, Santo. This poses some questions and you sought immediate response from the relevant authorities concerned. They are as follows:

- (i) Any project of such magnitude (construction of a pre - planned city and requires 80,000 hectares) must surely get through the Council of Minister's meeting for approval. As such, you are wondering whether or not this project has obtained the blessings of either the C.O.M nor V.F.L.B
- (ii) You are not aware of any proper application document as yet apart from breif summary reports as part of the correspondences between the Company and the Deputy Prime Minister . These information has been used as the basis of the negotiations. It is very unprofessional approach to scrutinising any project proposal .
- (iii) If it is a genuine project, why is it that the Office of the Environment Unit was kept out of it while you have been working within the Big Bay area for over five years and understand the people and their culture more than any other organisation of the Government ? There is no Environmental Impact Assesment report that you are aware of up to date.
- (iv) Who has authorised the negotiations to proceed with the local people of Big Bay, Santo in the absence of a negotiator certificate from the Department/Ministry of Lands?
- (v) It would be interesting to know how much funds is being committed in the negotiations processes so far and where the money is coming from?

...2/...

"uuu-1"

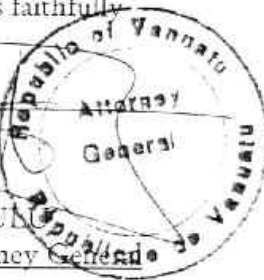
- 2 -

In view of the above and the way in which the project negotiations are handled so far, you are convinced that by now, this project is another scam coming in the name of the People of Vanuatu but benefiting few individuals within the system.

While I note your views, the State Law Office cannot make any comments until the parties concern convene to discuss the matter further. Essentially, may I suggest that a meeting has been scheduled for 13th October 1999 at 10.00 a.m at the Council of Minister's conference room. It is in all the parties interest to attend this meeting.

Yours faithfully

H. BUNU
Attorney General



- cc: Mr Stanley Temakon, Director General, Ministry of Natural Resources
: Mr Sumbe Antas, Director General, Ministry of Finance and Economic Management
: George Maniuri, Director-General, Ministry of Trade
: Mr Roy Micky Joy, Chairman of Vanuatu Foreign Investment Board
: Mr Lennox Vuti, Director, DESD
: Director General, Prime Minister's Office



body INVESTMENTS LTD.

APPENDIX "V"

COPY

Mondragon

4-6 Hataasiya St., TEL AVIV, 67138,

ISRAEL

FAX

Date: 12/10/99

Number of pages including cover sheet: 8

To:

MR. ROY WICKER, J.D.

Hon. Willie Jimmy Tapanga
Barro (MP)

Government of the Republic
of Vanuatu

Private Mail Bag 055,

Port Vila, Vanuatu

Phone: 00678-25674-22-770

Fax phone: 00678-25677-25-544

CC: 25-640

From:

Stefan Mandel

Phone: 972-3-624-2433

Fax phone: 972-3-624-2279

REMARKS:

☒ Urgent

☐ For your review

☐ Reply ASAP

☐ Please comment

Dear Willie,

It was good talking to you on the phone this morning. I am sending you attached the documents I mentioned to you, including the article (dated June 95) Mike is trying to use to torpedo the Santo development. Since this is the last time I intend to mention Mike's name, I shall only review briefly our relationship. I brought him to London, paid his & his wife's expenses because I thought it was fair, given that he was involved in the project since 1991 and not because I thought he could contribute much to the project. I was fully aware he was a bit of an "old woman" (I mentioned that to you several times) and that his wife was winding him up and I was familiar with his inconsistencies, vacillations and meager financial means. Frankly, I always thought of Mike as a harmless little old man who likes to talk a lot and likes to think of himself as a major "mover and shaker" in the world. I was even willing to overlook the dozens of phone calls in which he was going around in circles and saying nothing. I never took his suggestions to "forget about Santo and come to Fiji", too seriously, nor did I put too much weight on his ramblings about supporting some group that wants Santo to secede from Vanuatu. However my coin dropped when I made the connection between the latter and understood his motives. I must confess that I misjudged him and, most of all, I did not identify his main character trait: **he likes to dance on more than one wedding at a time.** This is not to my liking and certainly not my style and therefore I consider the Mike chapter closed. I hope you do too.

On another note, I have tried with little success to contact Roy (I also wanted to send him the same material) in order to remind him that I have still not received the list of the people in your delegation to Geneva on the 15th of this month and their itinerary, which will make it very difficult to have the Israeli Foreign Ministry issue a formal invitation to you to visit Israel and make the arrangements for hosting you. I shall try again calling him in a few hours, but if you could drop him a line and ask him to contact me, it may simplify the matter.

Finally, if you could instruct your people to send us the unaudited interim balance sheet for the first six months of 1999 for Air Vanuatu, we could, meanwhile, progress that project.

Sincerely,

Stefan Mandel



APPENDIX "VVV"

Mondragon

4-6 Hataasiya St., TEL AVIV, 67138,

ISRAEL

FAX

Date: 12/10/99

Number of pages including cover sheet:

1

To:

Allen

National Tourism Office

Phone: 013-678-22-685

Fax phone: 013-678-23-889

CC:

From:

Stefan Mandel

Phone: 972-3-624-2433

Fax phone: 972-3-624-2279

REMARKS:

☐ Urgent☐ For your review☒ Reply ASAP☐ Please comment

Dear Allen,


Pursuant to our telephone conversation of today I hereby wish to confirm that our company is involved in negotiations with the Vanuatu Government for the purchase of 49% of Air Vanuatu, the development of other projects on Espiritu Santo and the establishment of a Vanuatu Consulate in Israel.

As I intimated on the phone, The Deputy Prime Minister, The Hon. Willie Jimmy, has suggested that I contact Linda in order to obtain all promotional material on Vanuatu, be it publications or videocassettes.

I would greatly appreciate your assistance in providing us with the above mentioned material, at your earliest convenience, preferably via DHL (if possible).

Hoping this request is not too much of an imposition and looking forward to hearing from you.

Sincerely,


Stefan Mandel
Managing Director

APPENDIX "W"

Honourable J.R. Willie Jimmy

(Minister of Finance 1991 - Feb 1996)

Member of Parliament

P.O. Box 284.

Port Vila.

Republic of Vanuatu.

MR. STEFAN MANDEL,

7th December, 1999.

Dear Stefan,

Further to our tele-phone discussion last week, I wish to confirm that my group definitely needed some financial support in order to get us back in the government.

I have been elected the President of UMP in our recent Congress. The former President of UMP Mr. Serge Vhar was not happy with the defeat and had appealed to the Supreme Court to review the decision taken at UMP Congress.

I have also been elected as the Deputy leader of the Opposition by my group.

Stefan I have achieved the above posts Unanimously, only because of Trust and Confidence my supporters and colleagues Parliamentarians have upon me personally.

Honourable T.R. Willie Timmy

(Minister of Finance 1991 - Feb 1993)

Member of Parliament

P.O. Box 684.

Port Vila

Republic of Vanuatu.

Stefan, I now need to set my office as Deputy leader of Opposition and President of UMP in Port Vila and this will need funds to finance this office.

I will want to buy a Computer, photocopier install a phone, fax machine, stationery and a part time Secretary. By having an office, it will facilitate more opportunity to be able to meet other parliamentarian colleagues and try to convince them to join our side, so that we can get back to government as soon as possible.

Stefan, I have advance my status to take on Presidency of UMP, this is a great step forward for any politician. I now need your support immediately. I am prepared to discuss this further with you should you so wish.

However to save time, I suggest that if you wish to assist now as advised last week, you may wish to send funds by mail as bank draft or direct bank transfer to a nominated bank here in Port Vila, but I need the help immediately.

Yours faithfully

W. Timmy

GOUVERNEMENT
DE LA
REPUBLIQUE DE VANUATU

BUREAU DU
VICE PREMIER MINISTRE
MINISTRE DU COMMERCE
ET DU
DEVELOPPEMENT DES ENTREPRISES

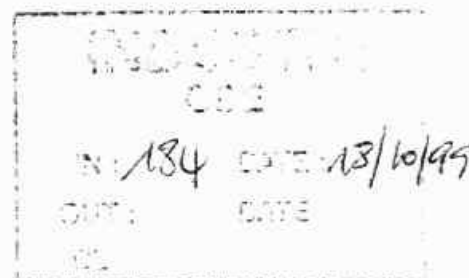


GOVERNMENT
OF THE
REPUBLIC OF VANUATU

OFFICE OF THE
DEPUTY PRIME MINISTER
MINISTER OF TRADE
AND
BUSINESS DEVELOPMENT

14th October, 1999

Hon. Donald KALPOKAS MASIKE-VANUA
Prime Minister
Prime Minister's Office
PMB 043
PORT VILA



Dear Hon. Prime Minister,

Re: CODY INVESTMENTS LTD. - THE CODY MONDRAGON
GROUP/ERNEST BANI - HEAD OF ENVIRONMENT UNIT

I am deeply concerned with the letter addressed to you by the Head of ENVIRONMENT UNIT MR. ERNEST BANI dated 7/10/99 concerning the investment proposals contained in my report to you which have not yet been considered by the Council of Minister.

Hon. Prime Minister, as Minister responsible for the Foreign Investment Board, and Business Development for the Republic of Vanuatu, I request Mr. Ernest Bani to prove his allegation that this project is another SCAM coming in the name of the people of Vanuatu.

Lets say if Mr. Ernest Bani puts himself in the position as a Foreign Investor, interested to invest in Vanuatu and all of a sudden received such letter by the Head of a Government Department, how would he feel because there was not yet even a project being submitted and approved either by the VFIB or COM that had not taken into account the environmental impact, such project would have on the society etc.

This type of letter is insulting to Foreign Investors and will not in any way assist the government to carry out its economic development policies. The Government must be committed to facilitate suitable climatic conditions to attract Foreign Investment. Mr. Bani made his remarks too early infact, in advance of the COM's decision. Mr. Bani should make his comments on project by project basis, on the condition, that the particular project if established would have adverse impact on the environment.

He cannot make general remarks on Environmental Issues on projects, when he does not have any details of such projects to ascertain its effect on the society etc.

If this attitude continues, it will quickly destroy the work of the VFIB and Investors will turn away from Vanuatu to invest elsewhere.

Yours faithfully,



Hon. Willie JIMMY TAPANAGA HARUA (MP)

Deputy Prime Minister and
Minister of Trade, Tourism and Business Development

- cc:
- : Hon. Clement Leo, Minister of Foreign Affairs
 - : Hon. John Morsen Willie, Minister of Natural Resources
 - : Hon. Sela Molisa, Minister of Finance & Economic Management
 - : Mr. Hamlison Bulu, Attorney General
 - : Mr. Roy M. Joy, Chairman of VFIB
 - : Mr. Lennox Vuti, Director DESD
 - : Director General, PM's Office
 - : Director General, Ministry of Natural Resources





DEPARTMENT OF TRADE, INDUSTRY AND INVESTMENT

SERVICE DU COMMERCE, DE L'INDUSTRIE ET
DE L'INVESTISSEMENT

Port Vila : P.M.B. 030 - Telephone : (678) 22770 - Fax : (678) 25640

Santo : P.O. Box 230 - Telephone/Fax : (678) 36046



APPENDIX "X"

COPY

Mr. William Tari
First Political Advisor
Ministry of Foreign Affairs
VNPF Complex
Port Vila

Our ref: TII/ 200/ 265/99

17TH December, 1999

Re: Proposed Cody/ Mondragon Investments- Big-Bay Area, Santo.

I refer you to our brief discussion we had this morning on the above captioned matter pertaining to the proposed Investment and the establishment of a Free Trade Zone facility in the Big-Bay Area in Santo.

The attached Document and the contents therein was amongst a number of issues discussed and agreed upon in London this year when the Former Deputy Prime Minister was invited by the Cody/Mondragon Group to undertake this consultations.

As transpired in London, a Memorandum of Agreement was signed between the Hon. Willie Jimmy TAPANGA-RARUA on behalf of the Government of Vanuatu and Lord Keyes and Mr. Stefan Mandel on behalf and representing the Cody/ Mondragon Investment Group.

The Memorandum of Agreement (MOU) was further Submitted to the then Council of Ministers by the Former Deputy Prime Minister where a collective decision was taken to consider and approve the proposed Investment undertaking in the Republic of Vanuatu.

In view of accelerating the proposed project in Vanuatu and in order to keep the Hon. Foreign Minister abreast of the developments as such, I would like to draw your attention to the COM Recommendation 2 which stipulates that "the COM would consider and decide on the candidate to be appointed as Honorary Consul of Vanuatu in Israel and where they further accept the offer that the CodyMondragon Group fund the establishment of a Vanuatu Embassy in Brussels and request that the Minister responsible for Foreign Affairs to prepare the appropriate budgetary provisions for the consideration of the Council of Ministers".

The issue of appointing a Vanuatu Honorary Consul in Israel has been agreed in principle by the Council of Ministers and which to my opinion should be considered for implementation immediately by the Hon. Minister of Foreign Affairs prior to embarking on the other aspects of the proposed substantial investments proper.

100

"X-1"

By copy of this note, I would appreciate if you can ensure that the Hon. Foreign Minister is provided adequate brief and understanding in view of facilitating the said appointment without further delay.

You will find the attached document which was sent to the Former DPM but was not facilitated in time regarding the nomination of Major General Daniel Rothschild as the proposed candidate for the Vanuatu Honorary Consul to be based in Tel Aviv, Israel and

would seek your usual assistance and support to have the Diplomatic Note to the Israeli Government in formalizing the appointment.

Should you require more information in this regard, I suggest you consult the Hon. Attorney General at the State Law Office to clarify and assist you in this important endeavour.

I thank you for your assistance and co-operation in this regard.

Yours Sincerely



Roy Mickey JOY
Director of Trade, Industry and Investment.

cc- Hon. Hamlison BULU
Attorney-General

- Mr. Georges MANIURI
Director General of Trade and Business Development



APPENDIX "X"



31 January 2000

Honorable Serge VOHOR (MP)
Minista blong Foren Afeas
Vanuatu Gavman
Port-Vila

Dia Hon. Minista,

- Decision 349: Apoenmen blong Honorary Konsul blong Hong-Kong
- Decision 350: Apoenmen blong Honorary Konsul blong Israel
- Decision 351: Apoenmen blong Honorary Konsul blong London
- Decision 352: Apoenmen blong Honorary Konsul blong Franis
- Decision 353: Apoenmen blong Konsul Jenerol blong Nouméa

Kaonsel blong Minista ibin kat Namba 75 Extraodineri Miting blong hem long 28 Januari 2000.

Long taem ia, Kaonsel iapruvum fulwan ol decisen antap ia wetem ol toktok ia:

- Honorary Konsul blong HongKong hemi Mr LANDOW HUNG-TIP LEE,
- Honorary Konsul blong Israel hemi Major General Daniel ROTHSHILD
- Honorary Konsul blong London hemi Dr HUNG-KEE CHEN
- Honorary Konsul blong Franis hemi Mr Michel RITIE
- Konsul Jenerol blong Nouméa hemi Mr Noel TABIUSU.

Tankio



Derek ALEXANDER
AKTING SEKRETERI JENEROL

(Saen long bihav blong Mrs N Alatoa we istap ovasi)

APPENDIX "Z"

COPY

31 March 2000

**VFIB
APPLICATION
FORM**

Foreign Investment Act No. 15 of 1998

This application form must be accompanied with a fee of VT5,625 and must be made payable by **cheque** to VFIB. This fee is **not refundable**.

The application form comprises of 9 pages.

"Incomplete Application will be Returned"

VANUATU FOREIGN INVESTMENT BOARD

"Z-1"

SECTION 1

GENERAL

1. Proposed Company / Business Name

Mondragon Co-operative Corporation Ltd.

1.2 Name(s) and address(es) of investor(s)

Economic Development Corporation Ltd. (EDCI)

4 Hata'asya St., Tel Aviv, 67138 ISRAEL.

Telephone: + 972 3 6242433

Facsimile: + 972 3 6242279

Name and designation of contact person: Stefan Mandel

Telephone: + 972 3 6242433

Facsimile: + 972 3 6242279

The intended full address of project site:

Big Bay Bush and Big Bay coast, Espiritu Santo Island. (see attached documents)

- 1.3 Does the applicant have other business(s) beyond Vanuatu that is relevant to this application?**
NO.

2. What is the intended form of business?

A	Company Incorporate in Vanuatu	Tick
(I)	Local company limited by shares	
(ii)	Company limited by guarantee	√
B	Business Name	
(i)	Partnership	√
(ii)	Sole proprietorship	
C	Overseas Company	√
D	Other (Specify)	

3. Specify shareholding structure

Full Name as on Passport or Birth Certificate	Nationality as on Passport	% shares
~ 1,000 members	Mostly Israelis	81.2 %

*** Represented by the corporation CEO – General (ret.) David AGMON.**

" Z-2 "

4. Which Sector do you wish to invest in:

Agriculture	√
Aquaculture	√
Education / Health Services	
Fisheries	√
Financial & Consultancy services (<i>Offshore</i>)	√
Forestry	√
Manufacturing	
Real estate (<i>Engineering, Construction</i>)	√
Shipping	
Tourism	√
Wholesale / Retail (<i>Export & Market local products</i>)	√
Professional Services (<i>Telecommunication, Internet, Hi-tech.</i>)	√
Other (<i>Transportation, Exploration.</i>)	√

Please be specific as this will assist to determine Business License Category you may require.

5. Project description and or processes.

Provide a short and concise description of the project:

Development of a Free Trade Zone in the area designed for, by the Government of Vanuatu, and described in the map attached to the Leasing Agreement attached below. (*see attached documents*)

A detailed project Proposal or Business Plan **must** be attached to this application.

6. Assistance sought from VFIB: (Indicate).

	Tick	* How many	Please complete
Approval of project	√		
Residence permits *	√	2	Q 11
Work permits *	√	2	Q 12
Business license	√		Q 13
Other (Provide details)			

* For the first stage of Project Planning .

"Z-3"

Section 2 COMPANY STRUCTURE

This section is only applicable to Companies.

7. Financial structure - Authorised Capital - *Worldwide*

	Local (Vt.)	Foreign (Vt.)
Issued capital		
Paid up equity		
i) Cash		208,000,000
ii) In kind		975,000,000
Loan capital		
i) Source – <i>United Fidelity Corporation</i>	390,000,000	
ii) Term – <i>Two years</i>		
iii) Rate of interest/ Repayment arrangement		9 %

8. Directors

Full Name	Country of residence/ domicile	Nationality	Qualifications
<i>* See attached list of the Mondragon Board of Directors</i>			

If a shareholder is a company, give the company name and its full registered address, the names and details of its shareholders and directors, and the total percentage of shareholding held by non-residents of Vanuatu.

9. Investment costs.

	Local (Vt.)	Overseas (Vt.)	Total Outlay (VT)
Land and buildings	650,000,000 (5M\$)		650,000,000 (5M\$)
Plant and equipment	130,000,000 (1M\$)	260,000,000 (2M\$)	390,000,000 (3M\$)
Vehicles and furniture	26,000,000 (200K\$)	39,000,000 (300K\$)	65,000,000 (500K\$)
Engineering and installation costs	130,000,000 (1M\$)	130,000,000 (1M\$)	260,000,000 (2M\$)
Others	260,000,000 (2M\$)		260,000,000 (2M\$)
Working Capital	130,000,000 (1M\$)	130,000,000 (1M\$)	260,000,000 (2M\$)
Total Investment Costs	1,326,000,000 (10.2M\$)	539,000,000 (4.3M\$)	1,865,000,000 (14.5M\$)

Cash flow /profitability projection for three years must be attached separately.

"Z-4"

10. Estimated Annual Revenues.

		Year 1	Year 2	Year 3	Average
(a)	Export earnings	None	None	None	
(b)	Domestic sales	None	None	None	

11. Employment (numbers)*.

* This should not include actual investor(s).

	Year 1		Year 2		Year 3		Average in year	
	Local	Foreign	Local	Foreign	Local	Foreign	Local	Foreign
Management	1	1	2	1	5	1	3	1
Skilled	2		10	1	20	2	10	1
Non-skilled	7		18		55		27	

12. Residence Permit Requirements.

Value of investment	Number of years	Tick
a. Vt. 5,000,000	5 years	
b. Vt. 50,000,000	10 years	
c. Vt. 100,000,000	15 years	√

- Attach separately-
- 1/ value of bank deposits together with bank references and value of assets to be used for investment.
 - 2/ Investor (s) must provide particulars of their passports.

13. Work Permit requirement (Investor[s] do not require Work Permits)

Figure (s) must be the same as in Section 1, [6]

No	Position	Description of skills	Starting date
1	Manager	Project Manager	November 1 st , 2000
2	Engineer	Management & Industry Engineer	January 1 st , 2001

- Attach -
1. A clear **Training Plan** for Vanuatu citizens must be attached.
 2. Full details of position, reasons why and when the position (s) is expected to be localized.

"Z-5"

14. Capital goods to be imported.

Description	Value (Vt.)
Not yet defined	
Total	

15. Raw materials to be used (Indicate if any is hazardous)

Type(s)	Description
Not yet defined	

SECTION 3.

LAND USE, PLANNING AND ENVIRONMENTAL CONSIDERATIONS

16. Have you secured your land lease?

Yes

17. If No, do you want assistance from the Board to secure land lease?
(Yes/No). If Yes, in what ways?

18. Existing zoning (tick)

Zone	Tick
Residential	<input type="checkbox"/>
Commercial	<input type="checkbox"/>
Industrial	<input type="checkbox"/>
Tourism/Service	<input type="checkbox"/>
Other (provide specify details) - <i>Agricultural</i>	<input type="checkbox"/>

"Z-6"

19. Describe the impact on environment (if any)

None

SECTION 4 MANAGEMENT, CONTROL AND CO-ORDINATION

20. Would the business be managed by owner/other?

If other, state:

By members of the Mondragon Group

21. Has an external auditor/ accountant been appointed? If yes, name and address.

Yes, not yet appointed

22. Name and Address of your local Banker(s)

Not yet appointed

23. (i) Have the proposed owners, directors, or managers of the company been involved in any company which went into liquidation within the last 5 years. If so, please supply details

No

(ii) Have the proposed owners, directors, or managers of the company been declared bankrupt within the last 5 years. If so, please supply details

No

24. All applicants must sign a separate Statutory Declaration stating whether or not they have been convicted of any serious offence. If yes, they are required to provide full details of such offence(s) and conviction(s).

Please tick off this checklist before signing the Statutory Declaration on page 9, as this will determine whether you have fully completed your Application.

"Z-7"

Checklist on additional attachments

<i>Have you attached the following?</i>		<i>Refer to Question (s)</i>	tick
1	A fee of VT5,625 payable by cheque	front Page	√
2	If other, attach specific details	Q2	
3	A detailed Project Proposal or Business Plan of the project	Q5	√
4	Cash flow/profitable projection for three years	Q9	√
5	Value of bank deposits together with bank references	Q12	√
6	Investors (s) must provide particulars of their passports	Q12	
7	A clear training plan for Vanuatu citizens.	Q13	
8	Full details of position, reasons why and when is the position(s) to be localized.	Q13	
9	Supply details of liquidation and bankruptcy (if applicable)	Q23	
10	Supply details of serious offences, including tax evasion (if committed)	Q24	
11	Sign the statutory Declaration	Page 9	√

!! Incomplete Application will be Returned !!

STATUTORY DECLARATION

" Z-8 "

I/We the undersigned, being duly authorised, hereby certify to the best of my/our knowledge and belief, that the information contained in this application form is correct and complete. We also authorise VFIB to carry out due diligence on me/us including credit checks from my/our bank.

I/we understand that the provision of false information is an offence and where a body corporate is guilty of an offence and that offence is proved to have been committed with the connivance of, or attributable to the neglect on the part of a director, manager, secretary, or other officer or any person purporting to act in any such capacity, that person as well as the body corporate will be liable for prosecution.

Name of Investor/Company/business name


Economic Development Corporation Israel Ltd.

Mondragon Co-operative Corporation Ltd.

Signed at : Port Vila, Vanuatu

this: 26th day of July, 2000

Name: David AGMON, CEO

Signature: 

Witness: Jacob HARKAVY, Adv.

Signature: 

Address: 40 Ibn Gvirol St. Tel Aviv 64364. ISRAEL

Complete form and send to:

VANUATU FOREIGN INVESTMENT BOARD

PMB 030, PORT VILA

Vanuatu

Phone: (678) 22770 Fax: (678) 25640



MONDRAGON
1111111111

"2-9"

A Paradise in the Pacific

Economic and Social Strength in Israel

The government of Vanuatu awarded the Israeli Mondragon group a broad permit for the establishment of a free trade zone within an area of 800 km² situated on one of the magical islands of this archipelago which is located in the South Pacific Ocean, east of Australia. The Israeli group in conjunction with entrepreneurs from around the world is planning to transform the island into an international business and tourism center, and to introduce high technology and the most modern and advanced agricultural techniques.

5,000 people per continent can still avail themselves of a unique opportunity that will enable them to take part in this new economic and social experiment. The main characteristics of this new initiative will be the synergy between participation in private entrepreneurial projects featuring the most equitable form of profit sharing and ownership of private land in an extraordinarily beautiful location, all this in consideration of a very modest investment.

There are very few virgin territories left on Earth that have not already been commercialized that can capture the romantic heart and give one the feeling of paradise. One such place is Vanuatu, an archipelago in the South Pacific Ocean, where only till recently its 185,000 inhabitants lived as their forefathers did. Those very same inhabitants were immortalized by Paul Gauguin's paintbrush and by James Mitchner, the best selling author of "south pacific", who discovered the enchantment of this place during WWII while serving on the large military base the Americans set up there. His stories of the South Pacific were later turned into a musical and the movie of the same name that was filmed on the island of Espiritu Santo. The Mondragon Group's concession extends over one fifth of the area of this very same island.

Remnants of the American base include an infrastructure that could be used in the development projects the Israeli Mondragon Group intends to pursue, which revolve around building an international business, financial and high technology center resembling Hong Kong, with the added advantage of natural resources, scenery and wilderness. These natural resources will serve as a starting point for the development of tourism, fishing and advanced agriculture.

From Spain via Israel to the Pacific

This socio-economic model was the brainchild of a Spanish priest Fr. Jose Maria Arrizmendiarieta and was created as a co-operative model, functioning successfully since 1956 in the town of Mondragon (where it borrowed its name from), in the Basque region in Northern Spain.

What used to be a tiny, impoverished village 44 years ago is now a bustling town of 55,000 inhabitants, featuring a cluster of 170 co-operatives involved in banking, industry, trade, agriculture, etcetera, all under the umbrella of the Mondragon Co-Operative Corporation. Arrizmendiarieta envisaged and developed a co-operative community whose members share in its capital and retain the right of full involvement in all the decisions that affect their own lives and interests.

Today, the capital value of the Mondragon co-operative in Spain is estimated to be 15 billion dollars, its volume of business in 1998 amounted to 8.5 billion dollars and last year its members shared among themselves an amount of 1.5 billion dollars in dividends. The co-operative provides its members with employment and social services, schools, a university, hospitals, retirement homes, cultural institutions, banks and research labs. The idea was also adopted in Japan by a wide assortment of different co-operatives, the largest and most recognized of them being "Keratzu".

The Mondragon socio-economic model captured the imagination of Stefan Mandel, the entrepreneur who brought the idea to Israel three years ago together with the land lease rights in Vanuatu, through the vehicle of CODY Investments Ltd.

On the basis of Mr. Mandel's long relationship with the successive governments of the Republic of Vanuatu, he was requested to assemble a group of investors that would help Vanuatu develop its islands and help them meet the challenge of the 21st century. Upon Mr. Mandel's recommendation, the government embraced with warmth the idea of creating a modern version of the Mondragon model in Vanuatu.

Paradise in the Global Village

Vanuatu is an archipelago situated in an area of the Pacific called the Paradise Triangle, which extends over more than 200 islands 83 of which are inhabited, comprising a total land area of 14,000 km². The country gained its independence from a joint mandate of France and England in 1980, and became a member of the UN and the British Commonwealth in 1981. Vanuatu's beauty, its abundance of sweet water, fish, tropical forests, volcanoes and magnificent scenery, as well as its small airports, marinas, yacht clubs and hotels, make it a tremendous tourist destination.

On the other hand, Vanuatu's economy, based mainly on timber exploration, fishing, copra, tourism and off-shore banking, generates an average annual income per family of only \$1,300 which does not enable it to sustain the necessary development that would translate its potential into reality.

The people of Vanuatu have long been aware of the country's potential as an international financial center and an exotic tourist destination. They have been seeking to attract foreign investment that would enable them to develop the infrastructure required to build and upgrade the leisure, sport and golf facilities. The latter particularly designated to attract Japanese tourists who are currently flocking to Australia. Simultaneously, they plan to enhance the local

economy by introducing advanced technology, agriculture and marine agriculture, while taking advantage of its tropical location. Within the same context, Vanuatu aims to upgrade the current off-shore environment to being a fully-fledged international financial center with the very latest communication facilities.

The Agreement of the Millennium

Cody Investment Ltd. has transferred all its rights in Vanuatu to the Israeli Mondragon Group. On July 22, 1999 the government of Vanuatu, represented by the then deputy Prime Minister and Minister of trade Mr. Willie Jimmy Tapanga Rarua signed a Memorandum of Understanding in the House of Lords, with the Cody-Mondragon Group represented by Lord Keyes of Zeebrugge and Dover and Mr. Stefan Mandel, which was subsequently approved by The Council of Ministers of the Republic of Vanuatu. The Prime Minister of Vanuatu, Mr. Barak Tome Sope Mautamata, confirmed this in a letter to the Minister of Foreign Affairs of Israel, Mr. David Levi:

"...we wish to confirm that the Hon. Willie Jimmy Tapanga Rarua (MP), formerly Deputy Prime Minister of Vanuatu and Minister of Trade and Business Development in the then Government Administration together with Lord Keyes signed an MOU (Memorandum of Understanding) between the Vanuatu Government and the Cody/Mondragon Group, on the 22nd July 1999 in London. This MOU was subsequently considered and equally approved by the Vanuatu Council of Ministers, the most supreme and highest decision making body in the republic, as a framework on which the proposed Cody-Mondragon Group activities and investment plans will be implemented of course over years and within certain time frame.

I wish to further state that the signing of the MOU is a clear manifestation of our interests to collaborate with your Companies and Investors in realizing major investments projects that stands to emanate from the healthy diplomatic and bilateral relations we continue to have and share with the Government and people of Israel..."

The agreement with the Vanuatu Government consists of:

- Leasing agreement over an area of 80,000 hectares designated as a Free Trade Zone.
- Fishing rights in Vanuatu's territorial waters (approx. 227,000 sq. km.).
- The right to grant business franchises in the leased area.
- The option to purchase **49%** of **Air Vanuatu** (Vanuatu's National Airline).
- Exclusive rights to Vanuatu's **Internet** suffix "**VU**".
- The right to establish consulates for the Republic of **Vanuatu**, all over the world.

The future environment – a socio-economic experiment

The guiding philosophy that was the foundation in the establishment of the Mondragon Co-Operative Society in Israel consists of the same elements that formed the underlying principles that set in motion the establishment of Mondragon in Spain. The driving force behind the process was the sobering realization that the individual's socio-economic needs and his/her craving for social and financial security are no longer satisfied by the rapidly changing world around him. In order to narrow this growing gap, new and daring changes need to occur in our traditional way of thinking. This is the nucleus from which the idea blossomed to create a large business community with thousands of members each of whom contributes a manageable amount of capital to the collective pool, instead of allowing a small number of rich people to control the international economic and financial system.

Our aim is to create a socio-economic entity equipped with the most modern tools that will enable it to cope with and influence our future living environment and adapt it to the rapidly changing world that surrounds us. This will only be possible if we become aware of the degree of alienation that has befallen the individual in this unfriendly and rapidly changing world, understand its severity and decide to act by creating a system that will encompass the tremendous achievements of the technology of the new era, while at the same time paying great attention to positioning the individual in a safe and secure socio-economic environment, where all their needs are met, allowing them to develop and realize their full human potential and function as a productive contributor in the new society.

To that end The Society intends to provide its members with an array of services, including: health, education, a consumer club, a social-cultural club, as well as create employment opportunities through The Society's businesses in which first preference will be granted to members.

The Social aspects

- Building a social system that will support Health education and welfare.
- Forming a consumer purchasing force within a consumer club.
- Integrating the members in a social cultural club.
- Maintaining the principle of equality "one person one vote".
- Providing employment in the co-operative's businesses with priority to members.

The Business aspects

- Raising funds and investing in the areas of finance, high technology, tourism and advanced agriculture.
- Creating a financial economic force based on a large number of members.
- Developing a free trade zone as an international business and tourism center.
- Encouraging private initiative within the business club.
- Granting ownership of private land
- Annual profit sharing.

Business Class

To implement the project The Society is recruiting to its ranks members from all around the world. Each new member receives 3 shares (held in trust for him by The Society) in the Investment Company, E.D.C.I. Ltd., which will hold 67,500 hectares in the future free trade zone and all the rights in Vanuatu. These shares will define the member's partnership in The Society's business, a proportional share of the dividends distributed. In addition, upon completion of the agreement with the land owners and the subsequent parcelation, the member will receive 0.3 hectares of land for private use.

The Society's method of recruitment is based on the referral system, not unlike the one used by the Hi-Tech companies. The person who refers new members will receive a bonus of 1 share and 0.1 hectare of land (under the conditions described in the above paragraph) for each new member registered. To date, 900 members from across the spectrum of the Israeli society, including a large number of lawyers, accountants, economists, bankers, businessmen, artists and others have joined The Society.

The Society's marketing personnel conducts detailed presentation seminars on the Mondragon philosophy and the Vanuatu dream, at its offices at 4 Hataasiya St. Tel-Aviv; Israel.

Parallel to recruitment, The Society is in the process of preparing a blue print for the Free Trade Zone, featuring high technology, insurance and finance and other business ventures, creating the framework for the formation of business relationships with institutions and private entrepreneurs alike.

Consulates

The Mondragon Co-Operative Society is preparing for the opening of the Vanuatu Consulate in Tel Aviv, Israel. The Honorary Consul (approved by both governments) is Ret. Gen. Daniel Rothschild. Further openings of consulates are contemplated in Brussels (Belgium) and Michigan (USA).

Member's Rights and Benefits

1. Membership in the Mondragon Co-operative Society. Three (3) dunam of private land (0.3 hectare) in the residential area, under the conditions described above.
2. Three (3) shares in E.D.C.I. (The Society's investment arm), held in trust by The Society on the member's behalf.
3. Participate in all The Society's business activities and share in the profits, in accordance with their holdings.

The first 1,000 members to register will be entitled to a founder's bonus of an additional share and an additional dunam (0.1 hectare) of land.

The drive behind joining the Mondragon society was well illustrated by the Author Painter Yair Garboz "It's an opportunity to purchase a valuable asset inexpensively, and if the project is a success, its value will increase and in such a case I will be able to purchase apartments for my children. There are not too many jungles available for lease, and if it can be transformed to a free trade zone then it is worth while to try".

The Management Structure

The General Assembly - All The Society's Members

(Appoints The Board of Governors and other Boards)

The Board of Governors

(Appoints The Executive Management, Internal Auditor/Accountants, Legal Advisor and approves the business plan and budget)

Eliyahu-Adi Cohen (chairman)	CEO.
Dr. Gideon Ben-Dror	Former Deputy General Manager - Construction & Development, Ministry of Education
Yair Gilad	Former Deputy General Manager - Visa Credit Card of Israel.
Prof. Yoseph Ben-Dak	Senior Advisor to the U.N.
Tal Ronen	Strategic Advisor.
Rami Einav	CEO - Matam.
Ruth Roi-Weinstein	CEO.
Alex Ackerman	Research Engineer - Agriculture Volcany Institute.
David Lieberman	Industrialist Owner Manager - Radad.
Ilan Segal	Architect - Oren architecture and interior design.
Haim Mandel	Manager - Computer Services Department, Tel-Aviv University.
Dan Arussy	Head of Operations - Information Systems Department, Tel-Aviv University.
Rafael Alscheter	Manager - Electronics company.
Eli Mandel	Network Manager - AIG.
Niky Klipper	CEO - Nyk-EL.

Investment Committee

- The Society's Accountant.
- The Society's CFO.
- CEO of an Assets Management Co.

Internal Auditing Committee

- Avi Abramovicz - Accountant
- Menahem Kupperstein - Accountant
- Uri Cohen - CEO

The Executive Management

The Society is managed by a team of professionals, in accordance with modern management guidelines and subject to The Society's Charter and auditing rules.

Chairman of the Board of Governors	- Adi Cohen
Secretary General	- Ret. Gen. David Agmon
Chief Financial Officer	- Gideon Amihod
Marketing Manager	- Avi Edelman
Assist. Marketing Manager	- Gila Rafiah
Computerized System Consultant	- Eyal Ilisar
Secretary	- Liz Weinshtein

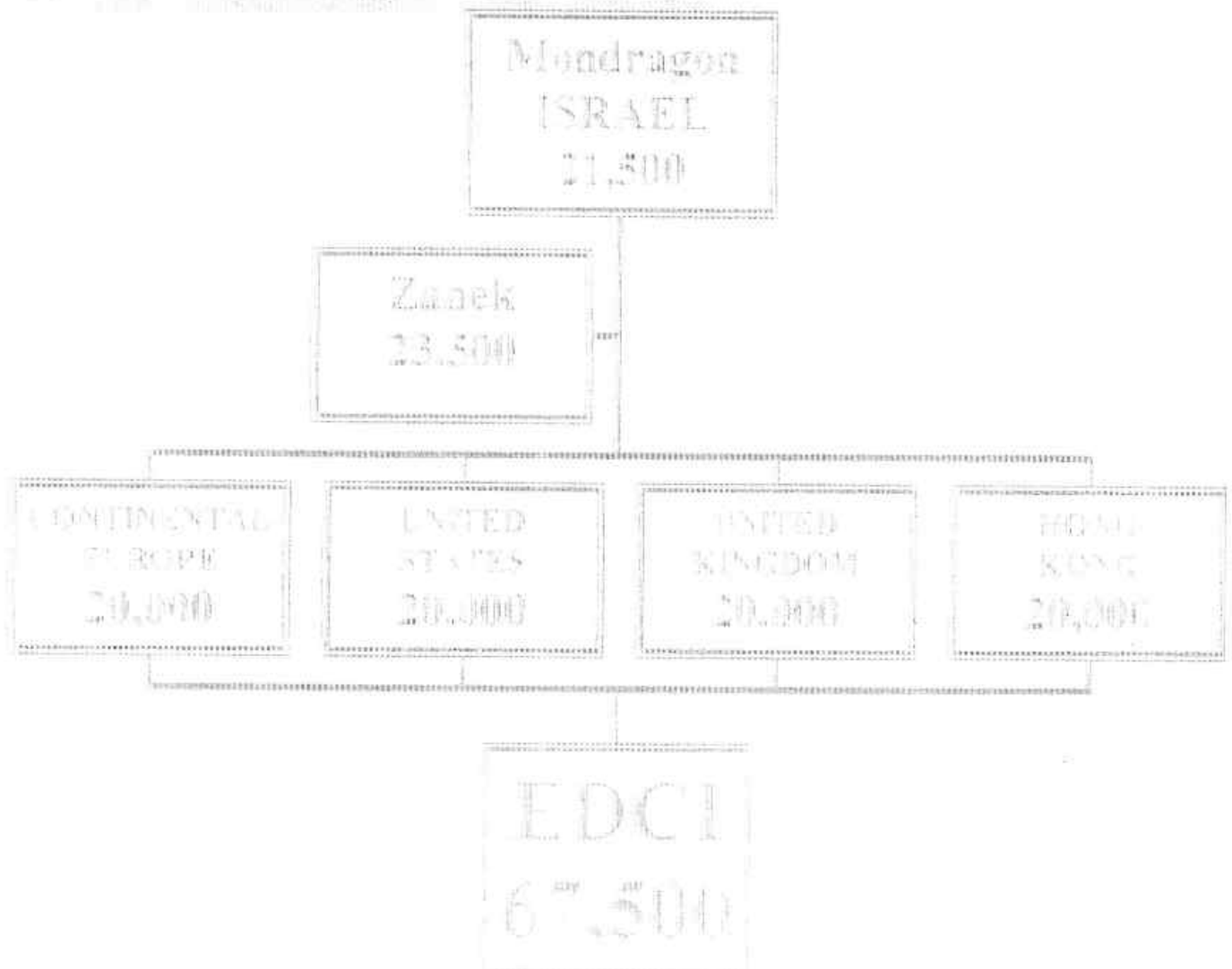
Supervisory Committee: Israel Basson - Accountant and Ya'akov Harkavi - Advocate



MONDRAGON
י.י.י.י.י.י.י.י.י.י.

"Z-15"

Group Structure



Wednesday, July 26, 2000

11



Total	Dinn	Amex	visa	Isra
173,198	5,385	10,848	108,345	48,818
489,113	20,769	8,778	428,335	31,231
36,830		8,465		30,365
36,446		8,465		29,981
38,021		8,465		29,557
35,635		8,465		29,171
35,635		8,465		29,171
34,832		5,662		29,171
17,273		1,913		15,360
8,202		1,172		7,030
5,892		791		5,101
4,318		395		3,923

Discount bank

current account balance

1

us\$ account balance

2

Deposit account

3

Deposit account

us\$ deposit account

2

Cheques for collection balance

3

United Mizrahi bank

trust account

7

Hapoalim

trust account

9

1,395,353

* all figures in NIS

EDCI - Business Plan

Year		2000				2001				2002			
Month	Factor	3	6	9	12	3	6	9	12	3	6	9	
Members	1.1	150	379	1,118	1,823	3,007	1,890						
Cumulative	520	790	1,665	4,195	8,880	16,580	23,684	25,000	25,000	25,000	25,000	25,000	25,000
Income													
Israel		64,800	181,975	346,153	705,350	1,461,555	1,518,450	1,336,500	1,098,000	514,500			
United States			150,000	416,950	1,050,600	3,329,255	3,507,900	3,187,400	2,796,280	1,291,000			
Hong Kong				155,250	450,925	1,381,000	6,214,540	3,157,090	3,099,125	2,459,720	122,400		
United Kingdom				150,000	520,900	1,513,000	4,584,765	4,013,700	3,749,840	3,070,990	1,291,000		
Belgium (Europe)					389,250	1,104,735	3,725,210	6,735,750	4,204,800	3,717,150	2,312,800	-27,440	
members fees	\$15		24,975	62,925	133,200	248,700	355,260	375,000	375,000	375,000	375,000	375,000	375,000
Monthly flow		64,800	356,950	1,131,278	3,250,225	9,038,245	19,906,125	18,805,440	15,323,045	11,428,360	4,101,200	347,560	
Cumulative income		81,300	629,275	3,042,010	10,666,675	30,617,873	82,306,513	147,261,518	194,500,818	233,661,728	253,061,798	255,647,878	
Expenses													
Operating Budget	1.05	26,250	30,370	35,140	40,660	47,060	54,470	63,040	72,960	84,450	97,750	113,140	
Insurance	\$4	1,080	4,580	14,700	33,440	64,240	92,656	97,920	97,920	96,840	93,340	83,220	
Marketing	\$50	7,500	18,950	55,900	91,150	150,350	94,500						
Members relations	\$10	7,900	16,650	41,950	88,800	165,800	236,840	250,000	250,000	250,000	250,000	250,000	
Z.N.K	\$120			171,084	255,684	397,764	263,724						
CODY	\$2				125,000	125,000							
Total		42,730	70,550	318,774	634,734	950,214	742,190	410,960	420,880	431,290	441,090	446,360	
Unforeseen	5%	2,137	3,528	15,939	31,737	47,511	37,110	20,548	21,044	21,565	22,055	22,318	
Financing cost	5%	2,137	3,528	15,939	31,737	47,511	37,110	20,548	21,044	21,565	22,055	22,318	
Total Expenses		47,003	77,605	350,651	698,207	1,045,235	816,409	452,056	462,968	474,419	485,199	490,996	
Cumulative expenses		88,671	285,630	863,271	2,587,543	5,337,189	9,020,946	10,610,453	11,988,093	13,400,141	14,845,426	16,314,417	
Cash-flow													
Monthly Cash-flow		17,797	279,345	780,626	2,552,018	7,993,010	19,089,716	18,353,384	14,860,077	10,953,941	3,616,001	-143,436	
Cumulative capital		7,374	343,645	2,178,739	8,079,132	25,280,684	73,285,567	136,651,065	182,512,725	220,261,587	238,216,371	239,333,461	

Howard Aru

From: bernadette.carew@dublin.idi.ie
Sent: Thursday, April 06, 2000 9:00 PM
To: cdi@vanuatu.com.vu
Subject: RE: Strategic Inv Promotion training - V

Dear Howard

Thank you for your email received this morning. The programme fee which includes accommodation, per diem allowance, tuition, documentation, study tours and local travel is \$5,500 US Dollars. You should apply to all the Agencies i.e. World Bank as well as UNDP/UNIDO. I look forward to hearing from you again. I will be in London next week from Tuesday 11th April with the present training group on Strategic Planning and Marketing. I will return to the office on 17th April

Best personal regards

BERNADETTE CAREW
TRAINING MANAGER

Dear Howard

Further to my email earlier this morning, I have spoken to Mr Kulur, UNIDO Vienna and I mentioned your application. He said that UNIDO do not have Projects in Vanuatu but that there is Australian Bi-Lateral funding in your country. You should determine where the Australian Embassy is and check this out without delay. Let me know how you get on.

BERNADETTE



GOVERNMENT OF THE REPUBLIC OF VANUATU
GOUVERNEMENT DE LA REPUBLIQUE DE VANUATU



VANUATU FOREIGN INVESTMENT BOARD

Private Mail Bag 030
PORT VILA, Vanuatu

Telephone : (678) 22770
Facsimile : (678) 25640

check with Derek - Ticket/etc..

11 April 2000

Our ref: VFIB/201/2/75/00

Mr. Derek ALEXANDER
Acting Director General
Office of the Prime Minister
Port Vila

Dear Mr. Alexander

GOVERNMENT FUNDING SUPPORT
VFIB Acting CEO to attend
STRATEGIC INVESTMENT PROMOTION PROGRAMME
Dublin, Ireland : 19th - 30th June 2000

The VFIB has reached a stage today where the intentions of CRP through the Foreign Investment Act No.15 of 1998, has in a big way been achieved.

Foreign Direct Investment (FDI) is becoming increasingly competitive. Vanuatu, as such, should be seen to remain competitive in all respects as the government (through the Ministry of Trade & Business Development and VFIB) continues to foster the key CRP initiative of facilitating "private sector-led growth" in the country.

The above-mentioned training program is designed to equip Investment Promotion Agencies (IPAs) like VFIB with some key tools and practical skills required to attract and retain FDI in the country in the modern competitive climate.

The training, which will last for two (2) solid weeks (19-30 June), will consist of various key aspects of investment promotion most suited to the need of Vanuatu's young IPA. Most specifically in strengthening the Secretariat's human resource capacity with respect to facilitating the roles and functions of the VFIB board proper.

This letter serves to request your office's recognition and funding support to cater for the participation of VFIB's Acting CEO, Mr. Howard Aru at the training program.

"B1-1"

6/10

The cost details would be as follows:

1)	Return air ticket (economy class: Vila/Ireland/Vila):	=	Vt. 271,200
2)	Program Fee (includes accommodation, per diem allowance, tuition, documentation, study tours & local travel) is IR£4,500 = \$5,500 US Dollars	=	+/- Vt. 715,000
	<u>Total Cost</u>	=	<u>Vt. 986,200</u>

This request should be seen in the light of major investments already facilitated by the VFIB, notably the work of the Secretariat over the past 15 months in facilitating all the necessary systems, mechanisms, networking and cooperative arrangements in the whole investment process in Vanuatu.

By way of a brief overview, the benefits for Vanuatu and the Acting CEO to be derived from this highly targeted training program would include the following key outcomes:

- i) Institutional Strengthening and Capacity Building for the VFIB Secretariat human resources and management in the areas of:
 - a) Leading edge Investment Promotion skills
 - b) Marketing plan development
 - c) Sector targeting
 - d) Selling & negotiation techniques
- ii) An increased understanding of trends in FDI in the new millenium, thus equipping the Secretariat with knowledge and know-how in managing the work of the VFIB;
- iii) Knowledge, know-how and understanding in using the internet as a marketing tool, and developing web strategies for promotion of Vanuatu as an alternative investment location;
- iv) Attracting high Quality Investment – Research & Development skills; and
- v) Learning from IDA Ireland as the world's most experienced and successful Industrial Development agency – a major contributor to the success of the Irish Economy.

"B1-2"

7/10

On this note, I trust that the Office of the Prime Minister will fully support this initiative in furthering the national vision of encouraging a 'private sector-led' economic growth in Vanuatu.

I am attaching for your good information copy of program flyer for the said training program in Dublin, tentative itinerary, and copy of email correspondence from the program organizers in Ireland.

We look forward to your initial response and possible support in this regard.

Yours sincerely

Roy M JOY
Chairman

Vanuatu Foreign Investment Board



Attachment - Program Flyer - Strategic Investment Promotion Program
- Itinerary costs

c.c. : Hon. James BULE
Minister for Trade, Tourism & Business Development

: Hon. Barak SOPE MAUTAMATE
Prime Minister, Office of the Prime Minister

: Mr. Howard ARU
Acting CEO, VFIB



GOVERNMENT OF THE REPUBLIC OF VANUATU
GOUVERNEMENT DE LA REPUBLIQUE DE VANUATU



VANUATU FOREIGN INVESTMENT BOARD

Private Mail Bag 030
PORT VILA, Vanuatu

APPENDIX "C1"

Telephone : (678) 22770
Facsimile : (678) 25640
E-mail : cdi@vanuatu.com.vu

FACSIMILE TRANSMISSION

15 June 2000

Mr. Stevan MANDEL
Managing Director
Cody-Mondragon Investments Ltd
Haatasiya Street
Telaviv, ISRAEL

URGENT

[No. of pages incl. this one = 3]

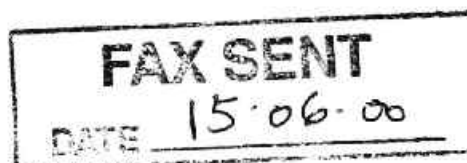
Fax: (972) 3 624 2279

Dear Mr. Mandel,

**FUNDING SUPPORT FOR MR. HOWARD ARU
VFIB ACTING CEO TO PARTICIPATE IN
"Strategic Investment Promotion Programme"
Dublin, Ireland: 19 - 30 June 2000**

Further to my telephone discussion with you very early (Vanuatu time) this morning, I am submitting herewith the relevant cost breakdowns we would like you to assist us with for Mr. Aru to participate in the above mentioned crucial and specialized training program which is to commence next Monday, 19th June.

Given our government's severe cash position at the moment, we had sought the program organizers to consider waivering their participation fee for us. They could not waiver the entire fee, yet kind enough to reduce the normal fee to £3,000 Sterling Pounds. Accommodation will be paid for by the organizers. The Vanuatu government will meet the cost of airfares to and from Dublin, Ireland, including Mr. Aru's daily subsistence allowances (totaling around US\$ 3,900).



10/10

"C1-1"

We kindly request if your company could cover costs of documentation, study tours, local travel, light refreshments and conference facilities, totaling to **£2,700 Sterling Pounds**.

For Ireland immigration formalities, it is imperative that the program Training Manager, Mrs. Bernadette Carew is informed on how payments will be made for Mr. Aru.

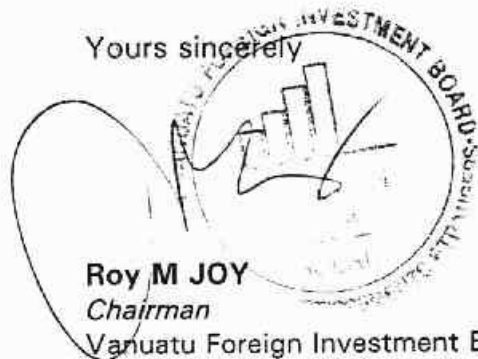
If the above requested funding (i.e., **£2,700**) is approved by you, I would like you to immediately and urgently contact the Training Manager in Dublin Mrs. Carew and inform her. Her full contact details are as follows:

Mrs. Bernadette Carew
Training Manager
International Development Ireland Ltd
Wilton Park House, Wilton Place
Dublin 2, Ireland
Tel: (353) 1 662 5555
Fax: (353) 1 662 3133

Our apologies for this rather last minute request, yet inform that Mr. Aru is due to depart for Ireland this coming Sunday morning, 18th June.

I look forward to your prompt response later today, and thank you for your kind collaboration in the past.

Yours sincerely



Roy M JOY
Chairman
Vanuatu Foreign Investment Board

Attachment - Copy of Fax message from the IDA, Ireland

CB UFC 052023

UNITED FIDELITY CORPORATION

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS: That UNITED FIDELITY CORPORATION organized and existing under the laws of the Cook Islands and pursuant to Resolutions passed from time to time adopted by the Board of Directors of said Company, constitutes and appoints:

Sanford Lee Wolok
Patricia J. Alex
Lori E. Charlton

each its true and lawful Attorney-in-Fact to execute, seal and deliver for and on its behalf as Surety, any and all bonds and undertakings, contracts of indemnity and other writings obligatory in nature, which are or may be allowed, required or permitted by law, statute, rule, regulation, contract or otherwise, and the execution of such instrument(s) in pursuance of these presents, shall be as binding upon the said UNITED FIDELITY CORPORATION, as fully and amply, for all intents and purposes, as if the same had been duly executed and acknowledged by its regularly elected officers at its principal office. The obligation of the Corporation shall not exceed FIVE MILLION (\$5,000,000) DOLLARS.

This Power of Attorney may be executed, certified and revoked, pursuant to and by authority of the resolutions and articles adopted by the Board of Directors of UNITED FIDELITY CORPORATION.

The President or any Vice President, Executive Vice President, Secretary or Assistant Secretary or Authorized Officer shall have power and authority:

- (1) To appoint Attorneys-In-Fact, and to authorize them to execute on behalf of the Corporation, and attach the Seal of the Corporation thereto, on bonds and undertakings, contracts of indemnity and other writings obligatory in nature; and
- (2) To remove, at any time, any such Attorneys-In-Fact and revoke the authority given.

Further, this Power of Attorney may be signed and sealed by facsimile pursuant to resolution of the Board of Directors of said Corporation of which the following is a true excerpt:

NOW THEREFORE the signatures of officers and the seal of the Corporation may be affixed to any such power of attorney or any certificate relating thereto by facsimile, and any such Power of Attorney or certificate bearing such facsimile signature or facsimile seal shall be valid and binding upon the Corporation and any such power so executed and certified by facsimile signatures and facsimile seal shall be valid and binding upon the Corporation in the future with respect to any bond or undertaking to which it is attached.



IN TESTIMONY WHEREOF, UNITED FIDELITY CORPORATION has caused this instrument to be signed and its corporate seal to be affixed by its Authorized Officer on the date set forth below.

I, the undersigned authorized officer of UNITED FIDELITY CORPORATION do hereby certify that I have compared the foregoing copy of the Power of Attorney and affidavit and the copy of the resolutions of said Corporation as set forth in said Power of Attorney, with the ORIGINALS ON FILE IN THE HOME OFFICE OF SAID CORPORATION, and that the same are correct transcripts thereof, and of the whole of the said originals, and that the said Power of Attorney has not been revoked and is now in full force and effect.

IN TESTIMONY WHEREOF, I have hereunto set my hand this 12th of July 2000 A.D.

PRINCIPAL: NAME, ADDRESS, CITY, STATE, ZIP

Cody Investments Ltd., E.D.C.I. Ltd. and
 The Mondragon Co-operative Society
 4-6 Hataasiya Street
 Tel-Aviv, Israel

EFFECTIVE DATE(S)

July 12, 2000

CONTRACT AMOUNT

\$ 3,000,000.00

BOND AMOUNT

\$ 3,000,000.00

"D1-1"

FINANCIAL GUARANTEE BOND

Bond No. CBUFC052023

Limit of Liability \$3,000,000. USD

KNOW ALL MEN BY THESE PRESENTS:

That, Cody Investments Ltd., E.D.C.I. Ltd. and The Mondragon Co-operative Society Ltd. as Principal, and United Fidelity Corporation as Surety, are held and firmly bound unto the Government of the Republic of Vanuatu as Obligee, in the sum of \$3,000,000 (three million USD), providing the Purchase Option has been activated by the principal and accepted by the Obligee, we bind ourselves, our heirs, executors, administrators and successors, jointly and severally, firmly by these presents, subject to the conditions hereafter following in this Financial Guarantee Bond ("Bond").

WHEREAS, Principal has agreed to an Option to Purchase forty-nine percent (49%) of Air Vanuatu from the Obligee and the Obligee has agreed to sell to the Principal the aforementioned interest in Air Vanuatu pursuant to a Purchase Option Agreement between the Principal and the Obligee ("Purchase Option") the terms and provisions of which are incorporated herein by reference for all purposes; and

WHEREAS, the Principal has offered, and Surety has accepted, certain collateral to secure the issuance and repayment of this guarantee provided by the Surety, to wit:

(5,000 hectares of land on the Island of Espiritu Santo; the optioned 49% of Air Vanuatu; and the options for the insurance company and national bank)
(the above described collateral is hereafter referred to as the "Collateral"); and

WHEREAS, the Principal has requested of the Surety that it obligate itself as Surety with respect to the Purchase Option and the Surety is willing to so obligate itself subject to the terms and conditions hereinafter set forth, the payment of premium, and other consideration and the pledge to the Surety of the above listed collateral.

NOW THEREFORE, the condition of this obligation is such that if the above-named Principal shall pay the Obligee in accordance with the terms of the Purchase Option during the effective date of this Bond, then this obligation shall be null and void, otherwise it shall be irrevocable and remain in full force and effect until such payments are made, further subject, however, to the following provisions, terms and conditions:

1. Definitions.

- (a) "Default" shall mean failure by the Principal to (i) make payment when due to the Obligee on the Purchase Option, and (ii) cure such nonpayment on or before the date which is thirty (30) days after the date upon which such payment was due.
- (b) "Limit of Liability" shall mean the amount hereinabove designated as such, which shall be the Surety's maximum liability under this Bond.
- (c) "Loss" as to the Purchase Option shall mean the amount of unpaid principal due on the Purchase Option, which is in default. Loss shall exclude penalties of any nature and expenses of collection, and shall be reduced by any payments of principal and/or interest made by or on behalf of the Principal before payment by the Surety. The aggregate amount of all losses under this Bond shall not exceed the Limit of Liability.

✓
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SH

2. **Surety's Right to Cure Default.** Surety shall have the option to cure a default under the Purchase Option by paying to the Obligor the amount delinquent and due thereunder prior to any acceleration by Obligor of unpaid principal and/or interest, within ninety (90) days of receipt of Notice of Default hereof. In such event there shall be no acceleration of the payment terms of the Purchase Option including any payments thereafter due, if such Purchase Option is subject to acceleration by the terms thereof.
3. **Assignment.** Neither the Purchase Option nor this Bond, nor the Bond's addendums, schedules or attachments, shall be assigned, changed, modified or extended without the written consent of the Surety.
4. **Payment of Premium and Cancellation.** The premium hereunder shall be payable upon the execution and delivery of this Bond and shall be nonrefundable. This Bond is null and void ab Initio in the event of nonpayment of the premium.
5. **Notice Upon Default.** Upon Default, a written notice thereof shall be given to the Surety by the Obligor no later than thirty (30) days after Default unless the Surety agrees in writing to extend the time for filing of a claim with respect to such Default. Notice of Default shall include a signed affidavit stating the date payment was due, that the Principle is in Default, the amount then due, the amount representing interest accruing each day, the rate at which such interest is computed, and that such amount has not been received by the Obligor. All notices, application, demands and requests provided for in this Bond shall be in writing and addressed to:
- | | |
|-------------------|---|
| The Surety at: | 4861 N. Dixie Hwy., Suite 205
Oakland Park, FL 33334 |
| The Principal at: | 4-6 Hataasiya Street
Tel Aviv, Israel |
| The Obligor at: | The Government of The Republic of Vanuatu |
6. **Servicing.** The Obligor shall exercise normal prudent business practices in effecting collection of the Purchase Option. Surety's obligations hereunder shall be released, exonerated and otherwise rendered void upon the discovery of fraud or misrepresentation on the part of the Obligor in the negotiation and/or consummation of the Purchase Option and/or documents which constitute any part of the Purchase Option between Obligor and Principal or upon the failure of Principal to properly perfect its security interest in the Collateral and to maintain the continuing validity of its security interest in the Collateral and to properly and promptly perfect the pledge of the Collateral to the Surety.
7. **Subrogation.** Upon and to the extent the Surety has made payment of loss under this Bond, the Surety shall be subrogated to all of the Obligor's rights against the Principal and Collateral and any other person or organization liable to Obligor under the terms of the defaulted Purchase Option. The Obligor and/or shall execute and deliver at the request of the Surety all instruments and papers and do whatever else is necessary to transfer, assign and secure such rights. The Obligor and/or Principal shall do nothing to prejudice such rights. The execution by the Obligor and/or Principal of a release, satisfaction or waiver of the right to collect the unpaid balance of the Purchase Option or a release of any of the Collateral shall equally release the Surety from any further obligation under this Bond.
8. **Proof and Payment of Loss.** Notice of default shall constitute proof of loss hereunder. The surety shall pay Loss hereunder no later than ninety (90) days after the giving of notice of Default in accordance with Section 5. Loss shall be paid at the address of the Obligor set



"D1-3"

forth in Section 5. The Obligee shall, upon and to the extent of payment of Loss by the Surety, execute all documents required to assign the Purchase Option and the Collateral to the Surety. In the event Surety, at any time, makes a payment of Loss hereunder which pays the delinquent amount of the Purchase Option the Collateral shall be assigned and transferred to Surety at the time of payment of said delinquent amount.

9. **Action Against Surety.** No action arising out of this Bond may be brought against the Surety unless such action is commenced within one hundred and twenty (120) days following the date of Notice of Default. If the forging limitation is shorter than that permitted to be fixed by agreement under any statute controlling the construction of this Bond, the shortest permissible statutory limitation of time shall be deemed provided herein and shall supersede the time limitation herein stated.

10. **Access to Records.** The Surety may at any reasonable time examine or copy any of the Principal and/or Obligee's books, records, accounts, documentation, collateral or other information in the possession or control of the Principal and/or Obligee relating to or connected with the subject of this Bond.

11. **Representations and Understandings.**

It is understood by all of the parties hereto that (I) in the event of fraud in the inducement hereof or fraud occurring after the issuance thereof then this Bond shall be null and void ab Initio and without further effect; and that (II) this Bond is issued in reliance upon representations that the collateral securing this Bond is and shall remain, during the liability period of this Bond, of a size, quality and nature to support the principal amount of the Purchase Option and accrued interest, if any.

12. **Choice of Law.** The construction, validity and performance of this Bond shall be governed by the laws of the United States, and the applicable State Laws of Michigan.

13. **Other Insurance.** Any obligation of Surety hereunder shall be excess over any other valid bond, insurance or other indemnity covering loss hereunder.

14. **Effective Date of Bond.** This Bond is effective July 12, 2000 and will expire on July 12, 2002.

SIGNED, SEALED and DATED this

day of

, 20

Handwritten: Montgomery EDCI Cody
Principal: *Handwritten: EDCI*
By: *Handwritten: David H. HODIN* *Handwritten: Stephen H. HODIN*
Title: *Handwritten: Attorney-in-Fact*

United Fidelity Corporation
Surety

By: *Handwritten: Patricia J. Alex*

Patricia J. Alex

Title: Attorney-in-Fact for United Fidelity Corporation

Fgbpp400

CONFIDENTIAL

VANUATU FOREIGN INVESTMENT BOARD PROJECT PAPER

Date : 26th July, 2000
 File : VFIB/201/1/_____/00
 Subject : MONDRAGON COOPERATIVE CORPORATION LIMITED
 Location : Big Bay, Santo
 Date of Incorporation : Not yet

- 1.0 **Background (or you can replace this with "Nature of Project")**
 Development of a Free Trade Zone in the area designed for, by the Government of Vanuatu.

2.0 **Company Directors (No Shareholding)**

Name	Nationality	Residence	Position
Mondragon Co-operative corporation limited	Israelites	Israel	N/a

3.0 **Assistance Sought**

The company is seeking the following:

- (i) Approval of the project
- (ii) Residence permits for 2
- (iii) Work permit for 2
- (iv) Business license

4.0 **Employment**

10 locals and 1 foreigner in management position in the first year. This figure will increase to 30 and 80 in the second and third year respectively.

5.0 **Investment**

	Local Purchases(VT)	Oversea Purchase (VT)	Total Outlay (VT)
Land/Building	650,000,000		
Plant & Equipment	130,000,000	260,000,000	
Engineering/Installation	130,000,000	130,000,000	
Vehicles & furniture	26,000,000	39,000,000	
Other (Research)	260,000,000		
Working Capital	130,000,000	130,000,000	
Total	1,326,000,000	539,000,000	1,865,000,000

- 6.0 **Provide information on the social and environmental impact of the proposed investment.** Nil

7.0 **Background information (specify previous business involvement of Proponents)**

Detailed proposal attached for future references.

8.0 **Analysis (based on criteria):**

Approved To [Signature]

"A1-1"

No	Approval Criteria	Analysis / Comments	Score	Standard
1	Generate increased export	Yes	5	5
2	Job creation for locals	10 locals and 1 foreigner. Will increase to 80 in the third year	3	5
3	Total investment	VT1,865,000,000	5	5
4	Value Addition	High	3	3
5	Training Plan	On the job and special training	2	3
6	Local JV partner	N/A	-	2
7	Relevant Sector head comments	Not at this stage. MOU has already been signed	-	2
8	Policies & priorities of Govt.	Supported	1	1
9	Project viability	Looks viable	1	1
10	Total wage payment	Included in the operating budget of about US\$140,000	1	1
11	Credit checks	Not yet. Only incorporated at FSC	1	1
12	Not Reserved/Prohibited investment	Not reserved	1	1
Total Score			23	30

8.0 Justification

8.1 This organization intends to provide multiple projects for the country. Most of its services will be developed later but for establishment purposes, they will begin with the development of infrastructure.

8.2 Project has passed the Board's Criteria.

9.0 Recommendation

9.1 The Secretariat recommends that Board should grant an approval to the business license requested.



GOVERNMENT OF THE REPUBLIC OF VANUATU
GOUVERNEMENT DE LA REPUBLIQUE DE VANUATU



VANUATU FOREIGN INVESTMENT BOARD

Private Mail Bag 030
PORT VILA, Vanuatu

Telephone : (678) 22770
Facsimile : (678) 25640

28 July 2000

Our ref: VFIB/201/2/198/00

Mr. Stefan Mandel
Managing Director
Cody Investments Ltd
4 Hata'asya St.
Tel Aviv, 67138 ISRAEL

Dear Mr. Mandel,

MONDRAGON COOPERATIVE CORPORATION LIMITED

The Vanuatu Foreign Investment Board (VFIB) on Thursday 27th July 2000 considered and deliberated on your company and group's project proposal to develop a Free Trade Zone (FTZ) in the designated area of Big Bay, Espiritu Santo Island. In addition to the FTZ, your group also proposes to invest in a multiple array of other sectors including agriculture, aquaculture, fisheries, finance, forestry, real estate, tourism, export and marketing of local products, and other services at Big Bay.

In view of the substantial investments proposed, the associated potential social and economic benefits to the country, including the firm commitment that the government has already made in establishing an MOU with your organization, I am pleased to inform you on behalf of the Vanuatu Government that the VFIB has in principal approved your FTZ and other economic sector projects proposal.

The above approval is subject to the following understanding and conditions:

- (i) commencement of infrastructural developments in the approved land area at Big Bay, Santo;
- (ii) you are required to acquire all necessary relevant Residency and Work permits from the appropriate authorities for any foreigner engaged in the initial development of the FTZ;
- (iii) within a period of 12 months from the date of approval you must submit to the VFIB a progress report and evidence that your company is engaged in the implementation of the

project, in order for the Board to consider renewal of the above approval;

- (iv) an approval certificate will be issued for each individual project in the sectors named above upon the VFIB's receipt and assessment of appropriate full project proposals from relevant investors in your group;
- (v) approvals and further assistance will automatically be withdrawn if any of the above conditions are violated.

Per Vanuatu laws, it is a requirement that any company wishing to engage in business activities in the country must register with the Vanuatu Registrar of Companies (ROC) prior to carrying on business in the country. We advise that you or your local agent(s) must apply to the ROC for that matter.

We trust that the Mondragon Cooperative Corporation Limited will advance and generate mutual benefits both for your group and the government and people of Vanuatu as a whole in the foreseeable future, and wish you much success in your endeavours to investing in Vanuatu!

Thank you.

Yours Sincerely,
VANUATU FOREIGN INVESTMENT BOARD



Howard Aru
Acting Chief Executive

- c.c. :
- : Hon. Barak, T Sope Maautamate, Prime Minister
 - : Hon. James Bule, Minister for Trade & Business Development
 - : Hon. Serge R Vohor, Minister for Foreign Affairs
 - : Hon. Mokin Y Stevens, Minister for Finance & Economic Management
 - : Hon. Stanley Reginald, Minister for Infrastructure
 - : Hon. Maxim Carlot Korman, Minister for Lands
 - : Mr. Dudley Aru, Commissioner, Registrar of Companies, VFSC
 - : All VFIB Board Members
 - : Secretary General, Sanma Province, Luganville, Santo



APPENDIX "K1)

ALA & CO.**Barristers & Solicitors**

Julius Marc Ala LL.B Notary Public

'serving humankind with dignity'

Suite 5
Pacific Business Centre
Rue LanguedocPO Box 927
PORT VILA
Republic of VanuatuTelephone: (678) 24566
Facsimile : (678) 24545
E-mail: alalaw@vanuatu.com.vu8th August 2000Mr. Howard Aru
Acting CEO
Vanuatu Foreign Investment Board
Private Mail Bag 030
PORT VILA**CONFIDENTIAL**

Fax : 25640

Dear Mr. Aru

RE : STEPHAN MANDEL

We refer to your tele-discussions with the writer of this afternoon concerning the possibility of the above named person taking legal action against the local paper, the Trading Post, for libel.

We advise that for a libel action to be sustained, Mr. Mandel must show that what was published in the Trading Post over the weekend was false and defamatory.

It seems to us that the information that was published in the Post over the weekend was attributed to an Israeli paper. It would appear that what the Post did was to report the information that was published.

If this were the case, then, we suggest that it would be better for Mr. Mandel to take action against the Israeli paper first. The result of such action in Israel may have the desired impact in Vanuatu.

Alternatively, we suggest that Mr. Mandel should try and rebut the information published in the Trading Post by clearing to the Vanuatu public his side of the story with back up information from law enforcement authorities, professional entities and maybe government agencies in the country of his citizenship and in those countries where he normally resides in.

"K1-1"

May we suggest that one way of answering Mr. Mandel's critics is to let his action to do the talking. You know the saying "action speaks louder than words".

We hope that the above information is of some value to you and Mr. Mickey.

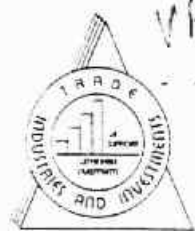
Yours sincerely
ALA & CO.

A handwritten signature in dark ink, appearing to be "Julian M. Ala", enclosed within a circular scribble.

Julian M Ala



GOUVERNEMENT DE LA REPUBLIQUE DE VANUATU
GOVERNMENT OF THE REPUBLIC OF VANUATU
SERVICE DU COMMERCE, DE L'INDUSTRIE,
ET DES INVESTISSEMENTS
DEPARTMENT
OF TRADE, INDUSTRY AND INVESTMENT



COPY

Mr. Stevan MANDEL ← Nigel
Managing Director
Cody/Mondragon Investments Limited
4-6 Hatassiya Street
Tel Aviv 67138
Tel Aviv
ISRAEL
Fax: 972- 3-624-2279

APPENDIX "KKK2")

9th August, 2000

Israel mission
in September
→ best location

10/8/00

Dear Stevan,

I thought I should write to you to firstly ^{to} thank you and your team for finally making it to Vanuatu and secondly to convey to you our deepest gratitude and appreciation for the way we have been able to begin the entire process of the initial preliminary meetings and discussions with our Authorities here in Vanuatu despite what the Trading Post Newspaper in collaboration with the Israeli Newspaper has to say about the proposed project here in the Republic of Vanuatu.

I hope you have already receive the facsimile transmission I did sent yesterday attaching a self explanatory note from one of our very successful young lawyers Mr. Julian ALA outlining what he views are the principal steps and stages we should consider prior to embarking on a full fledge law suit against the damn Newspaper.

No matter what happens or is said, I am a believer and an advocate in the Mondragon concept and I can say with some degree of confidence that given sufficient timing and as long as the Government of Vanuatu maintains it's commitment and support on the proposed Cody/Mondragon Investment projects, we will prove this guys wrong and everybody will eventually benefit from these substantial undertakings.

I think generally in Vanuatu likewise in any other parts of the world, people have the right to their own judgement and perception in whatever they may think in terms of a project of the magnitude that is being proposed by the Group and therefore it is only natural for the Press to portray what it views is the background of the Mondragon Group.

I have heard through the grapevine that the State Law Office has also been cautioning my staff to remain cautious of the proposed deal as they may have done some thorough credit checks with the subsidiaries and corresponding agencies in London and America and are questioning the credibility of the Mondragon Group and the characters behind the project. In the event that some of these materials or documents is available, I will no doubt have them sent to you immediately for your own verification and judgement.

FAX SENT

DATE 09/08/00

"KKK 2-1"

In Vanuatu, we believe in transparency and therefore if what the press is portraying represents transparency, then I think there should be no big deal in the entire undertakings as such.

I have consulted with the Hon. Foreign Minister the proposed delegation that will visit Tel Aviv as per your invitation this morning, unfortunately he was caught all morning with the Prime Minister on some policy matters and thus I could not reach him in time.

He has whilst typing this note left Vanuatu to go to Samoa to attend to an urgent South Pacific Foreign Affairs Ministers Meeting to consider certain measures in assisting the Nations of Fiji and Solomon Islands to try and reach some peace and begin reconstruction back to full democracy. He has however left a message on my desk that as soon as he arrives back in Port Vila on Sunday, 13th August, 2000, he will then provide me the final list of the proposed delegation to visit Israel with the confirmation whether the Prime Minister Barak Tame SOPE himself is also coming. I will just have to wait to obtain confirmation and will keep you posted on progress.

Otherwise, there is a lot of interests emanating from Emil MAEL's recent visit to Big Bay just last weekend as per his discussions and meeting with the chiefs.

I have requested him to sent you a copy of his mission report as soon as it is completed.

I will be in the Office for the rest of this month and should there be anything you may require my assistance, Please do not hesitate to call or contact me.

Thank you once again for all the assistance and support you gave us whilst in Port Vila and looking forward to our next reunion perhaps this time in Israel.

Yours Faithfully,



Roy Mickey SOPE
Director of Trade, Industry and Investment
Chairman- Vanuatu Foreign Investment Board.

COPY

Wigel → Mondragon file
APPENDIX "1"

CONFIDENTIAL

August 10th, 2000

Hon. Barak T. SOPE MAAUTAMATE
Prime Minister
Office of the Prime Minister
Government of the Republic of Vanuatu
Private Mail Bag 053, PORT VILA
REPUBLIC OF VANUATU

Your Excellency,

May I take this opportunity, on behalf of my colleagues and myself, to convey our utmost gratitude and sincere appreciation for the warm reception Your Excellency and Your Excellency's ministers have afforded us, during our visit to your enchanting country. I would also like to use this opportunity to belatedly congratulate Your Excellency on Vanuatu's 20th Anniversary Celebrations and wish you and the Republic many years of peace and prosperity.

In an endeavour to give concrete expression to some of the issues raised in light of the controversial publicity in the Vanuatu press, I have flaunted common protocol, by delaying this letter, for which I appeal to Your Excellency's clemency, in order to extend the scope of this letter to incorporate information about the actions taken in regard to that publicity. As such, it may be of interest to Your Excellency that yesterday, 15th August 2000, the Mondragon Co-operative Society Ltd. lodged criminal charges against the Israeli newspaper, Yediot Acharonot, its owners, editor and two reporters (file No. 141/2000). Libel charges are also due to be lodged on September 1st 2000 against the same newspaper and against the Trading Post.

While it is unfortunate that such irresponsible and unethical articles find their way in print (the Trading Post wrote at least three articles about the "Israeli investors" without once contacting them/us for any comment), it is a tribute to the Democratic system in Vanuatu and to the high regard in which Freedom of the Press is held in the Republic, that such articles can be published without hindrance.

To sum up the impressions of our delegation to Vanuatu, may say Your Excellency, that we felt the discussions were conducted in an atmosphere of utmost and mutual understanding and reflected the desire of all parties to advance the development of the projects discussed, in Vanuatu. We are confident that both sides will continue to display the will and ability to maintain the momentum necessary to bring about the materialization of these projects, which, undoubtedly will have a positive impact on the level of employment and general development of the Big Bay and Matantas areas and their respective populations, as well as on Vanuatu as a whole.

"L 1-1"

I must mention, Your Excellency, that Israel, a country with an area slightly larger than Vanuatu's (22,000 Sq. Km), which is lacking water and natural resources and was virtually a desert until 30 years ago, is now the #1 agricultural powerhouse in the world. It is among the three most prominent hi-tech environments in the world and is one of the most sought after venture capital destinations, with over \$100 billion in investments.

Against this background, the degree of commitment the Mondragon Group is willing and capable to undertake in order to bring about the successful completion of this exciting project, is supported by a very diverse group of talented and highly motivated individuals from all around the world, who have rallied around a new economic philosophy which lays the foundation for what may become the most important development project in the South Pacific and will bring socio-economic harmony to the mutual benefit of its members and the people of Vanuatu.

May I conclude, Your Excellency, by conveying my gratitude for broadcasting your address to the Mondragon membership, who were sincerely touched and whose hearts you have conquered.

With deep consideration,

Yours sincerely,

Stefan Mandel
Managing Director



MONDRAGON
CO-OPERATIVE SOCIETY LTD.

Nigel file

COPY

APPENDIX "LLL"

15th August 2000

CONFIDENTIAL

Mr. Julian Ala Esq.
P.O. Box 827
Suite 8, Pacific Business Centre
Rue Languadee,
PORT VILA,
VANUATU

Dear Mr. Ala,

May I say, Mr. Ala, that while my several attempts to contact you by phone were crowned with failure, it was your logo "*serving humankind with dignity*" rather than the fact that you came highly recommended, that caused me to insist. Perhaps if you have a chance to have a glimpse at the Mondragon Mission Statement, you might identify the potential synergy.

In thanking you very kindly for the sound and concise advice you imparted, I shall refer to your letter dated 8th August 2000, addressed to Mr. Howard Aru, a copy of which the latter was kind enough to forward to me. Coincidentally, those were my intentions which I thought of canvassing with you on the phone.

Yesterday, 15th August 2000, The Mondragon Co-operative Society Ltd. lodged criminal charges against the Israeli newspaper, Yediot Acharonot, its owners, editor and two reporters (file No. 141/2000). Libel charges will also be lodged on September 1st 2000. While this is consistent with your paragraph 4, may I take the liberty of saying that, in relation to your paragraph 5, I would like to make a minor adjustment: they should not be mutually exclusive. I intend to do both. Most importantly, I also intend to sue the Trading Post and its publisher.

And now, the \$64,000 question: would you consider undertaking to act for us?

I can only make two promises; it will be an interesting case and you will get paid.

I should also add that there have been approx. 4,500 articles written about me over the past 15 years, all over the world (I have developed the mathematical theory of combinatorial condensation and am indeed the only person in the world to have won the 1st prize in lotteries 14 times - that much is true from what he said) and therefore, Mark Neil-Jones is just a mere pimple. But like any pimple, it either needs to be treated or squeezed (excuse the comparison).

"222-1"

I shall refrain from bombarding you with too much material at this stage, until I get an OK from you together with your terms of engagement.

I look forward to working with you.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Stefan Mandel', written in a cursive style.

Stefan Mandel



APPENDIX "M1"

August 16th, 2000

Hon. Barak T. SOPE MAAUTAMATE
Prime Minister
Office of the Prime Minister
Government of the Republic of Vanuatu
Private Mail Bag 053, PORT VILA
REPUBLIC OF VANUATU

Your Excellency,

May I take this opportunity, on behalf of my colleagues and myself, to convey our utmost gratitude and sincere appreciation for the warm reception Your Excellency and Your Excellency's ministers have afforded us, during our visit to your enchanting country. I would also like to use this opportunity to belatedly congratulate Your Excellency on Vanuatu's 20th Anniversary Celebrations and wish you and the Republic many years of peace and prosperity.

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"M 1-1"


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Against this background, the degree of commitment the Mondragon Group is willing and capable to undertake in order to bring about the successful completion of this exciting project, is supported by a very diverse group of talented and highly motivated individuals from all around the world, who have rallied around a new economic philosophy which lays the foundation for what may become the most important development project in the South Pacific and will bring socio-economic harmony to the mutual benefit of its members and the people of Vanuatu.

May I conclude, Your Excellency, by conveying my gratitude for broadcasting your address to the Mondragon membership, who were sincerely touched and whose hearts you have conquered.

With deep consideration,

Yours sincerely,


Stefan Mandel
Managing Director

cc: Hon. James BULE
Deputy Prime Minister &
Minister of Trade

Hon. Serge Vohor RIALUT
Foreign Minister

Mr. Hamlison BULU
Attorney General

Mr. Dudley ARU
Commissioner - Vanuatu
Financial Services Commission

Mr. Julian ALA
Attorney

INTERNAL OFFICE MEMO

(VFIB Secretariat use only)

18 August 2000

To : Chairman VFIB
From : Acting CEO
Copy : All Senior Staff - VFIB

CONFIDENTIALProposed MISSION TO ISRAEL

While planning may be underway already for this mission, I wish to raise a few points for your consideration. On the outset, may I admit that I have taken some risks before, but hesitate to for this particular mission.

To begin with, the State Law office has verbally cautioned not to issue approval certificate for the Mondragon project (they intend to discuss this with us; I am going to include it in the agenda for VFIB's next board meeting). Secondly, when Mr. Julian Ala was approached last week to 'defend' Mr. Mandel and his company, his legal opinion (as expressed to us in writing) was for Mr. Mandel to show legal evidence first, of having successfully sued the Israeli newspaper with possible relevant legal evidences from appropriate Israeli courts. As far as the VFIB Secretariat is concerned, we have not as yet received any such legal documents, other than media quotation such as one being attached for your perusal.

Under the CRP, we are expected to deal transparently and be accountable for decisions we make. Maybe I am a bit pessimistic and cynical here. But I believe it's on valid grounds. Thus, in all honesty, with matters still hanging in the air the way things are at the moment and for the foreseeable near future, where legal opinions from local professional lawyers like Mr. Ala are still not favourable, I suggest that the mission be postponed until these issues are cleared. I feel it is my duty, as CEO (Acting) of the Board to advice the Chairman on this matter.

Should the September mission to Israel go ahead in any case, then may I convey my apology in advance that I will not be able to part-take in it, until such time that this and related issues are satisfactorily, legally cleared with authentic evidence provided of such clearance to the VFIB Secretariat.

I trust that you will accept this bit of advice and proposal, and thank you for your understanding and usual cooperation.



Howard Aru
Acting Chief Executive

Attachment - newspaper clipping

APPENDIX "MMM2"

Leon Kati's statement 'total rubbish' says media

The Israeli journalist Mody Kreitman who broke the story on the Israeli investors in Vanuatu. Mondragon accusing them of running a pyramid scheme involving life insurance has advised Trading Post that the statement put out by Leon Kati of Big Bay was totally untrue.

Trading Post contacted the Israeli newspaper and advised them that Kati had stated that Mondragon had already taken Israeli media to court and had won a settlement of \$25 million. Kreitman advised, "nobody took us to court. They indeed threatened, but obviously

in order to show their members that they are not silent. We are not worried at all."

As to Kati's statement that they had lost the case and had to pay \$25 million he laughed and advised "nothing has even gone to court and if it did we would win"

The Israeli media also confirmed that the Vanuatu government had threatened to sue them. "Even the PM threatened to sue us in 'the International courts', but obviously when Mandel composed the letter for him he didn't understand that a state can't sue a newspaper in 'an International court'. Obviously the forthcoming visit of Prime Minister Sope and Serge Vohor will be paid by Mondragon, which is a private business, and that is a scandal for itself. Imagine Tony Blair visiting

Israel on the expense of Mondragon."

The main Hebrew language evening newspaper in the country Yedioth Ahronot as well as this newspaper stand by their stories. Sope and Vohor are likely to get a stiff reception from Israeli media when they visit the country next month. They will be asked to explain how a government can condone Mondragon selling parcels of land in Vanuatu when they have been given no land titles and support the Israeli company making false statements to sell products in Israel based on a Memorandum of Agreement.

The government of Vanuatu have yet to issue a formal statement following the front page story on Trading Post.

INTERNATIONAL
NUMBER GAME

By L. O.
No. 10/10/2013
3-13

	15
2	18
	7
	27
	20

Private sector in favor of Mr. Leno's report

the involvement of civil servants, drift, population exodus



ALA & CO.

Barristers & Solicitors
Julian Marc Ala LL.B Notary Public

'serving humankind with dignity'

Suite 5
Pacific Business Centre
Rue Languedoc

PO Box 927
PORT VILA
Republic of Vanuatu

Telephone: (678) 24566
Facsimile: (678) 24545
E-mail: alalew@vanuatu.com.vu

COPY

21st August 2000

Mr. Stefan Mandel
Cody Investments Limited
4-6 Hataasiya Street,
TEL AVIV, 67138
Israel

Fax: 00 972 3 624 2279

Dear Mr. Mandel

We thank you for your fax 15th August and also for sending a copy of your letter of 18th August 2000 to the Hon. Prime Minister of Vanuatu, to our firm.

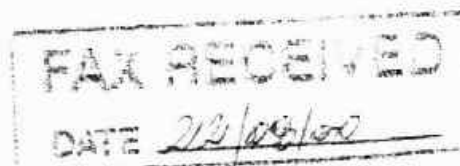
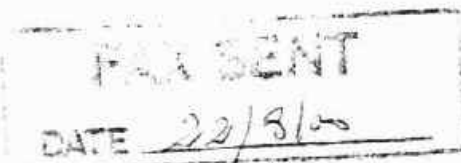
Further to our letter of 8th August 2000 to Mr. Howard Aru and which copy had been sent to you, we suggest that any action taken in Vanuatu against the Trading Post Newspaper and its editor cannot be sustained unless the action taken against the Israeli paper is determined by a Court of law in Israel.

Regarding the question as to whether or not our firm would be prepared to consider acting for you, we regret to advise that as our firm is acting for the Editor of the Post, Mr. Len Garae, in another matter, we are obliged to decline to act for you in your proposed action.

There are other Ni-Vanuatu lawyers in private practise that you may wish to approach.

We provide below a list of some of them:

* Thanks Mr. Ala, we
will follow up with
the others as proposed
by you! 22/8/00



"MMM3-1"

1. Jack I. Kilu & Associates - PO Box 118, Port Vila, Vanuatu
(Fax : 24114)
2. Silas Charles Hakwa & Associates - PO Box 954, Port Vila, Vanuatu
(Fax : 25393)
3. Bill Bani Tamata & Associates - PO Box 291, Luganville, Santo
Vanuatu
(Fax : 36220)

Yours faithfully
ALA & CO.



Julian M Ala

cc : Mr. Howard Aru (Fax : 25640)



GOVERNMENT OF THE REPUBLIC OF VANUATU
GOUVERNEMENT DE LA REPUBLIQUE DE VANUATU

VANUATU FOREIGN INVESTMENT BOARD



Private Mail Bag 030
PORT VILA, Vanuatu

CONFIDENTIAL

Telephone : (678) 22770
Facsimile : (678) 25640
E-mail : cdi@vanuatu.com.vu

FACSIMILE TRANSMISSION

Date: 30 August 2000 **To Fax No:** 25473

To: Mr. Rowan Downing, Technical Adviser, State Law Office, Port Vila

c.c. Mr. Ham Bulu, Attorney General, State Law Office
Mr. Jean Sese, Director General, Office of the Prime Minister

From: Howard Aru, Acting CEO

c.c. Mr. Roy M Joy, Chairman, VFIB

Subj: ISRAELI MONDRAGON PROJECT IN VANUATU

URGENT

Dear Sir,

As you may be aware, the above-named project has been the subject of recent criticisms by the media, while the VFIB has provided an 'in principal' approval for the Free Trade Zone (FTZ) concept proposed by the company under the leadership of Mr. Stefan Mandel.

From discussions with the State Law Office last week, various other related issues were raised up, and in addition, the Honourable Prime Minister has also been quoted on radio Vanuatu this week as questioning the Mondragon group to clarify their status vis-à-vis criticisms raised locally and abroad. To date, the VFIB still has not received any positive, legal advice from Vanuatu or from Israel per se in favour of or against the company, and has become a cause for major concern.

We have placed this matter on the agenda of the Board's meeting scheduled for this Friday, 1st September 2000 to hear what the State Law Office has to say on the matter, and possibly to further consider relevant issues. We therefore wish to invite you and the Attorney General (if he is available during that time) to attend the Board meeting at 9:15 a.m. to discuss the issue.

2000 30/08/00

"MMM4-1"

In addition, we would also like to request that the State Law Office provides its legal opinion on the matter (before, or after the VFIB Board meeting – whichever way is appropriate and convenient) and other relevant substantiating documents to the Board accordingly.

Can you please confirm to us either by phone, fax or email on your and the AG's availability to discuss this rather important and crucial matter the latest by tomorrow afternoon, 31st August 2000.

Thank you in advance for your concerns, cooperation and assistance.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Howard Aru', with a stylized flourish at the end.

Howard Aru
Acting CEO
Vanuatu Foreign Investment Board



GOVERNMENT OF THE REPUBLIC OF VANUATU
GOUVERNEMENT DE LA REPUBLIQUE DE VANUATU

VANUATU FOREIGN INVESTMENT BOARD



Private Mail Bag 030
PORT VILA, Vanuatu

URGENT

Telephone : (678) 2277
Facsimile : (678) 2564
E-mail : cdi@vanuatu.com.vu

FACSIMILE TRANSMISSION

Date: 7 September 2000

To Fax No: 25473

To: Mr. Rowan Downing, Technical Adviser, State Law Office, Port Vila

c.c. Mr. Ham Bulu, Attorney General, State Law Office

From: Howard Aru, Acting CEO

CONFIDENTIAL

Subj: *ISRAELI MONDRAGON PROJECT IN VANUATU*

.....

Dear Mr. Downing,

This is to convey to you on behalf of the Board our heartfelt appreciation and gratitude for your presentation and frank advice to the VFIB Board meeting of Friday 1st September 2000 on the above matter. We particularly acknowledge your strong advice to treat the project/investor with "extreme caution", and similarly for your offer, on behalf of the State Law Office (SLO), to assist the VFIB in carrying out due diligence checks on appropriate investors proposing to do business in Vanuatu.

In the meantime, we wish to urgently request if you could submit to us in writing the SLO's opinions and advice, with any relevant documentation for our records, in view of the position of extreme caution placed against the Mondragon Israel company/project proposal in Vanuatu.

We thank you and look forward to your prompt response in due course.

Yours sincerely

Howard Aru
Acting Chief Executive

DATE 07/09/00

**Geoffrey Gee
& Partners**

BARRISTERS, SOLICITORS AND NOTARIES PUBLIC

Second Floor, Raffea House, Kumul Highway
PO Box No.782, PORT VILA, VANUATU, SOUTH WEST PACIFIC
Telephone : (678) 22067, 23573. Fax : (678) 23710
E-mail: geoffgee@vanuatu.com.vu

Our Ref: 2097/JCM/ka

21 September 2000

The Ombudsman
PMB 081
PORT VILA

APPENDIX "N1"



BY HAND

Attention: Hannington Alatoa

Dear Hannington

RE: MONDRAGON

The Trading Post this week has advised the world at large you are investigating the above company.

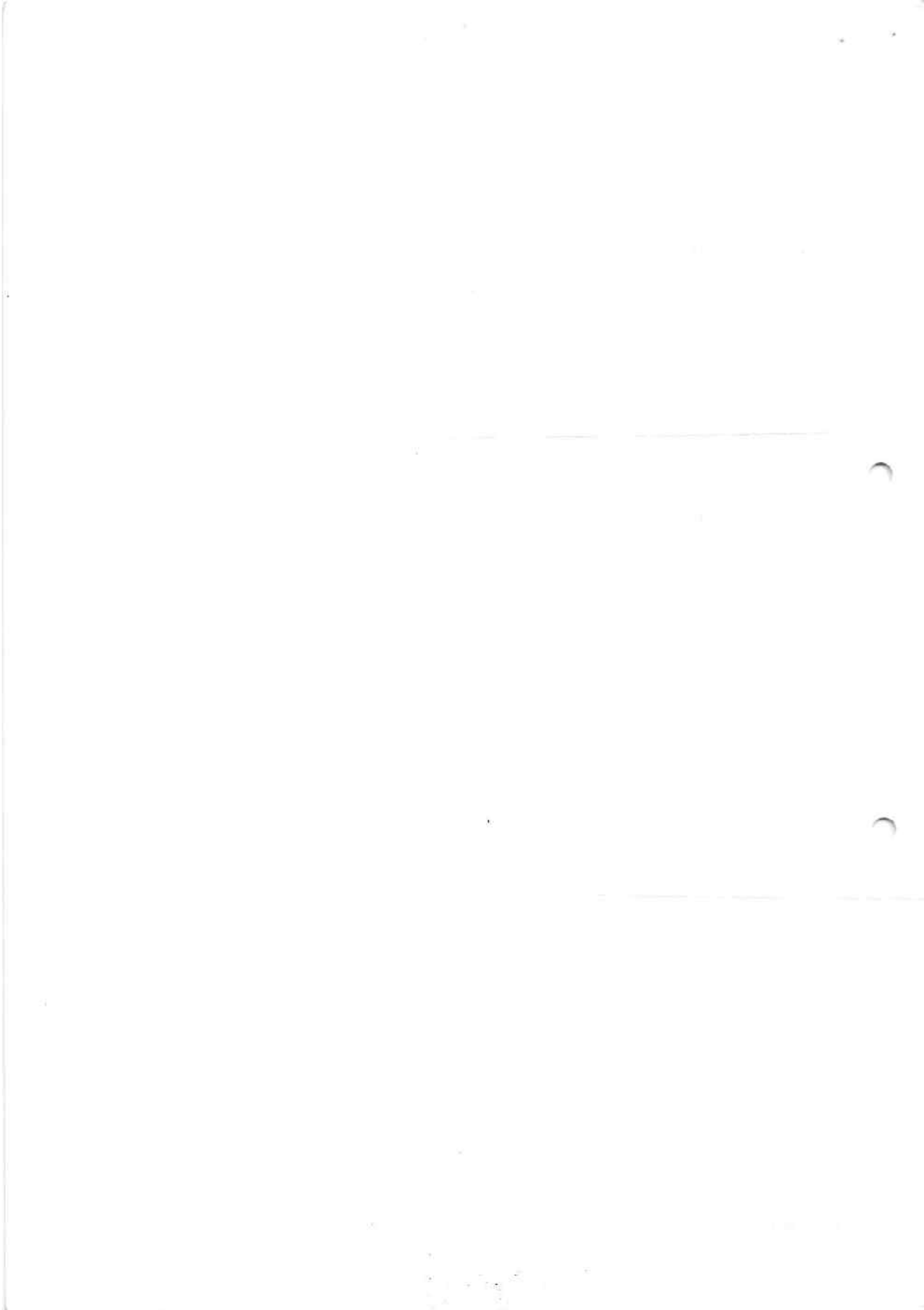
I am writing to advise I act for Mondragon and Stefan Mandel and we are currently completing Writ proceedings against Trading Post asserting defamation in respect to previous articles.

My client is in the process of providing me with documents to prove the wrongfulness of the T.P. assertions.

I am instructed to cooperate with you in any possible way and in particular assist with any such inquiry.

Could you please advise: -

- a) whether such inquiry is in fact taking place;
- b) whether I can have an appointment to discuss the allegations; and
- c) in what fashion I can assist and what documents I can provide to put this matter to bed once and for all.



"N1-1"

2/20

The Ombudsman
Page 2
21 September 2000

The unfortunate reality is the negative nature of the allegations is putting to risk a serious investor in Vanuatu.

Please advise.

Yours faithfully
GEOFFREY GEE & PARTNERS

A handwritten signature in blue ink, appearing to be 'JCM', written over a horizontal line.

John C Malcolm



FAXIN
25 9 00

APPENDIX "NNN"

REPUBLIC OF VANUATU
DEPARTMENT OF LANDS
PORT VILA



ATU LAND USE PLANNING OFFICE
anning for sustainable development

MINISTRY OF NATURAL RESOURCES MINES GEOLOGY AND RURAL WATER SUPPLY

P.O. Box 576, Port Vila
Phone: 27602 Fax: 27715

FROM: PRINCIPAL LANDS OFFICER
PLANNING AND ENFORCEMENT

LAND USE PLANNING SECTION
P O BOX 576
DEPARTMENT OF LANDS
MINISTRY OF LANDS AND NATURAL RESOURCES
PORT VILA
REPUBLIC OF VANUATU

TO: STEFAN MANDEL
MANAGING DIRECTOR
MONDRAGON
4 - 6 HATASSIYA ST
TEL AVIV
ISRAEL

DEAR MANDEL

RE: PROPOSAL FOR FREE TRADE ECONOMIC ZONE

We supply your company herewith the land use maps of the Island of Santo following a request from the Chairman of the Vanuatu Foreign Investment Board, Mr Roy Miki Joy.

The information on the maps are the latest and further details can be supplied upon request from yourself regarding any specifics as pertaining to the company's wish.

The maps as you can see with the legends are self explanatory.

Should you have any further queries, questions or need further clarifications on the maps or on any analysis you may require of us then do not hesitate to contact us through Mr Roy Miki Joy.

I do hope these maps will provide some useful information to your company.

Regards

EMIL MAEL





GOVERNMENT OF THE REPUBLIC OF VANUATU
GOUVERNEMENT DE LA REPUBLIQUE DE VANUATU



VANUATU FOREIGN INVESTMENT BOARD

Private Mail Bag 030
PORT VILA, Vanuatu

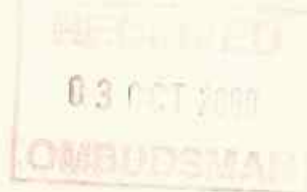
CONFIDENTIAL

Telephone : (678) 22770
Facsimile : (678) 25640

3 October 2000

Our ref: VFIB/19/283/ha/00

Mr. Alfred B Maho
Director of Leadership Code
Office of the Ombudsman
PMB 081, PORT VILA



URGENT

Dear Sir,

**Free Trade Zone Agreement Between
Vanuatu Government and Mondragon**

Reference is made to your letter dated 2nd October 2000. It is good to see that at least the Ombudsman's Office is proactively pursuing cases such as this.

To begin with, negotiations on this so-called investment commenced prior to my joining the Government back in 1995. Secondly, and most importantly, the MOU referred to in your correspondence was endorsed on behalf of the Vanuatu Government (by the former Deputy Prime Minister, Hon. Willie Jimmy Tapangararua in July 1999) prior to the VFIB Board's consideration, deliberation and independent decision on the project. The evidences of such 'MOUs' are not uncommon in Vanuatu. As such, I may frankly say that the Board's decision was in a way pre-empted.

Free Trade Zones (FTZs) are not uncommon trading facilities. These exist right across Asia, even in Fiji – in different forms. The general purpose of a FTZ is normally to act as an incentive to attracting export-oriented investments – which would thus lead to job creation, investments, etc, in the country concerned. Fiji for instance has a couple or more of similar zones which have lead to the employment of over 20,000 locals over the past decade.

I hope you do have a thorough understanding of the concept of FTZs to allow your acceptance of the fact that these are common throughout the world and are normally legal. Nevertheless, as pointed out by you in No.1, the matter as it relates to Vanuatu needs to be clarified.

May I therefore refer your office to contact the State Law Office and Department of Lands directly to obtain answers to your questions 1-3. Similarly, we request that you refer your questions 4-7 to the State Law Office to respond to via their Financial Intelligence Unit (FIU). The VFIB does not have the means and capacity (financial and human) to carry out such checks.

In response to your question 8, yes, the VFIB has IN PRINCIPAL approved the FTZ concept, but subject to case by case approval of various aspects of the project. No approval certificate has been issued to the investor(s) as yet. (We attach for your information and perusal copy of the letter issued to them on 28 July 2000.)

CONFIDENTIAL

URGENT

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"01-1"

Your question 9 is most interesting. I am aware from some verbal sources of the possibility of extraordinary financial transactions taking place in the country by Mr. Mandel while he was in Port Vila in July 2000. I do not have any documented proof of such transactions though. You may know people that may be involved, in which case may wish to contact them directly.

On my part, I will hide nothing but disclose to you evidence of my Chairman's request for Mr. Mandel to meet the cost of my participation fee at a training program in Ireland in June 2000. My Chairman, Mr. Joy, offered to arrange for this, and I accepted the offer "in good faith" according to Mr. Rowan Downing of the State Law Office (when I raised the matter up with him some four weeks ago).

This financial request came about after the PM's Office could not afford to meet the full cost of my participation in the program (please also find attached copy of correspondence to the PM's office for funding, dated 11 April 2000). Other than the participation fee (which was paid directly to the training institute), I wish to honestly and sincerely confirm that I have personally received no direct financial assistance from Mr. Mandel.

In general though, if in reality Mr. Mandel has paid money (other than for approved and genuine official reasons) to certain public servants, political advisors, Members of Parliament and Ministers, my personal opinion is that this may amount to fraud, bribery, corruption, dishonesty, and a clear 'pay off' for certain favours to the investor and his company. There is no other way of explaining it. I may be wrong.

I personally invited the State Law Office to address the VFIB Board at its monthly Board meeting held on 1st September 2000 after some discussions with their Technical Advisor. The State Law Office clearly warned of "extreme caution" in or against any future dealings with the Mondragon Group, and Mr. Mandel for that matter.

Last but not the least, pursuant to Section 22 (a) of the Foreign Investment Act No.15 of 1998, the VFIB Secretariat may provide to your office, files on Mr. Mandel and his company, to assist with the Ombudsman's Office's investigations on the issue.

Your concern to ensure transparency in all government dealings, especially pertaining to the VFIB, is acknowledged and appreciated to ensure genuine investors are brought into Vanuatu, and not scrupulous dealers. I personally am still doubtful as to the genuinity of Mr. Mandel and his group, and have personally alerted the staff of the VFIB on this.

We wish you success with your investigations.

Yours sincerely



Howard Aru
Acting Chief Executive
Vanuatu Foreign Investment Board



Private Mail Bag 030
PORT VILA, Vanuatu

GOVERNMENT OF THE REPUBLIC OF VANUATU
GOUVERNEMENT DE LA REPUBLIQUE DE VANUATU

VANUATU FOREIGN INVESTMENT BOARD

APPENDIX "P1"



Telephone : (678) 22770
Facsimile : (678) 25640
E-Mail : cdi @ vanuatu.com.vu

Mr. Alfred B. MAHO
Director for Leadership Code
Office of the Ombudsman
Private Mail Bag 081
Port Vila
Your Ref: 0285/0205/L14/rmj

11 OCT 2000
OMBUDESMAN

URGENT

9th October, 2000

Dear Mr. Maho,

FREE TRADE AGREEMENT BETWEEN VANUATU GOVERNMENT AND THE MONDRAGON INVESTMENT GROUP

I acknowledged receipt your letter regarding the above enquiry which reached my Office on the 2nd October, 2000 and which I am replying to as per your kind instructions.

Allow me to begin by thanking and congratulating you for the insights you have provided and the research you have undertaken into the entire matter and which I will now respond to on the basis of the issues and questions you raised in your letter and which I believe will no doubt assist your High Office in this enquiry:-

1. With the exclusive rights given to the Mondragon Group by the Government, and the statement in the Agreement that says "The area shall not be subject to the laws of the Republic." Does this indicate that Free Trade Zone area will be excluded from the jurisdiction of the National Constitution of Vanuatu?

According to my limited knowledge on law and the language used, I as Chairman of the Foreign Investment Board do not see the relevance of the Vanuatu Government granting an EXCLUSIVE RIGHT to the Mondragon to facilitate their proposed investments in the Republic as we are at the moment trying to address the issues associated with various exclusivity which was a practice done in the past and has incurred some substantial and unreasonable costs to the State and the people of Vanuatu. I am an advocate of free enterprise who believes in free competition and that in any business and commercial undertaking, there should exist a strong framework to encourage competition and reduce the costs and price of services to allow for efficiency and transparency as such.

The Exclusive Rights as mentioned in the Agreement does not in any way constitute under the National Constitution that the Mondragon Group will become immune

URGENT

"P1-1"

2/9

and not subject to the laws and other legal and administrative mechanisms applicable in the Republic. I would likewise think strongly that any investment or

business for that matter that intends to establish it's agency or subsidiary in the Republic must as a foremost be able to satisfy and meet the requirements of Vanuatu which is clearly spelled out in different laws and Acts such as the VFIB Act, the Business License Act, the Immigration and equally the Labor Act governing investments into Vanuatu.

The Vanuatu Foreign Investment Board does not encourage investments who wish to be granted EXCLUSIVITY unless agreed to by the Council of Ministers who are the supreme decision making body in the entire land.

I wish to further state that the Mondragon Group's proposed Investments was a subject discussed by the COM in the 1999 and 2000 period respectively and that a number of decisions and recommendations were subsequently taken and reached by the esteemed Council of Ministers in facilitating these proposals.

2. Is it going to be a separate State within Vanuatu, and does this statement indicate that the Government intends to create an area within the jurisdiction of the Constitution of Vanuatu to be free of any laws?

The creation of a Free Trade Area concept is one that is enshrined in the Ministry of Trade's portfolio, however has not been adequately addressed due to lack of commitment from the Government and also the costs structure of the economy which naturally makes Vanuatu a very expensive place to undertake substantial investments alike.

I do not possess any technical knowledge at this stage to be able to confirm whether a free trade zone would naturally be free from or even immune from the existing laws as provided for in the National Constitution. However, it would be of significant economic and trade interests to see a creation of a free trade zone in Vanuatu which is available in countries like Fiji for example which provides a substantial investment undertaking there and naturally a lot of employment benefits and opportunities to the local population and which is not available today in Vanuatu.

It would be interesting to note that after twenty years of independence, we are still relying heavily on foreign imports which contributes significantly to the high cost structure of the economy and likewise makes our exports and our products uncompetitive in the market place. I would like to think that once a free trade zone is established in Vanuatu, the Government must be seen to establish appropriate laws and framework to facilitate these investments and these would naturally require some fundamental changes and direction on the way the existing laws are written so as to allow some comparative advantages and benefits to the investors who take a lot of risks in coming to Vanuatu to invest their funds, not to mention the fact that in

3/9

"P1-2"

most cases, investments will take a longer time frame before profits could be realized.

I cannot confirm nor establish whether these free trade zones will operate under a separate regime as the prevailing laws at the moment does not make or provide any provisions for these types of businesses.

3. Can you name a place in the world where such similar project operates successfully?

To some extent and depending on the different nature of these Free Trade Zones, I can confirm that similar schemes are operating very successfully in places like Fiji and Mauritius- two small island economies who are gradually becoming a powerhouse for the production and manufacturing of garments and textiles industry and which has contributed very significantly to their economies and equally has allowed them to extract major and substantial tax and duty concessions from the Lome IV Convention which they have with the EU market.

Of course the success of the proposed free trade zone would be determined by the laws in-place and importantly the support and technical assistance that the State of Vanuatu is willing to offer and give to the investors to make the project workable. It would be pointless to have to create a FTZ without much needed support and Government intervention at the outset, otherwise we can all forget about this concept.

4. How much money has this scheme raised overseas in selling shares for the lands in Vanuatu to interested investors?

I would not have a slightest clue or idea on this question. I suggest you liaise with the Mondragon Group to ascertain the exact and if possible the realities surrounding this matter.

5. How many interested investors have already joined the scheme?

Likewise, I do not know the exact numbers of investors who may have joined this scheme and would not be in a position to comment.

6. Could you confirm and clarify whether the details to prove that money raised in such a way could benefit the land owners of Big Bay and the Government of Vanuatu?

From an economic point of view, indeed monies that would be raised in such a scheme would benefit the people of Big Bay by way of building additional schools and clinics as well as providing some employment opportunities to supplement the already depleting cash economy in Santo. However as per your questions to prove that any financial transaction will benefit the people of Vanuatu, I can respectfully

4/9

"P1-3"

propose that at the moment we can only make assumptions and theories on what would be the gains to Vanuatu in this respect as it is too premature to start jumping at conclusions as to what exactly will emanate from these investment proposals.

For Vanuatu to portray itself as a genuine investment climate, I believe it is in our best of interests to collaborate together to attracting bigger and wider capital flows into Vanuatu as presently we are witnessing a very low and minimal volume of investments and capital flows into Vanuatu and which could be attributed to the absence of adequate infrastructure and legislation to facilitate and attract these substantial investment flows into the Republic.

7. Who controls all the funds raised through this scheme?

Sorry, I am not in a position to answer this question given my limited knowlegde on the scheme and of course the fact that my Office is in no way to act or be deemed as a custodian to the funds. I believe the rationale of how the funds are used if any, should be a matter to be decided for by the Group and the investors alike.

8. Has the VFIB approved the Mondragon Group's application to invest in Vanuatu?

I wish to further reiterate Mr. Howard ARU Acting CEO in the VFIB Secretariat comments here that the VFIB has in principle approved an application establishing the Mondragons interests into investing in the Republic. However, I wish to confirm that no particular category of license has been issued as yet and will only be considered when the Mondragon Group has decided as to what type of specific business activity they would be interested in investing in.

9. We have evidential prove that some public servants, political advisors, Members of Parliament and Ministers have requested personal assistance from Mr. Stefan MANDEL of the Mondragon Group. As the Chair of the VFIB what are your opinions and views on such practices and actions?

The fact that some Leader's in Vanuatu as you claimed have requested some personal assistance from the Head of the Mondragon Group remains solely and purely a discretion between Mr. Mandel and the individual as such.

I do not have any recollection or record of whether these claims can be verified and deemed as the truth as it is not my duty to ensure that any personal deal between a particular individual and Mr. Mandel for that matter should be of interests or concern to the Vanuatu Foreign Investment Board, particularly when the Mondragon Group was initially introduced to some leaders of this country some ten years ago as reported in the Trading Post Newspaper recently.

If some individual or Groups are receiving some benefits from Mandel, then I think it is up to your Office to establish and confirm the realities surrounding this matter and controversy.

"P1-4"

The VFIB is a reputable and equally important institution and maintains a consistent and effective approach in dealing with potential investors and is conscious of the likelihood of bribery and corruption arising from various investors and has maintain a very cautious approach in dealing with such clients. Most of the VFIB Board members are very senior Public Servants who occupy very responsible and key positions and would not allow such act of corruption to filter into the functions or the premises of the Board as such and which would naturally damaged the reputation of the Board.

10. We have also received information that you were a member of the delegation that was entertained by the Mondragon Group at the Ritz Hotel in London in 1999 in which the former DPM Hon. Willie JIMMY signed a Memorandum of Understanding (MOU) with the Group. Can you provide to us the details of the Memorandum that was signed?

Indeed an MOU was signed between Hon. Willie JIMMY on behalf of the Government of Vanuatu and Lord Keyes and Mr. Mandel representing the Cody/Mondragon Investments Group. This MOU was signed as a basis of providing a framework as to how the Mondragon Investments into Vanuatu will be undertaken in closer consultation with the relevant Authorities.

The MOU was signed and initialed in London after some intense negotiations with respect to the text of the MOU and other important provisions between the Attorney General of the Republic of Vanuatu Mr. Hamison BULU and Mr. Carmen NAFTALI who is the legal advisor to the Mondragon presiding over the matter at that time.

It was in my opinion that the advise and the necessary amendments incorporated into the MOU were according to the Attorney General, basic instruments that does not in any way or manner commit Vanuatu to any substantial undertaking as far as the project was concerned and could only form a basis of some clear understanding as to how the proposed investment projects will be implemented. The delegation to London did comprised of some very influential authorities including the Attorney General Mr. Ham BULU and the Director General of the Ministry of Trade Mr. Georges MANIURI whom the Deputy Prime Minister then Hon. Willie JIMMY TAPANGA -RARUA had total confidence and support in them to provide timely and sound advise before he could sign the MOU proper. This advise was provided to the Deputy PM at that time before he proceeded to sign the MOU.

11. Any other documents or information that you consider relevant to this matter.

I have no further document nor submission pertaining to the matter apart from the MOU copy which is attached for your kind perusal and information accordingly.

I wish to thank you in advance for the cooperation in dealing with this enquiry and hope that it would assist entirely in your investigation on this matter and should you

"P1-5"

require more information in this regard, please do not hesitate to contact or consult us.

Yours Sincerely,



Roy Mickey JOY
Director of Trade, Industry and Investment
Chairman- Vanuatu Foreign Investment Board.

Honourable J.R. Willie Jimmy

(Minister of Finance 1991 - Feb 1996)

Member of Parliament

P.O. Box 684,

Port Vila,

Republic of Vanuatu.

Am

1/6

APPENDIX "Q1"



October 11th, 2000

Mr. Alfred B. MAHO
Director of Leadership Code
Office of the Ombudsman
PMB 081
PORT VILA

Dear Sir,

**RE.: FREE TRADE ZONE AGREEMENT BETWEEN VANUATU
GOVERNMENT AND MONDRAGON**

Thank you for your letter of 2nd October 2000 reference 0281/0205/L14/wj in which you requested my assistance where possible in the above matter.

To assist as requested, my responses are as follows :

1. Yes, I am aware that Hon. Serge Vohor did sign an agreement of some sort with the Company in Australia, back in 1991, but cannot remember or confirm whether it was BRAMAD Pty Ltd.
2. I don't know who authorized him to sign the agreement on behalf of the custom owners.
3. I cannot confirm whether UMP received the full amount of US\$ 150,000.00 in exchange for the 80,000 hectares of land to be leased out to the said company.
4. I cannot confirm that it was the same Lease Agreement sold to CODY Investment and then to MONDRAGON Group which was originally signed by Serge Vohr in 1991, because I was not present to witness the decision taken by the Company shareholders to sell the contract from one to another.
5. I do not know how much money was raised between the three companies because that is a private matter.
6. The Attorney General may be in a much better position to advise you on the question as to whether the "Free Trade Zone" area will be excluded from the jurisdiction of the National Constitution of the Republic of Vanuatu.

2/...

7. Same response to this point as in Point 6 above.
8. I am not aware of any.
9. Yes, I did sign a Memorandum of Understanding in London in 1999 in front of the Attorney General, Mr. Ham Bulu at the time of signing.
10. See copy attached.
11. My letter to Stefan Mandel of 7th December 1999 is mandatory, of which I hope you already have a copy.
12. Again, my letter is mandatory, there is no need to comment further.
13. Since my letter of 7th December I have not been able to receive any single help of any sort from Stefan Mandel, to this time.
14. I have not been paid any money in cash in London since signing that Agreement except the cost of our airfares and hotel accommodation during our stay in London which were all paid for by Cody Investments and Mondragon Group.
15. I have no idea.
16. I have no idea.
17. Landowners can benefit from this project under the following conditions :
 - 1) Premium payment on the land lease area to custom owners
 - 2) Joint venture with the Mondragon Group
 - 3) Employment opportunities
 - 4) Better education facilities
 - 5) Better health facilities
 - 6) New urban centre for Big Bay people
 - 7) Better roads, wharves and transport system
 - 8) Market for local produce on the doorstep for Big Bay residents
 - 9) Provincial Government and Central Government will benefit by receiving extra income through business licence fees, registration of new companies, taxes on import/export, VAT, Stamp Duty, tourist dollar, etc.
18. I have no idea, nor is it my business to know that either.
19. You may care to enquire with VFIB whether Mondragon Group's application to invest in Vanuatu has been approved. It is eleven (11) months since I left the Government office and am no longer in charge of VFIB.
20. I have no idea of any other relevant document which I consider appropriate that may be of further assistance to you in this matter.

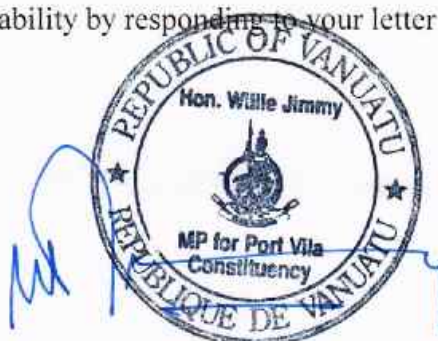
Conclusion

I draw the attention of the Ombudsman to paragraph (2) of the Memorandum of Understanding on page 1 of what has been discussed and agreed to in London. Nothing whatsoever contained in the Memorandum can be implemented unless it has obtained the relevant approvals from the appropriate authorities in Vanuatu and has complied with all relevant laws of VANUATU.

So, please do not sabotage these investors' interest to invest in Vanuatu through your reporting in this matter.

I hope I have assisted to the best of my ability by responding to your letter of 2nd October 2000 on this issue.

Yours faithfully,



Hon. Willie Jimmy TABANGA RARUA
Member of Parliament - Port Vila

Encl.

REPUBLIQUE DU VANUATU

SERVICE DES TERRES
PORT VILAMINISTERE DES RESSOURCES
NATURELLES

REPUBLIC OF VANUATU

LANDS DEPARTMENT
PORT VILAMINISTRY OF NATURAL
RESSOURCES

N -O Ref: LD:

V - Y

Ref:

Date: Thursday, 12 October, 2000

Alfred B Maho
Director of Leadership Code
Office of the Ombudsman
PORT VILA



Dear Sir,

Subject: FREE TRADE ZONE AGREEMENT BETWEEN VANUATU GOVERNMENT AND
MONDRAGON

Thank you for your letter regarding the above matter in which you required some information from myself to assist your office in your inquiry into the agreement between Mondragon and Vanuatu Government.

With regards to your request, I have the pleasure in forwarding the following responses:

1. Though I have heard of this agreement, I have not seen any document or copy of the said agreement. I have obtained another document, however, this document does not mention this agreement. (I am no longer in possession of this document as someone has removed it from my desk in the office)
2. AS I have not seen any agreement regarding this, I cannot answer to your question as to whether there is going to be a separate state, or that the Government intends to create an area within the jurisdiction within the Constitution of Vanuatu to be free of any law.
3. Mauritius
4. I do not know
5. I do not know
6. I have heard that money will be raised, but I do not know by what means or how and therefore, do not know if the money raised will benefit the landowners and the government. I have absolutely no idea.
7. I do not know
8. The VFIB only approved the concept of the Free Trade Zone but NOT the Mondragon application.
9. Yes, I have requested for financial assistance from the group but NOT for personal assistance.

I have requested 150,000 vatu.

This money was used to finance some government officers to travel to Santo to carry out the feasibility studies and



RECEIVED
23 DEC 2000
OMANISMAN

"R1-1"

2/2

awareness meetings regarding this Free Trade Zone Proposal. The reason why I requested this money was because the Lands Department does not have sufficient fund to pay for the feasibility study. It was also important that this study be conducted for technical assessment purposes to assist the government and the landowners of knowing the advantages and disadvantages of such an important undertaking.

It was also important for the Government departments to respond immediately and carry out their respective duties as bestowed upon them to advise the Government on such matters.

The money that I requested was use for the purpose of the technical assessment, study and public awareness by the officers of the Lands Department, Land Use Planning Office, Environment Unit and the SANMA Province.

This money was requested NOT by myself but by the Director of Trades and Commerce on our behalf.

10. I have no further information or any document regarding this.

Sir, all I was interested in was to carry out our departmental study, assessment and to run awareness workshops with the people to be affected by this proposal and to advise both the landowners, SANMA Province and the Government on the advantages and disadvantages of this important proposal.

I think I have provided you with all that I can and I hope that they will assist you in your inquiry.

Thank you


Emil Mael
Acting Director







Nigel

GOVERNMENT OF THE REPUBLIC OF VANUATU
GOUVERNEMENT DE LA REPUBLIQUE DE VANUATU

VANUATU FOREIGN INVESTMENT BOARD



Private Mail Bag 030
PORT VILA, Vanuatu

→ Mondragon

Telephone: (678) 22770
Facsimile: (678) 25640
E-Mail: cdi@vanuatu.com.vu
Web Address: www.vfib.com.vu

APPENDIX "U1"

COPY

3 April 2001

Our ref: VFIB/201/25/ha/01

Hon. Maxim Carlot KORMAN (MP)
Minister of Lands
Ministry for Lands
PMB 007
PORT VILA

URGENT

Dear Honourable
Minister,

Re: ENDORSEMENT OF LAND LEASE
BIG BAY PROJECT

First of all, we wish to thank you most sincerely for all the support you have accorded to various land-based investment projects in Vanuatu since the establishment of the Vanuatu Foreign Investment Board (VFIB) back in September 1998. Your fervent support to attract and keep good investments and investors in this country in fact goes back earlier prior to 1998, notably when you were Prime Minister of the Republic of Vanuatu.

We wish to kindly highlight to you the above project – the Mondragon initiative – which as of Thursday 29th March 2001, was signed between the Mondragon company and seventeen (17) key landowners of Santo, notably of the Big Bay area.

We understand that Principal Lands Officer Mr. Emil Mael has been in contact with the Ministry of Lands to have the relevant land lease signed by the Honourable Minister of Lands, but has received no positive response as yet.

In view of the magnitude and importance of this project and the fact that the Mondragon project proponent has awaited this land lease since last week, we urge the Hon. Minister to consider and sign the land lease which, as far as the Department of Lands is concerned, is in order and all legal considerations are likewise in order. This project will benefit not only the people of Santo but Vanuatu as a whole.

"U1-1"

Hon. Minister, Vanuatu has not witnessed too many big projects implemented in Vanuatu for quite some time now. The one in question has the potential to generate jobs, revenue and total investment in Vanuatu as a whole, regardless of who is in government. It will provide long term benefits to the country in general.

We thank you for your consideration of this request and once again request your support, recognition and endorsement.

We kindly await your prompt response to the above.

Yours sincerely



Howard Aru
Chief Executive Officer
Vanuatu Foreign Investment Board

Copy : Mr. George Tambe, Director, Dept Lands
: Mr. Emil Mael, Principal Lands Officer, Dept Lands
: Mr. Michael Mangawai, Acting DG, Ministry of Lands
: Mr. Roy M Joy, Chairman, VFIB



Private Mail Bag 030
PORT VILA, Vanuatu

GOVERNMENT OF THE REPUBLIC OF VANUATU
GOUVERNEMENT DE LA REPUBLIQUE DE VANUATU

VANUATU FOREIGN INVESTMENT BOARD



Telephone: (678) 22770

Facsimile: (678) 25640

E-mail: investment@vanuatu.com.vu

Web Address: www.vfib.com.vu

Our Ref: VFIB/23 /113 / JKo/01

9th April 2001

To: **Mr. George Tambe**
Director
Lands Department
Port Vila

URGENT

Dear Mr. Tambe,

**Subject: MONDRAGON VISIT TO SANTO: LEASE AGREEMENT WITH
BIG BAY LAND OWNERS**

I wish to express my utter disappointment over an article on the Trading Post midweek issue on page 2, regarding the Mondragon visit to Santo. At the outset I wish to say that the article as seen to be quoting your Land Valuation Officer, Mr. Alick Karmelu who was part of the strong delegation to Santo, was largely inaccurate. I question how can he categorically claim to the Trading Post that the lease documents which have been signed between the investors and the landowners of Big Bay be "unofficial"? The documents were prepared by Mr. Alick Karmelu himself with comprehensive verification and editing from the Senior Rural lands Officer based in Santo, Mr. Robin Toka and the Principal Lands Officer, Mr. Emil Mael who collectively represented the department of Lands for that matter. The claim that the signed documents are unofficial is a misleading statement, which can discredit the investors and create uncertainty to the chiefs who have collectively committed themselves to the signing of the lease agreement and are immensely enthusiastic to see the project be implemented within the next couple of months in their land.

The fact that the chiefs and landowners have granted approval after a long period of negotiation done by the Principal Lands Officer, and the Big Bay Chief's representative Mr. Leon Kathy, which has consequently led to the signing of the agreement to lease the land, will raise questions of credibility, reliability and confidence on work and duties of land officials who are supposed to be providing professional, sound and technical advice on important and substantial projects as such.

"UUU2-1"

Mr. Alick Kalmelu as a former employee of the Trading Post Newspaper should in the future ascertain his facts and figures prior to disseminating information to the Trading Post

It is fundamentally important that news and information to the press regarding sensitive issues must be factually correct and must be based on solid evidences, which are the important basic elements of reality. Enormous work done by VFIB and the land officers as well as the Chiefs and land owners and equally the investors must not be seen to be a waste of time, and such information must be intelligently disseminated so that it does not tarnish the image of Vanuatu, given the current impending political situation.

I am not sure whether Mr. Alick Kalmelu was mandated to disseminate such information, when one of his superior Mr. Emil Mael, who is the Principal Lands Officer, who is more competent in such matters, was also part of the delegation.

By copy of this note, I wish to request you as the Director of lands, and a faithful member of the VFIB, to instruct Mr. Kalmelu to retract the article in this paper, and present a more accurate and positive picture to the public as enormous amounts of time, effort and money has already been invested in Vanuatu for this huge project in the history of Big Bay

I will not tolerate government officials providing unfounded information to the local newspapers which does not help, but rather destroying confidence we are trying to build amidst the political impasse before us.

I thank you for your understand regarding this matter

Yours sincerely,
Vanuatu Foreign Investment Board



Roy Mickey Joy
Chairman

CC Mr. Michael Mangawai, Acting DG, Lands Department,
Mr. George Maniuri, DG, Trades and Business Development
Mr. Emil Mael, Principal Lands Officer
Robin Toka, Senior Lands Officer, Santo (Fax: 36986)
✓ Howard Aru, CEO, VFIB

NTSU File 22/4/01
APPENDIX "UUU3"

COPY

GOVERNMENT OF THE REPUBLIC OF VANUATU
GOUVERNEMENT DE LA REPUBLIQUE DE VANUATU



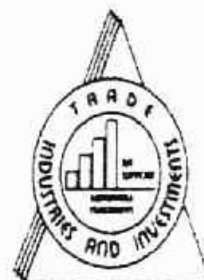
DEPARTMENT OF TRADE, INDUSTRY AND INVESTMENT

SERVICE DU COMMERCE, DE L'INDUSTRIE ET
DE L'INVESTISSEMENT

Port Vila : P.M.B. 030 - Telephone : (678) 22770 / 24 980 - Fax : (678) 25640

Email : trade@vanuatu.com.vu

Santo : P.O. Box 230 - Telephone/Fax : (678) 36046



Mr. Alick KALMELU
Land Disputes - Resolution Officer
Department of Lands and Resources
Private Mail Bag 090
Port Vila

23rd April, 2001

Dear Mr. Kalmelu,

Re : Lease Agreement between the Mondragon Group and the Big Bay Landowners

I acknowledged receipt your letter of 11th April, 2001 with respect to the above subject matter and which purports to attempt to clarify the issues surrounding this proposed major investment which you sent to the Trading Post a few weeks ago.

I wish to thank you for the retraction you and Mr. Emil MAEL, Principal Lands Officer have jointly submitted to the Trading Post to correct the article and likewise portray a more positive image to the Big Bay Landowners that their undertakings with the proposed investors is done in a genuine spirit and the only difficulty that we face at that time is the fact that the outgoing Lands Minister does not want to sign the Schedules to Lease the proposed Land area although he was given an opportunity as well as a proper brief by Technical Experts in the Lands Department that the proposed schedules were in order and did satisfies all the Land Lease Act provisions and laws.

On the issue of the legality of the "Agreement to Lease Land" I suggest that instead of pondering on other petty issues as in the recent past, I strongly propose that you assist both the Director of Lands and the Principal Lands Officer with a view that the proposed Land Lease Arrangement as submitted by the Landowners and the Investors is considered by the new Minister of Lands as a matter of priority so that initial work on the project can commence without further delay.

As far as your query on whether you should inform the Trading posts again on the fact that whilst the Agreement to Lease is Official but not necessarily legal, I wish to frankly suggest that you forget about the media and perhaps assist us in the facilitation of these investments as Vanuatu is renowned for investors coming to make promises but cannot realistically implement their investment plans due to the fact that they are broke- so whilst we have this opportunity to attract the Israelites to our shores, perhaps it would be

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in our national interests to assist equally in facilitating and coordinating these investments into Vanuatu.

You have all along played an instrumental role in the development of the proposed Big Bay Project and I would strongly encourage you to continue by supporting them rather than being seen as an impediment to the entire process as it must be noted that most of the Big Bay Land owners who actually signed the documents are not amused by the recent article that appeared in the Trading Post, before the retraction was done.

I hope this clarifies the issues and wish to thank you for your kind understanding and cooperation in this regard.

Yours Sincerely,



Roy Mickey JOY

Director of Trade, Industry and Investment
Chairman- Vanuatu Foreign Investment Board.

- cc- Mr. Georges MANIURI- Director General of Trade
- Mr. Michael MANGAWAI - Acting Director General of Lands
 - Mr. Emil MAEL - Principal Lands Officer
 - Mr. Robinson TOKA - Senior Rural Lands Officer, Santo
 - ✓ Mr. Howard E. ARU- Chief Executive Officer, VFIB
 - Mr. Leon Kathy WARSAL, Santo (Fax- 36125)
 - Mr. Johnny KOANAPO- Senior Promotions Officer, VFIB

AM

APPENDIX "UUU4"

Department of Forests
PMB 004
Luganville
Santo

FAXIN
22/06/01

22 June 2001

The Prime Minister
Edward Nipake Natapei
Prime Minister's Office
PMB 053
Port Vila

Honourable Prime Minister, Edward Nipake Natapei,

Leta blong Talem Sore From Fasin blong No Kantaktem ol Man Konsen bifo mi raitem Leta we Ol Jif blong Big Bay Solwota
Ol Sainem blong Agensem Israel (Mondragon) Projek

Honourable Prime Minister, bifo mi talem sore blong mi igo long yu mo :- Leo Kathi, ol Jif, ol Sanma Provinsel Kaonsel, ol Civil Servants, ol NGO's, Leader blong Opposition, , Judicial Services of the Republic of Vanuatu, ol Honorable Ministers, Honourable Deputy Prime Minister Honourable Prime Minister, President blong yumi, His Excellency, Father John Bani, mi wantem ekkspkenem hao mi bin tek pat blong raitem leta ia, we ol Jif blong Big Bay solwota oli sainem blong agensem Israel (Mondragon) projek long Big Bay eria.

Mi nem blong mi Simon Ariyaw Nompunwar Naupa, mi blong Erromango, mo mi wok long Department blong Forestry.

Long saed blong wok long Forestry, mi lukautem eria blong yumi long Big Bay, wetem Hog Harbour mo Port Olry.

Mi bin mekem Forestry awenes toktok, mo mi wokabaut long Big Bay (Pelulup go kasem Batmel kam bak kasem Malao), stat long 27 May kasem 13 June 2001.

Mi bin tokabaut mein wok blong Forestry mo luluk blong Dipalmen long fluja blong kaontri blong yumi Vanuatu, jenerol situsen blong ekonomu mo politik long kantri, mo mi askem ting blong olgeta manples long Israel (Mondragon) Projek.

Folom wokabaut ia, Jif John Wartapuret blong Perau i bin rekwest long mi olsem ofisa blong Forestry blong kampani Santo Venter & Timber Ltd., i kam katem wud mo mekem rod (we hemi stamba tingung blong kampani i kam).

Taim mi mo Jif John i kasem Pesena ol manples mo sam Jif oli askem se bai mi helpem olgeta blong raitem leta blong askem Gavman mo Santua Provins blong mekem rod blong trak iko long ol vilej we rod ino kasem olgeta yet.

Mi bin askem tingting blong Jif Emille Wola, long Batmel/ Ormorteve, abaut Mondragon hem i bin askem se bai mi help blong raitem wan leta blong askem Israel (Mondragon) projek long Big Bay eria, mo bai ol Jif oli sainem.

Mi bin agri long tingting ia, mo taim mi stap kam bak mi bin talemaot mo askem long ol wanwan Jif mo manples, afta long ol awenes toktok, (mo long sam vilej olsem Pelulup, Tsereviu, Malao mi talemaot tingting ia long ol wanwan Jif nomo).

Taim mi kasem bak long Luganville, mi raitem leta ia mo faxem (20th June 2001) long Office blong yu Honourable Prime Minister mo olgeta Government Departments mo Ministries, mo ol NGO's mo ol Kaonsel blong ol Jifs blong yumi

Ino cvri wan, ognisesen i kasem leta ia tru long fax (espeseli Ofis blong Malvatumauri Nasonal Kaonsel Blong ol Jif, Police HQ Northern Region, Foreign Investment Board, Fisheries Department, Agriculture Department, Forestry, NKDT, VANGO)

Honourable Prime Minister, hemia nao stori blong leta ia.

.....

"uuu4-1"

June 22, 2001
Page 2

Honorable Prime Minister, folem leta ia Mr. Leo Kathi, i bin kasem wan kopi, mo hemi kam luk mi long ofis blong Forestry, long tasde morning (21st June 2001), hem ibin kros tumas long mi from leta ia.

Mr. Leo Kathi, i talem long mi blong mi folem hem igo long Police station, mitufala i bin go long Police Headquarter, Northern Region, mo toktok wetem Sergeant Donald.

Honorable Prime Minister, mi andastand so plante man bai oli talem se mi olsem Public Servant mi mekem wan wok we ino blong mi blong mekem be blong narafala man (even Mr. Leo Kathi i bin talem toktok ia).

Honorable Prime Minister, long tingting blong mi yet, olsem wan Civil / Public Servant, mi bin luk se mi stap long wan posisen we mi save helpem manples blong Big Bay solwota, blong karem blong ol tingting blong olgeta, i kasem yufala ol Lidas long ol Vilej, ol Eria, Provins, ol Departments mo Nasonal level.

Tastawei mi bin agri blong raitem leta ia, be nomo bigfala wrong we mi bin mekem, mi no bin kontaktem yufala ol Lidas blong ol Vilej, ol Eria, Provins, ol Departments mo Nasonal level mo ol man we oli wok wetem Mondragon (olsem Mr. Leo Kathi) fastaim.

Honorable Prime Minister, ol tingting we ol stap long leta we ol Jif oli sainem, hemi ol tingting blong ol manples long Big Bay solwota, wan ting we mi talemaot long olgeta hemi about right blong ol minirel we i stap long kraon, se gavman i gat rait blong blong minirel be ino manples, plante oli no glat nating long tingting ia mo oli bin agri se tinting ia bai i stap long leta.

Honorable Prime Minister, sapos mi brekem eni Rul, Regulation, Loa, Protocol / procedure blong wok olsem wan Public / Civil Servant, then bai mi mas rere blong fosem eni aksen agensem mi, folem fasen blong blong raitem leta ia, mo no talemaot fastaim bifo mi raitem.

Honorable Prime Minister, folem toktok blong mifala Mr. L. Kathi, i talem se long tasde (21st June 2001) nomo hemi mas luk wan leta blong talem sore long evri wan konsen, we bai mi raitem.

Mi bin talemaot se bai mi talem sore nomo from fasen we mi no bin lukim mo storian long hem fastaim, bifo mi raitem leta ia mo faxem igo aot.

Honorable Prime Minister, mi Simon Ayauwi Nompunwar Naupa, mi talem sore tumas igo long yu mo: - ol Jif (Suponaititana mo Malvatu mauri), Sanma Provinsel Kaonsel, (President, ol Kansela mo Kansela blong Big Bay), MP blong Big Bay, ol NGO's (NKDT & VANGO) ol Department blong Gavman konsen, Leader blong Opposition, Ol Honorable Ministers konsen, Judicial Services of the Republic of Vanuatu, Honorable Deputy Prime Minister, President blong yumi, His Excellency, Father John Bani,

mo tu big fala tok sore igo long ol man we oli wok wetem Mondragon, espeseli Mr. Leo Kathi, from we mi no bin kontaktem fastaim yufala ol Lidas mo Big man konsen, blong save: -

1. Tingting blong yufala
2. Mea wok blong Mondragon long Big Bay eria
3. Eria we Mondragon bai iwok long hem long Big Bay
4. Mo eni nara samting we i nid blong save about Mondragon

Honorable Prime Minister, sapos mi bin stap askem fastaim bae mi fainemaut se klosap evri Jif we oli sainem leta ia eria blong olgeta ino stap long insaid long eria we oli letem, long Mondragon blong i wok long hem.

Honorable Prime Minister, mi bin lanem wan lesen long wan rod we i bin strong lelebet, hemi mekem mi luksavo fasen blong mekem wok folem stret fasen blong hem (olsem karem tingting long narafala said bifo raitem leta).

Mi askem yufala cvriwan blong akseptem ol sore toktok blong mi wetem glad blong yufala, mo Spirit blong forgiveness we Hae God, Papa blong yumi i soem long yumi thru long dead blong Pikinini blong Hem mo Master blong yumi Jesus Krai (Ephesians 4:32).

Honorable Prime Minister, krai blong mi nomo long behaf long olgeta Manples long Big Bay solwota, se yufala ol Nasonal Lidas mo ol Big man, i harem save tingting blong olgeta konsenem Mondragon.

"uuu4-2"

June 22, 2001

Page 3

Honorable Prime Minister, mi wantem finisim toktok blong mi wetem wan toktok blong Wise King Solomon, we Papa long Heaven i bin Blessem hem wetem waes blong save long toktok blong Hem we i talem se "Stretfala fasin bai i save leftemap wan kaontri, be fasin noged bai i save daonem wan kantri" (Proverbs)

Honorable Prime Minister, mi talem tankiu tumas, long attensen blong yufala evriwan ol Lidas mo ol Big man konsen, and may Papa long Heaven i Blessem yumi evriwan akoding long will blong hem yet long laef blong yumi wanwan.

Yours faithfully,



Simon Anyawi Nompunwar Naupa

Cc: Christian Maliu; MP, James Imbert Chairman, Big Bay Kaonsel blong ol Jif

Supernatutano Kaonsel blong ol Jif; President blong Malvatumauri Nasonal Kaonsel blong ol Jif, Jif Tom Numake President,

Sanna Provins, Mr. John Lum; Police Headquarters, Northern Region; VMF, Northern Region;

Ombudsman Office, Northern Region (Santo office); Minister of Internal Affairs, Hon. Joe Natuman

Environment Unit (Santo Office) Department of Lands (Santo) Department of Geology and Mines

Minister of Lands, Hon. Sela Molissa;

Department of Trades (Santo); Minister of Trades & Deputy PM, Hon. Serge Vohor

Vanuatu Foreign Investment Board, CEO, Mr. Howard Aru

Department of Finance & Economic Management;

Minister of Finance & Economic Management, Hon. Joe Carlo

Department of Infrastructure and Public Utilities

Minister of Infrastructure and Public Utilities, Hon. Jacklyn R. Titik;

Foreign Affairs Department; Minister of Foreign Affairs, Hon. Jean Alain Mahe;

Department of Agriculture, Forestry and Fisheries;

Minister of Agriculture, Forestry and Fisheries, Hon. Willie Posen

Minister of Ni-Vanuatu Business, Hon. Daniel Banglor;

Opposition Leader, National Parliament; Mondragon Ltd. Manager, Stephan Fernandez

Nasional Komuniti Developmen Trust (NKDT)

Vanuatu Association for Non Government Organizations (VANGO);

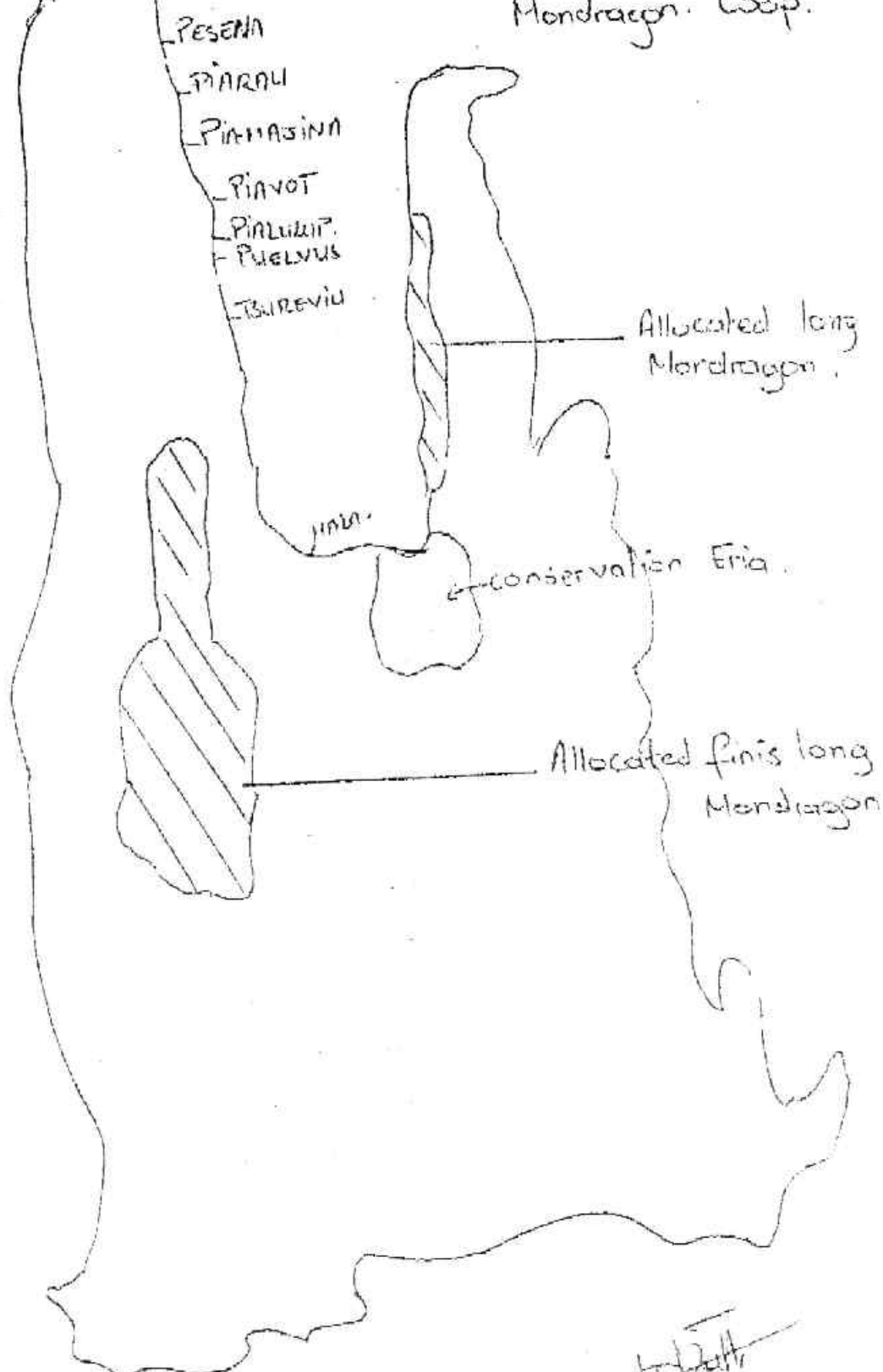
State Law Office Department of Judicial Services (Santo)

Head of State, President of the Republic of Vanuatu, His Excellency Father John Bani;

"uuu4-3"



Map we i soem uanum
Kaon nas ol kaistem
ona oli kivim long
Mondragon. Coop.



[Handwritten signature]

APPENDIX "V 1"

Our Ref: WL:LL

29 June 2001

TO: MR ALFRED MAHO

FROM : WAYNE LAMB

RE: STEFAN MANDEL/MONDRAGON GROUP

1. Stefan Mandel was declared bankrupt on 17 August, 1995. Kenneth Wayne Lamb was appointed Trustee of Bankrupt Estate.
2. Stefan Mandel was not living in Australia when the bankruptcy occurred.
3. Mandel was made bankrupt on petition of Regal Life Insurance Co. Ltd which was owed in excess of \$500,000.00 Australian.
4. The debt owing was commissions for life insurance policies sold.
5. Stefan Mandel's wife, Kathleen Mary Mandel was made bankrupt as well on the same date.
6. Mandel used to live in Australia and had adjoining properties at 12 and 14 Summit Drive, Eaglemont. These properties were sold by mortgagee in possession and no equity was available to creditors.
7. Mandel was living in Oradere and Bucharest, Romania during his bankruptcy.
8. One contact point for him was :

C/- M. Fairbairn
197 Knightsbridge
London. England

9. The addresses in Romania were:
 - (a) Str Popa Sauli, 5
Bucharest Romania
 - (b) Str Nicolae RA 10th Nr 16.18
Apt 13, Bucharest, Romania
10. Kathleen Mary Mandel lived in Israel during the bankruptcy at:

3 Engedi Str AP 4
Herzlyia Israel

"V1-1"

Kathleen Mary Mandel lived with husband's family in Israel with the two boys of the marriage.

11. Stefan Mandel was involved with the following companies:

- (a) Asiguera Mondragon SA in Bucharest, Romania from February, 1994 to June, 1995
- (b) Pacific Financial Resources Pty Ltd
Bramad Pty Ltd
Megabuck Pty Ltd
Horizon Fund Ltd
Environment 2000 Biotechnology Corp.

12. One Postal Address provided by Mandel was :

PO Box 4099
Tel Aviv 61040
Israel

13. Stefan Mandel ran lotteries investments in which he covered all possible bases for syndicate investors. Mandel was involved with International Lotto Fund and Pacific Basin Fund.

One syndicate actually won a lottery in Virginia, USA for \$27 million US, but allegedly the investors did not see any of the proceeds.

14. Another Postal Address was:

PO Box 6229
Hertzliya Israel 46497

15. No dividend was paid to creditors as recoveries in the Administration were minimal.

16. Both Stefan Mandel and his wife remained out of Australia during their bankruptcies.

17. One of Mandel's sons has been accepted by Berkely University in USA and has become an American citizen.

18. Stefan Mandel does not have a good reputation for paying his debts nor in his dealings with investors in lottery schemes.

Regards

KENNETH WAYNE LAMB

APPENDIX "W1"

Incoming Message

Mondragon

Page 1 of 2

Subject: Mondragon
Date: 13/07 7:51 AM
Received: 13/07 8:05 AM
From: Michal Nevo-Barak - Israel Securities Authority, michalb@isa.gov.il
To: Marie-Noëlle Ferrieux Patterson, ombud.vt@vanuatu.com.vu

July 12, 2001

Mr. Alfred Mahoe

Director of Leadership Code

For Mr. Hannington G Alatoa

Ombudsman of the Republic of Vanuatu

Dear Sir,

We received your request dated July 3, 2001 for assistance with regard to your inquiry regarding Mr. Stefan Mandel and would like to inform you of the following: There is no court proceeding at present against Mr. Mandel. The Israel Securities Authority (ISA) requested and received from the court a temporary constraint order against a cooperative society by the name of "Mondragon", to which Mr. Mandel is linked. This temporary injunction orders Mondragon to refrain from offering membership, which entitles its owner to a certain "package" of rights, which Mondragon has been offering the public through various distribution channels. The Israel Securities Authority contends that this "package", which entitles its owner to a piece of land in Vanuatu, to profits from Mondragon's investment company and to other rights, constitutes a security and therefore should be offered only according to a prospectus authorised by the ISA. As I mentioned, our request was granted by the court and we are now awaiting the main proceedings, in which our request for a permanent injunction will be decided. These are civil proceedings and if I understood your request correctly, their outcome cannot be of much interest to you, because it will, most probably, deal solely with the legal question of whether what Mondragon is doing constitutes the offering of a security.

I can further reveal another fact, that was made public through the above mentioned proceedings: the Israel Securities Authority also initiated a criminal investigation against Mondragon with regard to that same offer, as offering shares not by means of an ISA authorised prospectus constitutes a criminal offence, as well. This investigation is not yet over and I can therefore add nothing further to this matter.

I am sorry I cannot be of further assistance at this time, but if you feel you have any information that you can share with us and that could be important to us, we would appreciate your assistance.

I thank you in advance.

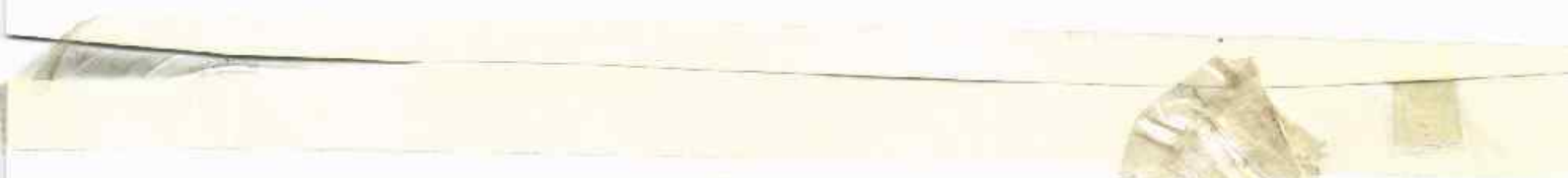
Yours truly,

Michal Nevo-Barak, Adv.

Director

Department of Enforcement

1000 1000 1000



1000 1000 1000



GOVERNMENT OF THE REPUBLIC OF VANUATU
GOUVERNEMENT DE LA REPUBLIQUE DE VANUATU

VANUATU INVESTMENT PROMOTION AUTHORITY



Private Mail Bag 011
PORT VILA, Vanuatu

Telephone : (678) 24096
Facsimile : (678) 25216

Email : investment@vanuatu.com.vu
Website : www.vfib.com.vu

APPENDIX "XXI"

RECEIVED
31 JUL 2001
OMBUDSMAN

31 July 2001

Your ref: 3312/0205/L14/ha

Our ref: VIPA/19/230/ha/01

Mr. Hanngington G Alatoa
Ombudsman
Office of the Ombudsman
PO Box 126, Port Vila

Dear Mr. Alatoa,

Working Paper on
Alleged Attempted Fraud and Bribery of
Government Officials by Israeli Mondragon Group

Further to my letter to your office dated 17 July 2001, I provide herewith a more detailed response to the findings and conclusions of the "Working Paper". On the outset, I commend you and your office for a document evidently very well researched.

I will comment briefly but concisely on the recommendations made, and secondly, provide a more personal response to defend my integrity as questioned in the report.

Comments: R1. Supported. This has been an ongoing matter; my office has maintained very close contact with the SLO's FIU up until July 2001 on the Mondragon project / Mandel / etc. I will be advising the VFIB Board accordingly.

R2. No application for a business license / commercial project has been received from the Israeli Mondragon Group as yet. Once the VFIB receives any such application, I shall advise the Board of the need to defer or even reject relevant application(s) in view of the various negative facts surrounding the investors/individuals concerned.

R3. I shall consider and follow up on this.

"XX1-1"

- R4. The PSC may take disciplinary actions against Messrs. Joy and Mael. The PSC has no disciplinary powers over the CEO of VFIB who is appointed by the relevant Board. You may wish to make this recommendation to the Board.
- R5. I hope the Police Commissioner proves that Mr. Aru has committed "criminal offences". Because as far as I am concerned, I will not accept bribes from anybody, while of course knowing that I had made a mistake by accepting that Mr. Mandel paid my training participation fee to the training institution in Ireland where I attended training in 2000.
- R6. The same applies to the Public Prosecutor here as in my response to R5.
- R7. This is a matter I will be advising the VFIB Board on, and I in my capacity as CEO of the Board, intend to strongly advise the Board against this project based on warnings received from the FIU and other international intelligence agencies received thus far.
- R8. VFIB will play its part in this awareness exercise as it has been doing since 1998.
- R9. Though the VFIB does not have the financial resources to do this (like most other Investment Promotion Agencies in the region), the collaboration with the FIU has been very encouraging. Contacts have also been made with the VFSC, the AFP in Australia, and others.

Personal
Defense:

First of all, I cannot defend the fact that I had erred in accepting my Chairman's proposal for Mr. Mandel to pay for my participation at a very relevant training program in Ireland in June 2000, and furthermore that my office had not done a thorough check on the Mondragon Group right at the very start.

The referred and other related sections of the report need to be corrected / amended to reflect facts, not assumptions. Being assisted by way of facilitating access to a very much-needed training program to advance the development of the VFIB is extremely contrary to being paid money directly for "personal gain" (bribery, corruption, criminal offence). There seems to be some very tough language used in the report which needs to be reviewed.

But I did mention very clearly that the precedence had been set for the government to support the project after an MOU was signed in the UK in July 1999 by Mr. Willie Jimmy (Deputy PM at that time) and the Group in the presence of the DG MTBD Mr. George Maniuri, Mr. Roy M Joy – Director of Dept of Trade, and very interestingly, the Attorney General – the Vanuatu Government's 'Principal Advisor to the State'.

In subsection 7:10 on page 24, the report alleged that I "did receive direct financial assistance from Mr. Mandel...", when in my letter dated 03/10/2000 I categorically stated that "I wish to honestly and sincerely confirm that I have personally received NO direct financial assistance from Mr. Mandel".

"XX 1-2"

The funds provided by Mr. Mandel for the training were paid directly to the training organizer – "International Development Ireland Ltd" – not to Mr. Howard Aru. After the training I undertook in June 2000, a mission was proposed for Israel, during which it was suggested that I was part of the delegation. By that time I had already been in further contact with the late Mr. Julian Ala and had received the FIU's advice of "extreme caution".

On 18 August 2000 I took a very clear stand against being part of the delegation by way of an Internal Memo to the Chairman of the Board. Thereafter, as evidence from my various and ongoing correspondences with the FIU and my full cooperation with your office, I have sought to ensure that if Mr. Mandel and his Mondragon Group are genuine, he has to prove himself.

My letter to the Minister of Lands on 3 April 2001 was clearly made on the premise of the Department of Land's advice (being the competent and technical authority in lands matters) that the relevant land lease was 'in order'. This was not an approval certificate to do business in Vanuatu.

I have transparently highlighted my mistake(s), yet my ongoing full cooperation with the FIU and the Ombudsman's Office's investigations is evident. I find the report's recommendations against me absolutely absurd and incongruous.

Nevertheless, the Ombudsman's Office has the powers to perform its functions. On my part though, I shall continue to cooperate with all authorities concerned in ensuring that only genuine and credible investors are permitted to carry on business in Vanuatu.

Should any report be released by the Ombudsman's Office not accounting for the clarifications and defences I have made above, I shall fearlessly defend my integrity publicly, and seek legal advice to support myself. I have worked hard and have built a reputation of transparency and a high level of professionalism in my work.

Finally, is it normal practice for the Ombudsman's Office to send 'working paper' materials (i.e. drafts) to the press, which your office has already done? Also, I have received copy of the PSC Chairman's letter indicating that the draft report has already reached his office. You have basically already tarnished my image without allowing me to defend myself. In fairness I intend copying this letter to the Trading Post and to the PSC whom I know have already received copies of your draft report.

Thank you for the opportunity to present to you and to your office my response on the draft report.

Yours faithfully,
Vanuatu Investment Promotion Authority



Howard Aru
Chief Executive Officer



GOUVERNEMENT DE LA REPUBLIQUE DE VANUATU
GOVERNMENT OF THE REPUBLIC OF VANUATU
SERVICE DU COMMERCE, DE L'INDUSTRIE,
ET DES INVESTISSEMENTS
DEPARTMENT
OF TRADE, INDUSTRY AND INVESTMENT



APPENDIX "XX2"

... manner as other...
favor or personal support attached to it rather than the merits and the economic of the
project which lead to the Board approval in principle pending a full fledged submission
and break down of the projects the Company may wish to begin implementation as

26th July, 2001

Mr. George PAKOASONGI
Chairman
Public Services Commission
Private Mail Bag 017
Port Vila
Fax 26381

URGENT

Dear Mr. Pakoasongi,

Re: WORKING PAPER ON "ALLEGED ATTEMPTED FRAUD AND BRIBERY OF
GOVERNMENT OFFICIALS BY THE ISRAELI MONDRAGON GROUP"

I acknowledged with gratitude copy of your communication to the Ombudsman of 17th
July, 2001 in respect to the above captioned matter

I have also had an opportunity to glance and had an in-depth analysis on the
Ombudsman's findings and which I write to confirm the following:-

1. The request I made to Mr. Stefan MANDEL to assist the Government and the
Vanuatu Foreign Investment Board (VFIB) was done purely in "good faith" to
facilitate the Chief Executive Officer's of the VFIB travel to Dublin to attend an
important training which would enormously benefit the VFIB as a new Institution of
Government.

Although the Vanuatu Government had agreed to meet part of the CEO's attendance
at the Dublin Workshop and the fact that the Institute had already accepted Mr
Howard ARU's participation at the workshop, it became inevitable that we could not
find the funds to pay for his course fees which was a pre-requisite to facilitating Mr
Aru's timely entry into the Republic of Ireland and likewise attend the said course.

The financial support extended by Mr. Mandel to assist the VFIB Chief Executive
Officer was again done and undertaken in good faith without any favor or with any
strings attached to it as I believe Mr. Mandel also realizes the importance of the
training and particularly the benefits and advantages the VFIB would generate from
this important training opportunity.

"XX2-1"

Needless to say, the initial Mondragon Group's application to the VFIB Board Meeting in July of 2000 was processed by the Secretariat and considered by the Board in the same transparent manner as other investment projects and there was no favor or personal support attached to it rather that the merits and the economics of the project which lead to the Board approval in principle pending a full fledged submission and break down of the projects the Company may wish to begin implementing in Santo.

I wish to confirm and reiterate once again that the funds paid to the Institute to facilitate Mr. Howard ARU's participation were paid directly to the Institute and not through Mr. Aru as the report may have indicated.

2. On the financial support paid to Mr. Emil MAEL, it was apparent that the ground work relating to conducting awareness and provide information to the respective land owners in Big Bay in view of keeping the land owners fully informed and aware of the various components of the project was a fundamental part of Mr. Mael's responsibilities as Principal Lands Officer and formerly Head of the LUPO project.

Mr. Mael had already spent some considerable time and effort in the Big Bay Bush area and given his knowledge on the land issues and his involvement in the project coupled with the fact that the Department of lands was not in a position financially to continue to assist in facilitating his visits to the Bush, upon consultation with me, I subsequently wrote a letter to Mr. Mandel on the importance of the work Mr. Mael is undertaking in relation to the proposed Big Bay project and the fact that it will no doubt assist the investment in facilitating to a large extent the land lease issues which was paramount to finalizing the entire land lease issues and which I confirm is still the case today.

The funds paid to Mr. Mael's account were principally to assist in his visit to Santo and where a breakdown is attached in the report- where he established important and useful consultations with the appropriate land owners and Chiefs in respect to the proposed investments being proposed by the Mondragon Group.

Mr. Mandel's acceptance to assist Mr. Emil Mael was on the basis of facilitating and accelerating the entire land lease issues which to date is yet to be completed leading to the impasse and the difficulties surrounding the Mondragon proposal to establish business in Santo for that matter.

Again the funds requested by Mr. Mael were remitted directly to his personal account via the National Bank of Vanuatu and further withdrawn Mr. Mael prior to his visit to Santo.

It is worth mentioning that the financial assistance granted to Mr. Mael was done in good faith by Mr. Mandel to basically ensure that initial work and other technical preparations for the Big Bay project are implemented according to the laws and

"XX2-2"

regulations of Vanuatu and does not necessarily represent the Mondragon Group as Mr. Mandel was appointed by the Group to be their liaison with Vanuatu in regards to the project undertakings and it is in his view that the facilitation of the project be given some priority so as to ensure that necessary requirements are done and fulfilled in time to allow the proposed investment to begin as soon as possible. Let alone the fact that the Israeli's have been coming to Vanuatu since 1999 without any substantial development to the project due to the bad newspaper publicity they are receiving and coupled with the long and unwarranted bureaucratic delay the system sorts of imposes upon them for that matter.

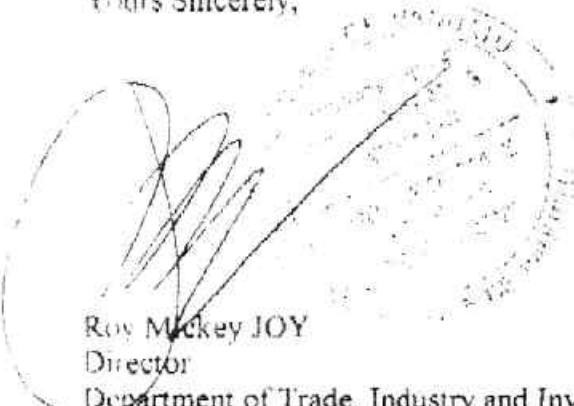
Finally, as this letter is also being copied to the Honorable Ombudsman for his information and action, I wish to associate my views with yours in suggesting that perhaps the Ombudsman should likewise obtain the views of Mr. Stefan MANDEL first and foremost as an opportunity to have the record straight before publicly releasing the findings and the recommendations of the report.

Finally, should the Ombudsman's report and the Public Prosecutor establish that I face immediate disciplinary action by the Public Service Commission, I write to confirm that I am willing to abide by the rules of the game and that a court of law must at the outset prove that I have done wrong in this regard, otherwise my right as enshrined in the Constitution of the Republic of Vanuatu remains fundamental.

I sincerely hope and believe that with the dateline as proposed by the Hon. Ombudsman for 31st July, 2001 this submission will assist his High Office in clarifying the issues surrounding the case once and for all.

Accept dear Chairman of the Public Service Commission, the assurances of my highest consideration.

Yours Sincerely,



Roy Mickey JOY
Director

Department of Trade, Industry and Investment.

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DEPARTMENT
OF TRADE, INDUSTRY AND INVESTMENT

- cc - Hon Serge Rialuth VOHOR (MP) - Deputy Prime Minister
- Hon. Hannington ALATOA - Ombudsman
- Mr. Georges MANTIURI - Director General of Trade

REPUBLIQUE DU VANUATU

SERVICE DES TERRES
PORT VILA

MINISTERE DES RESSOURCES NATURELLES



REPUBLIC OF VANUATU

LANDS DEPARTMENT
PORT VILA

MINISTRY OF NATURAL RESSOURCES

N -O Ref:

LD:

Date: Wednesday, August 08, 2001

V -Y Ref:

APPENDIX "XX3"

Hannington G Alatoa

OMBUDSMAN OF THE REPUBLIC OF VANUATU

RE:

WORKING PAPER ON ALLEGED ATTEMPTED
FRAUD AND BRIEBERY OF GOVERNMENT
OFFICIALS BY ISRAELI MONDRAGON GROUP



"MY RESPONSE TO THE INQUIRY"

I will respond to the inquiries with regards to the above matter in the following points;

I had requested financial assistance from Stefan Mandel:

- Point 1: in "good faith" in order to facilitate the wishes of the investor, the landowners and the government in order to promote investment development in vanuatu under the CRP,
- Point 2: due to the urgency of the project as it was long overdue and that it requires prompt action from the government to facilitate awareness meetings and workshops to bring out the advantages and disadvantages this proposed project may entail,
- Point 3: because the department of Lands did not have the funds available to facilitate such awareness and workshops. The lack of funds under the program budgeting of the government of Vanuatu under CRP does not cover such facilitation costs, which leaves no room for the government to undertake such facilitation,
- Point 4: in order to facilitate the commitment of the Vanuatu Government to the MOU (expression of interest) that was signed on 22nd July 1999 in London, AND
- Point 5: after the VFIB had approved the proposal of the Free Trade Zone in principle. This requires the government of Vanuatu (through the Department of Lands) to undertake the feasibility studies at Big Bay and to produce reports on the preliminary findings.

Furthermore,

- Point 6: The preliminary studies are a process and thus, it is still going on. Nothing has been finalised yet so far and it is still yet premature to make any decisions at this stage. Upon the final surveys then the department of Lands will be in a much better position to advise the Minister of Lands for his final decision regarding the proposal in terms of Land Lease. We have not yet reached this stage.

Private Mail Bag 090, Port Vila, Vanuatu
Telephone: (678) 22892 / 24171 / 24172 / 24820
Fax: (678) 27708

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- Point 7: The funds that I had requested from Stefan Mandel was used for the purpose request of and witnesses to the use of this fund is the Rural Lands Office in Santo, local Consultant, Chairman of the of the Patunavora Chiefs and the Patunavora Chiefs.
- Point 8: The funds requested from Stefan Mandel was transferred to my bank account at the National Bank of Vanuatu was because the proposal was prolonged by lack of funds from the department of Lands and that it was necessary and important to stage the facilitation under the MOU and VFIB approval. It was seen that transferring the funds to my account would be much faster in order not to keep delaying the proposals from the part of the Lands Department.
- Point 9: The issue of requesting the fund was resolved in a meeting in 1999 between various Director Generals and the Attorney General. The Attorney General had advised, during that meeting that since Vanuatu is in the process of CRP it will be facing budget problems and if investors wish to pursue investments in Vanuatu, they may do so and assist with financial assistance as such to facilitate their wishes and the wishes of the people of Vanuatu because the government does not have sufficient budget to do so. Furthermore, the program budget of the Department of Lands did not cater for the facilitation of the Mondragon proposals in Big Bay.
- Point 9: Had it not been for the financial assistance from Mondragon and the chiefs, facilitation of the proposal of the whole project would not have taken place, but seeing the budget difficulties from the department of Lands, the Mondragon and the chiefs concerned have decided to assist by way financial assistance.
- Point 10: Seeing that the Government had signed an MOU with Mondragon on 22nd July, 1999 and the VFIB approval, it is up to the Lands Department to stage a feasibility studies and advise the Minister of Lands for his final decision. As a government officer, we have an obligation to facilitate the wishes of the investors, the chiefs and landowners and the government and therefore, I had seen it fit to persue this study. Seeing the budget difficulty faced by the department of Lands at that time and seeking that the proposal had been delayed for a long time, we had taken steps to seek funding from Mondragon and at times the chiefs had given their financial assistance as well. Had it not been for their Assistance, the feasibility studies would not have been done up to this stage.
- Point 11: I had conducted the feasibility studies together with the Lands Department in Santo, the Environment Unit, the VATT the Conservation Management Volunteer, a Local Consultant and the SANMA province. I had done this all in GOOD FAITH.
- Point 12: The study conducted is a Planning Process, and this process still continues. Upon final recommendations from the studies, we will then duly advise the Minister of Lands for his final decision regarding the project proposal in terms of land matters.

Yours Sincerely,



Emil Mael

Principal Lands Officer- Planning and Enforcement Section
Department of Lands



APPENDIX "XX 4"

AM

GOUVERNEMENT DE
LA REPUBLIQUE DE VANUATU
MINISTÈRE DU COMMERCE
DU TOURISME ET
DE LA COOPERATION
ECONOMIQUE



GOVERNMENT OF
THE REPUBLIC OF VANUATU
MINISTRY OF TRADE,
TOURISM AND
ECONOMIC
COOPERATION

31st July 2001

Your Ref: 3318/0205/114/gm

Mr Hannigton ALATOA
Ombudsman of the Republic of Vanuatu
Office of the Ombudsman



Dear Ombudsman,

**RE: Working Paper on the Alleged attempted Fraud and Bribery of
Government Officials by Israeli MonDragon Group**

I acknowledge receipt of your letter as well as a copy of your report with regard to the above.

While I have no authority as to further processing the report, I wish to offer the following comments from my perspective as the Director General of the Ministry concerned.

I would not pretend to review the whole report but to highlight/clarify a number of issues relating to the role of the Ministry of Trade, Tourism and Economic Cooperation which in my view would need to be taken into consideration by any relevant competent authorities while considering the report's recommendations.

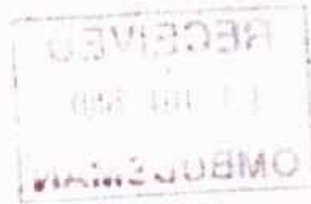
The role of the Ministry is to coordinate the formulation and implementation of the Government's policy in the area of trade, tourism, investment and economic cooperation.

In this instance, attracting and facilitating foreign direct investment (FDI) into the country constitute among other a major challenge of the Ministry. While the Foreign Investment Act provides the legal framework, officials, within the Ministry, the departments and agency level, retain a margin of discretion. This situation becomes obvious when the Government's allocation of resources to the agencies concerned is inadequate. The pressure on officials increases further when an approval (in principal) has been obtained from the Council of Ministers. Faced with such circumstances, their decision would be based on their own professional assessment and judgment and therefore do take some risk which in my view is normal and accepted as long as the legal framework in force is respected.

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Government has and would continue to seek assistance from donors to assist in implementing the policies of the Government of the day. While Government to Government (ODA) assistance has become the established practice, circumstances may oblige the government to request assistance from private sponsors to assist financially in part or in full the process of advancing a proposal. Such assistance with no strings attached to it is accepted and do not constitute a breach of any legislation.

In the case at hand, assistance is being sought and obtained from a private sponsor. While the report has clearly highlighted the circumstances surrounding the events, it failed in my view to provide an in-depth analysis and most importantly to qualify the facts in question i.e. whether in the view of the Ombudsman the facts constitute bribery or corruption. Such analysis or qualification would have shed some light on the facts described and therefore an understanding of the recommendations.

Assistance provided by private sponsors do not constitute by themselves a crime or an act or omission prohibited and punished by an Act of Parliament. It may lead to breach of legislation and to crime. However until an act is proven as crime to the satisfaction of a Court of Law, it is my humble view that serious allegations such as crime, corruption or bribery should not be mentioned unless the report CLEARLY exposes at least the occurrence of criminal activity and / or a breach of a legislation condemning/penalising a particular act or omission. Furthermore the report fails to demonstrate whether the alleged criminal acts influenced the officers in their decision in favor of the private sponsor/donor and whether the assistance received was for private and personal benefit.

Finally, I would believe the Ombudsman should be in a position to conclude whether an act or omission is LIKELY to constitute an act of crime, corruption or bribery as defined by the legislation in force prior to recommending immediately to the Public Prosecutor to lay charges and the Police Commissioner to open inquiry and consider filing criminal charges against the mentioned officers.

Yours sincerely,

Georges Maniuri
Director General



APPENDIX "XXS"

His Excellency Mr. Hammington Alatoa
Office of the Ombudsman
PMB 081, PORT VILA
VANUATU

By Fax: 013-678-27140

It is with great reservations that I have decided to address you via this letter, especially when it involves taxing your valuable time with seemingly trivial matters. In the hope you will find the tolerance to overlook the intrusion and in light of the fact that these matters are not in the least trivial, I am taking the liberty to bring them to Your Excellency's attention.

It has been for quite some time that The Mondragon Co-operative Society Ltd. (hereinafter "Mondragon") has been the subject of unwarranted vitriolic attacks by Mr. Marc Neil-Jones of the Trading Post. Mr. Neil-Jones has written several articles about Mondragon, in which he has displayed an alarmingly low degree of journalistic ethics, failing to meet the most basic tenets of journalism such as contacting us for comment or verification of the facts (not even once), let alone the much-touted *right of reply*, which is the paramount characteristic of a free and democratic press. Naturally, we have maintained our dignity by ignoring Mr. Neil-Jones.

However, Mr. Neil-Jones' continuous reference to an Ombudsman Report about Mondragon, as well as recent press articles and correspondence on the subject, have prompted us to look into the matter. Our findings are chillingly pointing at a criminal conspiracy to sabotage Mondragon's planned 43 billion vatu investment in Vanuatu.

From information we have gleaned, it emerges that Mr. Neil-Jones has aligned himself with Mr. Modi Kreitman from the Israeli Newspaper "Yediot Acharonot", in an endeavour to assist the latter in the criminal law suit Mondragon has initiated against it and against its owners, chief editor and the two journalists involved, of which Modi Kreitman is one. Modi Kreitman has since been suspended as an "investigative reporter" by his own employers, due to the embarrassment he has caused them. It may also be worth mentioning that the attorneys for "Yediot Acharonot" have, on several occasions, requested that Mondragon remove the owners and chief editor from the law suit, the chief editor has a previous (suspended) conviction in another major scandal known as the "listening devices scandal".

Mr. Neil-Jones, in cahoots with Mr. Modi Kreitman, seem to have devised a reasonably clever, albeit criminal plot, whereby, in the spirit of creating a false alibi to place the

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criminal away from the scene of the crime, here they set out to create a false reality to "legitimize" the crime, namely substitute reality with fiction, create a "new reality" that will reflect the libelous statements made by both "Yediot Acharonot" and the Trading Post, which will enable them to say "See? We were right".

months a year. This could amount to a \$1 billion per year (\$5,000 homes @ an average of \$200,000 per home). Mr. Neil-Jones was assigned the task of fabricating a complaint to the Ombudsman, which would then be used to generate a wave of negative publicity around Mondragon, discouraging membership in Mondragon on the one hand and creating difficulties for Mondragon in Vanuatu on the other hand. To that end, Mr. Neil-Jones, in his own account, used an alleged agreement dating back to 1991, which miraculously fell into his hands, allegedly showing that Mondragon was involved in bribing Vanuatu officials. Mr. Neil-Jones used his fertile but criminal imagination to spice up the plot by involving Mr. Mandel and the Phoenix Foundation. For all the above reasons and others, we intend to vigorously pursue Mr. Neil-Jones and the Trading Post in the Vanuatu Courts.

Perhaps, with Your Excellency's permission, it is time to set the record straight and show Messrs. Neil-Jones and Modi Kreitman for what they really are.

The Mondragon Co-operative Society Ltd. was founded and registered on September 16, 1998 and therefore, could not have been involved in any agreement seven years earlier, regardless of its content, simply because it wasn't around (see Annex "A" - Notarised Certificate of Formation/Incorporation). On the other hand, while Mr. Mandel, through his mathematical skills and experience, lent a hand in the conceptual design, he only became a member of Mondragon in October 1998 and never held office or any official position in Mondragon.

Furthermore, The Mondragon Co-operative Society Ltd. was established as an alternative to the exclusive club of wealthy business people who, for many years, have been setting the tone for the economic environment. It integrates and amalgamates thousands of small investors, constituting a socio-economic entity with substantial capital resources and economic strength, which empowers them with the ability to influence their future, their life styles and their socio-economic environment. Mondragon will pave the way for thousands of families to partake and enjoy profits and benefits that, up to now, were reserved for a privileged class of people with means, while each member will be an active participant to decisions relating to investments and operating methods, risks and profits (see also Annex "B" - Mission Statement).

The attached management structure (see Annex "C"), Your Excellency, featuring, inter-alia, over 120 lawyers, 4 judges (of which 1 Ret. Supreme Court Judge), 85 economists, dozens of medical doctors, scientists and the most diverse range of professionals from around the world, should attest to the creativity, viability and contribution the Mondragon project can bring towards the development and integration of Vanuatu into the 21st Century.


Finally, Your Excellency, Mondragon will consist of 25,000 families from around the world (not just Israel, as Mr. Neil-Jones insinuates) whose collective net-worth will be

"XXS-2"

\$10 billion and whose collective annual consumption (approx. 250,000 consumers) will be \$6 billion. Virtually none of these people desire to take up residence or live in Vanuatu (in spite of Mr. Neil-Jones' deceitful propaganda) but our surveys show that approx. 20% will build summer homes (myself included) in which they will spend 1 - 2 months a year. This could amount to a \$2 billion economy (5,000 homes @ an average of \$200,000 amounts to \$1 billion + another \$1 billion in infrastructure, furniture, etc.).

I the undersigned, Y. Harkavi, Advocate General, at 40 ibn Tzvi St. Aviv 6430, In conclusion, we trust Your Excellency would not, knowingly, allow unscrupulous and criminally minded individuals to use the High Office of the Ombudaman as a platform for the perpetration of economic sabotage, which could have a disastrous impact on the economic future of Vanuatu and its people. However, it does raise the question why, throughout this lengthy investigation, none of the "subjects" (on our side) were interviewed or given the opportunity to explain or defend their position, which would have certainly assisted Your Excellency in elucidating the case and find the truth. It also seems paradoxal, that while the "fabricators" have been given advanced previews of the draft document, the same "subjects" have so far been denied that opportunity.

With the utmost respect and consideration,



Avi Edelman
Secretary General

A

"XXS-3"

The State of Israel
The Ministry of Labor and Welfare
The Department of Cooperative Associations

Certificate of registration of a Cooperative Society

Number of the Society 57-003490-0 סדינת

This is to certify that: מערך העבודה והרווחה

Mondragon Cooperative Society Ltd.

Was incorporated and registered as a Cooperative Society according to
The Ordinance of the Cooperative Societies on: 16.09.98

Issued in Jerusalem by the undersigned

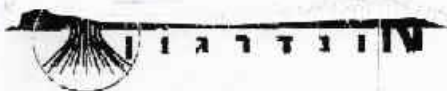
17-09-98

Hebrew date
23 Elul 5758

Signature

Uri Seligman, Advocate
The registrar of Cooperative Societies

T190



His Excellency, Mr. Hannington Alatoa
The Office of the Ombudsman
PMB 081, PORT VILA
VANUATU

FAXIN

APPENDIX "XX6"

By Fax: 013-678-27140

31st July 2001

Your Excellency,

Thank your kind fax your office sent to me today.

I am awaiting receipt of your draft report (working paper), should Stefan Mandel agree to share same with me.

Unfortunately, the assumptions on which the report is based are incorrect. Stefan Mandel is a private person and his past and present actions do not relate, in any way, to Mondragon and it is most regretful that Mondragon was connected with his affairs. Mondragon is a co-operative society under my management, with institutions and dozens of functionaries, but Mr. Mandel is not one of them. He is not an office holder of the Mondragon Co-operative Society. Mondragon belongs to 2100 participants including 4 judges, 110 attorneys, hundreds of businessmen and dozens of journalists. The society is under the jurisdiction of the Registrar of Co-Operative Societies in Israel, whose status is that of a District Court Judge.

Any association between Mr. Mandel's actions and those of the Society, is incorrect.

The only dispute between the Securities Authority and Mondragon was over the application of the Securities Authority for an injunction to prevent Mondragon from "making an offer to the public" without an approved prospectus.

However, seen as the Registrar of co-operative societies, under whose jurisdiction Mondragon falls, is of the same opinion as the ample legal advice we received from our many attorneys (over one hundred attorneys and four judges are members of the Society), namely that Mondragon's activities do not require a prospectus, we challenged the Securities Authority in the courts and until the court's decision is handed down, Mondragon has not been impaired from continuing its activities exactly in the same manner as before.

Additionally, the Movement for Quality Government, of its own accord, requested the Attorney General to initiate an investigation into the alleged suspicion that the Chairperson of the Securities Authority, Attorney Miri Katz abused her position. The movement claims that Katz abused her authority in conducting an investigation

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against the Mondragon Co-operative Society, pursuant to the Securities Law, and acted within a conflict of interest in this context, whilst operating in breach of trust as a public servant.

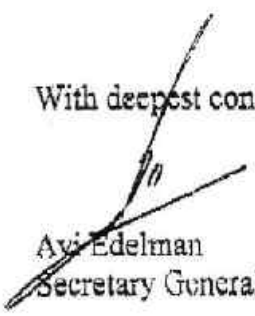
The Movement for Quality Government, subsequently, also filed a Supreme Court Application against the Securities Authority. The Movement alleges that senior members of the Securities Authority complained that the Chairwoman of the Securities Authority, Miri Katz, the sister of the editor of the *Yediot Aharonot* weekend supplement magazine who is being sued by Mondragon, acted improperly in initiating the case against Mondragon and is suspected to have broken the law.

There are 1.5 million Israelis who are members of co-operative societies and not one of them has been requested to issue a prospectus for the admission of new members to the Society. Furthermore, should the courts decide that the Securities Authority was correct in its contention regarding Mondragon's activities requiring a prospectus, Mondragon could easily do so.

The Securities Authority tried to arrive at an "out of court" arrangement with Mondragon, but we refused. The proceedings being conducted, are civil proceedings and not a criminal one and accordingly, it is only a technical matter.

In regard to a bond for the purchase of 49% of the shares in Air Vanuatu, at the time, we arranged for a guarantee/performance Bond, through an American Insurance Company. However, the negotiations were unsuccessful and the Bond was returned to the American company and, naturally, it is no longer in our possession.

With deepest consideration,



Avi Edelman
Secretary General

APPENDIX " ~~AAA~~ XX7 "

1/31

Re: Vanuatu Trade Agreement with Mondragon Group

PRIVATE AND CONFIDENTIAL

Att Mr. Alfred Maho

Director of Leadership Code
Office of the Ombudsman
PMB 081, Port Vila,
Republic of Vanuatu

08-07-2001



Dear Mr. Maho,

Re: Vanuatu Trade Agreement with Mondragon Group

Attached are the court documents you requested, and which are in the public domain. On the front page, in Hebrew, is written the essence of the court case. No. 1 & No. 2 are the chairperson of the Israeli securities Authority and the ISA itself as claimants against No. 1 – Mondragon and No. 2 – EDCI, which is the investment arm of mondragon.

In big letters it says: REQUEST FOR TEMPORARY INJUNCTION in accordance with clause 56d to the securities law-1968.

Then, there is an explanation for the injunction request, including the fact that the ISA is handling a criminal investigation against both on suspicions that they offered shares in their Vanuatu project without a prospectus, which have to detail all the facts and the risks etc.

On the top left side, in hand writing, the judge signed, writing that his decision is to grant the request.

I hope you find this useful.

I would appreciate it if you could inform me of any developments in you investigation.

"1-7X"

בית המשפט המחוזי

בתל-אביב-יפו

בית משפט מחוזי תל אביב-יפו
בשא 29746/80
יו"ר רשות ב. מונדרגון אגודה ש
תאריך פתיחה: 27/11/00

המבקשים:

1.

יו"ר רשות ב. מונדרגון אגודה ש

2.

רשות ניירות ערך

ע"י ב"כ מפרקליטות ת"א (אזרחי)

רח' הנרייטה סולד 1, תל-אביב 64924

טל: 03-6970222 פקס: 03-6918541

- נגד -

המשיבות:

1.

מונדרגון אגודה שיתופית בע"מ

2.

Economic Development Corporation E.D.C.I. LTD

שתיחן מרח' התעשיה 4, תל אביב

בקשה לצו מניעה זמני

לפי סעיף 56ד' לחוק ניירות ערך, התשכ"ח - 1968

(במעמד צד אחד בלבד)

כבי בית המשפט מתבקש בזאת ליתן, במעמד צד אחד, צו מניעה זמני שיעמוד בתוקפו עד לתום הדיון בהליך העיקרי ולהורות למשיבות ואו לכל אורגן שלהן ואו לכל מי מטעמן לחדול מלהציע לציבור את ניירות הערך המוצעים על ידן, ואו כל ניירות ערך אחרים, שלא על פי תשקיף שהרשות התירה את פרסומו, הן באינטרנט, הן במצגים והן בכל דרך אחרת.

לחלופין, מתבקש כבי בית המשפט ליתן סעד ארעי בנוסח הסעד דלעיל, שיעמוד בתוקפו עד לדיון בבקשה לסעדים זמניים במעמד שני הצדדים.

כן יתבקש כבי בית המשפט לחייב את המשיבות בהוצאות הבקשה, לרבות שכר טירחת עו"ד.

א. פתח דבר

1. עניינה של בקשה זו בהצעת ניירות ערך לציבור, שלא על פי תשקיף שהרשות התירה את פרסומו, הצעה המתבצעת, בין היתר, באתר אינטרנט המופעל על ידי המשיבות ובמצגים שהן עורכות.

2. המבקשת 2, רשות ניירות ערך, היא תאגיד שהוקם על פי סעיף 2 לחוק ניירות ערך, התשכ"ח - 1968 (להלן: "החוק"), ותפקידה הוא "שמירת ענייניו של ציבור המשקיעים בניירות ערך, בנקבע בחוק זה" (המבקשים 1 ו-2 יקראו להלן: "הרשות").

א. ימיני - י. הרכבי - ד. גורן, עורכי דין
A. Yemini - J. Harkavy - D. Goren, advocates
רח' אבן גבירול 40, תל-אביב 64364
40 Ibn Gvirol st., Tel-Aviv 64364
טל: 03-6950130, פקס: 03-6950146
E-mail: harkavy@zahav.net.il

APPENDIX "XX8"

Avner Yemini, advocate
Jacob Harkavy, advocate
Didi Goren, advocate

אבנר ימיני, עו"ד
יעקב הרכבי, עו"ד
דידי גורן, עו"ד

August 5th, 2001

To
His Excellency Mr. Hannington Alatoa
The office of the Ombudsman of The Republic of Vanuatu
PMB 081 Port Vila, Vanuatu
Fax. + 678-27140

Your Excellency,

RE: Mondragon Co-operative Society LTD
Your letter of August 3rd, 2001

On behalf of my client, Mondragon Co-operative Society LTD., I have been asked to reply to you as follows:

1. Much to my astonishment neither Mr. Mandel, nor the secretary-general of my client has received a copy of your initial report yet. Allow me also to take this opportunity and to ask you to send me a copy of the complaint that triggered your investigation.
2. We do not disassociate ourselves from Mr. Mandel, therefore the use of cynical language was uncalled for. The truth of the matter is that Mr. Mandel has never held a position in Mondragon, nor was he among the 23 founders of Mondragon Co-operative Society LTD. However, Mondragon does have business ties with other companies, one of which has Mr. Mandel as its MD. This is how he could participate in our delegations to Vanuatu. AS you can see there is a simple explanation to all your wonders. By the way, we have never claimed as you say, that Mr. Mandel is not a member of the group, quite the opposite (see my client's letter dated July 23rd) but that he does not hold any official position in Mondragon! I'm sure you can see the difference.
3. Mondragon has never approached the public with an offer to join its ranks. This issue lies in the heart of our dispute with the Israeli Securities Authority. We would have thought that being an official of a Rule - Of - Law state as Vanuatu, you would be able to see the difference between a claim and a decree or a judgement. Our activity is backed by some of the leading Jurists in Israel, including a former supreme-court

"XX8-1"

judge. By the way, we never objected the injunction that was imposed on us by the court and it was granted with our approval.

4. Mondragon has never issued any financial guarantee bond, let alone a falsified one. My client is not a bank or a financial institution, and can not issue bonds of any sort. When it was asked, Mondragon approached a recognized financial institution, came up with securities, and was given the bond. If you have any proof that the bond was falsified, or if you can refer us to any source for such a proof, please provide such information to us, in order to allow us to file a complaint with the Israeli police and the F.B.I., as the people who had provided us with this bond reside in both in Israel and in The U.S.A.
5. Just to put your mind at ease, when my client recently lodged a tender to buy the "Bel Mal" farm, it presented a certification from a leading Israeli bank, Bank Ha'Poalim LTD, a copy of which is hereby attached, as to its financial capabilities.
6. Mondragon is certainly a genuine investor as you put it. We don't know what sort of "proof" you need for that, but I can assure you that our doings and dollars will follow our mouth, and will make all the difference in Vanuatu.
7. Mondragon does not know what "illegal activities" you refer to Mr. Mandel, but I can assure you that no such activity has been brought to Mondragon's attention. Mondragon is committed to law-abiding activity, and will continue to do so.
8. Awaiting your reply and a copy of the complaint and initial report.

Sincerely Yours,

Jacob Harkavy, Advocate

Jacob Harkavy, Advocate

"XX8-2"

BANK HAPOALIM **בנק הapoalim**

BANK HAPOALIM B.M.
SHAUL HAMELECH BRANCH
3 DANIEL FRISH ST.
TEL AVIV 61400, ISRAEL
TEL: 03-6935755 FAX: 03-6935775

PRIVATE AND CONFIDENTIAL

01 July 2001

Messrs.
K.P.M.G.
Port Vila
Vanuatu

Attention: Mr. Bill Hawkes

DEAR SIR,

REF: LETTER OF REFERENCE

As per your request and with the consent of Messrs. MONDRAGON COOPERATIVE LTD. (Reg.no. 57-003490-0), we are pleased to advise you that the above-mentioned cooperative has been a respectable and good customer of our Branch since 29.03.2000.

The Cooperative's accounts are being maintained in good order, to the Bank's full satisfaction and commitments are being met promptly as agreed.

The Cooperative's Management is well-regarded, reliable and of good business integrity.

We are of the opinion that MONDRAGON COOPERATIVE LTD. Would not enter into any engagement that it is not able to comply dutifully. We therefore believe that the Cooperative has the means and the financial backing to undertake a project costing US \$ 1,750,000 (one million, seven hundred and fifty thousand US Dollars).

This letter of reference is given in good faith, merely as a courtesy, based on the Subject's past dealings and/or record with us. Nothing herein contained shall obligate the Bank to extend any banking facilities to the above mentioned customer, nor shall it impose on the Bank and its officers the responsibility for any loss to any person acting or refraining from acting as a result of anything herein contained.

YOURS FAITHFULLY,

BANK HAPOALIM B.M.
SHAUL HAMELECH BRANCH

A. Elrom
A. ELROM

R. Dreyer
R. DREYER