U.S. Dept. of the Treasury.

Press releases.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE AT 12:15 P.M.
NOVEMBER 14, 1977

REMARKS BY THE HONORABLE C. FRED BERGSTEN
ASSISTANT SECRETARY OF THE TREASURY
FOR INTERNATIONAL AFFAIRS
BEFORE THE
WOMAN'S NATIONAL DEMOCRATIC CLUB
WASHINGTON, D.C.

The United States in an Interdependent World Economy

Less than two weeks ago, I returned from a visit with Secretary Blumenthal to five key countries in the Middle East. The interdependence of the world economy -- and the interdependence of economic and political developments on a global scale -- were never clearer than during that trip:

-- Decisions to be made shortly by Saudi Arabia, Iran and other oil exporting countries will have a major, perhaps a decisive, impact on whether the United States and other industrialized countries will make further progress in 1979 in bringing down both inflation and unemployment.

-- The success of the United States in maintaining a stable exchange rate for the dollar is viewed in Saudi Arabia as having a crucial impact on its own economy, since all Saudi government revenues accrue in dollars.

B-548

-- If Egypt can realistically foresee an era of rapid economic growth, its zeal for peace will clearly increase. If Israel can limit its expenditures on military hardware, its beleagured economy will be strengthened immensely. If Saudi Arabia can use its oil wealth to promote peace in the Middle East, the entire world will benefit greatly.

-- And if the United States can continue to cooperate economically with all of the countries in the region, its ability to help bring about such a peace will rise immeasurably.

These are dramatic instances of how policies in one part of the world affect all other countries, both politically and economically. They are symbolic of the pervasive interdependence of the global economy and of our mutual need for economic and political cooperation. This interdependence of the world economy is one of the most widely accepted, yet misunderstood concepts of our time. Americans generally welcome an economic interdependence that stimulates domestic production, creates jobs, produces a wealth of consumer choice at reasonable cost, offers opportunities for investment abroad -- and contributes to a peaceful world. Indeed, we take for granted the immense benefits created by the exchange of goods, money, and services which link the world's economies.

Yet we are often not prepared to accept the fact that interdependence can create problems for our economy at home, and demand a positive effort on our part to bear our share of the international responsibilities of global economic progress. And we often fail to understand that the economic policies we pursue at home and in our relations with other nations can have a profound impact on such diverse and vital areas as the prospects for peace in the Middle East, the future development of the less developed nations, the stability of the world economy, and our political relations with our closest trading partners.

Vivid examples of the failure of some Americans to grasp the significance of our interdependence are several current proposals which would risk grave harm for the American economy, and for the world role of the United States:

-- rejection of the need to pare decisively our consumption of energy, and to expand our production of all available energy sources;

-- calls for the erection of barriers against U.S. trade with other countries;

-- opposition to the extension of adequate levels of foreign assistance to countries in need of such outside help, or even to withdraw from the process of international cooperation for development of the poorest countries.

All of these issues are now before the Congress and the American people. The Carter Administration has taken a clear position on all of them, and seeks the widest possible support for its views. But the greater need at this point in time is for far greater understanding of several underlying realities: the deep dependence of the United States on the world economy; the resulting imperative of U.S. economic cooperation with other countries, both rich and poor; and the intimate ties between these issues and the central goals of American foreign policy.

U.S. Dependence on the World Economy

The United States is deeply involved in the international economy:

-- One out of every eight manufacturing jobs in this country produces for export. For example, exports take 40 percent of total U.S. production of construction machinery and 30 percent of our aerospace output.

-- One out of every three acres of American farm land produces for export. Over half of our wheat, soybeans and rice is sold abroad.

-- Almost one out of every three dollars of U.S. corporate profits now derives from the international activities of U.S. firms, including their foreign investments as well as their exports.

-- The share of trade in our Gross National Product has almost doubled over the last decade or so; the level of exports now equals the total plant and equipment expenditure of our entire private sector.

-- Imports provide more than one-fourth of our consumption of twelve of the fifteen key industrial raw materials.

These may be surprising figures to many Americans. Yet they indicate clearly that the U.S. economy derives many crucial benefits from our involvement in international trade and investment.

To be sure, our deep involvement in the world economy sometimes brings problems as well as benefits. Lagging economic growth in the rest of the world has depressed U.S. exports by at least $13 billion this year, retarding our economic growth. Surges of imports can cause severe adjustment problems for firms and workers in particular industries. Frosts in Brazil have driven up the price of coffee. Many of our present economic problems derive from the unprecedented bout of double-digit inflation experienced in 1973 and 1974 -- which was largely caused by OPEC oil pricing, lagging harvests in the Soviet Union and elsewhere, and currency realignments which were necessary to restore the international competitiveness of the American economy.

But there is no escape from the reality of interdependence. Indeed, our challenge is not to escape from an interdependence which creates problems as well as benefits, but to work closely with other nations to overcome our common problems in a mutually beneficial manner. In addition to our own reliance on economic events outside our borders, this is true also because our economic policies are often of decisive importance to other countries:

-- our economy is by far the largest in the world;

-- our trade significantly exceeds that of all other countries;

-- we are by far the world's largest consumer of oil and other raw materials;

-- we are the world's largest producer and exporter of food;

-- our dollar lies at the center of the world monetary system;

-- our capital and money markets generate massive investment flows to others, and in recent years have received still larger levels of incoming investment from the rest of the world.

What we do at home is thus critical to others abroad. The success of overall American foreign policy as well as the future of the American economy, hinges significantly on whether we can forge an effective international economic policy.

U.S. International Economic Policy

The basic philosophy of this Administration is that "domestic" and "international" economic issues are inextricably linked. Our own high energy consumption strengthens the ability of OPEC countries to raise world oil prices, which in turn creates balance of payments difficulties for us and for other countries as well. Our maintenance of an open trading market provides essential support for jobs abroad and jobs here, both directly and through its effects on the trade policies of others. A well functioning monetary system, reasonably stable commodity prices, and healthy international competition are essential components of our fight against inflation and unemployment. Indeed, each issue to which I have referred has critical dimensions both at home and abroad.

There is a similarly intense relationship between internal and external economic concerns in most other countries as well. And the actions of many of these countries, like the actions of the United States, can have major effects on their trading partners including the United States -- and, indeed, on the entire world economy. Hence, it is essential that we and they work ever more closely together. At a minimum, this requires that each country resist the perennial temptation to export its internal problems -- the result of which can only be emulation and retaliation by others, with consequent costs for all. This is a second fundamental principle underlying the approach of the Carter Administration to international economic policy.

But such collaboration must go beyond the avoidance of beggar-thy-neighbor measures. The world's major economic powers -- including, on at least some issues, key developing countries as well as the industrial powers -- must, in a positive sense, exercise collective responsibility for the stability and progress of the world economy. They must consult constantly on their individual goals, and on the means to carry out those goals. They must monitor each others' performances in achieving agreed goals. They must take explicit account of conditions and policies elsewhere in formulating their own national policies. This search for effective exercise of collective international economic responsibility is a third fundamental element of the philosophy of the Carter Administration.

Any such effort requires widespread public support, on a largely bi-partisan basis. Honest differences will of course emerge, as they should, over how best to pursue these interests. But the debate should be over means, not ends, because of the imperative of continued -- indeed heightened -- U.S. engagement in constructive economic collaboration with countries around the world. I will refer to four specific issues where such steps are now required of the United States, in both our economic interest and those of the world as a whole.

The President's energy legislation is undoubtedly the most important foreign policy, as well as domestic, legislation to be considered by the Congress this year. Adoption of an effective energy program is essential in terms of many of the objectives I have mentioned today:

-- to enable us to continue to reap the benefits of international energy trade without undue dependence on, and hence vulnerability to, external forces;

-- to reduce our international trade deficit, and thereby assure continued confidence in the dollar;

-- to reduce inflationary pressures in the world economy, as well as our own, and thereby provide a base for more rapid economic growth and reduction of unemployment;

The second major area requiring cooperative action involves international trade and the problems which increasing import competition cause domestic industries. Imports are an extremely sensitive issue in such sectors as shoes, textiles, steel, and electronic products, not only in the United States, but in other nations as well. In some cases, a rapid surge of imports can threaten jobs and harm domestic industries, generating strong pressures for protectionist actions.

Our policy is to look into serious problems of import competition on a case-by-case basis. We are convinced that adjustment to such competition, rather than shielding our economy from it, should remain the primary objective of U.S. policy. But we fully recognize that industries cannot adjust overnight, and that mutual cooperation to moderate trade flows may be necessary in exceptional cases. We are studying the steel situation carefully and the President will soon receive the report of an interagency task force on a comprehensive policy program to assist that industry. Our objective, above all, is to act in a manner consistent with the preservation of the open international trading system to which all Administrations have been committed for over forty years, and which provides vital benefits to our entire economy.

Yet there are those who seek far-reaching restrictions on imports into this country -- an approach which would add to our inflation, reduce rather than increase the number of jobs available to American workers, and rupture U.S. relations with a wide range of industrialized and developing countries. Any such efforts must be rejected. Indeed, the Congress will in the near future be asked to implement the further liberalization of world trade which will be worked out in the current Multilateral Trade Negotiations in Geneva, to enable our society to reap further benefits from international specialization and to help avoid a backward slide toward protectionism.

A third area is the international monetary system. Over the past months, we have negotiated a $10 billion expansion of the resources available to the International Monetary Fund -- the institutional core of world monetary arrangements. Successful implementation of this program will help assure continued stability for such arrangements, and continued confidence in them -- with important benefits for confidence in the world economy and financial system as a whole.

OPEC countries will be contributing about one half of this $10 billion facility. Borrowers from the facility will have to undertake extensive policy measures to responsibly adjust their own economies. The U.S. share of the total is only 17 percent, but the facility cannot proceed without us. The Senate Foreign Relations Committee has already indicated its support for the necessary legislation by unanimous vote, and we hope that the Congress will move quickly to provide the full amount on an urgent basis.

A fourth issue is foreign aid. The developing countries have become critical markets for the United States, taking over 40 percent of our exports of manufactured goods. They play host to over one quarter of our foreign investments. They supply many of our key raw materials. They exhibit the most dynamic growth of any group of countries in the world economy. A number of them have become a truly "international middle class" by virtue of their rapid development and proven ability to compete effectively in world trading and capital markets.

U.S. cooperation with these countries is thus essential in terms of our purely economic interests, in addition to our humanitarian concerns for their hundreds of millions of poor people and their central importance to the resolution of key political issues, such as the Middle East and South Africa. In this vein, the Administration has sought -- and will continue to seek -- increased foreign assistance, expanded opportunities for trade and new forms of collaboration regarding commodities and private investment flows.

Yet there have been pressures to cut back in all these areas instead. The House of Representatives at one point last summer even adopted legislation which would have forced the World Bank and some of the other key international institutions through which we extend help to the poorer nations to reject our help, thereby effectively taking the United States our of these institutions. Recent House actions have cast serious doubt on the future of the Overseas Private Investment Corporation, a U.S. Government corporation which promotes U.S. private investment to the poorest developing countries -- on the grounds that its activities create an "export of jobs," which its exceedingly careful procedures in fact assure cannot happen. This too is a critical area where we must move forward, not backward.

Conclusion

I have chosen to summarize a few issues where U.S. economic policies clearly have a major impact on both the future strength of our domestic economy and that of the rest of the world. All of these issues are now before the American public. Our response as a nation to them is crucial.

In energy, we face a choice between responsible domestic legislation which will help reduce our dependence on foreign oil imports, alleviate our trade deficit, and encourage the development of alternative sources of energy -- or a policy of costly neglect, with increasingly serious repercussions on our domestic economy and the world as a whole.

In trade, we face the prospect of a sound, pragmatic approach to problems of import competition and a commitment to reap further benefits from international exchange -- or a policy of self-destructive protectionism which can only harm ourselves and our trading partners.

In the international monetary system, we can choose to support our fair share of the contributions to the new expansion of the International Monetary Fund -- or we can risk disruption of worldwide financial stability.

In our relations with the developing countries, we can continue to increase our foreign assistance, offer expanded opportunities for trade, and work out new forms of cooperation in the areas of commodities and private investment -- or we can reject the needs of hundreds of millions of the poorest people on this planet and accept the possibility of heightened confrontation in the future.

The choice is ours. The impact of our choices will be immense, both at home and abroad. We cannot afford to ignore the issues before us. Your support is needed to help the American people and the Congress understand the benefits and opportunities which our interdependence has offered us, and our responsibility to act in a manner which will preserve those benefits in the future.

Department of the TREASURY
NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

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REMARKS OF
THE HONORABLE W. MICHAEL BLUMENTHAL
SECRETARY OF THE TREASURY
TO THE
NATIONAL FOREIGN TRADE CONVENTION
NEW YORK, NEW YORK
NOVEMBER 14, 1977

I welcome this opportunity to discuss the foreign trade position of the United States.

The most recent interest in international trade comes, of course, from our record deficit for 1977 -- which we expect will reach about $30 billion this year. A deficit of this size is worrisome and certainly cannot be allowed to persist forever. Through the Economic Policy Group, I am focusing the energies and resources of all Executive Department agencies on finding solutions to the problem. It is important, however, to keep the trade deficit in perspective.

-- First, the deficit represents only about 1-1/2 percent of our total GNP.

-- Second, the United States possesses today one of the strongest and most rapidly growing economies in the world.

-- Third, despite vigilant and continuing scrutiny, we have seen as yet no evidence of significant deterioration in our relative competitive position.

-- Finally, against unfair trade our antidumping and countervailing duty statutes provide a potent recourse to protect domestic industries.

There is, accordingly, no reason for panic and no excuse for reations in ways that jeopardize the overall health of the U.S. economy or that adversely affect world recovery in general.

Our policy should reflect a thorough understanding of the real character of the trade deficit.

In this, two factors stand out -- oil imports, and the U.S. economic recovery. It is chiefly these factors that have led the growth of own imports to outpace the growth of our exports.

Of these two factors, oil is the most important. A five-fold increase in oil prices and an 80 percent increase in the volume of U.S. oil imports since 1972 together are the most significant single cause of the current trade deficit. U.S. oil purchases will total about $45 billion in 1977, compared with $4.7 billion in 1972.

This has coincided with the decline of domestic production, since 1972, of 1.5 million barrels a day, while our consumption has increased by 2.5 million barrels a day.

OPEC imports of U.S. goods and services, while rising rapidly, have not kept pace with this extraordinary growth of oil trade. This year our trade deficit with the OPEC countries should be about $30 billion.

The second major factor has been the difference in economic performance performance the United States and the other major trading countries. In a sense, we are victims of our own success -- our imports are outpacing our exports because our economy is growing more rapidly than those of our trading partners.

During the last two years, the U.S. economy has grown in real terms at an annual rate of about 5 1/2 percent while the rest of the OECD has averaged only about 4 percent. This is a sharp reversal of traditional postwar growth. During the 1960s and early 1970s, for example, U.S. real growth averaged 4.2 percent annually and the rest of the OECD averaged 6.8 percent. Foreign demand for our capital goods has been particularly sluggish, because investment is lagging in Europe, Japan, and elsewhere.

High oil prices and foreign exchange constraints have caused many of our developing trading partners to reduce their imports as part of broader stabilization programs. Mexico and Brazil, for example -- two of our ten largest export markets -- have recently accounted for sharp declines in U.S. exports.

In the agricultural sector -- which accounted for a substantial increase in U.S. exports during the early 1970's -- our trade balance has been hurt by the otherwise happy fact that harvests around the world have recently Improved.

So, the main factors causing our deficit have little to do with the inherent competitiveness -- the price and quality -- of our goods and services.

There is no evidence that the U.S. competitive position has deteriorated significantly in export markets during the past 18 months. On a nation-by-nation basis, our exports have basically held their own.

An initial study indicates that the U.S. share of industrial country markets did not change significantly in volume between the last half of 1976 and the first half of 1977. A small loss in the U.S. share measured by value reflects a smaller rise in dollar export prices of our goods -- in other words, slower inflation rates here -- rather than a greater volume of goods sold by our competitors.

We have held our own or slightly improved our exports to the two fastest-growing economies -- Japan and West Germany -- and maintained or increased our share of manufactured goods in 13 of the 18 major non-OPEC markets.

Over the longer term, it is clear that we have reversed the trend of the late 1960s and early 1970s, when our declining share of world manufactured exports was falling because of the declining competitiveness of U.S. products and the overvaluation of the dollar. Since our historical low point in 1972, the U.S. share of world export markets has risen significantly in virtually every major U.S. manufacturing sector, except transport equipment.

In summary, our current deficit does not reveal any significant loss of our competitiveness. This is, of course, no reason for smugness. Given our oil import bill, we need a dynamic export sector that seizes every legitimate opportunity to increase our competitiveness. In production and marketing, our efforts at innovation and enterprise must be unstinting. We are now a trading nation, an economy that depends on vigorous leadership in world trade.

Having set the background let me sketch for you our basic approach to the deficit problem.

We have ruled out three approaches that would directly injure the U.S. economy as a whole.

The first would be to restrict imports artificially -- for example, through import quotas, increased tariffs, an import surcharge, or an import deposit scheme. This would be inconsistent with our commitment to open trade, would invite retaliation by other nations, and would have a clearly destructive impact on our exports, on world trade in general, and on the U.S. and world economies.

Second, we have absolutely ruled out efforts to depress artificially the value of the dollar. Our exchange rate policy is, as I stated it in Houston on October 19, is that a strong U.S. dollar is in the U.S. and international interest, that world economic conditions point to a strong dollar, that a depreciation of the dollar is not required by our trade deficit, that such a depreciation is not an answer to the deficit, that exchange rates should reflect underlying economic and financial conditions and should be permitted to adjust to changes in those underlying conditions, and that we will intervene in foreign markets only to counter disorderly conditions.

Third, we have ruled out the deliberate reduction of domestic U.S. economic growth to reduce U.S. demand for imports. This would be a tail-wagging-the-dog approach -- to attempt to handle our foreign trade position by increasing unemployment and reducing production at home. This is unacceptable to us, and to our partners in the global economy who would suffer from its spill-over effects.

Instead, our approach to the deficit is integrated with our goals for the domestic and world economy generaly.

Our approach is to implement an effective domestic energy policy, so as to reduce our dependence on oil imports and to encourage our trading partners who are in a position to do so to resume more vigorous economic growth, consistent with the world-wide effort to reduce inflation. In the meantime, we must continue to keep inflation under control at home and to increase our own productivity.

Internationally, we are defending the open, liberal trade and payments system. We are pursuing a substantial liberalization of trade through the Multilateral Trade Negotiations. We are working toward a broadening and strengthening of the international consensus on export credits. We believe that exchange rates should be permitted to play their appropriate role in the adjustment process. And we are enforcing domestic statutes designed to protect domestic industries from <u>unfair</u> foreign trade practices.

We are also urging that countries running large trade and current account surpluses move promptly to reduce and, over time, eliminate those surpluses. We are working particularly closely with the Japanese authorities on this. We and the Japanese have agreed to establish a Joint U.S.-Japan Trade Facilitation Committee to help reduce Japan's large and persistent surpluses in ways which expand, rather than constrict, trade. This is in the interest of both countries and is a major step forward in the friendly cooperation that should characterize all of our relations with Japan.

The Departments of Commerce and Agriculture are taking new measures to improve the flow of information to U.S. industries and producers about trading opportunities overseas.

An important aspect of our effort to improve the U.S. trade balance is the activity of the Export-Import Bank. Our ultimate goal is to reduce, and ultimately eliminate, the counter-productive competition that exists between official export credit agencies. But this must come through a multilateral agreement. In the interim, the Eximbank holds a big position in our export drive. From 1973 through 1976, Eximbank authorizations supported exports with a value of $12 billion per year on the average -- equal to 18 percent of U.S. manufactured goods exported in those years.

For the future, the Eximbank will increase substantially its support of U.S. exports. It has recently lowered its interest rates as a further stimulus to U.S. sales abroad, while remaining carefully within the internationally agreed guidelines on official export credits.

We are taking care not to trigger a trade war through trade finance. We took an important step last year with an agreement on basic guidelines for officially supported export credits. It is now essential that we broaden and strengthen those guidelines, and the United States has made proposals to achieve that objective. This goal was endorsed at the London Economic Summit in May, and discussions have been initiated for an International Arrangement to succeed the present Consensus.

At home, serious problems of import competition threaten U.S. jobs in particular industries. We are handling these problems expeditiously case by case, but always within the context of our overall commitment to negotiate a regime of more open world trade. Where injury is due to <u>unfair</u> foreign trade practices, notably export subsidies or dumping, our laws provide strong remedies to protect U.S. industries. Where adjustment assistance is needed, we will provide it. Adjustment is and should be our primary response to the problems of non-competitive firms.

We recognize that industries cannot adjust overnight. Mutual cooperation to moderate trade flows -- as in the cases of color television and shoe imports -- may be necessary in very exceptional cases.

We are trying to achieve international agreement in the Multilateral Trade Negotiations on precisely <u>what</u> trade measures are acceptable in these cases -- and to define <u>when</u> they are justified. We are also working on a new international subsidy/countervailing duty code in the MTN to define more precisely what are fair and unfair trade practices, and how nations should respond to unfair trade.

I am convinced that these efforts reflect a sound, pragmatic approach to the problems created by our record deficit. In this way, we can improve our international trade position without adversely affecting our domestic economy or the economies of other nations. This is the only sensible course.

Looking to the immediate future, the United States cannot expect to reduce the trade deficit substantially unless we slow the growth of oil imports.

That is precisely the objective of the President's energy program. With a strong emphasis on conservation and incentives for new production, the program would begin reducing our oil import needs rapidly. By 1985, it would reduce projected oil imports by 4.5 million barrels a day -- for an annual savings of $23 billion, at today's oil prices.

The energy program is the most urgent priority of this Administration. It is a balanced, fair and effective plan that provides the only real alternative to increasing dependence on foreign oil and, consequently, an increasing trade deficit.

Looking to the longer term, we must recognize that the world trading system will face a number of structural problems.

First, the massive increases in energy costs over the last 5 years have not yet worked their way through the world economy. Second -- partly as a result of these higher energy costs, but also of other fundamental developments -- world growth rates may well be significantly lower in the last quarter of the twentieth century than they were during the third quarter.

Third, the pattern of growth among the industrial countries may have shifted structurally. For some years, the United States may grow faster than the rest of the OECD, notably Europe, whereas the opposite situation held during the first postwar generation. Fourth, the developing countries will be increasingly formidable competitors -- they have already doubled their share of world trade in the last decade.

These structural developments will produce intensified pressures everywhere to export more and to restrain imports, in order to maintain employment and production. It is obvious that these pressures are inconsistent with each other in a world context.

Our task is to make that world context prevail. We must meet these challenges through strengthened international cooperation.

We have already made major progress in creating a new international monetary system which, while not perfect, is clearly better than any feasible alternative. We have also helped assure that sufficient official financing is available so that the system can accommodate wide variations in economic performance and high energy costs.

We have agreed on a strategy for sustained world economic recovery -- an international commitment to promote domestic economic growth and price stability, to resist protectionist pressure, and to make rapid progress in reforming the international trading system.

We have agreed to progress in the Multilateral Trade Negotiations. The continued liberalization of trade is the only sure antidote to increasing protectionist pressures. Our people must be shown, by clear results, that employment and production are increased more by expanding trade -- on a fair, competitive basis -- than by retreating into inefficient, "siege" economies.

Our own prosperity thus depends on expanded international cooperation in the economic sphere. But cooperation will only present us with competitive opportunities. Our own economy must be ready to seize those trade opportunities.

To ensure that we are ready will be the Administration's top priority over the coming months. We need an economy where real investment grows at 10 percent a year or better, where productivity returns to the robust growth rates of the early and mid-1960's, where capital is formed as quickly as men and women enter the work force to use it, where innovation and risk taking reap a full reward.

This will take some doing. Business investment remains sluggish, and businessmen remain uncertain, after the battering of double-digit inflation and severe recession. Real profit remains too low to sustain vigorous real growth.

Within several months, the Administration will present its tax and budget policies for 1979. We intend this to be a charter for a full and balanced recovery of investment, growth, and employment over the coming years.

Obviously, we face formidable economic problems, both internationally, and at home. But there are clear paths through those problems.

By working together, rather than against each other, we all can assure an increased measure of prosperity for ourselves and our children. That is our goal, and with the proper policies, I am convinced we can achieve it.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE November 14, 1977

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,200 million of 13-week Treasury bills and for $3,301 million of 26-week Treasury bills, both series to be issued on November 17, 1977, were accepted at the Federal Reserve Banks and Treasury today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing February 16, 1978			26-week bills maturing May 18, 1978		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.466 a/	6.069%	6.25%	96.789 b/	6.351%	6.65%
Low	98.458	6.100%	6.28%	96.774	6.381%	6.69%
Average	98.460	6.092%	6.27%	96.778	6.373%	6.68%

a/ Excepting 1 tender of $150,000
b/ Excepting 1 tender of $10,000

Tenders at the low price for the 13-week bills were allotted 44%.
Tenders at the low price for the 26-week bills were allotted 2%.

TOTAL TENDERS RECEIVED AND ACCEPTED
BY FEDERAL RESERVE DISTRICTS AND TREASURY:

Location	Received	Accepted	Received	Accepted
Boston	$ 28,380,000	$ 28,380,000	$ 36,555,000	$ 26,555,000
New York	3,563,210,000	1,809,940,000	5,232,800,000	2,895,940,000
Philadelphia	23,525,000	23,525,000	25,165,000	5,365,000
Cleveland	61,375,000	27,975,000	44,190,000	19,290,000
Richmond	25,130,000	21,070,000	30,905,000	13,455,000
Atlanta	31,050,000	25,530,000	8,850,000	8,850,000
Chicago	354,430,000	76,505,000	334,545,000	83,565,000
St. Louis	47,580,000	25,215,000	43,260,000	17,260,000
Minneapolis	15,345,000	10,665,000	25,400,000	18,400,000
Kansas City	78,765,000	78,085,000	39,580,000	30,480,000
Dallas	21,315,000	18,195,000	19,775,000	8,190,000
San Francisco	271,245,000	54,970,000	501,830,000	173,030,000
Treasury	270,000	270,000	310,000	310,000
TOTALS	$4,521,620,000	$2,200,325,000 c/	$6,343,165,000	$3,300,690,000 d/

c/Includes $371,825,000 noncompetitive tenders from the public.
d/Includes $155,920,000 noncompetitive tenders from the public.
1/Equivalent coupon-issue yield.

B-550

Department of the TREASURY
WASHINGTON, D.C. 20220
TELEPHONE 566-2041
NEWS

FOR RELEASE AT 4:15 P.M. November 14, 1977

TREASURY TO AUCTION $3,750 MILLION OF 2-YEAR NOTES

The Department of the Treasury will auction $3,750 million of 2-year notes to refund $2,516 million of notes held by the public maturing November 30, 1977, and to raise $1,234 million new cash. Additional amounts of these notes may be issued at the average price of accepted tenders to Government accounts and to Federal Reserve Banks for their own account in exchange for $112 million maturing notes held by them, and to Federal Reserve Banks as agents of foreign and international monetary authorities for new cash only.

Details about the new security are given in the attached highlights of the offering and in the official offering circular.

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Attachment

B-551

HIGHLIGHTS OF TREASURY
OFFERING TO THE PUBLIC
OF 2-YEAR NOTES
TO BE ISSUED NOVEMBER 30, 1977

November 14, 1977

Amount Offered:	
To the public	$3,750 million
Description of Security:	
Term and type of security	2-year notes
Series and CUSIP designation	Series W-1979 (CUSIP No. 912827 HF 2)
Maturity date	November 30, 1979
Call date	No provision
Interest coupon rate	To be determined based on the average of accepted bids
Investment yield	To be determined at auction
Premium or discount	To be determined after auction
Interest payment dates	May 31 and November 30
Minimum denomination available	$5,000
Terms of Sale:	
Method of sale	Yield auction
Accrued interest payable by investor	None
Preferred allotment	Noncompetitive bid for $1,000,000 or less
Deposit requirement	5% of face amount
Deposit guarantee by designated institutions	Acceptable
Key Dates:	
Deadline for receipt of tenders	Tuesday, November 22, 1977 by 1:30 p.m. EST
Settlement date (final payment due)	
a) cash or Federal funds	Wednesday, November 30, 1977
b) check drawn on bank within FRB district where submitted	Monday, November 28, 1977
c) check drawn on bank outside FRB district where submitted	Friday, November 25, 1977
Delivery date for coupon securities	Monday, December 5, 1977

Department of the TREASURY
NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

EMBARGOED FOR RELEASE
EXPECTED 9 P.M.
P.S.T. OR UPON DELIVERY

Remarks of
The Honorable W. Michael Blumenthal
Secretary of the Treasury
to the
U.S.-U.S.S.R. Trade and Economic Council
Los Angeles, California
November 14, 1977

I appreciate the honor of speaking to you tonight, an honor shared with Minister Patolichev, the distinguished representative of the Soviet Union.

We attach special value to the presence of Minister Patolichev here tonight. We know how difficult it is for him to leave his heavy responsibilities in Moscow and journey nearly halfway around the world to Los Angeles. We welcome him as an old friend and valued colleague.

The presence here of high officials and business leaders of our two countries is indicative of our mutual interest in strengthening Soviet-American economic relations.

As a personal note, let me add that I am here tonight because I favor expanded U.S.-Soviet trade -- I am aware of both the prospects and the problems of this trade -- and I am willing to work toward a sustained, healthy expansion of this trade.

We can take satisfaction in the great strides made in developing closer ties in recent years. At the same time, we recognize that much remains to be done.

Before I go into this, however, let me describe some of the recent history.

Just six years ago, trade between the Soviet Union and the United States was small. Two-way trade totaled $221 million in 1971. The Summit Meeting at Moscow in May 1972 marked a turning point in our economic relations. It produced an agreement on basic principles, which underscored the importance of commercial and economic ties to our overall relations. Formation of the Joint U.S.-U.S.S.R. Commercial Commission and the negotiation of commercial agreements followed shortly thereafter.

With official encouragement, trade rapidly increased and economic ties were broadened. By 1976, two-way trade totaled $2.5 billion, about 12 times the 1971 level. Over 58 U.S. firms, for example, had entered into industrial cooperation agreements with their Soviet counterparts, and many other such agreements were under negotiation.

The formation of the U.S.-U.S.S.R. Trade and Economic Council in 1973 was an important step in fostering economic relations.

Even after passage of the Trade Act of 1974, U.S.-Soviet trade continued to grow, reaching $2.1 billion in 1975 and $2.5 billion in 1976. This was principally because of large shipments of U.S. agricultural goods

Soviet imports of U.S. manufactured goods also increased in 1975 and 1976, due in part to a "pipeline effect." Contracts had been signed before passage of the Trade Act, and the Export-Import Bank continued to finance U.S. exports in accordance with prior commitments.

By 1977, we have seen a downturn in U.S.-Soviet trade. Total trade fell to less than $1.4 billion in the first eight months of 1977, compared with almost $1.9 billion in the comparable period of 1976. In large part, this reflects reduced purchases of U.S. grain, after the bumper harvest in the Soviet Union last year. These purchases are expected to rise again as a result of the shortfall in the Soviet grain harvest this year.

But U.S. exports of manufactured goods also decreased markedly, to $391 million in the first eight months of 1977, a decrease of 28 percent compared with the same period of 1976. Our projections indicate that this downward trend in manufactured goods will be even more pronounced during the rest of 1977.

There are indications of a downturn in Soviet purchases from most other Western countries, also. This is probably due in part to Soviet efforts to reduce their trade deficit with the West and to restrain the rate of increase in their hard-currency debt.

That brings us to today -- and to the question of the future of U.S.-Soviet trade. Will we remain where we are today, or can we expect expansion? And what can we do to encourage this expansion?

I am happy to note that there are signs of progress toward the normalization of economic relations which we all desire. There has been an improvement in the tone of the political relations between our two countries. There has also been an increase in the number of persons emigrating from the Soviet Union. In working toward normalization, factors like these affect Soviet-American economic relations, and can help to maintain trade momentum and improve the structure we have built.

I believe that these favorable developments are being noted by the American people and the Congress, as well as by the Executive Branch. We hope that trends will continue to a point where we can reach complete normalization of our trading and credit relations.

I joined Minister Patolichev in a meeting with President Carter, during the Minister's brief stop in Washington before coming up here. The President expressed his hope for expanded economic relations with the U.S.S.R. in the improving context which I have just discussed. He also looked forward to the time when these relations would be fully normalized.

Our economic relations not only are deeply affected by our political relations, but they in turn influence our political relations in ways which are almost always beneficial. They lead to closer contacts between our two peoples, which lead to improved understanding, which then can strengthen the fabric of peace. They give both of our nations an enduring interest in continued good relations.

Our relations inevitably comprise elements of both cooperation and competition. By promoting economic relationships, we foster the cooperative aspects, to our mutual benefit and the benefit of the entire world, which so deeply desires continued peace.

The United States Government strongly favors increased trade with the Soviet Union and the continued improvement of economic relationships. It is a major aspect of our goal of building a better and more cooperative international environment.

I would like to see our economic relations develop still more as a tie between our nations, linking our two systems, so different in many respects, in mutually advantageous collaboration.

On the American side, the development of such relations should be in harmony with basic principles which we consider to be essential elements of our system. We rely on private initiative as the impetus behind economic activity in the United States. We prefer to limit government intervention to what is required in the national interest. In international trade, we are committed to an open trading system, although we recognize that in some circumstances it may be necessary for governments to intervene.

We recognize that in doing business with a much different system, such as that of the Soviet Union, a large measure of adaptation is necessary to reach solutions acceptable to both sides. The commercial agreement negotiated in 1972 provided that both governments would promote cooperation in projects for the development of natural resources and in manufacturing.

The United States has been a latecomer in this field, compared with other major Western nations which have entered into more cooperation agreements than the United States. These have involved, for example, gas field equipment and large diameter pipe, to be paid for with natural gas -- forestry equipment and pulp plants, to be paid for with wood products -- and aluminum refineries, to be paid for with aluminum. The agreements have resulted in large increments of trade between the Soviet Union and these countries.

Americans are catching up, however, as indicated by new agreements between American enterprises and their Soviet counterparts. The United States Government welcomes such cooperation, while recognizing that the decision to participate rests with the parties directly concerned. We can all take satisfaction from the increasing number of cooperative arrangements successfully underway or under negotiation.

These arrangements have varied widely in type, from simple licensing agreements to complex compensation deals in which American companies supply hundreds of millions of dollars worth of equipment and services -- and products of the project are exported from the Soviet Union with proceeds used to repay loans from Western banks.

Compensation arrangements were involved in about one-fourth of the value of Soviet orders placed in the United States for machinery in the 1973-1975 period. Deputy Minister Sushkov has indicated that an even larger percentage will involve compensation arrangements in the 1976-1980 period.

However, these arrangements pose special problems.

In some cases, significant problems come from the very large size of the projects, the large credits required, and the tremendous quantities of product to be marketed outside the Soviet Union. The dimensions of such projects exceed the capacity of all except the largest consortiums of Western countries, and even these feel the need of assurances of support from their governments. In some cases the projects are so large that they can have significant impact upon the economy of the United States -- for example, projects involving large imports of materials in short supply, or manufactured goods in quantities which might cause market disruption.

Problems have arisen in resolving differences in customary practices in the two countries. For example, American investors frequently think in terms of equity investment in foreign projects, but this has not been possible in the Soviet Union. Also, American firms have had a legitimate interest participating in quality control of products to be sold outside the Soviet Union under the American firm's brand name. In some cases, there has been the problem of determining the degree of administrative responsibility to be exercised by an American firm over operations in the Soviet Union to which it contributes its know-how.

There have also been problems in agreeing upon prices, and the basis for adjusting prices to reflect inflation and changes in world markets. On the Soviet side, there has been the desire to insure stable marketing arrangements as an important element in long-term planning.

Experience has shown that, with good will on both sides, such problems can be resolved. In the process, both sides gain a better understanding of each other's point of view, paving the way for further advances in cooperation.

An important problem in our trade relations is the imbalance between our imports and exports. In 1976, U.S. exports to the Soviet Union totaled over $2.3 billion, while our imports totaled only $221 million. These imports were principally raw materials and semi-processed goods--platinum-group metals, petroleum and products, and chrome ore. Finished manufactured products accounted for a minor share.

We believe that there are important markets which can be developed in the United States for Soviet products under existing trading conditions. We have welcomed the opportunity to collaborate in marketing seminars and to explore means of developing markets for Soviet products in the United States. We look forward to cooperating in similar seminars in the future.

Industrial cooperation arrangements involving compensation or buy-back provisions, also offer possibilities of greatly increasing Soviet exports to the United States. The Occidental Petroleum fertilizer project is a good example. It is expected to generate billions of dollars in Soviet exports to the United States of ammonia and other products over the years.

There have been other significant moves in developing our economic relations. About a year ago, Belarus Machinery of U.S.A., Inc., of Milwaukee, was formed to market Soviet tractors and related equipment in the United States. The U.S.-U.S.S.R. Marine Resources Company was set up in Seattle in mid-1976, with ownership divided equally between the Soviet fishing fleet organization and the Bellingham Cold Storage Company.

There is also the possibility that Soviet banking interests will be represented more actively in the American banking community.

These developments can strengthen the infrastructure of U.S.-Soviet economic relations and foster better understanding.

Much remains to be done in promoting Soviet-American commercial relations. There is a need for more complete and timely information on Soviet projects, to assist American businessmen in meeting Soviet import needs. Negotiating procedures need to be improved so that agreement can be reached more quickly. Better working conditions in Moscow and an increase in the number of accredited offices would promote U.S.-Soviet commercial relations, as would the facilitation of visas and travel for American businessmen.

In the process of developing cooperation between the economies of our two countries, the U.S.-U.S.S.R. Trade and Economic Council plays an important role. It does more than provide facilities and assistance to businessmen in promoting trade. It serves a valuable purpose in identifying existing and potential problems, and assisting in their solution. It brings to the attention of both governments the difficulties encountered by businessmen, and it makes recommendations as to how to resolve them. It has emphasized the need for a stable and predictable commercial environment in which economic relations can flourish, without being hostage to passing political considerations.

I commend the Council for the valuable functions it has so effectively carried out, and look forward to its continued service in strengthening relations between our countries.

In conclusion, I would like to read to you a message from President Carter to the Council. It is signed by the President at the White House and reads as follows:

> "I am pleased to greet the delegates at this meeting of the directors and Members of the U.S.-U.S.S.R. Trade and Economic Council.
>
> In the few years since its inception, this Council has become a catalyst in the expansion of U.S.-Soviet trade relations and has provided a much needed forum for the resolution of problems and for the discussion of new ideas. My Administration firmly supports expanded bilateral trade as an important factor in promoting world peace and goodwill.
>
> "I hope that the Council will continue its efforts to strengthen the commercial and economic ties between our two countries, and that this meeting will be a highly productive one for all concerned."

I would like to add my own personal good wishes to those of those of the President for the continuing success of the Council.

Thank you.

Department of the TREASURY
WASHINGTON, D.C. 20220 TELEPHONE 566-2041
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FOR IMMEDIATE RELEASE
EXPECTED AT 12:00 P.M. EST
NOVEMBER 16, 1977

REMARKS BY HELEN B. JUNZ
DEPUTY ASSISTANT SECRETARY OF THE TREASURY
FOR COMMODITIES AND NATURAL RESOURCES
BEFORE THE
CONFERENCE BOARD CONFERENCE ON THE
INTERNATIONAL BUSINESS OUTLOOK
WEDNESDAY, NOVEMBER 16, 1977

The North/South Dialogue: Where Do We Go From Here?

Your program committee has asked me to talk about "The North/South Dialogue: Where Do We Go From Here?" This title, however, faces me with somewhat of a problem because in order to discuss "Where we go from here", we need to have a fairly clear view of where we are. This has been made particularly difficult because the phrase "North/South Dialogue" has been used by the developing countries (LDCs) to cover a multitude of questions, problems, and demands to which they expect the developed countries (DCs) to make positive responses.

In its broadest sense, the North/South Dialogue addresses the LDCs' demands for the establishment of a New International Economic Order (NIEO). The supporters of the NIEO argue that the current world economic structure is arranged in such a way that the developed countries reap a more than proportionate share of growth in prosperity and advances in technology. Consequently, the eye-catching or better, ear-catching parts of the dialogue largely have concerned themselves with a number of demands aimed at changing the existing market and political structure, demands that of their nature could neither be met nor, if met, would actually achieve the LDCs' goals in the longer-run. Moreover, this type of dialogue has tended to obscure both some of the very serious problems confronting individual countries during most of the 1970's and the solutions the world community could realistically develop. For this reason, I shall attempt to focus on those economic issues which are pressing and which can be resolved to the demonstrable benefits of both the South and the North.

Frustration on the part of the developing countries about the way the world economy functioned and their role within the world economic structure has in fact been growing for a long time. With the rising post-war prosperity, aspirations in all countries, developed and developing also have been rising and frustrations among the poorest within and among nations have been increasing commensurately. In many developing countries, levels of frustration may well have risen even further because of unrealistic expectations of the salutary effects of political independence on domestic economic problems and on the well-being of their populations. But, in the past, the developing countries generally have not spoken with one voice nor have they been as vocal about their wishes and their needs as in recent years. The turn the North/South Dialogue has taken in this respect clearly is associated with the oil embargo of 1973 and subsequent events.

In the post-war era, there are few watersheds in international relations which are as clearly defined or as pervasive in their effect on world economic affairs as the successful actions of the OPEC oil cartel. OPEC's demonstrated ability to stun industrialized economies served a catalytic function among LDCs, prompting them to close ranks as never before and to direct their efforts toward the creation of organizations that would enable them to duplicate OPEC's success in other commodities.

As we are all aware, the euphoria in LDCs which accompanied OPEC's success consequently turned to dismay, as prices for commodities, other than oil, fell sharply when in 1974 the world economy suffered its most severe recession since the 1930s. Once the commodity boom busted, OPEC's higher oil prices had a doubly negative impact on oil-importing LDCs. First, higher oil prices contributed significantly to the recession, thus reducing demand for LDC exports and disrupting economic progress. Second, the quadrupling of oil prices by raising import costs not just of oil, but also of manufactured products had direct and devastating effects on the external payments balances of LDCs. Ironically, the greater the damage of OPEC actions, the more the "South" turned to the developed countries of the "North" to solve their difficulties. Thus, it was not surprising that, when the DCs sought a consumer/producer dialogue on energy, the LDCs insisted the dialogue be broadened to include virtually every major issue in LDC/DC economic relations. Consequently, when the Conference on International Economic Cooperation (CIEC) met in December, 1975, it established four commissions to deal with issues arising in energy, development, raw materials, and finance.

It would not be very meaningful to attempt to strike a balance on the result of CIEC. The Conference was part of the ongoing, evolving dialogue and because of its structure, with 19 LDCs deriving their mandate from the Group of 77, which had shaped the NIEO, there was little negotiating flexibility. It meant that anything short of full endorsement of all the elements of the NIEO could not be considered a success by the LDCs. Nevertheless, I believe that the CIEC made a major contribution in helping to delineate the realistic limits to demands and commitments of developing and developed countries. Concretely, the DCs committed themselves to increase aid flows and to negotiate a Common Fund to facilitate the financing of commodity agreements. On the other hand, the LDCs failed to convince the developed countries that the solution to many development problems lies in structural changes in the world economy. In particular, developed countries argued throughout CIEC that many of the LDCs' proposals, which would have impeded the functioning of the goals they sought, but would actually be counter productive. Most of the issues raised during CIEC remain on the table in some form or other, and can roughly be grouped under the headings of development assistance, external debt, trade, and commodity policy.

With respect to development assistance (ODA) participants in CIEC were able to agree on the need for progressive and substantial increases in part through a capital increase in the World Bank. In addition, DCs agreed to provide a $1 billion Special Action Program for low income countries with the most acute financial needs.

While these are important commitments, it is even more important to recognize that there are limits in this area. First, there is a real limit to what ODA can achieve. Resource transfer can promote development, but it cannot ensure it. Unfortunately, as we ourselves have come to learn in the context of urban and regional development, economic progress is not to be bought by money alone. Authorities must assure that their own policies as well as the social/economic climate is conducive to the productive use of financial resources.

Second, developed countries have limited resources, for which there are numerous competing uses. LDCs too often dismiss this type of limit as purely political. But even in countries as wealthy as the United States, the ability to tax and borrow for all sorts of purposes is circumscribed and increased foreign assistance means increased tax burdens or government deficits. These financial limits _are_ real for responsible governments, and become increasingly important during prolonged periods of high unemployment and large budgetary deficits.

Finally, the degree of flexibility with respect to the amounts of official development assistance that can be provided also depends importantly on the perceived effectiveness with which countries employ these resources to improve the well-being of all their citizens.

A second major issue related to the flow of ODA involves the repayment of assistance loans already made. The LDCs argue that for many countries debt burdens are excessive. Consequently, they seek immediate debt relief for general categories of LDCs, especially the poorest among them and they identify debt relief as an accepted form of development assistance.

The LDCs' demands in this respect proved to be so fundamentally incompatible with the views of the DCs that the ministerial representatives to the concluding meeting of the CIEC simply declared that "The participants could not reach agreement on the various aspects of external indebtedness."

The issue of debt relief will be with us for some time to come. Our position on debt relief is economically sound and has been clearly presented to the LDCs in numerous fora. We cannot accept proposals for generalized or automatic debt relief because adoption of such proposals would violate the fundamental character of loan agreements, in which rights and obligations are contractually agreed between an individual debtor and creditor. Moreover, we believe the diversity of individual debt situations justifies fully, and in fact requires, the traditional case-by-case approach. The effect of generalized debt relief would be to redistribute aid flows on the basis of past borrowings and debt service payments, rather than on the basis of current need. In addition, generalized debt relief would tend to cast in doubt the creditworthiness of LDCs, penalizing those countries which have worked hard to establish a good credit standing and need to maintain their access to capital markets.

While the flows of official capital are important to the development process, they constitute only a fraction of overall capital needs of LDCs. Therefore, maintenance of a favorable investment climate is a paramount element in achieving development aims, both in terms of preserving domestic capital availabilities for domestic use and in attracting sufficient private capital flows from abroad. According to projections made by the World Bank, an average rate of real growth of 6 1/2 percent in the LDCs for the period 1977-1985 will be associated with a total capital flow of $62 billion in current dollars. Moreover, the Bank estimates that private lending and direct investment will account for over 56 percent of the capital flow to LDCs between now and 1985, compared to 46 percent in 1967-1973. The Bank cautions that these projections provide only an order of magnitude, but I feel that even given a wide margin of error they illustrate my point.

During the course of CIEC, considerable progress was made on identifying those elements essential to a favorable investment climate. However, when it came to assurances regarding the actual security of investment there was little real progress.

The seriousness of the issue of security of investment can be illustrated by developments in the LDC raw materials sector. Developing countries' investment policies have frequently included outright expropriation of raw materials projects and/or the forced renegotiation of investment contracts. The net effect of this has been to reduce the attractiveness of foreign investment in the raw material and primary industries in LDCs. In fact, the current pattern of investment shows a shift away from the development of relatively rich resources in LDCs to higher cost projects in developed countries, where there is a lesser perceived risk of abrupt and arbitrary political changes in the way of doing business. If these trends continue, mineral prices will inevitably be higher than they need be and LDCs will not be able to develop their natural resources, and consequently, will suffer losses in employment opportunities and export earnings.

The need for foreign capital to develop raw material projects in LDCs is substantial, to say the least. A recent World Bank study, assuming relatively moderate growth in world demand, estimated that gross investment in the nine major non-fuel minerals would need to total $73 billion over the period 1976-1980 if world requirements are to be met; $39 billion of this investment would need to be in LDCs. For the period 1981-85, the figures were $106 billion and $57 billion, respectively. Thus, investment requirements in raw materials in LDCs are estimated to total $95 billion over the decade starting last year. The Bank goes on to project that foreign capital sources will have to provide up to two-thirds of that

$95 billion.

We believe that policy actions should help assure that these investment flows will actually occur. The major emphasis should be on improving the investment climate in the developing countries and this could be helped along by multilateral efforts. For example, the expression of interest by a multilateral institution such as the World Bank at the early stages of a project - and the prospect of eventual World Bank participation - is likely to promote and facilitate contract terms under which the interests of the host country and the foreign investor are sufficiently protected to reduce significantly the chances of expropriation or forced renegotiation.

Consequently, we are supporting increased lending for investment in the raw materials sector by the World Bank Group. The Administration has requested, and the Congress has authorized, a $1.6 billion subscription by the United States to an $8.4 billion increase in the capital of the IBRD. We, as well as other DCs, have expressed the hope that this increase will enable the Bank to broaden its activities in the energy and raw materials area, without prejudicing other priorities.

On the bilateral side, the U.S. Overseas Private Investment Corporation (OPIC) along with its counterpart institutions in other industrialized countries can aid in reducing political risk through greater involvement in investment in raw materials projects. OPIC already has taken steps to increase its participation in minerals projects.

While the objective need for significant investment flows into the raw material area is undisputed, LDCs view such investments with mixed feelings. A major tenet of the NIEO is that DCs, through their market power, exploit the natural resources of LDCs cheaply, while monopolistic practices of business and labor drive up prices of goods manufactured in the DCs. As a consequence, there is a long-run tendency for the terms of trade of LDCs to decline. In addition, this theory holds that restrictive practices in DCs also prevent the LDCs from sharing the DCs' technological advances and hamper their efforts to broaden their productive base away from raw materials into sectors that have greater employment and value added potential. This theory has given rise to two sorts of demands; first, in the trade and investment area for the transfer of technology and preferential access for LDC products to the markets of DCs and, second, for indexation of commodity prices and other commodity policies with the aim of improving the LDC's terms of trade.

With regard to market access a number of important policy initiatives have already been taken. However, the potential effect of many of these initiatives has not yet been realized. Most DCs are operating generalized preference schemes for LDC exports and there is the standing commitment within the MTN to provide "special and more favorable treatment" for LDC trade. In addition, LDCs will not be expected to provide trade concessions "inconsistent with their economic, financial and development needs" in return for the concessions they receive from advanced economies in the MTN.

A brief survey of the composition of non-oil LDC exports in the past twenty years or so demonstrates that real progress toward increasing LDC manufactured exports can be made. World Bank calculations show that in 1955, 76 percent of total LDC exports is accounted for by agricultural products, 13 percent by ores and minerals, and only 10 percent by manufactures. By 1976 agricultural products accounted for only 43 percent, ores and minerals were essentially unchanged at 16 percent, and the share of manufactures had quadrupled to 41 percent. The LDCs' share in total world exports of manufactures grew from 4.3 percent in 1960 to 6.7 percent in 1975. While these data chart impressive progress, these advances are concentrated among relatively few LDCs. Nevertheless, the framework for significant expansion in LDC trade is being established. But in order to realize the potential, LDCs for their part must establish themselves as reliable and efficient suppliers in the market; developed countries for their part must manage their economies so as to overcome sectoral difficulties that occur as new capacity and efficient suppliers enter world markets.

Although trade concerns remain vitally important, the LDCs have made commodity policy one of the major if not <u>the</u> major issue of the dialogue. As producers and exporters of primary commodities, they see themselves as powerless to affect their economic future in a world dominated by raw material consumers. Inflation and recession in the developed world have direct and significant effects on the economic situation in the LDCs and it is their current objective to reduce these effects through the establishment of international commodity agreements.

The LDCs' concern for commodity price stability is readily understandable. Fluctuating commodity earnings can disrupt economic development plans through periodic reductions in domestic savings, tax revenues, and foreign exchange flows and they can distort overall patterns of development through surges in inflation. Moreover, declining prices, even if temporary, can result in high unemployment in particular sectors, which in turn can lead to political instability.

The LDCs' concern about large fluctuations in commodity prices is shared by consuming countries. First, economic instability in LDCs and large variations in profitability can discourage investment flows and result in supply difficulties in the longer run. Second, large increases in primary commodity prices, even if later reversed, can fuel inflation in the industrial economies. Manufacturers and food processors may justify price hikes on the basis of changes in input costs. Consequently, temporary increases in the prices of raw materials may get translated into price changes for finished goods. And increases in consumer costs, in turn, provide justification for wage increases. Once wage costs move up, the commodity price rise becomes imbedded in the price structure because of the downward stickiness of nominal wages. The overall effect is a ratcheting-up of the general price level.

The recognition of mutual producer/consumer interests in the commodity area has led the Carter Administration to take a positive posture towards the negotiation of commodity agreements that aim to stabilize prices. If such agreements are to be effective, they ideally should operate through buffer stocks of sufficient size to defend both price floors and price ceilings. Buffer stock operations allow the price mechanism to perform its function of allocating resources to the most efficient producers. Supply controls - export or production quotas - are less acceptable, because they can reduce supplies and raise prices, rather than stabilize them. Under a supply control system, low cost producers are forced to cut back along with high cost producers, thereby locking the industry into less efficient patterns of production. In addition, production controls and export quotas also tend to freeze existing production and market patterns since both are usually allocated on the basis of some past average of market shares.

Even with an international stock arrangement, price stabilization results may be diminished by domestic tax policies when they prevent producers from realizing higher revenues stemming from higher prices. Under such circumstances, new investment will be deterred and the tax authorities, in effect, control production and supply and tend to render international price stabilization efforts ineffective.

In practice, it is not easy to negotiate and implement effective price stabilization agreements. The nature of production and distribution differs from commodity to commodity and from country to country. Thus, different kinds of commodities may require different types of buffer stock arrangements. For example, the tin agreement depends in part on an internationally held stocking mechanism. For sugar, internationally coordinated, nationally held stocks have been agreed upon and the coffee agreement promotes the holding of national stocks through export quota arrangements in the case of coffee, frequent allocation of country quotas ensures that production patterns remain flexible.

The tin and coffee agreements, as well as the proposed sugar agreement, all hold sufficient promise for price stabilization efforts to be effective and, therefore, U.S. participation was considered to be warranted. For the LDCs, however, price stabilization through commodity agreements represents only one step towards their overall commodity objectives. They seek to establish a mechanism by which both prices and export revenues can be raised automatically. This would be achieved in part by indexing commodity prices to the prices of manufactured exports from developed countries. We, on the other hand, consistently have rejected attempts to set artificial prices in any commodity agreement.

The focal point of the international commodity discussions currently are the negotiations on a Common Fund which are taking place in Geneva at this time. The LDCs sees the Common Fund as a broad commodity organization, which would not only finance buffer stocks, but also a whole range of other activities in the commodity area. The type of Common Fund we have in mind would facilitate the financing of buffer stock agreements only. It would do so by consolidating the financial activities of buffer stock organizations in the Common Fund and, thereby, achieving significant financial efficiencies. Because the Common Fund has become an issue of central political significance to LDCs, bridging the gap between our concept of a Common Fund and that of the UNCTAD may be even more difficult than it otherwise would have been.

I have attempted to outline some of the major issues we have faced and will continue to face in the Dialogue. The question that still remains is "where do we go from here"? As I indicated earlier, the Dialogue as we have come to know it involves a virtually unchanging compendium of numerous LDC demands and proposals, some justified and reasonable and some not.

During the course of the dialogue, we have attempted to move away from those issues on which we could only make a hollow response and to impart a greater sense of realism to the discussions. On many issues, the interests of developed and developing countries intertwine. But political rhetoric has tended to obscure those areas in which actual progress has been and is being made. A true Dialogue would attempt to determine which elements of the issues I have discussed stand little or no chance of being resolved. We should attempt to eliminate these issues from the current agenda and concentrate on those where the need is most pressing and where we have some hope of making real progress.

Realistically, even with the greatest "political will," we can only do so much to alleviate the hardships suffered by parts of our own population as well as those faced in the developing world. The most important contribution we can make is to assure a return to sustainable, adequate economic growth. An expanding world economy would provide more reliable markets and more stable prices for exports of LDCs as well as create an economic environment which would do much to keep the international trading system free. While we can make significant direct contributions by means of transfers of resources to LDCs, we must also bear in mind that the most critical factors in development are the policies and efforts of the developing countries themselves. LDC governments must have the political will to address their problems realistically and to marshall domestic support for required policy changes. We can aid in resolving the continuous and serious problems of poverty and development, but our help cannot substitute for their resolute efforts. The potential of official financial assistance, while important, pales in comparison to private sector financing. Thus, while governments have a critical part to play in encouraging and supporting the development process, the private sector at home and abroad must continue to play the major role.

We have already committed ourselves to increasing aid flows, to a constructive approach to commodity problems, to developing trade opportunities for LDCs and to putting in place sufficient official resources to bridge temporary external payments problems for developed and developing countries alike.

We are now entering a stage of the dialogue where our focus - recently expanded in CIEC - must narrow to specific objectives which have been identified or given added significance during the course of the last three years. We feel that CIEC's broad scope has given the dialogue perspective and given its participants a stronger purpose, but that we must now proceed to a workaday setting and get on with the job. It is our hope that the LDCs share this view and that we will be able to effectively move the discussions into specialized fora where the objectives are definable and where the work can proceed with a minimum of political rhetoric.

Department of the TREASURY
WASHINGTON, D.C. 20220 TELEPHONE 566-2041
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FOR RELEASE AT 4:00 P.M. November 15, 1977

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $5,800 million, to be issued November 25, 1977. This offering will provide $300 million of new cash for the Treasury as the maturing bills are outstanding in the amount of $5,505 million. The two series offered are as follows:

90-day bills (to maturity date) for approximately $2,300 million, representing an additional amount of bills dated August 25, 1977, and to mature February 23, 1978 (CUSIP No. 912793 N8 5), originally issued in the amount of $3,404 million, the additional and original bills to be freely interchangeable.

181-day bills for approximately $3,500 million to be dated November 25, 1977, and to mature May 25, 1978 (CUSIP No. 912793 Q5 8).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing November 25, 1977. Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,748 million of the maturing bills. These accounts may exchange bills they hold for the bills now being offered at the weighted average prices of accepted competitive tenders.

The bills will be issued on a discount basis under competitive and noncompetitive bidding, and at maturity their par amount will be payable without interest. Except for definitive bills in the $100,000 denomination, which will be available only to investors who are able to show that they are required by law or regulation to hold securities in physical form, both series of bills will be issued entirely in book-entry form in a minimum amount of $10,000 and in any higher $5,000 multiple, on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20226, up to 1:30 p.m., Eastern Standard time, Monday, November 21, 1977. Form PD 4632-2 (for 26-week series) or Form PD 4632-3 (for 13-week series) should be used to submit tenders for bills to be maintained on the book-entry records of the Department of the Treasury.

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Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used.

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account.

Payment for the full par amount of the bills applied for must accompany all tenders submitted for bills to be maintained on the book-entry records of the Department of the Treasury. A cash adjustment will be made on all accepted tenders for the difference between the par payment submitted and the actual issue price as determined in the auction.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, or for bills issued in bearer form, where authorized. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Competitive bidders will be advised of the acceptance or rejection of their tenders. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action shall be final. Subject to these reservations, noncompetitive tenders for each issue for $500,000 or less without stated price from any one bidder will be accepted in full at the weighted average price (in three decimals) of accepted competitive bids for the respective issues.

Settlement for accepted tenders for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, and bills issued in bearer form must be made or completed at the Federal Reserve Bank or Branch or at the Bureau of the Public Debt on November 25, 1977, in cash or other immediately available funds or in Treasury bills maturing November 25, 1977. Cash adjustments will be made for differences between the par value of the maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which these bills are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of these bills (other than life insurance companies) must include in his or her Federal income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Department of the Treasury Circulars, No. 418 (current revision), Public Debt Series - Nos. 26-76 and 27-76, and this notice, prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

Contact: George G. Ross
202/566-2356

FOR IMMEDIATE RELEASE November 15, 1977

Treasury Announces Meetings With Tax Authorities From France, Germany, and the United Kingdom

The Treasury Department today announced that representatives from the Office of the Assistant Secretary (Tax Policy) and the Internal Revenue Service are meeting regularly with tax authorities from France, Germany, and the United Kingdom to improve cooperation in practical ways under existing tax treaties.

These efforts include the study of more effective methods of avoiding double taxation, simplification of arrangements for the assistance of taxpayers through mutual consultation, and the exchange of tax-related information.

Tax treaties between the United States and other countries provide for the relief of double taxation on profits and income. Such treaties also authorize the exchange of information to carry out the purposes of the treaties and to prevent tax evasion.

The growth of international operations by both companies and individuals has made it necessary for the United States and other countries to meet and coordinate exchanges of information. These meetings are intended to assist each country in ascertaining the tax liabilities of taxpayers who have interests and activities in more than one of the countries.

These exchanges are made in accordance with the provisions of the relevant tax treaties and under rules which protect the confidentiality of a taxpayer's affairs.

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B-555

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

Contact: A.M. Hattal
202/566-8381

FOR IMMEDIATE RELEASE November 15, 1977

TREASURY ANNOUNCES INITIATION OF ANTIDUMPING INVESTIGATION ON AUDIBLE SIGNAL ALARMS, FROM JAPAN

The Treasury Department announced today that it will begin an antidumping investigation of audible signal alarms from Japan.

The Treasury Department's announcement followed a summary investigation conducted by the U.S. Customs Service after receipt of a petition filed on behalf of Delta Electric Division of Halle Industries, Inc., alleging that the merchandise was being dumped in the United States. Information contained in the petition indicates that audible signal alarms imported from Japan are being sold in the U.S. at less than fair value. The petition also includes information indicating that the alleged "less than fair value" sales may be injuring a U.S. industry. If sales at less than fair value are determined by Treasury, the U.S. International Trade Commission will decide the injury question.

For purposes of Treasury's investigation, the term "audible signal alarms," also referred to as "smoke detector horns," means electromechanical audible signal alarms having a signal of at least 85 dbA at 10 feet and suitable for use as a component of smoke detectors.

Notice of this action will appear in the Federal Register of November 16, 1977.

Imports of this merchandise from Japan in calendar year 1976 were valued at approximately $2 million, and during the first nine months of 1977, $3.5 million.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE November 21, 1977

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,301 million of 13-week Treasury bills and for $3,502 million of 26-week Treasury bills, both series to be issued on November 25, 1977, were accepted at the Federal Reserve Banks and Treasury today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing February 23, 1978			26-week bills maturing May 25, 1978		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.483	6.068%	6.25%	96.799	6.367%	6.67%
Low	98.477	6.092%	6.27%	96.786	6.392%	6.70%
Average	98.479	6.084%	6.26%	96.790	6.385%	6.69%

Tenders at the low price for the 13-week bills were allotted 26%.
Tenders at the low price for the 26-week bills were allotted 6%.

TOTAL TENDERS RECEIVED AND ACCEPTED
BY FEDERAL RESERVE DISTRICTS AND TREASURY:

Location	Received	Accepted	Received	Accepted
Boston	$ 19,235,000	$ 15,235,000	$ 26,005,000	$ 7,005,000
New York	3,691,705,000	1,907,815,000	4,747,150,000	2,843,950,000
Philadelphia	27,265,000	27,265,000	10,420,000	10,420,000
Cleveland	54,455,000	34,040,000	81,820,000	36,820,000
Richmond	27,245,000	20,245,000	48,075,000	37,075,000
Atlanta	49,600,000	35,030,000	13,575,000	13,075,000
Chicago	523,815,000	99,940,000	476,150,000	186,150,000
St. Louis	41,315,000	19,475,000	48,175,000	20,175,000
Minneapolis	23,330,000	18,110,000	20,740,000	14,740,000
Kansas City	24,520,000	24,520,000	28,420,000	27,920,000
Dallas	48,760,000	44,540,000	15,260,000	9,260,000
San Francisco	276,625,000	54,690,000	543,645,000	295,145,000
Treasury	225,000	225,000	195,000	195,000
TOTALS	$4,808,095,000	$2,301,130,000 a/	$6,059,630,000	$3,501,930,000 b/

a/Includes $ 346,960,000 noncompetitive tenders from the public.
b/Includes $ 163,635,000 noncompetitive tenders from the public.
1/Equivalent coupon-issue yield.

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Department of the TREASURY
NEWS
WASHINGTON, D.C. 20220
TELEPHONE 566-2041

ADVANCE FOR RELEASE
MONDAY, NOVEMBER 21, 1977
1:00 P.M. E.S.T.

REMARKS BY THE
SECRETARY OF THE TREASURY
THE HONORABLE W. MICHAEL BLUMENTHAL
BEFORE
THE BOND CLUB OF NEW YORK, INCORPORATED
NOVEMBER 21, 1977

It's good to be here today -- to discuss a problem that concerns us greatly in Washington -- the weak condition of our equities markets.

We're not dealing here with merely a Wall Street problem. The ability of American companies to raise equity capital -- to expand without adding to debt burdens -- is a key requirement for a sustained, non-inflationary economic expansion. The health of the economy -- and our economic future -- depends on it.

The issue is how to provide more equity capital. For it is equity capital which will help generate new products, new plant and equipment, new jobs and, ultimately, a better quality of life for all Americans.

Ironically, the weakness of equity markets comes at a time when our capital markets, as a whole, are the envy of the world. In 1976, they provided a total of $236.5 billion in net new long-term funds for public and private purposes -- compared to $142 billion raised in 1972.

This size is unmatched by any other country, not to mention the depth, flexibility and openness of our capital markets. No other country can raise and allocate large amounts of capital with less government interference. And no other country can direct capital more effectively to where it is needed.

Indeed, the other major segments of our capital markets -- for government securities, corporate bonds, and mortgage credit -- are relatively healthy and performing well.

During 1977, for example, the Federal Government expects to issue more than $50 billion of securities, excluding rollovers. State and local governments will increase their outstanding long-term debt by $24 billion. In the case of municipal issuers, that represents a 28 percent increase over 1976.

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The corporate bond markets have provided $30 billion in new funds through long-term debt securities this year. At the same time interest rates in this sector remained nearly flat. The rates of AA-rated industrials were 7.97 percent at the beginning of this year, and are only slightly higher now at 8.05 percent.

We find the same impressive performance in the mortgage markets which have financed near record levels of housing starts -- a key to our economic expansion. Despite this rapid growth, mortgage rates have remained stable, and funds have been plentiful.

Yet while these segments of our capital markets -- primarily involving debt securities -- have done relatively well, our equity markets have been languishing.

The Dow Jones Industrial Average has dropped nearly 200 points this year, to about the same level it was in 1964 -- without adjusting for inflation. This represents a dramatic erosion of the equity values of recent years.

With that erosion in values, it is small wonder that individual investors have left the market in droves. The number of individual shareholders dropped from 31 million in 1970 to less than 25 million recently.

Many individuals have found other investments with better safety of principal and after-tax returns -- for example, corporate bonds -- and an increasing amount of individual savings is finding its way into pension funds and other institutions. Probably adding to this disenchantment is a feeling by individuals that they cannot compete with institutional investors.

Moreover, not only individuals have shifted away from common stocks. Private pension funds, for example, with now over $100 billion in common stocks, have been placing a larger share of new investment in fixed-income securities. Common stocks held by pension funds have declined from 70.8 percent of their total assets in 1972 to 64.6 percent in 1976.

This is a serious development, because pension funds and other institutional investors have become the mainstays of the equity markets. In 1976, institutions accounted for 70 percent of the value of all New York Stock Exchange public trading.

These developments in the equity markets are having a profound and worrisome effect on new issues.

The amount of public offerings of newly-issued equity securities has fallen dramatically since the late 1960's. From 1968 through 1972, industrial firms raised an annual average of $7.4 billion in common stock offerings. Since 1973, such common stock offerings have averaged only $2.6 billion per year.

Only the higher quality, well-capitalized companies have enjoyed access to the equity markets in recent years. The problem is even more serious for companies seeking to sell equity to the public for the first time. During the first six months of 1977, initial common stock offerings by these companies totaled only $230 million, compared to $3.3 billion in 1972.

The result has been a dramatic -- and disturbing -- rise in the percentage of debt in the capital structure of American manufacturers -- from 51 percent in 1958 to over 86 percent in 1976.

This means that many companies cannot raise additional debt unless their equity base expands. If they are mature and blessed with adequate cash flow, they can expand their equity with retained earnings. But for younger, growing firms that need expansion capital so badly, the unavailability of equity sets in motion a vicious cycle:

Without new equity capital they cannot grow -- without growth they cannot increase their earnings -- and without earnings they cannot raise new debt or external equity.

Data from the SEC show this situation starkly. Registered securities offerings by smaller companies -- those with assets of less than $5 million -- have dropped from a high of 698 in a single year, 1969, to only 41 in the three years of 1974 through 1976.

If the markets do not have new capital for these smaller companies, where can they turn? They will fail, or grow too slowly, or turn to larger companies to be acquired.

That kind of pressure for more concentration is not, in my view, a healthy trend. It enhances the danger that we are stifling the kind of innovation and new development which smaller enterprises typically engender.

This risk is a severe drag on American technological advancement, on productivity and competitiveness. A significant number of new products and other technological advances are made by individual inventors or small businesses -- enough so that restricting their flow of capital could foreclose important breakthroughs that lie ahead. Among these companies starved for capital today could be another Xerox, Polaroid or IBM.

So the problems and possible consequences of the weak condition of the equity markets are serious and merit the immediate attention of this Administration. And as we look at the problem, three underlying causes appear paramount.

The first -- and most important -- is inflation. The investment community recognizes that inflation breeds recession

-- that the reaction of business to prospects of accelerating inflation is to limit expansion and to curtail outlays, rather than trying to beat the price rise. We all have learned that inflation is <u>not</u> good for stock prices.

The second is low profits. The investment community has <u>not</u> been deceived by the reports of soaring profits. We have all long since learned that profits reported by conventional methods disregard the true costs of replacing the capital and inventories used in the conduct of business.

When earnings are adjusted for inflation, they show that profits have not soared. Indeed, they have not even kept pace with the growth of real GNP. Since the mid 1960's, real GNP has grown by over a third, while profits adjusted for inflation have risen by only a fifth.

A third cause has been the economic impact of the quintupling of the price of oil since 1973. This has adversely affected economic growth, inflation, unemployment rates and corporate profits.

There are other negative factors affecting our equity markets, as well. One of them -- and its impact is hard to gauge -- is the strain on the securities industry itself. The industry has been affected recently by some fundamental changes, particularly the growing institutionalization of the markets and the elimination of fixed brokerage commissions in May, 1975.

Because of these economic and regulatory changes, this industry has faced some painful adjustments. Institutional brokerage, at one time a financial mainstay, has become increasingly unprofitable. The industry has responded creatively, developing new products and new profit centers, such as options.

But those new endeavors carry their own regulatory and financial problems. This is a capital intensive industry, and those who do not have access to capital are not surviving. Not all have that access, and events in recent years have not encouraged new entrants. The number of NYSE member firms doing business with the public fell from 476 at the beginning of 1973, to 371 at the end of June of this year.

Related to the problem of the declining number of individual investors, the number of full-time registered representatives of New York Stock Exchange member firms decreased from 40,000 in 1972 to 36,000 in 1976. As the industry contracts, its efforts to attract new investors and to hold old ones also contract.

Uncertainty about the outcome of the SEC proceeding on Rule 390 may also be having an important effect. Some firms, those that believe off-board trading is likely, are moving to acquire other firms with retail-order flow to improve their competitiveness. Others, uncertain of the effect on them of possible changes, are becoming more conservative about committing their capital -- or are seeking mergers with other firms.

The SEC has done a fine job in maintaining public confidence in the integrity of our markets. I have discussed the Rule 390 proceeding with Chairman Williams, and I am confident that the Commission will deal responsibly with this complex problem. The Treasury has already stressed to the Commission the importance of gradual changes in this area to minimize uncertainty and the danger of disruption.

I am certain that the Commission will not ignore the obvious risks of removal of restrictions on off-board trading before appropriate modifications to the present system are in place. I am also gratified that the leaders of the securities industry are already taking steps toward the development of an effective national market system as mandated by the 1975 amendments to the securities laws.

There are other concerns that no doubt have contributed to the weakness in our equity markets, but these would fade in importance once we begin to rebuild public and business confidence in our future economic performance.

If the future is perceived as a continuation of slow growth, high unemployment, and high inflation in the years ahead, the equity markets will continue to languish. If, however, the future promises improvements, the markets can and will recover.

Providing those improvements -- improvements that will lift all sectors of our economy to higher ground -- is the central task of this Administration's economic policies.

I am here to tell you today that we are aware of this task, and that we intend to carry it out in the months ahead. The job will not be easy. As Mayor LaGuardia used to say, it calls for "patience and fortitude."

Basic, long-term predictable and consistent policies will be needed. The emphasis, above all, must and will be on the private sector, on the market mechanism, and on reliance on the genius of the free enterprise system.

Unemployment, inflation, lagging investment and productivity, low profits, a languishing stock market -- all these cannot be solved by massive government programs, by spending our way out of deep troughs, or by clamping down on private businesses with new restrictions or edicts. So we will do our job and rely on American industry and on all of you here to do yours.

The problems will begin to be solved only when business executives, singly and collectively, decide that the best course toward profitability is through expansion. Then the building blocks of investment and risk-taking decisions -- decisions that take place tens of thousands of times every day in executive offices throughout the country -- begin to add up to a solid structure of new business activity.

That's a basic reality. And that's why we will rely on a steady, prudent set of policies for lasting economic results, fully aware that the really big problems take time to solve.

The essential first step is to spell out in full detail a cogent, comprehensive economic strategy -- where the sum of our policies promotes a sustained, noninflationary expansion.

As the energy plan and Social Security bills emerge from Congress, and we make final tax and budget decisions in January, the shape of our economic policy for the years ahead will be clear.

The fundamental element in our strategy is the private sector. Four out of five jobs in America are private jobs. While government can provide temporary work for the disadvantaged and for millions of new job-seekers entering the labor force each year, the real opportunity for lasting, meaningful jobs is in the private sector.

For the jobs to be there requires investment and risk capital -- much more than is available today for American business.

We must expect to provide greater incentives for investment and business risk-taking, principally by adjusting our tax structure.

The forthcoming tax proposals will contain incentives for capital formation, both for corporations and individuals. We fully understand the important role that preferential tax rates for capital gains have played in encouraging capital formation -- especially for venture capital and new businesses. We will, of course, take this into account in designing reforms to reduce or eliminate unjustified tax preferences.

The tax proposals will also take into account the ultimate shape of the energy program and the Social Security tax increases already scheduled and those now under consideration in the Congress, to ensure that these measures do not amount to a drag on the economy.

We must scale down the increasing bite that Federal income taxes take from the incomes of American workers. The average share is now 13 percent and rising, as inflation pushes incomes into higher marginal tax rates. It had traditionally been 10 to 12 percent, and we should aim for a return to that level.

We will also continue our fight against inflation, building on the success made this year in moderating price increases. That ties in closely with an economic expansion fueled by greater productivity and disciplined public spending.

For example, we must control Federal spending to allow the budget to move into balance as unemployment and growth reach acceptable levels. Federal deficits are neither necessary nor desirable in an economy making full use of its resources.

As a rule of thumb, we should not allow the percentage of GNP by Federal spending to exceed 21 percent in the long run. That's about where it was over the past decade, but it has risen in recent years.

Finally, this Administration recognizes that it is important to devote more attention to our capital markets as such. In the Treasury, we have taken steps to do just that, including the creation of a new Deputy Assistant Secretary whose functions are concentrated in capital markets problems.

For too long, capital market questions have been viewed principally through the eyes of regulators. We are trying to look at all parts of our capital markets in relation to each other so that the Administration can help ensure the proper functioning of this vital part of our economy.

What is needed, then, is for all of us to work together. Let us not forget that ours is the strongest and the most productive economy in the world.

With sound government policies, with a confident business sector, and with the strong and innovative capital markets which you represent, the future is indeed bright.

I hope that you will all give us the benefit of your experience and judgment, so that together we can transform this bright promise into the reality of a better future for all of us.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

CONTACT: Alvin M. Hattal
202/566-8381

FOR IMMEDIATE RELEASE November 21, 1977

SAFEWAY AND GRAND UNION TO STEP UP USE OF $2 BILLS IN STORES

Safeway Stores, Inc., and Grand Union Company have agreed to assist the U.S. Treasury Department in its continuing effort to demonstrate the benefits and practicality of using the $2 bill, Under Secretary Bette B. Anderson said today.

Safeway will use the $2 bills in its Washington Division, the company's second largest. All 165 Safeway stores in Northern Virginia, Washington, D.C., Maryland, Delaware, and Southern Pennsylvania are participating. Grand Union's 24 stores in the Glen Falls-Sarasota County area of New York will take part in the effort beginning early in 1978. Both chains will continue the project throughout the six states for about six months.

A similar effort undertaken by major retailers in Portland, Oregon, increased the circulation rate of $2 bills in that area by more than 2,000 per cent in just two months, the Treasury says. As a result of the program, circulation of the $2 bill in the Portland area has remained high and circulation of the $1 bill has declined 15 per cent, confirming the anticipated displacement effect. Comments from Portland retailers to the Treasury Department indicate that customers were not only "very happy to receive $2 bills as change" but also that the use of $2 bills was met with negligible customer or employee resistance. One retailer reported that "there has been no change in the frequency of errors, and the time to handle one additional denomination is offset by handling only half as many $1 bills."

The Treasury Department has been seeking the active support of major retail companies because it believes that individuals receive their small-denomination currency primarily from retailers in cash transactions. Basically, Mrs. Anderson said, the Treasury is asking only that $2 notes be routinely used by the businesses in normal day-to-day transactions.

(OVER)

"We are very pleased that two industry leaders such as Safeway and Grand Union have agreed to help us," Mrs. Anderson said. "We welcome this opportunity for cooperation between the public and private sectors and are encouraged by the public spirit displayed by Safeway, Grand Union, and others in this effort to reduce the cost of government. We sincerely hope that other retailers will follow this lead."

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE AT 4:00 P.M. November 21, 1977

TREASURY TO AUCTION $2,750 MILLION OF 4-YEAR 1-MONTH NOTES

The Department of the Treasury will auction $2,750 million of 4-year 1-month notes to raise new cash. Additional amounts of the notes may be issued to Federal Reserve Banks as agents of foreign and international monetary authorities at the average price of accepted tenders.

Details about the new security are given in the attached highlights of the offering and in the official offering circular.

Attachment

B-560

HIGHLIGHTS OF TREASURY OFFERING TO THE PUBLIC OF 4-YEAR 1-MONTH NOTES TO BE ISSUED DECEMBER 7, 1977

November 21, 1977

<u>Amount Offered:</u>	
To the public..........................	$2,750 million
<u>Description of Security:</u>	
Term and type of security...........	4-year 1-month notes
Series and CUSIP designation........	Series L-1981 (CUSIP No. 912827 HG 0)
Maturity date..........................	December 31, 1981
Call date..............................	No provision
Interest coupon rate................	To be determined based on the average of accepted bids
Investment yield.....................	To be determined at auction
Premium or discount..................	To be determined after auction
Interest payment dates..............	June 30 and December 31 (first payment on June 30, 1978)
Minimum denomination available......	$1,000
<u>Terms of Sale:</u>	
Method of sale.......................	Yield Auction
Accrued interest payable by investor............................	None
Preferred allotment..................	Noncompetitive bid for $1,000,000 or less
Deposit requirement..................	5% of face amount
Deposit guarantee by designated institutions........................	Acceptable
<u>Key Dates:</u>	
Deadline for receipt of tenders.....	Wednesday, November 30, 1977, by 1:30 p.m., EST
Settlement date (final payment due)	
a) cash or Federal funds.......	Wednesday, December 7, 1977
b) check drawn on bank within FRB district where submitted..................	Monday, December 5, 1977
c) check drawn on bank outside FRB district where submitted..................	Friday, December 2, 1977
Delivery date for coupon securities.	Monday, December 12, 1977

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE AT 4:00 P.M. November 22, 1977

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $5,800 million, to be issued December 1, 1977. This offering will provide $400 million of new cash for the Treasury as the maturing bills are outstanding in the amount of $5,402 million. The two series offered are as follows:

91-day bills (to maturity date) for approximately $2,300 million, representing an additional amount of bills dated September 1, 1977, and to mature March 2, 1978 (CUSIP No. 912793 N9 3), originally issued in the amount of $3,304 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $3,500 million to be dated December 1, 1977, and to mature June 1, 1978 (CUSIP No. 912793 Q6 6).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing December 1, 1977. Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,536 million of the maturing bills. These accounts may exchange bills they hold for the bills now being offered at the weighted average prices of accepted competitive tenders.

The bills will be issued on a discount basis under competitive and noncompetitive bidding, and at maturity their par amount will be payable without interest. Except for definitive bills in the $100,000 denomination, which will be available only to investors who are able to show that they are required by law or regulation to hold securities in physical form, both series of bills will be issued entirely in book-entry form in a minimum amount of $10,000 and in any higher $5,000 multiple, on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20226, up to 1:30 p.m., Eastern Standard time, Monday, November 28, 1977. Form PD 4632-2 (for 26-week series) or Form PD 4632-3 (for 13-week series) should be used to submit tenders for bills to be maintained on the book-entry records of the Department of the Treasury.

Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used.

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account.

Payment for the full par amount of the bills applied for must accompany all tenders submitted for bills to be maintained on the book-entry records of the Department of the Treasury. A cash adjustment will be made on all accepted tenders for the difference between the par payment submitted and the actual issue price as determined in the auction.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, or for bills issued in bearer form, where authorized. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Competitive bidders will be advised of the acceptance or rejection of their tenders. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action shall be final. Subject to these reservations, noncompetitive tenders for each issue for $500,000 or less without stated price from any one bidder will be accepted in full at the weighted average price (in three decimals) of accepted competitive bids for the respective issues.

Settlement for accepted tenders for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, and bills issued in bearer form must be made or completed at the Federal Reserve Bank or Branch or at the Bureau of the Public Debt on December 1, 1977, in cash or other immediately available funds or in Treasury bills maturing December 1, 1977. Cash adjustments will be made for differences between the par value of the maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which these bills are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of these bills (other than life insurance companies) must include in his or her Federal income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Department of the Treasury Circulars, No. 418 (current revision), Public Debt Series - Nos. 26-76 and 27-76, and this notice, prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE November 22, 1977

RESULTS OF AUCTION OF 2-YEAR NOTES

The Department of the Treasury has accepted $3,769 million of $8,700 million of tenders received from the public for the 2-year notes, Series W-1979, auctioned today.

The range of accepted competitive bids was as follows:

Lowest yield	7.12% 1/
Highest yield	7.14%
Average yield	7.13%

The interest rate on the notes will be 7-1/8%. At the 7-1/8% rate, the above yields result in the following prices:

Low-yield price	100.009
High-yield price	99.972
Average-yield price	99.991

The $3,769 million of accepted tenders includes $697 million of noncompetitive tenders and $2,872 million of competitive tenders (including 53% of the amount of notes bid for at the high yield) from private investors. It also includes $200 million of tenders at the average price from Federal Reserve Banks as agents for foreign and international monetary authorities in exchange for maturing securities.

In addition, $999 million of tenders were accepted at the average price from Government accounts and Federal Reserve Banks for their own account in exchange for securities maturing November 30, 1977, ($112 million) and from Federal Reserve Banks as agents for foreign and international monetary authorities for new cash ($887 million).

1/ Excepting 4 tenders totaling $95,000

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

Contact: A. Hattal
202-566-8381

FOR IMMEDIATE RELEASE November 22, 1977

TREASURY ANNOUNCES START
OF TWO ANTIDUMPING INVESTIGATIONS

The Treasury Department announced today that it will begin antidumping investigations on imports of steel wire strand for prestressed concrete from Japan and India.

The Treasury Department's announcement followed a summary investigation conducted by the U.S. Customs Service after receipt of a petition filed on behalf of five domestic producers. Information contained in the petition indicates that this merchandise is being sold in the U.S. at less than fair value. The petition also includes information indicating that the alleged "less than fair value" sales may be injuring a U.S. industry.

For purposes of Treasury's investigation, the term "steel wire strand for prestressed concrete" means wire strand of carbon steel for prestressing concrete, provided for in item number 642.1020 of the Tariff Schedules of the United States. Prestressed concrete is now widely used in the construction of bridge girders, beams, pilings, railroad ties, and a variety of building products.

Notice of these actions will appear in the Federal Register of November 23, 1977.

Imports of steel wire strand for prestressed concrete from Japan were valued at approximately $28.7 million during calendar year 1976, and from India, approximately $0.6 million.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE AT 11:30 A.M. November 23, 1977

TREASURY OFFERS $3,000 MILLION OF 139-DAY TREASURY BILLS

The Department of the Treasury, by this public notice, invites tenders for approximately $3,000 million of 139-day Treasury bills to be issued December 2, 1977, representing an additional amount of bills dated October 20, 1977, maturing April 20, 1978 (CUSIP NO. 912793 P8 3).

The bills will be issued on a discount basis under competitive and noncompetitive bidding, and at maturity their par amount will be payable without interest. Except for definitive bills in the $100,000 denomination, which will be available only to investors who are able to show that they are required by law or regulation to hold securities in physical form, this series of bills will be issued entirely in book-entry form in a minimum amount of $10,000 and in any higher $5,000 multiple, on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20226, up to 1:30 p.m., Eastern Standard time, Tuesday, November 29, 1977. Form 4632-2 (modified) should be used to submit tenders for bills to be maintained on the book-entry records of the Department of the Treasury.

Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders, the price offered must be expressed on the basis of 100, with not more than three decimals, e.g. 99.925. Fractions may not be used.

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account.

Payment for the full par amount of the bills applied for must accompany all tenders submitted for bills to be maintained on the book-entry records of the Department of the Treasury. A cash adjustment will be made on all accepted tenders for the difference between the par payment submitted and the actual issue price as determined in the auction.

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No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, or for bills issued in bearer form, where authorized. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Competitive bidders will be advised of the acceptance or rejection of their tenders. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action shall be final. Subject to these reservations, noncompetitive tenders for $500,000 or less without stated price from any one bidder will be accepted in full at the weighted average price (in three decimals) of accepted competitive bids.

Settlement for accepted tenders for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, and bills issued in bearer form must be made or completed at the Federal Reserve Bank or Branch or at the Bureau of the Public Debt in cash or other immediately available funds on December 2, 1977.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which these bills are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of these bills (other than life insurance companies) must include in his or her Federal income tax return, as ordinary gain or loss, the difference between the price paid for the bills on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Department of the Treasury Circulars, No. 418 (current revision), Public Debt Series - Nos. 26-76 and 27-76, and this notice, prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE AT 12:00 NOON
TUESDAY, NOVEMBER 29, 1977

REMARKS BY THE HONORABLE DANIEL H. BRILL
ASSISTANT SECRETARY FOR ECONOMIC POLICY
U.S. TREASURY DEPARTMENT
BEFORE THE SEVENTH EUROPEAN INSTITUTIONAL INVESTOR CONFERENCE
LONDON, NOVEMBER 29, 1977

I appreciate very much the opportunity of meeting with this distinguished group to discuss the economic policies of the Carter Administration, and the economic philosophies underlying them. There is some slight confusion and misunderstanding on these matters in the States. This is not surprising. In fact, whenever policy is formed in a democracy, cries arise that it lacks coherence and consistency. I'm afraid that policies in a democracy seldom conform to neat theoretical constructs or rigorous logic. And that is especially true in a diverse, continental democracy with a government featuring separation of powers, vigorous bicameralism, and limited mechanisms for enforcing party discipline.

Perhaps confusion is diminished by distance; I suspect your perspective from across the Atlantic enables you to see more clearly than those close to the scene the underlying structure of the Administration's goals and strategies.

In evaluating this structure, I am sure you recognize that, in any democratic society, there are multiple goals to be achieved and a multiplicity of interests to be served. Economic growth that is not equitably shared cannot be maintained in a democracy. Economic growth at the expense of environmental deterioration is not acceptable. A rapid rise in economic activity is desirable, but if it is at a pace that triggers serious inflation, it is neither acceptable nor sustainable.

In sum, economic policies in a democratic society must be aimed at optimizing results across a range of objectives, rather than maximizing the achievement of any single objective. The result, often, is that no one is ever completely satisfied.

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Moreover, a democratic society suffers under the pressure of time. The economic problems to be addressed are exceedingly difficult and the economic and social adjustments required by most solutions take time to effect. Yet given the political realities of the election process, there is only a short time-horizon in which progress toward goals must be demonstrated. The result, often, is that it is difficult to implement programs addressed to longer-range problems, unless the severity of the problem is evident and the danger of inaction imminent.

I advance these considerations as constraining conditions, not as excuses. For I don't believe there is a need for excuses. The Carter Administration, on taking office, set forth a number of objectives. Even in the short time span of 10 months there is much progress to report. On growth and inflation, the Administration set forth, in its first budget message, the objectives of achieving real economic growth during 1977 of about 6 percent, a reduction in unemployment to a rate of about 7 percent, and keeping the inflation rate to about 6 percent.

What is the record? It appears likely that real growth of the year will come close to the target. Our current estimate is that the rise in real GNP from the fourth quarter of 1976 to the fourth quarter of this year will approximate 6 percent.

We have already shaved one full percentage point off the unemployment rate, with further reduction in sight before the year end. The inflation rate, as measured by the GNP deflator, is likely to show a rise of about 6 percent. And this progress has been achieved by policies directed at stimulating our domestic economy, not at the expense of our trading partners.

Recounting the extent of success to date does not suggest that we intend to rest on our laurels. Economic growth must be sustained; it will not continue by itself. Both inflation and unemployment must be reduced further. U.S. merchandise trade with other nations must move toward better balance.

What are the principles guiding the process by which these problems will be addressed? First, by maximizing the contribution of the private sector. This Administration clearly recognizes the need to seek solutions that are enduring, productive and, insofar as possible in a fluid world economy, permanent. Solutions resting principally on government intervention in the market place generally do not meet these criteria. There is an appropriate role for government actions to stimulate the private sector, as a bridge over the period until private sector responses to government stimulus gain full momentum. But these government programs should be scheduled to self-destruct, so that as the economy reaches fuller utilization of resources, the government is not competing with the private sector for scarce financial, human and physical resources.

Let me illustrate how this approach to economic problems is designed to work in practice--and, indeed, how it has worked. The most dramatic example relates to the actions on the tax rebate earlier this year. You will recall that the economic program announced by the new Administration was framed in the economic environment of late 1976. At that time, the economy was stalled on dead center. Real gross national product was rising at little more than a one percent annual rate, and unemployment was hovering around the 8 percent level.

A stimulus package was submitted to the Congress designed to move the economy rapidly to a faster growth rate--principally by a tax refund--and then to sustain this faster growth rate through a program emphasizing the creation of jobs by public sector spending until growth in the private sector could absorb more of the unemployed. But as the economy dug out of the winter storms, it became clear that the private economy was generating a vigorous recovery even without further stimulus. Given prospects of vigorous growth, but given also the unfortunate accompaniment of soaring prices, the decision was made to rescind the request for additional immediate stimulus.

I stress this point, for it is not usual in the annals of government policymaking in our country for any Administration to modify its fiscal program so soon after submission to Congress. To some critics, this was an example of economic confusion and inconsistency on the part of a new and inexperienced Administration. To me, it was an example of the application of a fundamental philosophy which accepts the need for government stimulation of the private sector, but is willing to withdraw government intervention when the private sector demonstrates the capability of solving problems on its own.

In the event, the act of rescinding the rebate request has been vindicated. Economic growth in the first quarter of the year--a quarter hampered by fierce winter conditions in its early weeks--rose at a 7-1/2 percent annual rate. And this was followed by further rapid growth, with real GNP rising at an over 6 percent annual rate in the second quarter and at close to 5 percent in the third quarter. The current flow of statistics suggests that the 5 percent rate is likely to be maintained this quarter and into the next year.

I am confident that the same principles will continue to guide the formulation of economic policy next year and into the years beyond. There is no slackening in adherence to the commitment to reduce further both the rate of inflation and the rate of unemployment, a commitment underscored by the Administration's support of legislation (the Humphrey/Hawkins bill) that embeds these objectives as national policy.

And there is no slackening in the Administration's dedication to maintaining a satisfactory rate of economic growth. At the moment, there does appear to be a need for further government stimulation of the economy, not to move the economy faster, but to sustain its current pace longer. Specifically, there is the need to insure that the private economy will pick up sufficient momentum during 1978 to support our growth objectives as present government stimulus programs, now reaching full tide, are scheduled to phase down.

The key element in the picture will be the response of business investment. We need a faster rate of business capital outlays than we have been achieving in recent years. This is not only for short-run growth objectives, but over the longer-term to improve our productivity, maintain our competitiveness in international markets and provide a capital stock adequate for our growing labor force. Therefore, our economic program next year must and will address the economy's need for a more rapid rate of capital formation.

It is not possible at this juncture to specify the full dimensions or exact nature of the tax program now being evaluated by the President. Partly, this is because several important components, which can have significant effects on the economy, are still in the state of evolution in Congress.

For example, the timing and extent of any need for stimulus will depend on the likely impact next year and in 1979 of the final form of legislation relating to our social insurance funds and to our energy problem.

But even aside from any shorter-term requirements for fiscal assistance in sustaining economic growth, the longer-term needs for capital formation will be addressed in the Administration's tax program. Our capital stock has not been growing commensurately with the growth in our labor force. If we are to provide the infrastructure needed to support a full-employment economy, business fixed investment will have to grow at a rate of at least 9 to 10 percent a year, in real terms. Capacity utilization, net return on investment and balance sheet constraints are usually regarded as key determinants of business capital outlays. The tax proposals under consideration would work directly on all of these variables.

Moreover, the need for faster growth in our capital stock is enlarged by the investment requirements for pollution abatement and for the conversion of energy sources from imported oil to domestically available coal. When these needs are added to the investment needs noted earlier, you can see that the capital requirements of the U.S. economy are huge.

These requirements cannot be met if government commandeers too large a share of the financial and physical resources available, or if the incentives for business investment are inadequate, or if excessive regulation impedes the efficient allocation of resources to these ends. That is why our policies are directed at constraining the share that Federal expenditures take of our real output, why incentives for investment will be enhanced, and why the grip of bureaucratic control is being loosened.

These principles underly the Administration's approach to our foremost economic/social/political problem--energy. There is no need for me to recount for you the dimensions of the problem--the exceptionally high consumption of energy by the U.S. economy, the exceptionally high component of energy consumption represented by imported oil, and the impact of these on our price structure and our balance of payments.

These current problems are bad enough. If they are not addressed promptly and effectively, the problems 7 or 8 years from now will be worse. We are addressing these problems, and it should be emphasized that the essentials of the energy program put forth by the Administration rest heavily on utilizing the market mechanism, both to induce energy conservation as well as to encourage additional energy resource development.

There has been some impatience from our friends abroad at what may appear to be a slow pace in the response to the energy problem. In extenuation, I would remind you that adjustment to an era of high energy costs is painful. It is especially painful in the United States, where our geography permits--indeed requires--extensive energy use in travel for employment and in the conduct of business, where our infrastructure has developed in a way that maximizes energy use, where our traditional aspiration of the single-family home in the suburbs--an aspiration so widely achieved in our society--also involves heavy energy consumption. Those who are puzzled or dismayed by the length of the debate in our Congress on the Administration's energy proposals may not appreciate how extensive will be the change in the "American way of life" as we come to grips with the new energy era.

As we make progress in conserving energy and enhancing domestic energy production, we will simultaneously be making progress on another problem of serious concern to us--the deficit in our balance of international trade. Most of our trade deficit is accounted for by growing expenditures for oil imports. In 1972, the cost of oil imported by the U.S. was $4-1/2 billion; this year we will be paying $45 billion for oil imports--and the bulk of this increase represents higher prices rather than higher quantities of imports. The program submitted by the President to cope with the problem in both the short- and long-term will undoutedly be modified in the Congress in some respects, but we are confident that a viable and effective program will evolve.

There is not sufficient time in your meeting schedule to discuss many other elements of the Administration's economic policies--social security reform, welfare reform, international trade policy, for example. But in the time available, I welcome questions on these or any other aspects of our program.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE November 28, 1977

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,300 million of 13-week Treasury bills and for $3,500 million of 26-week Treasury bills, both series to be issued on December 1, 1977, were accepted at the Federal Reserve Banks and Treasury today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing March 2, 1978			26-week bills maturing June 1, 1978		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.484	5.997%	6.17%	96.797 a/	6.336%	6.64%
Low	98.467	6.065%	6.24%	96.773	6.383%	6.69%
Average	98.469	6.057%	6.24%	96.779	6.371%	6.67%

a/ Excepting 1 tender of $150,000

Tenders at the low price for the 13-week bills were allotted 94%.
Tenders at the low price for the 26-week bills were allotted 38%.

TOTAL TENDERS RECEIVED AND ACCEPTED BY FEDERAL RESERVE DISTRICTS AND TREASURY:

Location	Received	Accepted	Received	Accepted
Boston	$ 21,355,000	$ 11,355,000	$ 36,075,000	$ 16,075,000
New York	3,726,055,000	1,794,055,000	5,796,745,000	2,968,045,000
Philadelphia	31,980,000	31,980,000	36,940,000	36,940,000
Cleveland	52,145,000	27,145,000	81,540,000	25,340,000
Richmond	25,890,000	23,830,000	24,065,000	14,965,000
Atlanta	32,505,000	32,345,000	16,515,000	15,705,000
Chicago	247,560,000	141,420,000	409,545,000	198,345,000
St. Louis	41,165,000	21,145,000	32,675,000	12,055,000
Minneapolis	16,640,000	8,460,000	24,145,000	22,285,000
Kansas City	35,660,000	31,600,000	18,905,000	17,020,000
Dallas	34,485,000	31,425,000	13,505,000	7,505,000
San Francisco	264,600,000	142,300,000	547,000,000	163,200,000
Treasury	3,360,000	3,360,000	2,830,000	2,830,000
TOTALS	$4,533,400,000	$2,300,420,000 b/	$7,040,485,000	$3,500,310,000 c/

b/Includes $ 317,450,000 noncompetitive tenders from the public.
c/Includes $ 142,085,000 noncompetitive tenders from the public.
1/Equivalent coupon-issue yield.

B-566

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STATEMENT OF
WILLIAM J. BECKHAM, JR.
ASSISTANT SECRETARY (ADMINISTRATION)
U. S. DEPARTMENT OF THE TREASURY

BEFORE THE SUBCOMMITTEE ON COMPENSATION AND EMPLOYEE BENEFITS OF THE HOUSE POST OFFICE AND CIVIL SERVICE COMMITTEE

NOVEMBER 30, 1977

Madam Chairwoman and Members of the Subcommittee:

I appreciate the opportunity to testify on the GAO Report indicating the need for a reevaluation of the special retirement policy for federal law enforcement and firefighting personnel.

We have a considerable interest in this report because there are currently over 8,000 law enforcement personnel in the Department of the Treasury covered under the special provisions of that policy. Some of our enforcement personnel (approximately 150), are also covered, by law, under the separate District of Columbia Fire and Police Retirement System.

The activities of these employees are arduous and rigorous and require a vigorous staff. For this reason Congress included Treasury Agents under provisions of the special retirement policy. This policy was intended to be an inducement for early retirement and thereby provide for a younger, more vigorous force in order to perform these duties more effectively.

The GAO Report is critical of this policy for a number of reasons, including the fact that while the law provides for early retirement with increased benefits to assure continuance of a young and vigorous force, this is in fact not the case; namely, most law enforcement personnel have retired in the past considerably beyond the optional retirement age. We also recognized this fact in a survey we conducted some years ago; that is, many of our law enforcement officers did not retire early under provisions of that law. We were therefore happy to see recent Congressional amendments to the retirement policy requiring mandatory retirement and a maximum entry age provision.

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However, the recent amendments in Public Law 93-350 requiring early mandatory retirement do not come into effect until January 1978. We believe that these amendments may affect the GAO findings and our own experience. Therefore we feel it is advisable to wait until we can objectively assess the effect of the recent amendments before committing ourselves to the changes in retirement policy recommended by the GAO. In fact, the impact of these amendments may not be apparent for at least one or two years.

In conclusion, we realize that the early retirement program of law enforcement employees is not without the problems pointed out by the GAO, but we believe it is premature to assess it as ineffective. As I have stated above, the impact of the two provisions of PL 93-350 requiring mandatory retirement and maximum entry age guidelines have not yet been realized. We plan to use these provisions rigorously in order to maintain the youthful, vigorous workforce we need to carry out our enforcement activities most effectively. We do concur with part of GAO's recommendations regarding secondary coverage positions; that is, we believe a closer look should be taken at these positions by the Civil Service Commission and the law enforcement agencies to ensure that experience in a primary covered position is a positive requirement and that coverage is warranted.

This concludes my formal statement. I will be happy to answer any questions.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE UPON DELIVERY
EXPECTED AT 9:30 A.M.
November 29, 1977

Statement of
Donald C. Lubick
Deputy Assistant Secretary (Tax Legislation)
before the
Subcommittee on Improvements in Judicial Machinery
of the
Senate Committee on the Judiciary

Mr. Chairman and Members of the Subcommittee:

I welcome the opportunity to appear before you today to express the views of the Department of the Treasury on S. 2266, which would establish a uniform law on the subject of bankruptcy. We commend the work of the Subcommittee and its staff in balancing the concerns of debtors, creditors and the Internal Revenue Service.

Just over two years ago, the Treasury Department testified before this Subcommittee on proposals to revise the bankruptcy laws. Then, as now, we were concerned about protecting the integrity of the voluntary assessment nature of our Federal tax system. Provisions which reduce or minimize tax liabilities in bankruptcy will inevitably increase the attractiveness of bankruptcy for both debtors and creditors (other than the Federal Government), and thus can serve only to undermine taxpayer confidence in the equity of our tax system.

S. 2266 recognizes these problems and approaches certain procedural areas affecting taxes, such as priority and nondischargeability, differently from H.R. 8200, the counterpart of S. 2266 which has been reported out by the House Judiciary Committee. I would like to review for the Subcommittee just a few of the provisions of S. 2266, which we believe equitably balances the desire to rehabilitate debtors and protect private voluntary creditors on the one hand, and, on the other hand, the need to protect the integrity of our voluntary assessment system.

B-568

Trust Fund Taxes -- Sections 507(5)(C) and 523(a)(1)(A)

Under the bill, any taxes that a debtor was required to withhold from wages or collect from customers and failed to turn over to the Government before bankruptcy would be non-dischargeable regardless of age. They would also be entitled to priority in bankruptcy proceedings. These provisions, which deal with "trust fund liabilities", differ from H.R. 8200, which would deny priority for, and make dis-chargeable, trust fund liabilities if the accompanying return was due over two years before bankruptcy. The bill will give the Internal Revenue Service a realistic opportunity to audit, assess and collect trust fund liabilities before bankruptcy, and it will also serve to discourage the use of bankruptcy as a device for avoiding the payment of these liabilities by persons who have converted the funds for their own use.

One of our most significant concerns in terms of the collection of taxes is the way in which a particular tax-payer handles withholding. Trust fund taxes accounted for approximately 64 percent of the tax revenues collected in fiscal 1976 ($194 billion out of $302.5 billion). By law, the income and social security taxes that an employer withholds from wages and salaries that it pays to employees must be held in a special trust for the Government. This is no less true in the case of excise taxes collected from consumers. Thus, to the extent that the amounts withheld are used to pay other creditors prior to bankruptcy, the fiduciary has breached a public trust. There is no reason to relieve these fiduciaries from the resulting consequences of their action simply because of their subsequent involvement in bankruptcy proceedings.

Delinquency in this area is continually increasing and presents a very serious problem. S. 2266 addresses this problem by enabling the Service to protect the revenue not only by giving it time before bankruptcy within which to detect the dissipation of amounts withheld by employers and responsible officers but also by making trust fund liabilities nondischargeable after bankruptcy. This is significant, for example, in the case of social security withholding, where the Government is required to credit the amounts withheld, whether or not paid over, against an employee's social security tax account.

The two-year time limitation in the House bill with respect to the nondischargeability accorded trust fund taxes would place undue strains on the normal assessment and collection process. Indeed, the limitation could discourage forebearance on the part of the Service toward taxpayers who are temporarily unable to pay their withholding taxes, but who could do so if given sufficient time. The provisions of H.R. 8200 reflect the assumption that the Government can always protect itself as a creditor by promptly filing a notice of tax lien. However, the filing of a notice of lien does not assure collection, particularly if the underlying liability is dischargeable. Moreover, under the House bill, liens on both real estate and personal property would be subordinated until the costs of administration, wage claims and certain customer deposits were paid in full. In addition, under present audit techniques, the two-year limitation would put an undue strain on the Service to uncover the circumstances where a lien must be filed, particularly since the two-year period begins to run from the due date of the return, whether or not filed. Finally, sound administrative practice calls for the limited use of notices of lien. The filing of a notice of tax lien frequently has exceedingly serious financial consequences for a taxpayer, especially a business taxpayer. It may have the effect of curtailing the credit or restricting the financing of the business. As a result, many businesses which are only experiencing temporary financial problems, and which might otherwise have been rehabilitated, may be forced into bankruptcy. S. 2266 deals with this problem, as does present law, by allowing the Government to collect withholding taxes from a financially troubled taxpayer without being compelled to file a notice of lien.

<u>Taxes Assessed Before Bankruptcy</u> -- Sections 507(5)(A) and 523(a)(1)(A)

Under present law, unsecured taxes (other than amounts required to be withheld) for which a return was due more than three years before bankruptcy are (with certain limited exceptions) not given any priority over other unsecured claims in bankruptcy proceedings. If unpaid, they will also be discharged. This has created difficulties for the Service. These difficulties would be substantially eliminated by the provisions of S. 2266 which grant priority for unsecured taxes assessed within two years before bankruptcy. The approach follows a recommendation made by the General Accounting Office in 1973 and resubmitted earlier this year, although GAO would grant priority for income taxes assessed within three rather than two years of bankruptcy. (Comptroller

General, Report to Joint Committee on Internal Revenue Taxation, Collection of Taxpayers' Delinquent Accounts by the Internal Revenue Service, GAO B-137762, August 9, 1973, and February 16, 1977; see letter dated March 18, 1977 from the Comptroller General to the Chairman of the House Judiciary Committee.)

The audit cycles for the examination and disposition of income tax returns are 26 months in the case of individuals and 27 months in the case of corporations. Also, employment tax returns of a business taxpayer are examined at the same time that the income tax return of the taxpayer is examined and for the same period. Thus, of necessity in most cases, tax deficiencies and underpayments will have been determined only a short time before the present three-year priority/nondischargeability period, following the filing of the return, expires. The Internal Revenue Service, therefore, has little time for assessment and collection before expiration of the three-year period. This is inherently inconsistent with the general rules which normally give the Service three years after a return is filed within which to assess a tax and six years after assessment within which to collect the tax by levy or court proceedings.

The provisions of S. 2266, by extending priority and thus nondischargeability to all taxes assessed within two years before bankruptcy, reflect the audit cycles and also the special nature of the Government as a tax creditor in bankruptcy proceedings. Unlike other creditors, the Government has no control over those who owe it money by failing to pay their taxes on time. Moreover, it is taxpayers generally who will bear the burden of increased taxes if the Government is unable to effectively pursue the collection of tax delinquencies.

Preferences -- Section 547

Traditionally, the bankruptcy laws have allowed the trustee to recover for the benefit of the estate certain amounts (known as voidable preferences) that the debtor paid over to creditors within four months before the case began, at a time when he was insolvent. Among the prerequisites for recovery, the trustee must show that the transfer was made in satisfaction of a so-called "antecedent debt", due and owing at the time of the transfer. The present bankruptcy statute does not define the term "antecedent debt", but in practice the preference provisions have rarely been applied so as to invalidate the payment of taxes made within four months of bankruptcy.

S. 2266 clarifies present law by providing a specific exception under the preference provisions for any debt required to be paid under the Internal Revenue Code -- unlike the House bill, under which Federal tax deposits, voluntary tax payments (including estimated taxes), and levies could arguably be viewed as voidable preferences. Had the provisions of H.R. 8200, as so interpreted, been in effect during fiscal 1976, the Government would have been required to turn over to trustees in bankruptcy up to $258 million.

We believe that the preference provisions of S. 2266 resolve an issue too important to be left to judicial construction.

Payment of Taxes in Kind -- Sections 1130(e) and 1325(c)

S. 2266 would also retain present law under which all taxes due in bankruptcy proceedings must be paid in cash under the Internal Revenue Code. Thus, in effect, it would reverse H.R. 8200 to the extent that the House bill would allow Federal tax claims to be paid in property other than cash, such as unmarketable securities and real estate. The Treasury Department strongly urges the adoption of the provisions of S. 2266 in this regard.

Under the Internal Revenue Code, all taxes must now be paid in cash, or by check or money order. There is no compelling reason to depart from sound tax administration in order to allow the trustee of a financially troubled taxpayer to pay off tax obligations in kind. An undesirable burden would be placed on the Government, when the sale of assets to produce cash could be more efficiently discharged by the trustee in bankruptcy without unduly prolonging the administration of the estate. Sale by the trustee would eliminate continuous controversies over the value of the assets in question and any potential conflicts of interest between the Government and the issuer of stocks or securities which may be involved in tax litigation. Moreover, to the extent that the assets could not be sold, the burden would rightly be placed upon the estate, rather than the general public which ultimately bears the burden when there is an inability to collect taxes under our self-assessment system.

It is not relevant that other creditors can be paid in kind. Clearly, the Government is not in the same posture as these other creditors. There is no reason to equate the Government, which extends credit on an involuntary basis, with a private creditor engaged in an active trade or business.

Conclusion

In summary, I would like to emphasize our belief that the Subcommittee has done an outstanding job in developing a bankruptcy bill which equitably resolves the problems raised under current law and prior bankruptcy proposals.

We will not make specific comments on sections 346 and 728 of the bill, since they apply only to state and local taxes. We will, however, be considering similar provisions as they apply to Federal taxes in conjunction with H.R. 9973 which has been referred to the House Ways and Means Committee.

I would be pleased to try to answer any questions that you might have.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

CONTACT: A. M. Hattal
202/566-8381

FOR IMMEDIATE RELEASE November 29, 1977

UNITED STATES AND DENMARK DISCUSS REVISING THEIR INCOME TAX TREATY AND NEGOTIATING AN ESTATE TAX TREATY

Representatives of the United States and Denmark have recently concluded exploratory talks in Washington aimed at revising the income tax treaty between the two countries, which was signed in 1948, and at negotiating an estate tax treaty between the two countries.

The proposed new income tax treaty, like the existing one, will seek to prevent double taxation and to facilitate mutual trade and investment. Thus, it will be concerned with the tax treatment of individuals' and companies' income from business, investment, and personal services and with procedures for administering the provisions of the treaty. The 1977 "model" income tax treaty developed by the Organization for Economic Cooperation and Development (OECD) will be taken into account along with the current U.S. "model" income tax treaty, the text of which was released by the Treasury Department on May 17, 1977.

The purpose of the proposed estate tax treaty will be to prevent double taxation of estates and inheritances. The discussions will take into account the OECD "model" estate tax treaty, and the U.S. "model" estate tax treaty, the text of which was released by the Treasury Department on March 16, 1977.

The Treasury invites persons wishing to submit comments concerning the proposed income and estate tax treaties to send them to Dr. Laurence N. Woodworth, Assistant Secretary of the Treasury, U.S. Treasury Department, Washington, D.C. 20220.

This announcement will appear in the Federal Register of December 1, 1977.

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B-569

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE ON DELIVERY
EXPECTED AT 10:00 A.M.

November 30, 1977

STATEMENT BY
ARNOLD NACHMANOFF
DEPUTY ASSISTANT SECRETARY OF TREASURY
FOR DEVELOPING NATIONS
BEFORE THE
PANAMA CANAL SUBCOMMITTEE
OF THE
HOUSE MERCHANT MARINE & FISHERIES COMMITTEE

I am pleased to be here today to testify before the Subcommittee on some of the economic and financial benefits the U.S. and Panama will derive from the Panama Canal Treaty and the economic cooperation arrangements associated with the treaty. The Subcommittee has provided the Treasury with a list of questions that it wishes answered for the record. I have provided a written response for those questions which Treasury is qualified to answer, given its limited role in the negotiations. Other agencies will address questions not within the purview of the Treasury. In this connection, I wish to note that Treasury did not participate directly in the treaty negotiations. Its contribution was to recommend economic cooperation arrangements, and to provide advice on the financial arrangements for the new Panama Canal Commission. On issues not related to these two areas, I will therefore defer to the expertise of the other Administration witnesses.

B-570

1. <u>Benefits to Panama and the U.S.--A Broad Perspective</u>

I would like to address the subject of benefits--both for the U.S. and Panama--from a broad perspective to supplement the more detailed information provided by other administration witnesses on this subject.

The Treasury believes that the treaties will have a beneficial effect, not only for the United States and Panama, but for the entire world trading community. The shipping industry and those whom it serves have a continuing interest in preventing abrupt or arbitrary closure of the canal. A cooperative relationship between Panama and the United States established by the new treaties should maximize the prospects for its safe, uninterrupted and efficient operation. Absence of a new treaty and that relationship creates an element of uncertainty and instability in the canal environment. Once the new treaties are ratified and implemented, the prospect of interruptions to the operations of the canal will be significantly reduced.

Since 1974 the Panamanian economy experienced a protracted slowdown, with growth rates declining from an average of 7.3 percent in the prior decade to 2.6 percent in 1974, 1.7 percent in 1975 and no growth in 1976. Although a number of factors contributed to this slowdown, a major contributing cause was a marked decrease in private investment as a result of uncertainty over the future of the canal.

The Government of Panama attempted to compensate for the decline in private investment by increasing public investment. This policy, however, resulted in an increase in the central government budget deficit from $69 million in 1973 to $122 million in 1976. The need to finance this deficit, as well as Panama's current account deficits, caused total public sector debt to rise from $0.6 billion in 1973 to $1.4 billion in 1976.

Yet, despite these troubling developments, there is reason for cautious optimism about the future of Panama's economy. Panama has negotiated two stabilization agreements with the International Monetary Fund and has taken steps to reduce the government deficit and limit public sector debt. Sustained world economic recovery should help to stimulate demand for Panamanian exports and thereby narrow Panama's current account deficit.

From an economic perspective, the treaty helps to assure that Panama will be a viable treaty partner and provides Panama with a vital stake in the successful operation of the canal. While not a panacea for Panama's economic difficulties, these arrangements will provide a much-needed extra boost that will facilitate Panama's long-term economic development.

More important to Panama's economy, settlement of the longstanding canal isssue by ratification of the treaties should markedly improve the investment climate in Panama. We expect foreign and domestic private investment in Panama to rise appreciably, leading to increased employment, reduced budgetary pressure on the Government of Panama, and improvement in Panama's external accounts. This is important to the United States inasmuch as greater economic stability and an improved standard of living in Panama will reinforce Panama's ability to act as our partner in the canal enterprise.

The proposed economic cooperation arrangements, which were described by Ambassador Linowitz, are also being undertaken in the same spirit of mutual benefit. Whereas the benefits that Panama will receive from these economic cooperation arrangements are readily apparent, there are also benefits for the U.S. One corollary of Panama's economic development will be increased opportunities for U.S. businessmen and investors in Panama's free enterprise economy. The plans for Eximbank and OPIC programs in Panama will help U.S. businessmen take advantage of these opportunities. In addition, it can be expected that Panama's economic development will result in its becoming an expanding market for U.S. exporters, who now meet 40 percent of Panama's non-oil import needs. This projected market expansion is expected to give rise to more applications for Eximbank support, and Eximbank has indicated that its business could well amount to more than $200 million over the next five years. This will mean more jobs and exports for the U.S. economy and be achieved with no added burden to the taxpayer since the Exim program will be financed under existing authorizations.

All of the components of the economic arrangements present a reasonable level of risk, and will not jeopardize the continued successful operation of the programs involved. Each of the institutions will subject proposed loans and guarantees to its standard rules, and, most importantly, will assure that prospective borrowers are "creditworthy."

The portfolio risk to Eximbank as a result of its offer, for example, will be small. With an additional $200 million to Panama over five years, exposure in Panama will amount to less than 1.37 percent of Eximbank's total existing portfolio. Project risk will be controlled in the usual manner, since each transaction will be subject to normal Eximbank financial, legal and engineering criteria--including Eximbank's statutory requirement to find a reasonable assurance of repayment.

As for the Overseas Private Investment Corporation, its guarantee of $20 million in borrowing by the Panamanian development bank would raise OPIC's exposure in Panama to only 8.5 percent of its total existing portfolio, a reasonable level of portfolio risk. The risk to OPIC will be further reduced by a Government of Panama guarantee. OPIC has also stipulated that its offer to Panama depends on terms being negotiated which are acceptable to the OPIC Board.

This will be the first time OPIC has participated in financing the expansion of a government-owned development bank, although OPIC is permitted to do so by long-standing OPIC Board policy guidelines. The Panamanian development bank, COFINA, is engaged in supporting the development of small to medium private enterprises in Panama through project lending. This function is both wholly compatible with OPIC's mission and in accord with our view that it should help strengthen the private sector of Panama's economy.

A final point that should be noted about the economic cooperation arrangements is that they will not increase the burden of the U.S. taxpayer, as any loans contained in these arrangements will be non-concessional, thus, assuring that there will be no indirect subsidy to the borrowers. Also, much of the proposed assistance is in the form of guarantees, which only obligate agencies of the U.S. government in the unlikely event of default. Even if default should occur, all three agencies maintain self-financed reserves against which the defaults are charged, thereby insulating the taxpayer from any direct cost.

2. Effect of Financial Provisions of the Treaty on Treasury Receipts

At this point, I would like to turn to a second major issue about which the Subcommittee has indicated its concern: the net effect of the financial aspects of the treaties on the Treasury's receipts. Specifically, the Subcommittee has requested that Treasury compare its existing financial transactions with the Panama Canal Company to the new financial relationship that will exist with the Panama Canal Commission. As requested, a detailed statement to this effect has been submitted for the record. However, I would like to make a few general observations about the effect of the Canal treaties on Treasury receipts.

At present the combined operations of the Panama Canal Company and the Canal Zone Government are basically self-financing. Revenues from Company operations and from certain Government activities generally cover expenses of both the Company and the Government. Indeed, in the period 1903 to the end of the transition quarter, 1976, the Treasury has recovered virtually all of the $1.9 billion of total outlays during this period. The net impact of present arrangements on Treasury thus depends on whether revenues from total canal operations exceed expenses.

Under the new treaty arrangements, the net impact of the canal operations will also depend on whether revenues cover expenses. The new Panama Canal Commission is designed to be self-sustaining; and based on the best information available to Treasury and the negotiators, it is anticipated that total revenues from the new canal operation will be sufficient to cover all expenses.

With regard to the Committee's inquiry on interest payments, the Administration will seek repeal of that requirement in the implementing legislation. This decision emanated from the negotiators' effort to balance three policy objectives: (1) to keep the Commission self-sustaining; (2) to avoid an uneconomic increase in tolls; and (3) to help assure Panama's stake in the efficient operation of the canal by providing Panama with an equitable share of the benefits. To reconcile these goals, they determined that it was necessary for national policy reasons for the U.S. government to forego the receipt of interest. This does not mean, however, that Treasury will forego receipts from the Commission if earnings permit dividends to be paid.

Mr. Chairman, this concludes my formal statement. I will be happy to answer any questions the Committee may have.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE AT 4:00 P.M. November 29, 1977

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $5,600 million, to be issued December 8, 1977. This offering will provide $ 400 million of new cash for the Treasury as the maturing bills are outstanding in the amount of $5,211 million. The two series offered are as follows:

91-day bills (to maturity date) for approximately $2,200 million, representing an additional amount of bills dated September 8, 1977, and to mature March 9, 1978 (CUSIP No. 912793 P2 6), originally issued in the amount of $3,203 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $3,400 million to be dated December 8, 1977, and to mature June 8, 1978 (CUSIP No. 912793 Q7 4).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing December 8, 1977. Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,622 million of the maturing bills. These accounts may exchange bills they hold for the bills now being offered at the weighted average prices of accepted competitive tenders.

The bills will be issued on a discount basis under competitive and noncompetitive bidding, and at maturity their par amount will be payable without interest. Except for definitive bills in the $100,000 denomination, which will be available only to investors who are able to show that they are required by law or regulation to hold securities in physical form, both series of bills will be issued entirely in book-entry form in a minimum amount of $10,000 and in any higher $5,000 multiple, on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20226, up to 1:30 p.m., Eastern Standard time, Monday, December 5, 1977. Form PD 4632-2 (for 26-week series) or Form PD 4632-3 (for 13-week series) should be used to submit tenders for bills to be maintained on the book-entry records of the Department of the Treasury.

Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used.

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account.

Payment for the full par amount of the bills applied for must accompany all tenders submitted for bills to be maintained on the book-entry records of the Department of the Treasury. A cash adjustment will be made on all accepted tenders for the difference between the par payment submitted and the actual issue price as determined in the auction.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, or for bills issued in bearer form, where authorized. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Competitive bidders will be advised of the acceptance or rejection of their tenders. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action shall be final. Subject to these reservations, noncompetitive tenders for each issue for $500,000 or less without stated price from any one bidder will be accepted in full at the weighted average price (in three decimals) of accepted competitive bids for the respective issues.

Settlement for accepted tenders for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, and bills issued in bearer form must be made or completed at the Federal Reserve Bank or Branch or at the Bureau of the Public Debt on December 8, 1977, in cash or other immediately available funds or in Treasury bills maturing December 8, 1977. Cash adjustments will be made for differences between the par value of the maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which these bills are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of these bills (other than life insurance companies) must include in his or her Federal income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Department of the Treasury Circulars, No. 418 (current revision), Public Debt Series - Nos. 26-76 and 27-76, and this notice, prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

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Department of the TREASURY
WASHINGTON, D.C. 20220 TELEPHONE 566-2041
NEWS

FOR IMMEDIATE RELEASE November 29, 1977

RESULTS OF TREASURY'S 139-DAY BILL AUCTION

Tenders for $3,004 million of 139-day Treasury bills to be issued on December 2, 1977, and to mature April 20, 1978, were accepted at the Federal Reserve Banks and Treasury today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Price	Discount Rate	Investment Rate (Equivalent Coupon-Issue Yield)
High	- 97.581	6.265%	6.51%
Low	- 97.575	6.281%	6.53%
Average	- 97.578	6.273%	6.52%

Tenders at the low price were allotted 18%.

TOTAL TENDERS RECEIVED AND ACCEPTED
BY FEDERAL RESERVE DISTRICTS AND TREASURY:

Location	Received	Accepted
Boston	$ 9,305,000	$ 1,485,000
New York	5,630,360,000	2,042,550,000
Philadelphia	50,010,000	4,510,000
Cleveland	65,225,000	10,225,000
Richmond	46,355,000	20,715,000
Atlanta	1,280,000	280,000
Chicago	852,100,000	426,000,000
St. Louis	32,510,000	11,410,000
Minneapolis	26,000,000	---
Kansas City	23,200,000	8,880,000
Dallas	510,000	510,000
San Francisco	668,815,000	477,315,000
Treasury	90,000	90,000
TOTAL	$7,405,760,000	$3,003,970,000 1/

1/ Includes $14,160,000 noncompetitive tenders.

B-572

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

CONTACT: Al Hattal
202/566-8381

FOR IMMEDIATE RELEASE November 29, 1977

TREASURY DEPARTMENT ANNOUNCES SIX STEEL-DUMPING INVESTIGATIONS

The Treasury Department today announced that it is beginning six antidumping investigations involving cold rolled and galvanized carbon steel sheets from Belgium, France, West Germany, Italy, the Netherlands, and the United Kingdom.

The announcement follows a summary investigation by the U.S. Customs Service, after receipt of a petition on October 25, 1977 from National Steel Corporation alleging that the products were being dumped into the United States from these six countries.

Information received from the petitioner indicates that the prices of cold rolled and galvanized carbon steel sheets from the six countries are less than the prices of the same products sold in the home market. The petition also includes information intended to show that the U.S. industry is being injured by reason of the alleged "less than fair value" imports.

Under the Antidumping Act, a tentative determination must be made within six months and a final determination within three months thereafter. If sales at less than fair value are determined by the Department of the Treasury, the question of injury will subsequently be decided by the U.S. International Trade Commission.

Imports of cold rolled sheets from Belgium, France, West Germany, Italy, the Netherlands, and the United Kingdom were valued at approximately $164 million in 1976. Imports of galvanized sheets from the subject countries during the same period were valued at approximately $53 million.

Notices of the actions will appear in the Federal Register of Friday, December 2.

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B-573

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE November 30, 1977

RESULTS OF AUCTION OF 4-YEAR 1-MONTH TREASURY NOTES

The Department of the Treasury has accepted $2,751 million of $5,407 million of tenders received from the public for the 4-year 1-month notes, Series L-1981, auctioned today.

The range of accepted competitive bids was as follows:

Lowest yield	7.29% 1/
Highest yield	7.32%
Average yield	7.31%

The interest rate on the notes will be 7-1/4%. At the 7-1/4% rate, the above yields result in the following prices:

Low-yield price	99.845
High-yield price	99.741
Average-yield price	99.776

The $2,751 million of accepted tenders includes $390 million of noncompetitive tenders and $2,361 million of competitive tenders (including 91% of the amount of notes bid for at the high yield) from private investors.

In addition, $685 million of tenders were accepted at the average price from Federal Reserve Banks as agents for foreign and international monetary authorities for new cash.

1/ Excepting 3 tenders totaling $170,000

B-574

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

EMBARGOED FOR RELEASE UPON DELIVERY
EXPECTED AT 9 P.M.
NOVEMBER 30, 1977

REMARKS BY
THE HONORABLE W. MICHAEL BLUMENTHAL
SECRETARY OF THE TREASURY
TO THE
NEW YORK BOARD OF TRADE
NEW YORK, NEW YORK
NOVEMBER 30, 1977

Tonight, I want to discuss two separate, but closely related subjects -- the prospects for our nation's economy, and the financial prospects for New York City.

As in every community in America, the destiny of this city is linked to the rise and fall of general business activity. But New York also has unique financial problems that require the special attention of this Administration -- something we are doing with a great deal of care.

I'd like to begin with the state of the nation's economy today. What I have to report is that we've made good progress this year, and that we can look forward to more progress in 1978.

We've made solid gains in unemployment, with the addition of nearly three million new jobs this year -- in inflation, with an average rate in the past three months of less than 4 percent. Industrial production -- retail sales -- and housing are all growing steadily.

And the expansion is still strong and balanced, without serious distortions, well into its third year since the trough of the 1974-75 recession. Inventories are under control, for example, with no real imbalance, and corporate liquidity and consumer debt are in good shape. Next year, we are aiming for GNP growth close to 5 percent.

But despite these solid gains, we face several major economic problems -- problems that need a great deal of our attention. They remind me of what Casey Stengel said about one of his baseball teams: "In many areas we have too strong a weakness."

The first problem is inflation.

The experience of the past three months -- with inflation rates less than four percent -- is no more typical than the more than 10 percent rate averaged during the first quarter of this year. The fact is that these variations in the inflation rate were due to swings in food price and energy trends -- while the basic, underlying rate stays at 6 to 6 1/2 percent. And that rate clearly is far too high.

It amounts to an intolerable drain on the purchasing power of American families -- a serious drag on the capabilities of businesses to do their jobs -- and a serious challenge to the credibility and competence of the Federal government.

Just as inflation helped breed this past recession, it continues to hold us back from further expansion.

If consumers see prices headed back up, they curtail their spending plans, increasing savings instead. The same holds for businesses, whose reaction is to curtail outlays and reduce risks.

Therefore, 1978 must see us all work hard to reduce inflationary pressures. It is a task in which all of us -- labor, business, government -- must share the responsibilities.

The second major problem is unemployment. Seven million Americans unable to find work amount to a tragic waste of our human resources.

Perhaps most vexing is that much of this unemployment is structural, and is not responding to the cyclical improvement in the economy as a whole.

For women and minorities, especially those in the older cities of the Northeast and upper Midwest, unemployment is far above the national average, and improvement is lagging. In fact, in some cases, unemployment has actually increased this year -- the rate for black workers, for example, stands at 13.9 percent, one-half a point higher than a year earlier.

Closely linked to unemployment is our third major problem -- inadequate investment -- which has seriously affected our rate of job formation. Because not enough new industrial capacity is being added, full utilization of that capacity no longer means full employment. When there was full capacity in 1968, for example, unemployment was only 3.6 percent. But when we reached full capacity in 1973, unemployment stood at 4.9 percent -- and if we reach full capacity again in 1978 or 1979, the unemployment rate would probably be even higher.

The only solution is to encourage real growth rates of business fixed investment of nine to 10 percent until we bring the share of investment up to at least 12 percent of GNP.

In the last quarter, that rate of investment was only 2 percent, not far from the chronically low rates of recent years. Since 1969, the annual rate has averaged only 2.7 percent -- actually only 2.3 percent, excluding investment for pollution control. And by the end of this year, new investment will still not be at the real level it was in 1974.

Much of this reluctance to invest comes from a low level of business confidence in the future. The turbulent events of the early and mid-1970's left enough bad memories to make any executive play it safe.

There is a danger, however, in ignoring the fundamental soundness of this expansion, in failing to add strength to the expansion -- and thereby letting this pessimism become self-fulfilling.

So a major emphasis of this Administration has been to develop policies that can rebuild that confidence.

We've based this approach on a keen appreciation of both the possibilities and limitations of government actions. We can encourage, we can stimulate growth. But the jobs, the long-term growth and stability just won't be there until business executives decide to invest and take risks again. This is the real key to our problems of inflation, unemployment and growth.

Capital formation is certainly a central objective of the President's tax proposals, which we are getting ready for Congress.

In the development of this legislation, the goals of easing the burden of taxation on Americans, on providing incentives for business to invest will, along with other important reforms, loom large.

The President has not made any final decision yet, but I can tell you that we are aiming for an overall tax cut that is quite substantial.

With the other parts of our economic policy, we will exercise the same care to encourage business expansion. As the President stated last week, he will lay out in January his overall economic plan -- much of which is already in place but has not been presented as a comprehensive entity.

Once we get from Congress the energy and Social Security legislation -- once we put in final form our tax and 1979 budget proposals -- we will have in place a clear outline of where we intend to go economically.

This is something I have emphasized repeatedly. Probably the best thing government can do for business at this point is to settle on a firm economic game plan -- clearly indicate what goals we want to achieve and how we intend to achieve them -- laying out, in other words, a stable, dependable set of policies.

For only then can businesses plan with some certainty how to invest their hard-won capital -- how to use their resources most profitably and productively -- and how to contribute to the long-term expansion we are depending on.

That same kind of certainty is necessary for New York City to solve its financial problems. I'd like to devote the rest of my remarks to that subject, especially the role that the Federal government will have in the solution of those problems.

Let me begin by not detailing where to place the blame for these problems. That is now simply a part of history.

What is important today are solutions -- with Federal, state and city governments working in concert, and with business and labor providing their own unique contributions.

This is particularly timely because the legislation covering federal lending to the city -- currently $2.3 billion a year -- expires next June 30, only seven months away. And Congressional hearings on the future of that lending relationship may begin as early as January.

That leaves us much to do in a short time. It will not be easy. Within the next two months, we hope to propose legislation that will have the support of the city, state and Carter Administration.

I discussed this in meetings here last week with Governor Carey, Mayor Beame, Mayor-elect Koch, and Controller Goldin. The meetings confirmed to me that all of us are seeking the same goal -- restoration of a financially independent and economically healthier New York -- and we're all willing to do our part.

During the last two years, the crisis-filled atmosphere has made it difficult for city and state leaders to concentrate on a longer term and comprehensive plan for the city's future. However, 1978 represents a true crossroads, and it's time to develop such a plan.

Let me also sound a note of caution. There are some here who think that, if even such a plan is not developed, the city will at least get Congress to go along with an extension of seasonal lending. I think that they are indulging in undue optimism. Remember that the 1975 lending bill passed the House by only 10 votes. Also, Congress expects these actions to be taken as a condition to any extension of federal lending -- seasonal or otherwise.

I should also add emphatically that this Administration will not interject itself into the issues that must be decided locally. We have no inclination to decide such essentially local issues as rent control, union contracts, or city university tuition.

In that spirit, then, let me describe the broad steps which I discussed with your elected leaders last week.

The heart of these steps is a budget plan and a financing plan for the city covering the duration of any extension of federal lending beyond June 1978. In other words, if Congress is asked to support a three-year extension, then, these plans must cover those three years -- with the assurance that no further borrowing plan will be needed.

This means that the city must get into a condition of recurring budget balance by the end of the plan period. It simply is unlikely that New York can re-enter the long term market for the full amount of its annual long terms needs -- roughly $1 billion -- unless its budget is in recurring balance and is expected to stay in balance.

I realize that there are different definitions of recurring budget balance. Indeed, the city's budget today is balanceds under State law. Yet approximately $600 million of operating expenses -- which should be carried in the operating budget -- are carried in the capital budget. This complies with State law which gives the city eight more years to phase that $600 million back into the operating budget.

But the plain fact is that an operating budget isn't balanced unless total revenues and total operating expenses are equal. Potential lenders in the long-term markets know this. Congress knows this. And neither will be confident of the city's fiscal condition until the budget is balanced this way.

This means that the operating expenses must be phased out of the capital budget over the period of any lending extension. We realize that this will be difficult -- adding roughly $130 million more to the expense side of the operating budget during each of the next three years or so, and still balancing the budget. Yet I don't believe the city has a choice.

Another element essential to restoration of confidence is the continuance of a strong and independent financial review mechanism. The city must make hundreds of difficult and complex decisions in arriving at its overall budget and financing plans. In my view, there is no escaping the conclusion that, for those decisions to be perceived as credible and responsible, they must be reviewed and concurred in by a statutory group with power and prestige. The present Emergency Financial Control Board or a similar body will have to continue while the budget and financing plans are translated into action.

Let me say here that we recognize how much New York has accomplished since early 1975. Decisive action taken here has been painful in human terms, but ultimately necessary. About 60,000 positions have been pared from city payrolls. Certain services have been reduced or ended. Even the way in which the city is governed has been changed.

We recognize too, that there are limits on what the city can do. Welfare and Medicaid costs, for example, involve automatic shares of total payments to city residents. Debt service and pension benefits are very difficult to change.

This is where a greater state involvement is necessary. As President Carter said often during the 1976 campaign, cities, first and foremost, are political subdivisions of states. The Carter Administration and Congress must be convinced that your State has fully used its ability to provide fiscal aid to the city, before we continue a major federal lending role.

The second basic step required during the next few weeks is development of a financing plan for the city. It should cover the same period as the budget plan.

After all, New York City's two principal sources of borrowing today will expire next June 30 -- the federal lending program and the union retirement system loans. A financing plan for the period after that is necessary. Its result should be a fully independent borrowing status for the city.

We realize that a central part of this city plan will be the proposed extension of federal lending. Nevertheless, a key to its credibility will be how it satisfies those needs which are not accommodated by Treasury.

In addition, we will look closely at the State's involvement in this financing plan. For example, the State may be able to satisfy a meaningful portion of New York City's short-term borrowing needs during the financing plan period.

So far, I have broadly discussed steps to be taken by the city and State. I'd like now to describe what the Administration is going to do.

First, I should note that we already have done a lot. During the city's current fiscal year, grants to New York City will total $3.67 billion, a 33 percent increase over the $2.75 billion provided during fiscal 1976.

Some of these funds include direct budget assistance for the city, and some involve community development or job funding. But all provide assistance to the city. Let me describe some of the major parts of this Federal aid.

In February, we proposed an expanded CETA jobs program, and Congress agreed. New York City will receive $308 million more this year than it would have received without this Carter proposal.

In February, we proposed an extension and expansion of countercyclical revenue sharing, and Congress agreed. New York City will receive this year $135 million more than it would have otherwise.

Also in February, we proposed an emergency public works program, and Congress agreed. New York City's depressed construction industry will receive $190 million this year through this program, which it otherwise would not have obtained.

In March, we proposed a change in the Community Development Block Grants funding formula, and Congress agreed. New York City will receive $64 million more under the new formula.

Also in March, we proposed a new $400 million annual program of "Urban Development Action Grants". These discretionary HUD grants will be made shortly, and New York City should receive a portion of them.

Moreover, this is not all we plan to do. The President has pledged to propose an urban policy early in 1978 that is certain to contain additional sources of assistance for New York City.

When this urban aid proposal takes final shape, I believe it will round out our comprehensive approach to help solve the city's problems -- and to underscore the Carter Administration's commitment to helping the city through its crisis.

Now, some have suggested recently a fundamental change in the character of Treasury lending to New York City -- changes which, they contend, would contribute more to solving the city's financing problems than our loans now contribute. Let me say in response that I, for one, remain open-minded to the possibility -- if the proposals are part of an effective overall city and state strategy that meets the requirements laid out by Congress and the Administration.

Let me add one final note. Up to now, I have talked about actions that might be taken by governments at all levels. In my view, that is far too narrow a focus.

If the city's problems are to be solved, all of you here tonight -- your neighbors and colleagues in business as well -- must play a more active role. The business community here -- the banks and brokers, the garment industry, the professionals and all the rest -- must work hard to attract and hold business here and facilitate the city's return to the private capital markets. The labor leaders and the employees of this great city must continue their extraordinary record of restraint. The citizens must recognize the necessary choices between city services and limited funds.

But even more important, all segments of the city must work together. If the country and the Congress are to be convinced that this city deserves additional support, they cannot be greeted by a spectacle of divisiveness and dispute. Rather, it must see that the past three years have led to a spirit of cooperation, sacrifice and dedication, all directed at building a vital future.

As your new Mayor formulates a responsible plan for the next four years, he must receive visible and real, not grudging, support from all quarters within the city. Lacking such support, our efforts in Washington are not likely to succeed.

My own estimation is that we will succeed. The Carter Administration cares deeply about this city, and is working hard to help it recover. By helping itself and with assistance from Albany and Washington, and from you, it will recover.

Let me close, ladies and gentlemen, simply by agreeing with the sentiments which I am sure most of you have towards your city. It is one of the greatest on earth -- in many ways the real capital of this country. The Carter Administration believes in New York and is committed to its health.

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FOR RELEASE UPON DELIVERY
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WEDNESDAY, NOVEMBER 30, 1977

REMARKS BY THE
DEPUTY SECRETARY OF THE TREASURY
ROBERT CARSWELL
BEFORE
THE SECURITIES INDUSTRY ASSOCIATION
NOVEMBER 30, 1977

It is a pleasure to be here with you this morning. I would like to discuss with you the general need of our economy for increased capital formation and the role of the Treasury in ensuring that our capital markets help to meet this need. The SEC and the various bank regulatory agencies are, of course, actively concerned with capital markets questions. But in the Administration itself, it is the Treasury -- by force of history, capacity and inclination -- that has been concerned with capital formation, capital markets questions and overall policy in these areas. Moreover, the Treasury's perspective is -- and ought to be -- different from that of the regulators.

The Treasury's mandate is broader, namely the coordination of all Government policy to ensure the health and effeciency of the free market process that raises and allocates capital. We are concerned with both the formation of capital and its allocation among different sectors of the economy and between debt and equity. Obviously, the public confidence engendered by effective regulation of the securities markets and of financial intermediaries is an essential element of this process. But Government policy must involve more than regulation.

For instance, in the late 1950's it was clear that continuing expansion of the economy -- after the shortages induced by the Korean war had been satisfied -- required a higher rate of capital investment than then appeared likely. During the 1960 campaign both candidates recognized this requirement.

After the election, the Treasury studied various proposals for accelerated depreciation and other stimuli and eventually proposed the investment tax credit. This measure has proved an effective tool for stimulating investment. While it did not change the shape of the capital markets, the ITC did generate new types of financing and by improving business cash flow and profitability, it increased the opportunity for business to raise needed equity capital.

The same type of issue that confronted the economy in 1960 is with us again in the form of an unsatisfactory rate of capital formation and unsatisfactory allocations of capital between debt and equity and among different sectors of the economy.

While business capital outlays have been growing this year, the rate at which these expenditures have been rising is not adequate. We estimate that, to achieve and then sustain a full employment economy, investment in new plant and equipment should grow faster than real output, at a rate of 9 to 10 percent a year, to restore the level of investment to at least 12 percent of real output. For the past several years, we have fallen short of that goal, and more recently the shortfall has widened. For example, business fixed investment last quarter grew at only a 2 percent annual rate in real terms, and represented only 9-1/2 percent of real GNP.

The sharp decline in investment during the past three years has virtually halted the uninterrupted increase in the U.S. capital/labor ratio since World War II. By the end of 1977 the productive capital stock per worker will be little greater than it was in 1974.

This decline in the rate of growth of capital per worker has been mirrored in declining productivity. For the 20 years prior to 1970, productivity grew at a rate of about 2.8 percent per year. So far this decade, the rate has averaged only 2.1 percent -- a reduction of one-fourth. Although part of this slowdown is clearly associated with the depressed output levels of the recession period, that does not explain the entire phenomenon. In any case, we cannot afford to let this trend continue. The economy, and all of us, are paying the price -- in terms of increased costs and higher rates of inflation -- of the reduced productivity growth associated with our failure to expand and modernize our capital stock at a sufficiently rapid rate.

Unhappily, recent soundings on business capital spending plans for next year do not suggest a dramatic pickup, at least not in the absence of some new incentives.

Increasing the rate of capital formation is a prime objective of the Administration. It was addressed in the tax reform package originally drafted by the Treasury, and there is no secret about the components under consideration: a reduction in corporate taxes, an increase in the investment tax credit, accelerated depreciation, and eventual elimination of the double taxation of dividends through partial integration of taxes imposed on a corporation and its shareholders. These proposals, together with consideration of the elimination of the special tax treatment of capital gains as part of a reduction of individual tax rates, engendered a great public debate. Were these proposals workable? Would they achieve their intended goals? Would they lead to simplification?

In my view, that debate has been very useful, not only for us but for the business and financial communities as well. With respect to double taxation, for example, businessmen and financial analysts have criticized for years the disparate tax treatment of interest and dividends paid by corporations. Partial integration had been suggested for some time as a way of dealing with that problem. But as a result of the debate in the past months, many understand more fully the changes it might bring; some now hold different views on partial integration and now are doubtful about the net benefits it would bring to the creation of equity capital.

As you are aware, the President has explained that the Administration would review the tax reform package in light of this debate and developments in the economy and in Congressional treatment of the energy package and social security taxes. We are in the process of doing so now.

The forthcoming tax proposals will contain incentives for capital formation, both for corporations and individuals. As Secretary Blumenthal has stated, we fully understand the important role that preferential tax rates for capital gains have played in encouraging capital formation -- especially for venture capital and new businesses. We will, of course, take this into account in designing reforms to reduce or eliminate unjustified tax preferences.

While the level of investment in the economy is a critical factor, it is only the beginning of our concerns in this area. Is capital being efficiently allocated by the markets, or are structural impediments distorting the sectors to which capital flows and the form which investment takes? Just last week, Secretary Blumenthal spoke about the relationship of the depressed state of our equity markets to the ability of American business to raise equity capital. The examination of these questions is a relatively recent development in the Executive Branch of the Government. Prior to the 1970's, there was really no office in the Executive Branch whose job was to think about these problems. Then, in the 1970's, Secretary Simon brought to the Treasury a new sensitivity to capital markets issues. First, an office dealing primarily with banking matters was created. Then a second office, for securities markets questions, was established to be an effective line of communication with the securities industry. I understand that the securities markets office served well as a channel of communication.

We are now placing increased emphasis on this area. In April, we created the position of Deputy Assistant Secretary for Capital Markets to oversee capital markets questions and are adding to Treasury staff several men and women with strong backgrounds in this area.

I should also emphasize that we do not intend to downplay the communications link that has been established. To the contrary, I hope it will grow so that we have the continuing benefit of your views. Indeed, Stephen J. Friedman, our Deputy Assistant Secretary in this area, and Roger Altman, the Assistant Secretary for Domestic Finance, have been engaged in a continuing effort to talk with you about problems of mutual interest.

Now, what do we plan to do in this area? Let me address that question first by making quite clear what we do not intend to do. We do not intend to create yet another system of federal regulation. Nor do we intend to substitute a new mechanism for credit allocation in lieu of the marketplace.

We have confidence in the market system which has served this country well. Our interests lie -- as President Carter has consistently emphasized -- in ways to enhance that system by eliminating structural barriers which have arisen over the years, by advocating more sensible and less cumbersome regulatory policies where appropriate and by implementing basic, consistent economic policies to encourage capital formation.

There is much hard thinking and hard analysis to be done. We are hopeful that an increased capacity at the Treasury in these areas will make a significant contribution.

I would like to discuss with you a few of the projects we have in mind. First, it is most important that the capital markets be viewed as a whole. In addition to the aggregate level of financial investment, rigidities that distort the allocation of that investment between public and private borrowers, between debt and equity, between big companies and small, and among different kinds of financial intermediaries are all matters deserving close attention. There is, at any given time, only one pot of savings, and an investment in one sector means no investment in another. For instance, savings bankers have been at some pains to point out that while elimination or reduction of double taxation on corporate earnings might make equity securities more attractive, it also might reduce deposits at thrift institutions, possibly injuring the prospects for housing finance. Similarly, the volume and structure of the Treasury's debt financing program obviously have a major impact on other credit markets -- as does any monetary policy decision to change the level of interest rates. Finally, we have to understand better the relationship to the capital formation process of different participants in the markets.

Some of these questions are illustrated by two sets of issues we are studying: bank securities activities and venture capital. Senator Williams has promised a report on bank participation in certain aspects of the securities business shortly, and intends to hold hearings next year. There are already pending bills to impose minimum standards of training and examination on bank employees engaged in securities brokerage, and to permit banks to underwrite municipal revenue bonds. Congressional interest has also been expressed in the activities of banks in arranging private placements. Voluminous reports on one or more of these topics have been produced by the SEC and the Federal Reserve Board.

What is our role in this area and what considerations do we think are important? First, we do not believe that this is the type of issue that should be resolved solely by a legal analysis of a statute enacted in 1933. Our capital markets and business practices have changed dramatically in the last 40 years. The analysis must also evaluate the actual and potential effects of these activities on capital markets mechanisms -- both short range and long. Let me use bank brokerage activities as an example. Would these acitivities create risks for depository institutions? Is the brokerage relationship with a trust department or a commercial client inconsistent with the bank's obligations to the client?

Are there benefits that might flow from bank brokerage activities? Or would a more likely result be to disable or destroy an already effective execution system and over-concentrate our financial markets?

These questions and others must be examined -- and answered. What are the proper roles of banks and securities firms in the capital raising process and what special values are served by insulating the securities industry from bank competition? What is the meaning of "equal regulation" in this highly regulated area? And in view of the special steps that we take to buttress public confidence in the banking system, is it prudent to permit banks to expand farther beyond their traditional borders?

The same kind of questions can be asked about the other issues in the Glass-Steagall area. They are hard questions, and we will be seeking your help and that of the bankers in formulating our answers.

Similarly, fundamental questions may be asked in the "venture capital" area.

The level of public offerings of common stock has fallen precipitously. From 1968 through 1972, industrial companies raised an average of $7.4 billion per year from the sale of common stock. Since 1973, such common stock offerings have averaged only $2.6 billion per year. The drop off is even more serious for companies seeking public equity for the first time. For the first six months of 1977, such offerings totalled only $230 million, compared to $3.3 billion for the entire year of 1972.

What is the significance of those facts? There is surprisingly little reliable published information available on the availability of equity capital for small, growing businesses. We do not really know whether the present apparent inadequacy is simply a cyclical down-turn in new financing, or whether a combination of regulatory rigidities and tax policy is really having a decisive dampening impact on innovation. We are trying to explore the dimensions of this problem, its causes, and possible cures.

Some venture capitalists point to the tax structure and the increase in the effective rate of the capital gains tax as major causes of the relative unavailability of venture capital. But this is a far more complex matter than that. Inflation has made serious inroads on corporate profitability and decreased the attractiveness of equity securities. Moreover, changes in the markets, particularly secondary markets, are very important -- especially the progressive institutionalization of trading and the flight of the individual investor.

There are many fine, young companies in technologically promising areas with good growth records that trade at very low multiples. The market for their securities is thin -- or nonexistent. How much of that is caused by unhappy remembrances of the bad risk investments of the 1960s and how much by more recent developments is difficult to sort out. Whatever the reason it means that these investments have relativeley illiquid markets.

If the venture capitalist sees no way to liquidate his investment, it may not be made. Or, if made, it may produce great pressure for acquisition by a large company.

It is essential that we come to understand the relationship between these changes in the secondary markets and the capital raising process. The trend toward increased institutionalization may well have reduced the aggregate pool of money available for investment in small growing companies. Present institutional investment policies -- circumscribed by prudent man rules and the need to demonstrate consistent return -- may simply be incompatible with the risks associated with that type of investment. If so, then perhaps you and we should be focussing on more imaginative incentives and marketing techniques rather than on across the board tax relief.

Nevertheless, let us assume that changes in the tax laws are what is needed. Major problems remain. Who are we really trying to help? All small businesses or just growing ones? Only high technology or new technology companies? If high technology is our goal, is that best achieved by helping a major company with demonstrated technological capacity, or one just starting in a garage? Remember that this is not merely a question of finding a good definition, for each change has a fiscal impact. If the class of companies affected is broad, then the fiscal impact is great. The Treasury is prepared to seriously consider special tax treatment for the "venture capital" problem, but we very much need your help in fashioning the right approach -- and in thinking of creative alternatives.

In closing, I would emphasize to you again our commitment to this area and our desire for your views and advice on capital formation and capital markets questions. It may be that we will not always agree on the Treasury's conclusions. But I hope we can agree on the process by which we reach those conclusions.

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REMARKS BY
THE HONORABLE W. MICHAEL BLUMENTHAL
SECRETARY OF THE TREASURY
TO THE
NEW YORK BOARD OF TRADE
NEW YORK, NEW YORK
NOVEMBER 30, 1977

Tonight, I want to discuss two separate, but closely related subjects -- the prospects for our nation's economy, and the financial prospects for New York City.

As in every community in America, the destiny of this city is linked to the rise and fall of general business activity. But New York also has unique financial problems that require the special attention of this Administration -- something we are doing with a great deal of care.

I'd like to begin with the state of the nation's economy today. What I have to report is that we've made good progress this year, and that we can look forward to more progress in 1978.

We've made solid gains in unemployment, with the addition of nearly three million new jobs this year -- in inflation, with an average rate in the past three months of less than 4 percent. Industrial production -- retail sales -- and housing are all growing steadily.

And the expansion is still strong and balanced, without serious distortions, well into its third year since the trough of the 1974-75 recession. Inventories are under control, for example, with no real imbalance, and corporate liquidity and consumer debt are in good shape. Next year, we are aiming for GNP growth close to 5 percent.

But despite these solid gains, we face several major economic problems -- problems that need a great deal of our attention. They remind me of what Casey Stengel said about one of his baseball teams: "In many areas we have too strong a weakness."

The first problem is inflation.

The experience of the past three months -- with inflation rates less than four percent -- is no more typical than the more than 10 percent rate averaged during the first quarter of this year. The fact is that these variations in the inflation rate were due to swings in food price and energy trends -- while the basic, underlying rate stays at 6 to 6 1/2 percent. And that rate clearly is far too high.

It amounts to an intolerable drain on the purchasing power of American families -- a serious drag on the capabilities of businesses to do their jobs -- and a serious challenge to the credibility and competence of the Federal government.

Just as inflation helped breed this past recession, it continues to hold us back from further expansion.

If consumers see prices headed back up, they curtail their spending plans, increasing savings instead. The same holds for businesses, whose reaction is to curtail outlays and reduce risks.

Therefore, 1978 must see us all work hard to reduce inflationary pressures. It is a task in which all of us -- labor, business, government -- must share the responsibilities.

The second major problem is unemployment. Seven million Americans unable to find work amount to a tragic waste of our human resources.

Perhaps most vexing is that much of this unemployment is structural, and is not responding to the cyclical improvement in the economy as a whole.

For women and minorities, especially those in the older cities of the Northeast and upper Midwest, unemployment is far above the national average, and improvement is lagging. In fact, in some cases, unemployment has actually increased this year -- the rate for black workers, for example, stands at 13.9 percent, one-half a point higher than a year earlier.

Closely linked to unemployment is our third major problem -- inadequate investment -- which has seriously affected our rate of job formation. Because not enough new industrial capacity is being added, full utilization of that capacity no longer means full employment. When there was full capacity in 1968, for example, unemployment was only 3.6 percent. But when we reached full capacity in 1973, unemployment stood at 4.9 percent -- and if we reach full capacity again in 1978 or 1979, the unemployment rate would probably be even higher.

The only solution is to encourage real growth rates of business fixed investment of nine to 10 percent until we bring the share of investment up to at least 12 percent of GNP.

In the last quarter, that rate of investment was only 2 percent, not far from the chronically low rates of recent years. Since 1969, the annual rate has averaged only 2.7 percent -- actually only 2.3 percent, excluding investment for pollution control. And by the end of this year, new investment will still not be at the real level it was in 1974.

Much of this reluctance to invest comes from a low level of business confidence in the future. The turbulent events of the early and mid-1970's left enough bad memories to make any executive play it safe.

There is a danger, however, in ignoring the fundamental soundness of this expansion, in failing to add strength to the expansion -- and thereby letting this pessimism become self-fulfilling.

So a major emphasis of this Administration has been to develop policies that can rebuild that confidence.

We've based this approach on a keen appreciation of both the possibilities and limitations of government actions. We can encourage, we can stimulate growth. But the jobs, the long-term growth and stability just won't be there until business executives decide to invest and take risks again. This is the real key to our problems of inflation, unemployment and growth.

Capital formation is certainly a central objective of the President's tax proposals, which we are getting ready for Congress.

In the development of this legislation, the goals of easing the burden of taxation on Americans, on providing incentives for business to invest will, along with other important reforms, loom large.

The President has not made any final decision yet, but I can tell you that we are aiming for an overall tax cut that is quite substantial.

With the other parts of our economic policy, we will exercise the same care to encourage business expansion. As the President stated last week, he will lay out in January his overall economic plan -- much of which is already in place but has not been presented as a comprehensive entity.

Once we get from Congress the energy and Social Security legislation -- once we put in final form our tax and 1979 budget proposals -- we will have in place a clear outline of where we intend to go economically.

This is something I have emphasized repeatedly. Probably the best thing government can do for business at this point is to settle on a firm economic game plan -- clearly indicate what goals we want to achieve and how we intend to achieve them -- laying out, in other words, a stable, dependable set of policies.

For only then can businesses plan with some certainty how to invest their hard-won capital -- how to use their resources most profitably and productively -- and how to contribute to the long-term expansion we are depending on.

That same kind of certainty is necessary for New York City to solve its financial problems. I'd like to devote the rest of my remarks to that subject, especially the role that the Federal government will have in the solution of those problems.

Let me begin by <u>not</u> detailing where to place the blame for these problems. That is now simply a part of history.

What is important today are solutions -- with Federal, state and city governments working in concert, and with business and labor providing their own unique contributions.

This is particularly timely because the legislation covering federal lending to the city -- currently $2.3 billion a year -- expires next June 30, only seven months away. And Congressional hearings on the future of that lending relationship may begin as early as January.

That leaves us much to do in a short time. It will not be easy. Within the next two months, we hope to propose legislation that will have the support of the city, state and Carter Administration.

I discussed this in meetings here last week with Governor Carey, Mayor Beame, Mayor-elect Koch, and Controller Goldin. The meetings confirmed to me that all of us are seeking the same goal -- restoration of a financially independent and economically healthier New York -- and we're all willing to do our part.

During the last two years, the crisis-filled atmosphere has made it difficult for city and state leaders to concentrate on a longer term and comprehensive plan for the city's future. However, 1978 represents a true crossroads, and it's time to develop such a plan.

Let me also sound a note of caution. There are some here who think that, if even such a plan is not developed, the city will at least get Congress to go along with an extension of seasonal lending. I think that they are indulging in undue optimism. Remember that the 1975 lending bill passed the House by only 10 votes. Also, Congress expects these actions to be taken as a condition to any extension of federal lending -- seasonal or otherwise.

I should also add emphatically that this Administration will not interject itself into the issues that must be decided locally. We have no inclination to decide such essentially local issues as rent control, union contracts, or city university tuition.

In that spirit, then, let me describe the broad steps which I discussed with your elected leaders last week.

The heart of these steps is a budget plan and a financing plan for the city covering the duration of any extension of federal lending beyond June 1978. In other words, if Congress is asked to support a three-year extension, then, these plans must cover those three years -- with the assurance that no further borrowing plan will be needed.

This means that the city must get into a condition of recurring budget balance by the end of the plan period. It simply is unlikely that New York can re-enter the long term market for the full amount of its annual long terms needs -- roughly $1 billion -- unless its budget is in recurring balance and is expected to stay in balance.

I realize that there are different definitions of recurring budget balance. Indeed, the city's budget today is balanceds under State law. Yet approximately $600 million of operating expenses -- which should be carried in the operating budget -- are carried in the capital budget. This complies with State law which gives the city eight more years to phase that $600 million back into the operating budget.

But the plain fact is that an operating budget isn't balanced unless total revenues and total operating expenses are equal. Potential lenders in the long-term markets know this. Congress knows this. And neither will be confident of the city's fiscal condition until the budget is balanced this way.

This means that the operating expenses must be phased out of the capital budget over the period of any lending extension. We realize that this will be difficult -- adding roughly $130 million more to the expense side of the operating budget during each of the next three years or so, and still balancing the budget. Yet I don't believe the city has a choice.

Another element essential to restoration of confidence is the continuance of a strong and independent financial review mechanism. The city must make hundreds of difficult and complex decisions in arriving at its overall budget and financing plans. In my view, there is no escaping the conclusion that, for those decisions to be perceived as credible and responsible, they must be reviewed and concurred in by a statutory group with power and prestige. The present Emergency Financial Control Board or a similar body will have to continue while the budget and financing plans are translated into action.

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We recognize too, that there are limits on what the city can do. Welfare and Medicaid costs, for example, involve automatic shares of total payments to city residents. Debt service and pension benefits are very difficult to change.

This is where a greater state involvement is necessary. As President Carter said often during the 1976 campaign, cities, first and foremost, are political subdivisions of states. The Carter Administration and Congress must be convinced that your State has fully used its ability to provide fiscal aid to the city, before we continue a major federal lending role.

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After all, New York City's two principal sources of borrowing today will expire next June 30 -- the federal lending program and the union retirement system loans. A financing plan for the period after that is necessary. Its result should be a fully independent borrowing status for the city.

We realize that a central part of this city plan will be the proposed extension of federal lending. Nevertheless, a key to its credibility will be how it satisfies those needs which are not accommodated by Treasury.

In addition, we will look closely at the State's involvement in this financing plan. For example, the State may be able to satisfy a meaningful portion of New York City's short-term borrowing needs during the financing plan period.

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In February, we proposed an extension and expansion of countercyclical revenue sharing, and Congress agreed. New York City will receive this year $135 million more than it would have otherwise.

Also in February, we proposed an emergency public works program, and Congress agreed. New York City's depressed construction industry will receive $190 million this year through this program, which it otherwise would not have obtained.

In March, we proposed a change in the Community Development Block Grants funding formula, and Congress agreed. New York City will receive $64 million more under the new formula.

Also in March, we proposed a new $400 million annual program of "Urban Development Action Grants". These discretionary HUD grants will be made shortly, and New York City should receive a portion of them.

Moreover, this is not all we plan to do. The President has pledged to propose an urban policy early in 1978 that is certain to contain additional sources of assistance for New York City.

When this urban aid proposal takes final shape, I believe it will round out our comprehensive approach to help solve the city's problems -- and to underscore the Carter Administration's commitment to helping the city through its crisis.

Now, some have suggested recently a fundamental change in the character of Treasury lending to New York City -- changes which, they contend, would contribute more to solving the city's financing problems than our loans now contribute. Let me say in response that I, for one, remain open-minded to the possibility -- if the proposals are part of an effective overall city and state strategy that meets the requirements laid out by Congress and the Administration.

Let me add one final note. Up to now, I have talked about actions that might be taken by governments at all levels. In my view, that is far too narrow a focus.

If the city's problems are to be solved, all of you here tonight -- your neighbors and colleagues in business as well -- must play a more active role. The business community here -- the banks and brokers, the garment industry, the professionals and all the rest -- must work hard to attract and hold business here and facilitate the city's return to the private capital markets. The labor leaders and the employees of this great city must continue their extraordinary record of restraint. The citizens must recognize the necessary choices between city services and limited funds.

But even more important, all segments of the city must work together. If the country and the Congress are to be convinced that this city deserves additional support, they cannot be greeted by a spectacle of divisiveness and dispute. Rather, it must see that the past three years have led to a spirit of cooperation, sacrifice and dedication, all directed at building a vital future.

As your new Mayor formulates a responsible plan for the next four years, he must receive visible and real, not grudging, support from all quarters within the city. Lacking such support, our efforts in Washington are not likely to succeed.

My own estimation is that we will succeed. The Carter Administration cares deeply about this city, and is working hard to help it recover. By helping itself and with assistance from Albany and Washington, and from you, it will recover.

Let me close, ladies and gentlemen, simply by agreeing with the sentiments which I am sure most of you have towards your city. It is one of the greatest on earth -- in many ways the real capital of this country. The Carter Administration believes in New York and is committed to its health.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE AT 4:00 P.M. December 1, 1977

TREASURY'S 52-WEEK BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for $3,505 million, or thereabouts, of 364-day Treasury bills to be dated December 13, 1977, and to mature December 12, 1978 (CUSIP No. 912793 R8 1). The bills, with a limited exception, will be available in book-entry form only, and will be issued for cash and in exchange for Treasury bills maturing December 13, 1977.

This issue will not provide new money for the Treasury as the maturing issue is outstanding in the amount of $3,505 million, of which $2,136 million is held by the public and $1,368 million is held by Government accounts and the Federal Reserve Banks for themselves and as agents of foreign and international monetary authorities. Additional amounts of the bills may be issued to Federal Reserve Banks as agents of foreign and international monetary authorities. Tenders from Government accounts and the Federal Reserve Banks for themselves and as agents of foreign and international monetary authorities will be accepted at the average price of accepted tenders.

The bills will be issued on a discount basis under competitive and noncompetitive bidding, and at maturity their par amount will be payable without interest. Except for definitive bills in the $100,000 denomination, which will be available only to investors who are able to show that they are required by law or regulation to hold securities in physical form, this series of bills will be issued entirely in book-entry form on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20226, up to 1:30 p.m., Eastern Standard time, Wednesday, December 7, 1977. Form PD 4632-1 should be used to submit tenders for bills to be maintained on the book-entry records of the Department of the Treasury.

Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders, the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used.

B-577

(OVER)

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon may submit tenders for account of customers, provided the names of the customers are set forth in such tenders. Others will not be permitted to submit tenders except for their own account.

Payment for the full par amount of the bills applied for must accompany all tenders submitted for bills to be maintained on the book-entry records of the Department of the Treasury. A cash adjustment will be made for the difference between the par payment submitted and the actual issue price as determined in the auction.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities, for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, or for definitive bills, where authorized. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $500,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids.

Settlement for accepted tenders for bills to be maintained on the records of Federal Reserve Banks and Branches must be made or completed at the Federal Reserve Bank or Branch on December 13, 1977, in cash or other immediately available funds or in Treasury bills maturing December 13, 1977. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of bills (other than life insurance companies) issued hereunder must include in his Federal income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on a subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76, and this notice, prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

Contact: George Ross
566-2356

FOR IMMEDIATE RELEASE
December 1, 1977

TREASURY ANNOUNCES REGULATIONS ON
REFUNDING OF INDUSTRIAL
DEVELOPMENT BONDS

The Department of the Treasury announced today the issuance of proposed amendments to the Treasury Regulations governing refundings of industrial development bonds.

The proposed amendments will be effective generally with respect to refunding obligations issued after 5:00 p.m. EST, November 4, 1977. However, in the case of refundings of certain housing obligations, the proposed amendments will apply only to refunding obligations issued after December 1, 1977. The text of the proposed amendments is attached.

The Treasury had previously announced that it expected that the proposed amendments would be issued by December 1, 1977, and would be effective generally with respect to refunding obligations issued after 5:00 p.m. EST, November 4, 1977.

Industrial development bonds are government obligations issued to raise capital for private businesses. Usually, no governmental unit is liable for payment of debt service on the bonds; the bondholders look solely to the credit of a private corporation that agrees to meet the debt service.

Under section 103(a) of the Internal Revenue Code, interest on state and local government obligations is generally exempt from tax. Section 103(b) of the Code, however, generally denies tax exemption to interest on industrial development bonds (as defined in section 103(b)(2)) issued after April 30, 1968.

In general, the proposed amendments to the Regulations prohibit tax exempt refundings of industrial development bonds issued before the effective date of section 103(b) if the refunding extends the maturity of the outstanding bonds. An extension of the maturity of those tax exempt obligations is tantamount to a new tax exempt financing and is inconsistent with the 1968 legislation limiting the availability of such financing.

The 1968 Amendments allowed continued tax exemption for certain industrial development bonds if substantially all of the proceeds are used for facilities specified in the statute. The proposed amendments prohibit tax exempt advance refundings of these issues. An advance refunding is an issue issued more than 180 days in advance of the maturity or call date of the original issue. The proceeds of the refunding issue are generally invested in federal securities pending call or retirement of the original issue. To permit tax exempt advance refundings would mean that a face amount of tax exempt bonds equal to twice the cost of a given facility could be outstanding during the period commencing with the issuance of the refunding issue and ending with the call or retirement of the original issue. This contravenes the Congressional requirement that substantially all the proceeds of an industrial development bond must be used "to provide" a facility described in the statute in order to qualify for tax exemption.

The Treasury recognizes, however, that a prohibition on tax exempt refunding of industrial development bonds may, in certain cases, cause hardship to state and local governments. The Treasury, therefore, announced that it will ask Congress to consider amending section 103(b) of the Code to allow advance refundings in such cases.

The amendments, in the form of a Notice of Proposed Rule Making amending section 1.103-7 of the Treasury Regulations, are expected to be published in the Federal Register for December 6, 1977.

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Note to Editors: See Treasury News Release B-536 (November 4, 1977) and B-545 (November 9, 1977).

NOTICE OF PROPOSED RULEMAKING
REFUNDINGS OF
INDUSTRIAL DEVELOPMENT BONDS

Section 1.103-7 is amended by adding two new sentences at the end of paragraph (d)(1) and adding a new paragraph (e) to read as follows:

§1.103-7 Industrial development bonds.

*   *   *   *   *   *   *   *   *

(d) Refunding obligations; old rules--(1) General rule. * * * This paragraph does not apply to refunding issues to which paragraph (e) applies. See paragraph (e)(8).

(e) Refunding obligations; new rules--(1) Treatment as industrial development bonds. A refunding issue satisfies the trade or business test of section 103(b)(2)(A) if the prior issue satisfied the trade or business test. If the refunding issue also satisfies the security interest test of section 103(b)(2)(B), the refunding issue is an issue of industrial development bonds.

(2) Special transitional rule. (i) Notwithstanding paragraph (e)(1), a refunding issue is not an issue of industrial development bonds if--

(A) The prior issue was issued before the effective date of section 103(b) (May 1, 1968, or January 1, 1969, if the transitional rules of §1.103-12 are applicable); and

(B) The refunding issue matures no later than the prior issue.

(ii) For purposes of paragraph (e)(2)(i)(B), if portions of the prior issue mature on different dates, corresponding portions of the refunding issue must mature on or before each such maturity date. Thus, for example, if one-half of the prior issue matures on January 1, 1980, and the other half matures on January 1, 1985, then one-half of the refunding issue must mature on or before January 1, 1980, and the other half must mature on or before January 1, 1985.

(iii) A portion of an issue is deemed to mature at the time a mandatory sinking fund redemption is made.

(iv) The issuer may treat particular obligations which are part of a multipurpose issue (defined in paragraph (e)(7)(i)) as used to refund particular prior issues. See example (5) of paragraph (e)(9).

(3) Exempt facilities. In general, the proceeds of a refunding issue are used to provide an exempt facility (within the meaning of section 103(b)(4)) if substantially all of the proceeds of the prior issue were used to provide an exempt facility. However, the proceeds of a refunding issue are not used to provide an exempt facility if the refunding issue is issued more than 180 days before the prior issue is redeemed.

(4) Industrial parks. In general, the proceeds of a refunding issue are used to acquire or develop land as the site for an industrial park (within the meaning of section 103(b)(5)) if substantially all of the proceeds of the prior issue were used for such acquisition or development. However, the proceeds of a refunding issue are not used for such acquisition or development if the refunding issue is issued more than 180 days before the prior issue is redeemed.

(5) Small issues. The proceeds of a refunding issue are not used as described in section 103(b)(6)(A)(i) or (ii) if the refunding issue is issued more than 180 days before the prior issue is redeemed.

(6) Definitions. (i) A refunding issue is an issue the proceeds of which are used to pay principal, interest, or call premium on another issue (the "prior issue") or reasonable incidental costs of the refunding (e.g., legal and accounting fees, printing costs, and rating fees). An issue is not a refunding issue for purposes of this paragraph if the prior issue had a term of less than three years and was sold in anticipation of permanent financing. However, the aggregate term of all issues sold in anticipation of the permanent financing may not exceed three years.

(ii) An issue is redeemed at the time interest ceases to accrue on the issue.

(7) Multipurpose issues. (i) For purposes of this paragraph, the term "multipurpose issue" means an issue the proceeds of which are used--

(A) To refund two or more prior issues, or

(B) To refund one or more prior issues and also for other purposes (e.g., to provide additional facilities or working capital).

(ii) The portion of a multipurpose issue used to refund each prior issue is treated as a separate refunding issue for purposes of this paragraph. Any remaining portion of the multipurpose issue is treated as a separate issue for purposes of section 103(b).

(8) Effective dates. (i) Except as provided in paragraph (e)(8)(ii), this paragraph applies to refunding issues issued after 5:00 p.m. EST on November 4, 1977.

(ii) This paragraph does not apply to a refunding issue issued on or before December 1, 1977, if substantially all of the proceeds of the prior issue were used to provide residential real property for family units within the meaning of section 103(b)(4)(A).

(9) Examples. The following examples illustrate the application of this paragraph:

Example (1). On February 1, 1975, State A issued $20 million of 20-year revenue bonds. The bond proceeds were used to construct a sports stadium owned and operated by X, a nonexempt person, for use by the general public. The revenues derived from the sports stadium secured payment of the principal and interest on the bonds. On January 1, 1980, State A issues $15 million of 20-year refunding bonds at par. On February 1, 1980, State A uses $14.5 million of proceeds to redeem the outstanding principal amount of the prior issue. The remaining $.5 million of proceeds is used solely to pay call premium and reasonable incidental costs of the refunding. The sports stadium revenues secure payment of the principal and interest on the refunding issue. Because the prior issue satisfied the trade or business test of section 103(b)(2)(A), under paragraph (e)(1) the refunding issue also satisfies that test. In addition, the refunding issue satisfies the security interest test. Accordingly, the refunding obligations are industrial development bonds. Since, however, substantially all of the proceeds of the original issue were used to provide an exempt sports facility within the meaning of section 103(b)(4)(B), under paragraph (e)(3) the proceeds of the refunding issue are used to provide an exempt facility. As a result, section 103(b)(1) does not apply to the refunding issue.

Example (2). The facts are the same as in example (1), except that the prior issue is not callable until February 1, 1985. During the period when both the refunding and prior issues are outstanding, the proceeds of the refunding issue are invested in United States Treasury obligations. The interest earned on the Treasury obligations is used to pay debt service on the prior issue. Because the prior issue satisfied the trade or business test of section 103(b)(2)(A), under paragraph (e)(1) the refunding issue also satisfies that test. In addition, the refunding issue satisfies the security interest test of section 103(b)(2)(B), since the revenues from the sports stadium will be used to pay the debt service on the refunding issue. Accordingly, the refunding bonds are industrial development bonds. Since the refunding issue is issued more than 180 days before the prior issue is redeemed, the proceeds of the refunding issue are not considered under paragraph (e)(3) to be used to provide an exempt facility. As a result, section 103(b)(1) applies to the refunding issue, and interest on the refunding issue is included in gross income.

Example (3). The facts are the same as in example (2), except that interest earned on the Treasury obligations is used to pay debt service on the refunding issue until the prior issue is redeemed. The sports stadium revenues are used to pay debt service on the refunding issue beginning on February 1, 1985 (the date of redemption), rather than on January 1, 1980 (the date of issuance). The refunding issue satisfies the security interest test because the sports stadium revenues will be used to pay debt service on the refunding issue after the prior issue is redeemed. Accordingly, the result is the same as in example (2).

Example (4). On January 1, 1965 (before the effective date of section 103(b)), city B issued $10 million of 30-year revenue bonds. The bond proceeds were used to construct a manufacturing facility for corporation Y, a nonexempt person. Lease payments by Y secured payment of the principal and interest on the bonds. On January 1, 1978, B issues $7 million of refunding bonds which mature of January 1, 2005. On April 1, 1978, the proceeds of the refunding issue are used to redeem the outstanding principal amount of the prior issue. The lease payments by Y secure payment of the principal and interest on the refunding issue. Because the refunding issue matures later than the prior issue, the special transitional rule of paragraph (e)(2) does not apply. Moreover, the refunding issue is treated as an issue of industrial development bonds under paragraph (e)(1). Since the proceeds of the prior issue were not used to provide an exempt facility described in section 103(b)(4) or to acquire or develop land as the site for an industrial park described in section 103(b)(5), interest on the refunding issue is included in gross income.

Example (5). (a) On January 1, 1968, state D issued $20 million of 20-year revenue bonds to construct an office building. The office building is leased to and operated by Y, a nonexempt person. Lease payments by Y secured the payment of principal and interest on the bonds. One million dollars in principal amount of the 1968 issue matures on January 1 of each year 1969 to 1988.

(b) On January 1, 1970, state D issued $15 million of 20-year revenue bonds to construct a sports stadium. The sports stadium is owned and operated by Y for use by the general public. The revenues derived from the sports stadium secured the payment of principal and interest on the 1970 issue.

(c) On February 1, 1978, state D issues a $20.5 million multipurpose issue at par. The payment of principal and interest on the multipurpose issue is secured by lease payments by Y and by revenues derived from the sports stadium. The 1978 issue matures according to the following schedule:

January 1, 1979	- - -	$850,000
January 1, 1980	- - -	850,000
January 1, 1981	- - -	850,000
January 1, 1982	- - -	850,000
January 1, 1983	- - -	850,000
January 1, 1984	- - -	850,000
January 1, 1985	- - -	850,000
January 1, 1986	- - -	850,000
January 1, 1987	- - -	850,000
January 1, 1988	- - -	850,000
after January 1, 1988	- - -	12,000,000

On March 1, 1978, state D uses $12 million of the proceeds of the multipurpose issue to redeem the outstanding principal amount of the 1970 issue. State D uses the remaining $8.5 million of proceeds to pay principal on the 1967 issue as it comes due.

(d) Under paragraph (e)(7), the multipurpose issue is treated as two separate issues--one $12 million refunding issue and one $8.5 million refunding issue. Under paragraph (e)(2)(iv), state D treats the $8.5 million refunding issue as having the following maturities:

January 1, 1979	- - -	$850,000
January 1, 1980	- - -	850,000
January 1, 1981	- - -	850,000
January 1, 1982	- - -	850,000
January 1, 1983	- - -	850,000
January 1, 1984	- - -	850,000
January 1, 1985	- - -	850,000
January 1, 1986	- - -	850,000
January 1, 1987	- - -	850,000
January 1, 1988	- - -	850,000

(e) Under paragraph (e)(1), the $12 million refunding issue satisfies the trade or business test since the prior issue satisfied that test. Because the $12 million refunding issue also satisfies the security interest test, it is an issue of industrial development bonds. However, since substantially all of the proceeds of the 1970 issue was used to provide an exempt sports facility within the meaning of section 103(b)(4)(B), under paragraph (e)(3) the proceeds of the $12 million refunding issue are used to provide an exempt facility.

(f) One tenth of the 1968 issue (disregarding the portion of the issue retired before February 1, 1978) matures on January 1 of each year 1979 to 1988. Because one tenth of the $8.5 million refunding issue also matures on January 1 of each year 1979 to 1988, the $8.5 million refunding issue satisfies the requirement in paragraph (e)(2)(ii). Because the requirements in paragraph (e)(2)(i) are also satisfied, the $8.5 million refunding issue is not treated as an issue of industrial development bonds.

(g) Section 103(b)(1) does not apply to any portion of the multipurpose issue.

Example (6). On January 1, 1993, city D issues $40 million of revenue bonds at par. Of the $40 million of bond proceeds, $37 million is used to refund a prior issue (i.e., to pay principal and interest on the prior issue, call premium, and reasonable incidental costs of refunding). The remaining $3 million is used to provide working capital to corporation X, a nonexempt person. Under paragraph (e)(7), the issue of revenue bonds is a multipurpose issue and is treated as two separate issues--a $37 million refunding issue and a $3 million issue to provide working capital. Assume that the $3 million issue satisfies the security interest test of section 103(b)(2)(B). Based on these facts, the $3 million issue is treated as an issue of industrial development bonds and does not satisfy the requirements of section 103(b)(4), (5), or (6). Accordingly, section 103(b)(1) applies to the $3 million issue.

<u>Example (7)</u>. On January 1, 1967 (before the effective date of section 103(b)), city E issued $50 million of 25-year revenue bonds. The proceeds of the 1967 issue were used to provide a manufacturing facility for use by corporation Z, a nonexempt person, and the 1967 issue therefore satisfied the trade or business test of section 103(b)(2)(A). On January 1, 1978, city E issues $40 million of 14-year revenue bonds to refund the 1967 issue. Under paragraph (e)(1), the 1978 issue satisfies the trade or business test of section 103(b)(2)(A). However, the 1978 issue is not treated as an issue of industrial development bonds. (See paragraph (e)(2).) On January 1, 1980, city E issues $38 million of 12-year revenue bonds to refund the 1978 issue. Under paragraph (e)(1), the 1980 issue satisfies the trade or business test of section 103(b)(2)(A). Assume that the 1980 issue also satisfies the security interest test of section 103(b)(2)(B). Based on these facts, the transitional rule in paragraph (e)(2) does not apply to the 1980 issue because the 1978 issue was issued after the effective date of section 103(b). Moreover, the proceeds of the 1980 issue are not treated under paragraph (e)(3) or (4) as used to provide an exempt facility or to acquire or develop land as the site for an industrial park. Section 103(b)(1) applies to the 1980 issue, and interest on the 1980 issue is included in gross income.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE December 2, 1977

REMARKS BY THE HONORABLE ANTHONY M. SOLOMON
UNDER SECRETARY FOR MONETARY AFFAIRS
U.S. DEPARTMENT OF THE TREASURY
BEFORE THE
UNITED STEELWORKERS OF AMERICA

-- As U.S. steelworkers who have been seriously affected by the current problems of the domestic steel industry, you are acutely aware of the seriousness and urgency of the current steel crisis. As many as 60,000 U.S. steelworkers have been laid off by steel cutbacks and closings this year alone. Many of your members are receiving unemployment assistance, and have little prospect of obtaining new jobs for the next several months. Your communities have been hurt as well, especially the concentrated steel communities in Ohio, Pennsylvania, and New York: Youngstown, Lackawanna, Johnstown are a reality and a human tragedy for many of you. And the prospect of more plant closings and cutbacks remains a real possibility for the future, unless positive action is taken now to improve the industry's competitive position.

-- My objective in speaking to you today is to help explain our analysis of what has happened to the U.S. steel industry in recent years, on the basis of our recent review of the industry's problems -- and equally important, to emphasize the Administration's concern for the future of the steel industry. Our primary aim is to help assure that the industry can be viable and competitive in our own market. Our actions should mean more jobs for you, greater security in the jobs you hold, and an industry that is strong and growing and which can produce efficiently for the benefit of all Americans.

What Has Happened to the Steel Industry

-- The present crisis in the U.S. steel industry has been developing for a number of years; its problems date back to the 1950s, but have been heightened by the recent deep recession in world steel markets.

-- Indeed, the current steel "crisis" is not unique to the United States; it is global in nature and equally affects our major steel trading partners, Japan and the European Community, which have relied on steel exports to our market to help maintain employment and production in their countries.

-- The present steel situation is marked by high excess production capacity in all of the major producing nations, due in large part to slow recovery in global steel demand from the 1974-75 world economic recession and to large increases in foreign capacity in recent years. The EC's industries are operating at 65 to 70 percent of capacity; Japanese industries at less than 75 percent; and U.S. industries at approximately

81 percent of steel capacity. Our own economic recovery has been strong, but recovery in the other industrialized countries has been disappointingly slow.

--- Even a strong global economic recovery, however, would not by itself relieve the broader problems of our domestic industry:

(1) A significant erosion in its competitive position over the past several years, due in part to low-priced foreign imports, but also to the increased use of substitute materials;

(2) Abnormally low earnings in recent years (the return on sales for the first half of 1977 was 1.4 percent after taxes);

(3) Heavy investment requirements for modernization, pollution control, and plant maintenance which the industry cannot meet because of inadequate cash flow and an inability to raise the needed capital in private markets.

-- U.S. domestic demand for steel has been relatively strong this year, especially for lighter, flat-rolled products. Total consumption of steel mill products may reach 108 to 110 million tons in 1977 -- a level exceeded only twice before, in 1973 and 1974. Many markets, however, remain depressed, especially those for structurals, plates, and bar products, which reflect the still depressed demand for capital goods.

-- The problem is that imports, rather than U.S. production, are satisfying an increasing share of domestic demand (up from 13 percent of U.S. steel consumption in 1973-1976 to a 20 percent share in recent months). At current rates, imports could total 19 million tons in 1977, a 5 million ton increase over 1976. Imports of this magnitude suggest more than a competitive response to the continued gradual growth of U.S. steel demand and rising U.S. steel prices.

-- While Japanese exports to the U.S. reached a record 7.9 million tons in 1976, imports from the European Community have been the major factor behind increasing U.S. imports in 1977. The pressure of low capacity utilization, large financial losses, and a stronger U.S. recovery has led EC firms to attempt to improve their operating results by aggressive pricing in the U.S. market.

-- The steel industry argues that the recent surge in imports is largely attributable to unfair trade practices, principally dumping. Accordingly, numerous antidumping complaints have been filed since February of this year; indeed the 19 separate petitions presently before the Treasury Department in various stages of investigation are an unprecedented number with respect to a single industry in so short a time frame. Efforts to assure prompt and adequate relief for the U.S. steel industry from unfair foreign pricing practices must be a central element of our response to the current steel crisis.

The Need for Federal Government Involvement

-- The U.S. Government does not normally become involved in developing policy programs designed to assist a specific U.S. industry. We do so in this case because the steel industry is one of the largest U.S. industries and a substantial and continuing shrinkage of the U.S. capacity to produce steel is not in the interest of the U.S. economy; because its problems already have had a broad and serious impact on thousands of workers and several communities; and because resolving its problems requires international cooperation to avoid unfair trade practices and a concerted approach to assist the industry in meeting its capital investment requirements in order for it to maintain a competitive position in the future.

-- Global nature of steel problems. The depressed global steel situation is expected to continue for some time; a return to even 85 percent of capacity operation is not even forecast by 1980. In this environment steel prices, which fell as much as 50 percent below their peak 1974 levels during 1975 and 1976, are not expected to recover in the near future.

Aggressive export practices by foreign exporters also assure that imports will continue to present problems for the domestic industry. We are seeking means to provide a prompt and effective remedy to this problem. And we must do so in a manner which is the least disruptive to international trade, to foreign production, and to relations with our major trading partners.

-- Investment needs. A major obstacle to investment in U.S. steel facilities (for modernization, plant maintenance, or pollution control) is the uncertainty in many areas of government policy. Continuing changes in water and air pollution legislation, the uncertainty of energy legislation affecting coal supplies, the length of time required and uncertain outcome of dumping complaints lodged by the industry, all affect the industry's willingness to invest in new facilities. Inadequate cash flow also seriously restricts the ability of the industry to invest in new or improved facilities. This problem is complicated by the fact that there is a substantial range in the efficiency of steel plants, new technologies have not been easily adapted to the older facilities, and the market for steel has shifted from the East to the Mideast.

-- All of these factors argue for a comprehensive policy approach to the problems of the steel industry and a positive cooperative effort by industry, labor and government alike to assure that the U.S. steel industry can operate in a fair and equitable environment which will stimulate its health and its efficiency.

Task Force Review of Steel Problems

-- In preparing its proposed comprehensive steel policy program for the President, the interagency steel task force which I chair has been guided by the following principle objectives:

. Promoting a healthy, competitive domestic steel industry.

. Ameliorating the serious economic and social effects of steel plant closings and cutbacks on laidoff steelworkers and steel communities; and

. relieving the industry from the pressures of imports below foreign costs without removing the healthy price discipline provided by fair import competition.

-- To meet these objectives, we will need to take specific policy actions in five major areas:

. Trade Relief;

. Modernization;

. Rationalizing Environmental Policy and Procedures;

- Community and Labor Assistance; and
- Other general measures.

-- The following measures of assistance are presently under consideration:

A "trigger price system" for steel imports. The adoption of a trigger reference price system for steel imports has been under consideration as a method for allocating the Treasury resources to expedite antidumping investigations and accelerate remedial action. Present procedures take 13 months after a case is filed and to this must be added the time needed by petitioners to prepare their complaints. The trigger price is intended to compress this process substantially. First, steel prices will be constantly monitored abroad and at ports of entry. Second, data on the health of the U.S. industry and the effect of imports will be constantly collected. The trigger price mechanism is intended to provide the facts for the Secretary's self-initiation of investigations based on this data and to permit a rapid decision.

The trigger price would be based upon the costs of production of the most efficient steel producers, and would be revised quarterly. It would apply to carbon and alloy steel imports. Substantial sales under the trigger price would result in an expedited investigation and, if warranted, application of antidumping duties. The procedure, while more abbreviated, will not deny anyone concerned here or abroad the legal rights under our law to start cases or to object to Treasury actions taken -- or not taken. But we hope that when it is in place and operating, there will be no need for continuing most of the pending cases or filing new ones.

We think this would effectively deter dumping in the U.S. market. It would be fully consistent with U.S. law and U.S. international obligations. It should permit the domestic industry to recapture a substantial part of the market held by imports. It should also help to generate a substantial increase in U.S. steel production and in the steel labor force.

Improvements in Industry Cash Flow. The steel industry presently faces large investment requirements for stepped-up modernization and pollution abatement control. There is a clear gap in the available cash flow of the industry to meet these requirements. If steel industry earnings improve through such measures as the adoption of a trigger price system, some of this gap could be met through improved access of the industry to private capital markets. We are also considering additional government measures to help alleviate the cash flow gap and to assist financially depressed small steel firms.

Environmental Issues. The steel industry is a major polluter and faces substantial costs in meeting environmental regulations, especially as older facilities are brought into compliance. We clearly must not relax our present environmental goals. Yet we can reexamine current regulations to ensure that they are economically efficient and that they do not present unnecessary barriers to modernization. Our objective would be to look into alternative ways to achieve present environmental goals at lower cost.

Aid for Steel Communities. The recent massive layoffs of steelworkers have seriously affected some communities which are heavily dependent upon steel production and related industries. The cutbacks or closings cause both economic damage to the community and real social problems for those workers who have been laid off. To help meet these problems, special Federal aid for hard-hit communities could help to combat unemployment and provide alternative job opportunities.

The creation of an interagency task force to review potential alternative uses for abandoned steel facilities, to report their findings by June 30, 1978. Projects involving community or worker takeover of such abandoned steel facilities which are proven by hard-headed feasibility studies to be economically viable could be given serious consideration for funding assistance under current government programs.

Research and Development. Research and development is an important area which can help to promote a more efficient and productive U.S. steel industry. A review of the adequacy of current Federal R&D funding in the steel industry, especially funding of research on energy conservation and pollution abatement technology, could be helpful in determining what is need in this area.

The creation of a task force to review transportation systems serving the steel industry, and to propose regulatory or other reforms to improve efficiency and lower the cost of these transport systems is another measure which could be helpful.

The establishment of a tri-partite committee of industry, labor, and government representatives would help to ensure a continuing cooperative approach to the problems and progress of the steel industry. In particular, we hope that labor and industry will cooperate in seeking to increase their productivity, thereby reducing costs and helping to make the industry more competitive.

Conclusion

In summing up, a combination of some or all of these measures if adopted, could significantly reduce the serious problems of the U.S. steel industry. It would relieve the industry from the pressure of below-cost imports without removing the healthy price discipline provided by fair import competition. It would help restore jobs in an industry which has lost 60,000 jobs so far this year. It would raise industry earnings and increase capacity utilization from its current depressed level. An additional increase in the industry's cash flow position could result from proposed tax measures, and together with increased earnings, should enable the bulk of the industry to secure sufficient capital from private markets to undertake necessary investment for modernization, pollution control, and plant maintenance. The industry, in turn, should commit itself to stepping up modernization to help reduce production costs.

-- The interagency task force has coordinated closely with industry, labor, Congressional, and consumer representatives in conducting its review of steel problems.

We hope to offer a program which has the essential support of all these groups, as well as support in principle from our major foreign trading partners, the European Community and Japan. If successful, this program should provide a major infusion of new energy in helping to promote a healthy, competitive domestic steel industry.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

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REMARKS BY
THE HONORABLE ANTHONY M. SOLOMON
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
TO THE
COUNCIL OF AMERICAS
XIII ANNUAL MEMBERSHIP MEETING
HOTEL PIERRE
NEW YORK, NEW YORK
DECEMBER 5, 1977

I am pleased to participate in this thoughtful consideration of Latin America's role in the world economy and of our country's relations with our neighbors to the south. This is a good time to assess the significant changes his is a good time to assess the significant changes that are occurring. Our hemisphere has been challenged by a world-wide recession and by the energy crisis. Politically, the last few years have seen the emergence of a strong sense of individuality among the Latin nations and increasing reluctance to continue relationships not characterized by mutuality of interest and parity of dignity and respect. I believe our nations are adjusting to these challenges responsibly and effectively. this improving relationship will contribute significantly to economic growth in Latin America as well as to an enhanced political influence by this region on global issues.

Let us take a closer look at what has happened. Most remarkable, and heartening, has been the rapid economic growth rate in Latin America. Between 1965 and 1976 the gross domestic product of the region, excluding Venezuela, expanded at an average annual rate of 6.2 percent. This compares with an average growth rate of 5.7 percent for all non-OPEC developing countries and about 4 percent for the world as a whole. thus, Latin America has progressively increased its share of world output.

The sharp increase in the prices of petroleum products since 1973 and the ensuing world recession exerted a profound impact on the region. Even today, none of the countries has fully adjusted to that shock. The magnitude of this problem is illustrated by the fact that petroleum imports rose by 15 percent in volume between 1970 and 1975, while the value of such imports expanded by 460 percent from $1.4 billion to $8.1 billion. Combined with the rapid rise of public sector expenditures in many of the Latin nations, the rise in oil prices resulted in an acceleration of external borrowing and a concurrent growth in external indebtedness.

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Whereas the annual level of foreign borrowing averaged only $1.5 billion in 1965-69 period, it had risen to over $10 billion last year. In 1965, the public and publicly guaranteed debt of the region stood at $870 million. By the end of 1975 it had expanded to $41 billion, and more than half this increase came in the preceeding three years. Unguaranteed bank credits, also, have risen sharply from $2.5 billion twelve years ago to $25 billion at the end of 1975. Much of this private financing represents a recycling of OPEC surplus funds, through banks in the industrial countries. At the end of 1976, for example, U.S. banks held over $23 billion in claims on Mexico and Brazil alone.

We have an obvious strong interest in the economic well-being of the borrowing countries. While Latin American countries have borrowed unprecedented amounts in private capital markets, this rapid expansion of debt has been concentrated in relatively few countries. Mexico and Brazil together account for nearly two-thirds of the regional debt total, and the inclusion of Argentina, Chile, Colombia, and Peru would raise the fraction to nine-tenths.

This large increase in external indebtedness has given rise to considerable public concern and raised questions about the possibility of widespread defaults on bank loans. In our judgment, such fears have been exaggerated. Borrowing has been concentrated among a few, more advanced developing countries whose export performance, growth and creditworthiness had gained them access to private capital markets. The poorer countries have continued to rely on official sources of financing, often on concessional terms, so that bank exposure in these countries remains quite small. For the countries which have borrowed heavily, servicing their debts has not become a problem. Their exports have risen fast enough to keep their debt service ratios nearly stable over the past decade.

As long as the opec surplus continues, the oil importing countries collectively must continue to bear the corresponding deficit. And the international system will continue to face large financing needs. What these circumstances require is not for deficit countries to stop borrowing, but rather that they stabilize their economies and ensure that borrowed funds are invested productively to increase their ultimate debt service capacity, rather than to maintain consumption at artificially high levels. Domestic adjustment efforts will be required to bring borrowing needs down to levels compatible with sustainable capital flows and in the process, to strengthen creditworthiness in the eyes of private lenders. An expansion of exports will also be critical for countries with increased debt service requirements.

A particularly notable trend in Latin American trade patterns during recent years has been the decline in the relative importance of trade with the United States. Between 1960 and 1976 Latin America's share of total U.S. imports declined from 20 percent to 14 percent. Perhaps even more significantly, the United States share of total Latin American imports declined from 46 percent to 33 percent. Most of the latter change was due to increased European and Japanese penetration into the Latin markets.

During the first half of 1977, the United States has experienced a sharp turnaround in its trade account with Latin America and the caribbean. What was a $100 million surplus last year has turned into a $3 billion deficit this year, largely due to higher coffee prices, increased petroleum imports, and reduced U.S. exports to Brazil and Mexico. We expect this situation to improve somewhat as import demand picks up, particularly in the largest countries. However, we do think that the longer-term changes in trade shares I noted above are not likely to prove subject to rapid reversal.

Generally the countries of the region have recovered rapidly from the world recession, and many have made considerable progress in stabilizing their economies. As a group, the Latin countries weathered the oil crisis better than most of the industrialized countries, which experienced little or no real growth in 1974 and 1975. Mexico, Peru, Argentina, Uruguay, Panama, and Jamaica also have undertaken stabilization measures through agreements with the IMF. Brazilian retrenchment efforts are beginning to show concrete results even though the economy probably will grow at a substantial rate of about 6 percent this year.

The role of foreign investment has changed significantly in Latin America as you know. Here again, the U.S. stake is a large one. By the end of 1976 the book value of U.S. direct investment in the area totalled $23.5 billion -- more than 80 percent of all U.S. direct investments in developing countries and more than twice the amount of only a decade ago.

Throughout most of their history, to their credit, the countries of Latin America have welcomed foreign investment. Recently, however, their attitude has become more cautious and, frankly, rather ambivalent. In the early 1970's the countries of the andean common market had a very strict code governing foreign investment which appeared to be highly negative and defensive. Since then some countries have loosened their restrictions on profit remittances to allow annual repatriation of up to 20 percent of registered capital, and they have liberalized other investment requirements, as well. On the other hand, the trend in the two major recipients of foreign investment, Brazil and Mexico, seems to be the opposite direction. It is clear that all Ltin American countries are now more selective about the types of foreign investment they are encouraging or even allowing to enter their country.

Reflecting these basic economic trends, our policies toward Latin America are changing and are becoming more complex. Economic issues are becoming more pressing and problematic. It has become critical for the united states and other industrialized countries to assure sufficient capital flows to the region and to keep markets open for exports from the region. Resource increases for the international development institutions are crucial, as are the multilateral trade negotiations in geneva. The traditional donor-client relationship is giving way to healthier arrangements based on mutual benefit and cooperation.

This Administration is committed to policies that take into account each Latin nation's diversity and potential. Neither the former "special relationship," nor a single policy toward the diverse nations in Latin America makes sense. Our policies will be based on specific, mutual interests with particular countries, resulting in varying degrees of closeness in our relationships. Increasingly, our attention is focused on specific trade, commodity and investment issues.

Trade. The United States recognizes the priority the developing countries, including our neighbors in Latin America, place on access to our markets for their exports and our public and private capital flows. United States policy is to maintain access to our markets to the maximum extent possible. Despite protectionist pressures, the administration continues to reject comprehensive import controls in major industries of direct interest to Latin America, such as shoes and sugar. Similarly, the Administration faces additional pressure to restrain further imports in textiles and steel. The President rejected tightening of the multi-fiber agreement on textiles and the imposition of quantitative barriers on steel. Continued access to our markets by Latin America, in particular, weighed heavily in the President's decision on textiles.

The high tariffs, import quotas, and export subsidies, often of considerable magnitude, of certain Latin American nations make it more difficult to resist protectionist sentiments in the united states. At times they conflict with our own countervailing and anti-dumping statutes. We and our Latin trading partners must work together more closely on both a bilateral and multilateral basis to assure that the international trading system remains as open as possible.

Commodities. The United States and Latin American countries are both important consumers and producers of commodities traded on the world markets. Recently we worked together toward successful negotiation of the international sugar agreement. The United States is prepared to participate in negotiating other international agreements to stabilize prices when it is in our mutual interest to do so. There are other areas of mutual interest, such as energy, where we have a shared need for conservation, development of new sources and moderation in international oil pricing.

Capital. The United States is by far the world's largest lender in the international capital markets, while some Latin states, notably Brazil and Mexico, are among the largest borrowers in the world. The United States is also the single largest contributor to the international development institutions which play so very important a role in the development of Latin America.

Despite their success in attracting needed private foreign investment, Latin Americans feel a need to maintain controls over incoming investors, as do most countries which host multi-national enterprises. Yet foreign investors must be assured of fair and consistent treatment if they are to continue to operate. In contrast to the trade area, there are, as yet, hardly any international rules to protect the legitimate interests of all the concerned parties. To maintain the open international system, here again there may be room for cooperation looking toward the possibility for new international action in both the bilateral and multilateral channels.

Human Rights. There is no question that our human rights policy has caused some strains in our relationship with Latin America. Yet I believe it has produced positive results in a number of cases. The American commitment to foster human rights will not change. But as we gain experience, and if Congress permits us the necessary flexibility, we can be more effective in promoting human rights without a confrontational atmosphere.

Panama. Panama perhaps affords the best example of how the relationships of the past must give way to those of the future. One of the least advanced of the Latin American countries, Panama is striving to reach the breakthrough already achieved by Brazil, Mexico, and Venezuela. It still depends on exports of a small number of primary products and inflows of investment to provide needed foreign exchange. In the decade prior to 1974, Panama's GNP increased at an average annual rate of 7.3 percent. In 1974, however, economic growth abruptly slowed to 2.6 percent, and last year there was no growth at all. A major cause was uncertainty over the future of the canal, which was reflected in a marked decrease in private investment activity. Private investment increased only slightly in 1974 and 1975 and fell by 26 percent by 1976. In addition, the increase in the price of oil, the sharp decline in sugar prices, and the worldwide recession also contributed to panama's large current account deficits.

Our policies toward panama must be modified to bring them into line with prevailing political and economic realities. If we wish to encourage the development of a stronger economy and greater panamanian self-reliance, we must be prepared to take steps which will facilitate this process. The single most important factor in bringing renewed vigor to the panamanian economy will be settlement of the canal issue and the ensuing restoration of a favorable investment climate in Panama. We expect that, as a result, foreign and domestic private investment will rise appreciably, leading to higher employment, reduced pressure on the Panamanian Government budget, and improvement in Panama's external accounts.

What's in it for us? The new treaties governing the Panama Canal support U.S. objectives in several fundamental ways. First, these treaties protect and advance our national security interests. Second, they provide for an open, stable, and efficiently operated canal for this hemisphere and for other nations throughout the world. And third, they will promote positive and constructive relationships between the United States and other nations in this hemisphere.

The concept of partnership is central to the new kind of relationships we are seeking. Throughout the discussions of the past three years, our objective has been to shape a close and enduring partnership with Panama in maintaining an open and efficiently operated canal. The partnership envisioned in the new treaties has three aspects:

-- The United States and Panama will be partners in the operation of the canal through the end of this century. During this period, the United States will continue to exercise the responsibility for managing the canal enterprise, but it will be preparing the Panamanians to carry on our tradition of reliability after the year 2,000.

-- the United States and Panama will be partners in protecting the canal. We will have the primary responsibility for defense of the waterway for the duration of the Panama Canal treaty, but Panama will also contribute forces to canal defense.

-- Finally, the United States and Panama will share a long-term responsibility for maintaining the canal's neutrality. Our role in assuring neutrality will continue as long as the canal remains in operation -- even after management responsibility passes to Panama.

Today, more than six decades after its completion, the Panama Canal remains an engineering marvel, one of our greatest accomplishments in this century. The United States can also point with pride to the way we have operated the canal. For 62 years it has been run as a public service for the nations of the world, rather than as a business. Tolls have been set as low as compatible with meeting costs and providing a modest return, and world commerce has been a major beneficiary.

But while the canal has been a source of deep pride to the United States, it has been a troubling and festering presence in Panama. Under the treaty of 1903, the United States exercises jurisdiction over the canal zone courts. It has established the zone's schools, jails and police force. It has set up what the Panamanians regard as a colonial enclave, splitting their country in two and using 550 square miles of their territory. And the Panamanians resent especially that these U.S. actions were pursuant to a treaty that was not even signed by a Panamanian.

The new Panama Canal treaties must be evaluated in terms of this history. We must recognize also that this is an issue which goes beyond our bilateral relations with Panama to affect our relations with all of Latin America. In the eyes of our Latin American neighbors, the canal runs -- not through the center of Panama alone -- but through the center of the western hemisphere. All the countries of the hemisphere look upon our position in the canal zone as the last vestige of a colonial past which evokes bitter memories. Their attitude toward us will be importantly influenced by our resolution of the Panama Canal issue. By going forward with the new treaties, we will be improving our relations with virtually all of the countries of the hemisphere. We will be demonstrating our intention of building relationships on the new concept of partnership rather than the old notion of colonial power.

We must recognize, too, that our primary interest in the canal is to assure that it remains secure and open on a neutral, non-discriminatory basis. The greatest threat to the security of the canal would be to try to retain an outmoded treaty and its anachronistic provisions. In the past, these provisions have triggered hostility and violence, and they could so easily do so again in the future. Accordingly, the best way to preserve an open and secure canal is to substitute for the 1903 treaty a new arrangement which will be mutually fair, which will properly provide for Panama's just aspirations, and which will take into full account our own national interests.

Under the new treaties, the United States does not, under any circumstances, lose the right to assure that the canal remains open or to protect it in time of peril. The United States has committed itself to assure indefinitely that the canal shall remain secure and open to peaceful transit by the vessels of all nations in times of peace and in times of war. This applies not only up through the year 2,000, during which period the treaties remain in force, but after that time as well.

Panama will not receive a financial windfall from the United States under the terms of the treaties. During the negotiations, we strongly and successfully resisted inclusion of any new financial grants to Panama. The payments Panama receives will reflect more fairly the fact that it is making available its major national resource -- its territory. These payments will come entirely from canal revenues, and the amounts established are based on realistic projections of the canal's earning capacity. This arrangement gives panama a vital stake in assuring the canal's efficient operation.

It is in our interest that we have a strong partner in operating the canal. For this reason, we proposed and the Panamanians accepted a non-concessional assistance package outside of the treaties. These economic cooperation arrangements were formulated to help promote stable economic growth in Panama, which is the single most important way to assure the security and smooth operation of the canal. The arrangements include guarantees by OPIC of up to $20 million in borrowing in the U.S. capital market by the Panamanian development bank; $200 million in EXIM Bank loans, loan guarantees, and insurance for U.S. export sales over five-year period; housing investment guarantees of up to $75 million over a five-year period; and up to $50 million in guarantees under our foreign military sales program over a ten year period.

These particular arrangements were selected for the benefits that they are expected to bring to both the United States and Panama, as well as the reasonable level of risk they present and their compatibility with the financial assistance programs involved. All of these offers are subject to the normal requirements and procedures of the administering agencies. furthermore, the U.S. government has successfully undertaken programs of this kind with panama in the past.

I want to dispel any misunderstanding about the financing of the Panama Canal Commission, which would be an independent U.S. Government agency to operate the canal over the life of the treaty. An essential point in negotiating the treaty was that any new entity must be self-financing. We strongly believe that the commission must not be financed by the American taxpayer. The Administration will make every effort to see that the costs of the canal operation are contained and that revenues are sufficient to cover liabilities. Any borrowings by the commission should be used strictly to support its operations, and the interest rate charged on such loans should be determined by market forces. Furthermore, all loans must be fully repaid prior to the expiration date of the treaties.

I believe that the Panama Canal treaties deserve our support because they are in our interest as well as in the interest of Panama. For the people and Government of Panama, there is the knowledge that eventually they will assume full jurisdiction over their territory. There are significant revenues to be gained from efficient canal operations, and there are substantial economic benefits to be derived from the guarantees, loans and credits we have made available on their behalf.

For the United States, there is the assurance that the canal will be open, neutral, secure and operated efficiently, for our benefit and that of other nations aroung the world. These objectives will be accomplished without appropriating any of the american taxpayer's money, and we stand to gain respect throughout Latin America and the rest of the world for addressing this complex issue constructively and equitably.

Ratification of the treaties must be perceived as being positive and constructive, rather than as a concession on our part. It must be viewed as a realistic and desirable accommodation to the increasingly interdependent world in which we live. It should be taken as a sign of success in our efforts to promote the economic growth and maturity of the developing countries. It should be welcomed as a movement away from a one-way dependence to a partnership of rights and responsibilities.

The task of conveying this message does not promise to be an easy one. While the position of developing countries in the global economy has changed radically, and our own relations with them have been transformed commensurately, public perceptions and attitudes have lagged behind. The support of groups like yours in the weeks and months ahead will be invaluable. We will need your assistance in explaining the rationale behind the treaty's provisions, in clearing up any misunderstandings, and in creating greater public understanding of the far-reaching implications of the treaties for harmonious and constructive relationships with our Latin American neighbors.

Through financial links, direct investments, and trading ties, the economic well being of the United States is inextricably involved with developments in Latin America. We have vital and expanding interests there which encompass the full spectrum of our affairs: economic, political, national security, and humanitarian. Timely and appropriate policies to advance our interests in Latin America are fundamental for our own economic well being and the achievement of our broad foreign policy objectives. Our efforts to achieve progress in the North/South Dialogue depend on harmonious and cooperative political relationships with these countries. Achievement of the goal of a stable and peaceful world order also hinges critically on the character and quality of our relations with our Latin American neighbors, as well as with other developing countries. The trend for the future is clear: more interdependence, not less. Surely it is in our own self-interest to encourage the trend toward increasing self-reliance and economic maturity on the part of our friends in Latin America.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE December 5, 1977

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,203 million of 13-week Treasury bills and for $3,402 million of 26-week Treasury bills, both series to be issued on December 8, 1977, were accepted at the Federal Reserve Banks and Treasury today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing March 9, 1978			26-week bills maturing June 8, 1978		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.475 a/	6.033%	6.21%	96.797	6.336%	6.64%
Low	98.470	6.053%	6.23%	96.786	6.357%	6.66%
Average	98.471	6.049%	6.23%	96.791	6.347%	6.65%

a/ Excepting 1 tender of $300,000

Tenders at the low price for the 13-week bills were allotted 31%.
Tenders at the low price for the 26-week bills were allotted 13%.

TOTAL TENDERS RECEIVED AND ACCEPTED
BY FEDERAL RESERVE DISTRICTS AND TREASURY:

Location	Received	Accepted	Received	Accepted
Boston	$ 29,920,000	$ 20,780,000	$ 19,670,000	$ 4,670,000
New York	3,439,855,000	1,700,755,000	5,914,770,000	3,002,815,000
Philadelphia	27,205,000	26,515,000	27,515,000	7,015,000
Cleveland	59,175,000	32,175,000	47,005,000	16,655,000
Richmond	31,365,000	16,160,000	33,640,000	19,640,000
Atlanta	32,245,000	26,350,000	24,405,000	15,045,000
Chicago	238,200,000	89,225,000	312,515,000	130,515,000
St. Louis	45,155,000	22,955,000	42,530,000	13,140,000
Minneapolis	25,450,000	12,380,000	31,295,000	14,295,000
Kansas City	23,780,000	18,530,000	17,720,000	16,720,000
Dallas	32,895,000	23,065,000	6,895,000	6,895,000
San Francisco	443,520,000	208,875,000	641,440,000	151,090,000
Treasury	4,795,000	4,795,000	3,255,000	3,255,000
TOTALS	$4,433,560,000	$2,202,560,000 b/	$7,122,655,000	$3,401,750,000 c/

b/ Includes $334,595,000 noncompetitive tenders from the public.
c/ Includes $160,650,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

REMARKS BY
THE HONORABLE W. MICHAEL BLUMENTHAL
SECRETARY OF THE TREASURY
BEFORE THE
SOUTHERN METHODIST UNIVERSITY SCHOOL OF BUSINESS ADMINISTRATION
DALLAS, TEXAS
NOVEMBER 16, 1977

Just a couple of days ago, I stopped in New York to try on some suits at my tailor, where I have been buying suits for a long time. I noticed that the boss kept poking his head into the try-on room, and he finally came in and I shook hands with him and asked how business was.

He said business was great, Mr. Blumenthal, we are going to have a record year this year. In fact, we are expanding the store. Then I asked him how he felt about 1978, and he said they were really gung-ho and they were going to have another good year. With the expansion underway, they were going to do very well. I smiled at him, there was a moment of silence, and he said, "But the country is in a real mess, isn't it?

I think that is probably the experience which many of us in Washington at the present time, particularly those working on the economy, have been noting. We have had a pretty good situation this year. The country has been growing, inflation has been slowing down, unemployment has been slowly coming down. But there has been a lack of confidence. People feel insecure about the future.

Many of my colleagues in Washington ask me why that is and what we can do about it. What is the reason for it? I have expressed by view on that. I think that the reason is partly due to what happened in the early 1970's when we had a very severe recession, almost a depression. We had double-digit inflation in this country and we had rapid changes in signals, as far as the economy and economic policy was concerned. It left people a little uncertain about the future.

Then, when they ask me what do they do to build confidence so that business will invest in the future and make long-term commitments in plant and equipment, I generally say to them that's easy, if we follow the right policy. It is not just what kind of image we present, it is what we really do. And if we do the right thing, I have no doubt that business confidence will translate into expenditures for plant and equipment of increases in productivity to keep up with the growing demand of the American people. The stock market will turn around and move on up and signal that the level of confidence is rising.

So, it seems to me the question then is what the right policies are. Having developed them, we must then explain them clearly. It is my hope and expectation that President Carter, as he presents his economic program to the Congress, his budget message, his State of the Union message, and the economic report, will indeed do just that.

He will lay out coherent and comprehensive programs to describe what he has in mind. Let me, just to get the questions and the discussion started, suggest to you what I think needs to be done.

I think in 1978 we should seek an emphasis on the economy, so that we can continue to bring inflation down, so that we can reduce unemployment, which is still up too high -- particularly in some of the cities of our country and particularly for minorities and for young people -- so that we can continue to have growth in the Gross National Product at a level which allows us to do that.

Secondly, I think we should not try to solve all our problems at the same time. We should pick a few of the critical areas that need working on and do those well in a way that is easy to understand, with clear goals around which all of us -- the Congress, the Executive Branch, labor, industry, the average person -- can rally, and give maximum support.

Third, I don't think that the Government should try to tinker or fine-tune the economy. But rather we should rely on the market place, free enterprise, on individual businesses within that free enterprise system to respond to the reality of economic conditions, and in that way -- free to the maximum possible degree of Government interference -- to work within our system and to create the private jobs that we will need to provide employment for everyone and keep inflation down. So the third basic principle is a reliance on the market.

Fourth, it seems to me that we should recognize that one of the fundamental issues that we must face is the issue of profitability. Nothing will create confidence more in this country among businesses, large and small, in the east, central part of our country, or the west, in the north or in the south, nothing will create confidence better and more quickly than to reestablish profitable business -- not inflation profits but real profits.

Nothing will create the growth in investment, of business investment, more quickly than profitability -- for real investment will follow real profits.

We need to accelerate the gains in productivity in this country. About 10 or 15 years ago, the average rate of productivity growth in real terms was three percent or more. In the last five years or so it has been less than two percent. You can't have an expanding economy and a growing standard of living and create the additional jobs in private industry that are required unless we can accelerate the growth of productivity once again.

It seems to me, therefore, that the tax program, which the President has said he will send to the Congress within a very few weeks, provides an excellent opportunity to accomplish some of these goals.

There are important reforms that are necessary. It is important to make the tax system as simple and as easy to understand for the average person as possible. I don't believe that we need a system where even the average taxpayer can't fill out his own income tax form anymore, so that he has to rely on an accountant, a lawyer, or H. R. Block or similar firms to fill out the forms. The tax system ought to be simple enough so that most of us can do that on our own.

It ought to be fair enough so that most of us can have a sense of security that what we are paying is about the same as what anyone else is paying who has a similar level of income and that different forms of income are taxed, more or less, in an equitable manner.

So there are important reforms for equity and for simplicity and for fairness that need doing. Above all, we need a tax program that emphasizes profitability, that emphasizes investment, that emphasizes productivity. And, of course, we needs a program which compensates for the inflation that we still have to work on for quite a few years to bring this under complete control and that automatically pushes all of us into higher tax brackets.

The 1978 emphasis on economic policy clearly has to revolve around a tax program which can be passed by the Congress in 1978, which is simple enough and clear enough so that it is manageable within a relatively short period of time and which combines reductions with some of those reforms that I have indicated.

I think it is terribly important for our country and for our system that we keep the tax bite under control; that we don't let it exceed the traditional level of the last few years. It is creeping up, and that is something we need worry about. We must keep the income tax between 10 to 12 percent, on the average, of the typical taxpayer's income. It is over 13 percent now and it has got to come back down.

It seems to me, then, that the tax program is clearly a key to accomplishing some of the things that I have mentioned.

A fifth step that we can take to provide the confidence and security we need to move forward is to recognize that when we work on matters of national economics, we must do so responsibly within the context of our role and position as a leader in the world economy.

It is self-evident today that our world is shrinking. All of us must remember that reality as we frame our national policy. And, we in this country, particularly, must remember that this is the largest, most productive, and the most dynamic economy in the world. We must remember that we have, whether we like it or not, a position of leadership in the world, that other countries look to us, and that their well-being enhances the chances for a lasting and continuing peace in the world. The chances for President Carter to accomplish some of the broad foreign policy objectives, which he has set for himself as a world leader, can best be accomplished within a climate of international economic cooperation.

That means keeping the dollar strong, which again is related to the basic health of our economy. It means implementing an energy program which will lead us to become, as quickly as possible, less dependent on overseas sources of energy, more reliant on our own, less wasteful in our consumption of energy, and more sure of our future reserves and resources in the energy area.

It means that we must help businessmen to export, using all legitimate, internationally-sanctioned means to do so. The government must not put impediments in the way of businessmen who want to get into the export business. Instead, it should provide assistance through expansion of the operations of the Export-Import Bank, through promoting as vigorously as possible our agricultural sales, which are a key element of our balance of payments, and through similar measures.

Finally, it means that we must concentrate more vigorously than ever before on dealing with the problem of inflation. We could be satisfied that we prevented a recurrence of the very high levels of inflation that seemed to threaten us in the early months of this year as a result of the very cold weather and the consequent rise in food and energy prices.

We are back down to "only" six or six and one-half percent inflation now. I say only in quotation marks because clearly that is much too high and that does undermine the general economic health of our country.

There is no one culprit, when it comes to inflation. There is no single cause of inflation. It is popular to point the finger at somebody else and say if only that particular part of our economy would behave better, there would be no inflation.

I wish it were that simple. I have learned in the last ten months that nothing is more complex, more complicated, more difficult to deal with than really bringing inflation down to the very much lower levels that we should have again in this country.

I have spent more time thinking about this problem and trying to figure ways to deal with it than almost any other issue since I have come to Washington.

Business has to play a part with investment, productivity, with more production, with responsible price action, and by remembering the way in which we have built this country, which is to think of volume as a way of building your market and your profits.

Labor has to play its part and not use irresponsible action and monoply powers to drive wages up beyond the level that can be sustained by the real growth that is being created.

And very importantly, the government, both the Executive and the Legislative Branches, must play its part. I am now, after ten months in my job, in a position to draw a long list of things that government does, both in the Executive Branch and in the Congress, that are highly inflationary -- of rules, regulations, paperwork, of bureaucracy, of inflation-causing laws which irresistibly drive the level of prices higher.

I hope that next year, as we pursue a simpler and clearer program for the economy, the fight against inflation can be fought vigorously on all of those fronts. I think the chances are very good that it will be.

And if we do, then I have no doubt, as I said at the outset, and as I've been saying to my colleagues in Washington, that confidence will take care of itself, that the stockmarket will take care of itself, and that growth and investment and a generally rising standard of living will ensue.

We do have within this country all of the resources, all of the managerial know-how, all of the prerequisites to continue to make it happen. And it does take, from time to time -- when you get too frustrated and too annoyed with things that are not going right -- getting out of town, but and even taking a trip out of the country, as I did a couple of weeks ago when I made by first extended trip abroad to the Middle East and to Europe. Because when you do, when you do visit these other countries, at various stages of economic development, some very rich, some not so rich, some struggling, you realize how much we have going for us. You realize how much we are still a model and the envy of the world, how they look to us and to the free enterprise system that we enjoy in this country, as a bulwark against increasing bureaucratization of their economy. You realize how much they depend on us to show the way.

I have every confidence that President Carter and the Carter Administration will be successful in providing the leadership to make the way. Thank you very much.

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MODERATOR: If we were to take the time to answer all of the questions that this audience has asked, we would be here for a very long time indeed. But we have tried to go through and get as many as we can. Let's have a start and see how far we can go.

The first: Mr. Secretary, the President identified three objectives: a balanced budget by 1980, inflation down to four percent, and unemployment down to about four percent.

What in your opinion are the prospects for achieving these sometimes contradictory goals?

SECRETARY BLUMENTHAL: Well, you make it a little tougher even, than he made it. He said a balance budget by 1981, you just shaved another year off it. I think it's frankly going to be difficult to achieve all of these goals completely, which is not to say that they are not very significant goals. A great deal of progress can be made toward their realization.

And I don't really think that it matters all that much whether a particular goal is or is not fully achieved by a deadline. I do believe that a consistent set of policies which emphasizes job creation in the private sector through the re-establishment of profitability at proper levels and therefore fosters more investment and more productivity, is an indispensable prerequisite for the achievement of any of these goals.

I think if we can do that, and I think we can, then the level of unemployment can come down substantially, and it can come down substantially in a non-inflationary environment, and that will give us a lot of the revenues that we need to bring the budget closer to balance.

Whether we can balance it completely or not doesn't really matter in an economy with the size of $1.7 billion -- I guess I have all the number in there -- of GNP. So a few billion either way won't matter, but we'll come close. It sounds funny doesn't it? That's really the secret between working for a small company and working for the government, just add another zero. So, we can come close. We may not be able to achieve all of them, but the prerequisites, I think we will.

MODERATOR: Mr. Secretary, you may not be entirely surprised to know that some have questions regarding Dr. Arthur Burns. I've tried to compress the questions and they're really in two parts. Who will replace him? When will it be decided? And do you think the current dialogue in the press about this matter may be damaging confidence in the dollar abroad?

SECRETARY BLUMENTHAL: The answers to these three questions are I don't know, soon, and I hope not.

QUESTION: Will the foreign trade deficit reach $30 billion this year, and what is your own outlook on the size of the foreign trade deficit in 1978?

SECRETARY BLUMENTHAL: The trade deficit for this year will be in the area of $30 billion. That's because we have a $15 billion surplus on trade accounts without counting energy, and we have a $45 billion oil bill, so that puts us in the hole by $30 billion.

I don't believe that next year the picture will be substantially different. It depends on a number of variables, one of which is the volume of our agricultural exports. In recent weeks there has been increasing evidence that these will be rising again. They didn't rise this year because of a good harvest. It now appears that next year they'll be up again. That will be helpful.

Also, the economies of some of the major countries to whom we sell products are recovering a little better. That, too, will help us. But also we'll have some negatives, and when you add it all together, the number, unfortunately, next year will not be substantially different.

MODERATOR: The press has reported that your tax proposals for 1978 will not deal with double taxation of corporate dividends. If that's true, would you like to comment why?

SECRETARY BLUMENTHAL: I don't know what the President's tax program, the message that he will send to the Congress with his suggested legislation, will contain. That decision has not finally been made by the President.

As I indicated in my opening remarks, I think it is important that what is recommended in the way of tax legislation can be passed within one year, so that it has a beneficial effect on the economy and is clearly understood by all Americans.

Next year, being an election year, and knowing, therefore, that the Congress is unlikely to want to stick around Washington until Christmas, we have to recognize that there will be only so much legislative time available. I hope that reform and reduction can and will be combined in some way. But whether the legislation can contain all of the ideas that come into play when you think of reform, including the double taxation of dividends, I really don't know.

I am sure that the major element of the tax message will be tax relief for business and for individuals.

MODERATOR: There is another kind of question about Dr. Arthur Burns and the Federal Reserve that was not incorporated in the other questions that I asked a moment ago, Mr. Secretary. This one relates to this: What, in your opinion, are some of the more important criteria for the selection of whomever may be the new Federal Reserve Board chairman?

SECRETARY BLUMENTHAL: Well, I must be very careful, because if I answer that question, I will be accused of implying that there is going to be a new chairman, and I really don't know.

I think Dr. Burns represents a pretty good model of the kind of qualities that a Federal Reserve chairman ought to have. He has to be a man who, like Dr. Burns, has deep knowledge about the economy, someone who understands the banking system, someone who understands the interrelationship between the nation's banking system and the rest of the business system, and who understands Washington and the political process in which many of the decisions are made.

And also it should be someone independent, with strength of character, who is willing to call the shots as he or she sees them, and who has the courage to do so even when the going gets rough.

I think Dr. Burns is doing that in admirable fashion, and will continue to do so if he stays in that job. And I think if he doesn't, the right kind of successor would be someone who would have those same qualities.

MODERATOR: How much in jeopardy, in your opinion, are the loans to some of the lesser developing countries made by the United States banks? Is this an area of concern to you?

SECRETARY BLUMENTHAL: Well, obviously we in the Treasury plus our colleagues in the Federal Reserve, are always watching what is happening to the loan portfolios of the major banks of this country -- both their domestic as well as their international loans.

I think at the moment there is not any great risk in this area. Indeed, if you look at the results of the last few years, you'll find that there's been a lot more defaulting in certain domestic areas than there has been on the international side. I can really only think of one country in the recent past, in the last two or three years, where there's been a real problem.

Yet, I know that there are quite a few areas of domestic lending that have had some difficulties, for example in the loans in the last few years to the real estate investment trusts, and certain other areas.

So international loans on the part of the Eurobanking system really are in pretty good shape. And that environment will remain solid as long as we in the government work closely in coordination with other countries to help provide the kind of environment and discipline through the international financial institutions, through the IMF, to help the stabilization programs of countries that find themselves in temporary difficulty, or who have lived a little bit beyond their means. Then I think the private sector, the banks in this country and elsewhere, will continue to do their job, providing, in fact, 80 percent of the capital required in international finance and commerce.

That doesn't mean that it's not possible at times for an individual bank that has been a little bit imprudent, or perhaps a little greedy, to get into difficulty. That will always happen, regardless of how closely we're watching it. But I think basically there isn't much risk, and if we all watch it, international loans should continue to be quite solid.

QUESTION: How strong, Mr. Secretary, is the possibility of wage and price control if inflation and unemployment should not moderate?

SECRETARY BLUMENTHAL: I don't know of anyone in any position of authority within the current Administration who is advocating controls for wages and prices in any form whatsoever. I can assure you that I personally would be unalterably opposed to that approach, under all circumstance except war or extreme national emergency.

And I have that view based on my own experience in business for the very simple and pragmatic reason that I have found that they just don't work. We've got to be sure not to have a high level of inflation again. There are many things that we could do, but controls would simply make matters worse.

We had that experience the last time. Controls do not secure anything, and I just don't consider that a realistic possibility at all.

MODERATOR: Judging from the non-success, relatively, thus far of the President's energy program, how might that impact the tax proposals that you will put forth in the near future?

SECRETARY BLUMENTHAL: Well, I don't know how to answer the question, since I don't fully subscribe to the premise. I would think that we would first want to await the outcome of the discussions now going on in the conference committee between the House and the Senate concerning the energy program, to see whether or not the President's proposals are going to be accepted completely, partially or not at all, and, therefore, whether or not the program and its goals are likely to be very successful, relatively successful, or not successful. When we know that, and when we know what tax implications arise from that program -- when we know that, which we will in the next few weeks, then we obviously can take that into account in the tax program that goes forward next year. We must also take into account the changes that are likely to be voted on Social Security taxes. Clearly, we have to work up to the situation where the tax program next year leads to a net reduction in taxes -- and not an increase.

MODERATOR: Do you feel that the increasing demands of labor are responsible for the decreased levels of productivity which you spoke about in your remarks, and if not, to what would you attribute such a continuing decline in productivity?

SECRETARY BLUMENTHAL: Certainly sometimes labor is to blame. I think, as I said, sometimes the government is to blame and sometimes certain industries are to blame.

I don't think that there is any sector that deserves all the blame. The decreasing level of productivity in this country has been due to lack of investment, lack of research and development at the levels which we require. And that's been due to the declining level of profitability, and to the lack of general business confidence coming out of the shocks of the early 1970's.

You can't expect labor unions not to go for all they can get in a situation of uncertainty where the argument, "let's get it this year, we don't know what it's going to be like next year," has a very powerful appeal.

And you can't expect business not to make decisions that may not be wise in that regard.

So I think that we can do something about profitability, get investment up, and get productivity up, and that, more than anything else, will lead to more sensible decision-making.

MODERATOR: Two more question in conclusion, Mr. Secretary. We've had quite a number about Social Security, this one is perhaps representative of several questions. How do you foresee the impact of the tremendous increase in Social Security withheld, and how might that affect employers and employees?

SECRETARY BLUMENTHAL: Well, I think we have to recognize that we have a problem on our hands with the Social Security trust fund, and that what is required is not hand wringing but sensible analysis of the problem, and some decision.

And you must also realize that whatever decision we make, it's going to cost money because over the last few years, as a result of the high level of unemployment, the high level of inflation, some mistakes that were made by the government in the past, the Social Security trust funds are in trouble. If we don't correct that situation, there isn't going to be enough money for people who've worked all their lives are who are dependent on Social Security and who expect to get their payments.

We lost over $40 billion as a result of the bad economic times over the last few years. That's a fact. This money is needed and it has to come from somewhere. And it can only come from four sources. Either it comes from more taxes on employers, or more taxes on employees, or from the general income tax, or heaven forbid, from just printing money. That fourth possibility I don't even want to consider.

We can correct the overcompensation for inflation which has boosted benefits beyond what was intended and what is reasonable. And that is in many cases being done. But beyond that somebody's got to pay and the only sensible thing to do is to distribute the burden, and to take it into account when you're talking about income tax changes.

And that's what the discussion and argument in Washington is about. But I have bad news for you. Regardless of what they decide, it's not going to be a simple or easy solution, and it's going to mean that we're all going to have to pay more to maintain our Social Security system, hopefully with levels of benefits that are more realistic than what have been built in the past.

MODERATOR: A final question, Mr. Secretary. There are several in the audience, and I had one variety or another of this question relating principally to your personal sense of priorities and strategies, and this last question perhaps reflects several. What is your personal strategy and set of priorities to try to have maximum impact on President Carter's economic decisions?

SECRETARY BLUMENTHAL: Well, you can't be the Secretary of the Treasury and have the responsibilities which that office provides, without having close association with the President.

The Secretary of the Treasury is the nation's chief financial officer. He collects the taxes, has a major impact on the budget, and is intimately involved with all of the elements of economic policy, chairs the Economic Policy Group to which all major decisions that are initiated flow. So just being there doing my job, doing it reasonably intelligently, obviously means that I'm intimately involved, that I will continue to be. I think my own set of priorities is to make sure that all of my colleagues understand that it is the private sector that we must rely on to accomplish the goals that we all share within the Carter Administration of providing jobs for all Americans, doing so in a non-inflationary environment, and assuring continued growth. I mean to emphasize the reliance on the private sector, reliance on the market mechanism, and really working actively to keep the government out of the complexities of the economy, out of creating more confusion than already exists, really trying to simplify -- hard as that is -- the process of government. And I want to use the tax system, over which I have direct responsibility to help in that effort.

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TREASURY ANNOUNCES MODIFICATION OF EFFECTIVE DATE OF REGULATIONS ON REFUNDING OF INDUSTRIAL DEVELOPMENT BONDS

The Department of the Treasury announced today that proposed amendments to the Treasury Regulations governing refundings of industrial development bonds will not apply to obligations issued on or before December 15, 1977, to refund certain housing bonds for low- and moderate-income housing programs.

A previous announcement had set an effective date of December 1, 1977, for proposed amendments to the Treasury Regulations governing these obligations.

The obligations affected by this announcement are those issued to refund industrial development bonds substantially all of the proceeds of which were used to provide residential real property for family units within the meaning of section 103(b)(4)(A) of the Internal Revenue Code.

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TRANSMISSION EMBARGOED UNTIL END OF SOLOMON BRIEFING AT THE WHITE HOUSE EXPECTED BETWEEN 1 PM AND 2 PM E.S.T. December 6, 1977

PRESIDENT CARTER RELEASES STEEL REPORT

The President today released a 35-page report on the steel industry from the Interagency Task Force, headed by Under Secretary of the Treasury Anthony M. Solomon.

The report recommended a "trigger price system" to initiate immediate investigations of possible steel dumping with an expected resolution in 60 to 90 days. The present procedure normally requires more than a year.

The Solomon Task Force also suggested:

* measures to encourage modernization of the steel industry;

* help for workers, firms and communities in adjusting to necessary changes in the steel industry;

* rationalizing environmental regulations applying to the steel industry, without any relaxation of basic environmental goals;

* speeding up the Justice Department's anti-trust evaluations of possible steel industry mergers and joint ventures, including those for research and development to improve production technology, with recognition that effects on competition have to be decided case-by-case;

* consideration of possible reforms to improve efficiency and lower costs in the transportation systems serving the steel industry;

* examination of the adequacy of Federal research and development funding in the steel industry, and

* establishment of a committee of industry, labor and government representatives to work cooperatively on the problems of the industry without interfering in collective bargaining.

The Task Force report, which also includes analysis of the nature and causes of the industry's problems, was forwarded to the President by the Economic Policy Group Steering Committee, chaired by Secretary of the Treasury W. Michael Blumenthal.

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Secretary Blumenthal said: "These recommendations can play a vital role in restoring a healthy, efficient and competitive American steel industry.

"Our aim is to maintain competition without unfair trade, to modernize our facilities and increase our productivity.

"The program recommended by the Task Force can be carried out with a minimal impact on inflation and only a small effect on the Federal budget. It maintains our commitment to environmental quality. The program does not compromise our commitment to enforcement of the antitrust laws. It seeks to avoid direct government involvement in the steel industry while facilitating an environment in which the American steel industry, primarily through the efforts of its workers and firms, can gain strength and prosper."

Trigger Price System

The "trigger price" system would facilitate enforcement of the exisiting U.S. Antidumping Act.

"Trigger" prices for product groups of all carbon and alloy steel imports would be based on estimates from the best available evidence of full production costs of the most efficient steel producing industry (currently Japan). The "trigger" prices would be revised quarterly and would include transportation and insurance costs from Japan to each major importing region for each product group.

The U.S. Customs Service monitoring system would immediately alert the Treasury when steel was imported from any source below the "trigger" price. The Customs Service would also collect, on a continuous basis, information concerning steel prices, costs of producing steel and the condition of the domestic industry. With this information, the Treasury could, if warranted, promptly initiate a "fast track" investigation of suspected dumping. In contrast, under current policy, Treasury investigates dumping only when it receives a petition, which requires lengthy preparation, from an affected industry. The investigation then normally requires 13 months.

Under Secretary Solomon stated that "Use of the fast track 'trigger price' mechanism should operate to prevent dumping and thereby allow the U.S. industry to recapture the sales lost to imports priced below fair value."

The "trigger price" system would not prevent any person, domestic or foreign, from exercising its rights under the law to file petitions or contest any decision of the Treasury Department under the law. Nor is it to be regarded as a "minimum price"-setting mechanism. Its sole function is to permit constant review of prices, and, if appropriate, expedited anti-dumping actions. Implementation of the "trigger price" mechanism should result in a substantial elimination of the injury the industry industry claims it is suffering due to imports at less than "fair value." This should, in turn, eliminate the need for the domestic steel companies to maintain pending or to file future dumping complaints, the report states.

The Task Force anticipates that as the world economy expands, current excess steel production capacity will be eliminated and steel pricing practices in world markets will return to more normal patterns. Accordingly, the trigger pricing system will be subject to periodic review and will be ended when conditions warrant.

Modernization

The Task Force report recognizes that some U.S. steel plants or parts of plants are older and less efficient and that declining industry profitability as well as heavy expenses for pollution control impede the ability of the industry to modernize as fast as needed.

The reduction of unfair import competition through the trigger price system and measures which are expected to be included in the Administration's forthcoming general tax package should increase domestic steel production and industry earnings and increase cash flow and investment.

In addition, the Task Force recommends that the Treasury Department investigate the feasibility of reducing the guideline life depreciation of new steel industry machinery and equipment from 18 to 15 years. The steel industry intends to commit any increased cash flow to stepped up modernization efforts which will result in earlier replacement of older machinery and equipment.

The Task Force also recommends that additional funds be made available for industrial loan guarantees through the Commerce Department's Economic Development Administration to those steel firms (1) with serious financial problems and little or no access to capital markets; (2) that are located in areas of high and rising unemployment or threatened layoffs; and (3) that can develop viable plans for modernization, which will be analyzed case-by-case.

Community and Labor Assistance

The Task Force recommends that up to $20 million of the remaining FY 1978 appropriations for the EDA's Title IX authority be made available for worthwhile proposals from communities with actual or threatened unemployment due to cutbacks in steel production. Title IX funds can be used for a wide variety of purposes to aid individuals and businesses and to provide public services.

Also recommended is a Federal review and evaluation of alternative uses for abandoned steel facilities and consideration by EDA and others of funding requests for projects involving community or worker takeovers of those facilities that are shown to be economically viable by hard-headed feasibility studies.

The Task Force also urges that the content of the new trade adjustment assistance program be determined before Congress convenes in January 1978.

Environmental Regulation

The Task Force reports that the Administrator of the Environmental Protection Agency will provide new opportunties for dialogues with the public, including the steel industry, and will coordinate future air and water pollution standard-setting and enforcement for the steel industry to ensure the compatability of those efforts. Further, EPA and the Occupational Safety and Health Administration will coordinate their regulatory activities to ensure compatibility. EPA will re-examine the regulatory processes and standards with a view to reducing rigidities and unnecessary barriers to modernization.

* * *

Under Secretary Solomon said that the interagency Task Force "has consulted with industry, labor, Congressional, importer and consumer representatives as well as with our foreign trading partners, the European Community and Japan The program would not require specific legislation prior to implementation."

The Task Force stated that it expects that the industry and labor will take advantage of the opportunity provided by this program to improve efficiency, reduce costs from what they otherwise would be and expand the utilization of productive capacity,thus restoring the steel industry to sound health.

NOTICE

Transmission of all material in this document embargoed until after Treasury Under Secretary Anthony Solomon briefs at the White House which is expected to begin at 1:00 p.m., E.S.T., Tuesday, December 6, 1977.

REPORT TO THE PRESIDENT

A COMPREHENSIVE PROGRAM FOR THE STEEL INDUSTRY

Anthony M. Solomon
Chairman, Task Force

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Introduction

The United States steel industry faces a number of serious problems:

- -- its competitive position has eroded over time, and its traditional market is being encroached upon by substitute materials and by imports of steel;
- -- its competition from imports, often at dramatically reduced prices, has increased as the world steel industry has stagnated;
- -- its earnings have dropped sharply and are considerably below historic levels;
- -- it must invest heavily to modernize and increase efficiency in order to remain competitive;
- -- it must make substantial expenditures to meet environmental regulations; but
- -- it has had difficulty in raising the necessary capital for these expenditures under present market conditions.

The industry's financial condition, together with the other factors enumerated above, have led to several plant closings or cutbacks during 1977. One medium-sized producer is in bankruptcy, and several other firms are in financial difficulties. Unemployment among steel workers is high and is expected to continue to rise. Several communities -- such as Youngstown (Ohio) and Johnstown (Pennsylvania) -- which to a large extent depend on the steel industry for their economic livelihood,are suffering severe adverse consequences.

The steel industry's problems are not new; they have been developing since the 1950s. Its current difficulties are especially severe because of the deep recession in world steel markets. Steel demand is highly cyclical and dependent on the general trend of the economy. Under current conditions of slow growth and slack aggregate demand in most industrial countries, considerable global excess capacity for steel making has developed. Many exporters have reacted to these market conditions by sharply reducing their prices on steel mill products. Since the U.S. is the largest market open to steel imports, competition from foreign sources is intense and adds to the domestic industry's problems.

Currently, the market for steel products reflects a considerable recovery from the depressed conditions of 1975. Total consumption of steel mill products may reach 108 to 110 million tons in 1977, a level exceeded only twice before -- in 1973 and 1974. Nevertheless, many individual markets, especially those fueled by the demand for capital goods, remain depressed.

Much of the expansion of demand, however, has been satisfied by a rise in imports. The share of the market supplied by foreign producers is currently running at 20 percent compared to an average of 13 percent from 1973 through 1976. As a result, U.S. producers' domestic shipments in 1977 will expand by no more than four percent, to 92 or 93 million tons, compared to an overall growth in the market of eight percent. The industry's utilization of capacity will average only 80 percent for the year.

I. Reasons for the Administration's Program

A variety of factors have contributed to the current crisis in the steel industry. Perhaps none of these problems by itself would call for a special government program, but, when taken together, they provide a persuasive case for action:

- The industry is one of the Nation's largest and is critical to its economy and security;

- The present difficulties have created disruptive effects upon communities affected by employment cutbacks and plant closings;

- A large reduction in U.S. capacity in this basic industry threatens future problems for the economy;

-- A worldwide glut of steel capacity continues to exist;

-- An unprecedented number of antidumping complaints relating to steel threatens international trade relations with, and the economic policies of, the principal trading partners of the United States;

-- Steel plants concentrated in several Eastern regions face severe competitive problems;

-- U.S. policies relating to environmental controls and energy impose particularly burdensome obligations on the steel industry, which already faces needs for continuing modernization and capital replacement.

1. Steel is a major industry. With annual sales approaching $40 billion, the steel industry is surpassed in size only by the automobile and petroleum industries. Therefore, major dislocations of the industry are bound to have important adverse repercussions on capital markets, the firms which supply the industry with equipment and raw materials, as well as the communities in which the plants are located. Conversely, attempts to smooth the transition from recession to recovery in this industry are likely to ease problems in a wide range of markets and geographical areas.

2. Employment problems are extensive. Economic dislocations in the steel industry have caused substantial layoffs and serious regional disruptions. Industry employment has fallen from more than 500,000 hourly workers in 1957 to fewer than 370,000 today. The plant closings this fall in Youngstown, Lackawanna, and Johnstown alone reduced steel employment by 12,000 workers. At present, more than 50,000 steelworkers have been certified as eligible for Trade Adjustment Assistance. Further reductions in capacity utilization would potentially add to this total.

3. Steel is basic to U.S. interests. While there is no compelling argument for maintaining a domestic steel industry which is capable of supplying 100 percent of peak U.S. needs, there is a legitimate cause for concern that heavy reliance upon imports from a few exporting regions of the world could create the risk of serious economic disruption at some future date.

4. The world steel glut. The impact of the 1974-75 recession has been especially severe in the steel industry in light of the expansion of world capacity. Present predictions of world steel market conditions do not forecast a return to even 85 percent of capacity operation by 1980. Therefore, foreign producers can be expected to continue their aggressive export practices, and the depressed export prices are not likely to recover in the near future.

If the current rise in U.S. steel imports were simply a reaction to competitive market forces, there would be less cause for U.S. Government concern. But the sharp rise in imports suggests that more than competitive market forces may be driving imports. European producers, in particular, have lowered their prices to the U.S. market since 1976 in an attempt to maintain their output and employment after trying but failing to stabilize their domestic markets through concerted action.

The 1976 increase in U.S. steel imports from 12 to 14.3 million tons was a predictable response to market conditions, as the U.S. economy recovered at a faster pace than most other developed nations. But the sharp rise from the 1976 level to an annual rate of over 20 million tons in the six months since March 1977 suggests more than a competitive response to continued gradual growth of U.S. steel demand and rising U.S. steel prices. It is this sharp discontinuity in the world steel trade that has created heightened problems for the U.S. industry.

5. Antidumping complaints. Since January 1, 1975, 19 separate antidumping complaints have been submitted to the Treasury Department, which relate primarily to steel imports from Japan and the European Community. These complaints refer to a wide variety of steel products which are estimated to have been imported in volumes up to $1.7 billion in calendar year 1976. Informal indications from the industry suggest further dumping complaints are being prepared.

Only one of the major dumping investigations affecting basic steel products has thus far reached the point at which the Treasury has made a Tentative Determination of sales at "less than fair value." In that case, concerning carbon steel plate from Japan, the Treasury found dumping margins of approximately 32% on imports from Japan's five principal steel companies. Withholding of Appraisement of such merchandise pending a Final Determination in this case has been ordered and importers are obliged to post a bond on all future imports equal to the margin of dumping tentatively established. The uncertainty created by the Tentative Determination and its concurrent bonding requirement on further imports has sharply reduced new orders to the Japanese producers. The U.S. complainant in that case, Gilmore Steel Corporation, has indicated also that during the period between the Tentative Determination and the Final Determination its own orders have dropped off as consumers await the final decision. This uncertainty creates severe problems for consumers and suppliers in both the United States and in foreign countries. A similar period of uncertainty with far more wide ranging effects is likely to be created if all the antidumping complaints are pursued to conclusion.

6. Obsolescence of U.S. plants. Any sharp decline in the demand for an industry's output leads firms to consider closing their least efficient facilities. These decisions must be based upon the probability of a recovery in demand, the costs associated with maintaining production while operating at less than capacity, the prospects for modernization, and the extent to which capacity can be expanded more efficiently elsewhere.

In the steel industry, the variance in plant age and efficiency is sizeable, with many facilities only approaching a breakeven point even at high operating rates. Not all of these plants can be modernized economically because of their location and existing facilities. As a result, several of the plants are candidates for closure during periods of depressed market conditions.

The dispersion in plant efficiency in this industry is not unique, but it is an important factor in the current policy discussion. The domestic market for steel has shifted from the East to the Midwest, and new technologies have not been easily adapted to some Eastern plants which face problems of crowding, small-scale blast furnaces, out-of-balance finishing facilities, and environmental constraints. The shift of production from these facilities to more modern plants in other sectors of the country would not be easy under any circumstances.

7. Costs and uncertainties surrounding U.S. government policy. A major obstacle to investment in U.S. steel facilities -- other than insufficient demand -- is a degree of uncertainty in government policy. With continuing changes in water and air pollution legislation, the industry faces numerous unknowns in planning new facilities. While some of this uncertainty is inevitable in the process of reevaluating environmental goals, its cost to an industry attempting to cope with several billion dollars in annual modernization and refurbishing requirements can be considerable. In addition, the industry will be sharply impacted by government decisions with respect to energy policy, health and safety, and land-use policy.

II. U.S. Government Objectives

The Interagency Steel Task Force has established a number of objectives for a steel program which both provides reasonable goals for its policies and limits the extent of Government involvement in industry affairs.

1. Our primary objective is to assist the steel industry in a manner which will stimulate efficiency and enable the industry to compete fairly. A stronger competitive position is essential if the U.S. steel industry is to maintain its markets. This requires an increased pace of investment in modern, efficient facilities and an assurance that U.S. production will not be artificially disadvantaged by imports due to unfair foreign trade practices. A healthy, competitive, and efficient industry will benefit consumers, assist our efforts to hold down inflation, provide stable employment opportunities, and contribute to a strong domestic economy.

2. A second objective is to help ease the burden of adjustment to market trends for both industry and labor. Massive worker layoffs, as we have recently experienced, represent a serious human tragedy for many families and can cause severe disruptions for whole communities. Although some mills in a few areas may no longer be economically viable, we should be able to lessen the immediate impact of adjustment through active development assistance programs for both firms and communities to provide alternative industry and employment opportunities, to retrain workers, and to provide financial support for workers laid off due to import competition until they can find new jobs.

3. A third objective is to provide meaningful incentives for plant and equipment modernization through appropriate tax, investment, and financial assistance. Continual modernization is required if the industry is to operate at peak efficiency.

4. A fourth objective is to expedite relief from unfair import competition, but to do so in a manner which will not preclude healthy competition in the U.S. market. Any policies affecting imports must clearly be consistent with our overall objective of maintaining an open world trading environment based upon normal trading practices. U.S. enforcement of domestic statutes designed to prevent unfairly priced imports should be effective and responsive to the requirements of suppliers and consumers alike.

In determining a comprehensive policy program for the steel industry, there are a number of dangers that the government must also avoid:

- -- We must avoid any direct government involvement in the industry's decisions. Our role is not to direct the industry's actions, but to help create an environment within which a free industry can operate efficiently.

- -- We must avoid measures which stimulate inflation. Our efforts should not contribute to unnecessary and disruptive price increases at the expense of domestic consumers and the economy as a whole.

Achievement of our objectives requires a cooperative effort by the industry, labor, and the Government. The Government is taking significant steps in developing a comprehensive program for the steel industry, affected steelworkers, and the communities in which they work. It will continue these initiatives by implementing the program we propose. We expect that the industry and labor will cooperate by taking advantage of this opportunity to improve their efficiency, reduce their costs, and expand the utilization of their productive capacity, thus restoring the steel industry to sound health.

III. A Policy Program for the Steel Industry

The comprehensive program of recommendations for the steel industry is based on the objectives outlined above. It requires no specific legislative measures and can be implemented quickly. Further, while some measures are specific to the steel industry, many are broad-based and will be beneficial to other industries as well.

The policy recommendations may be divided into five categories or problem areas:

A. Relief from Unfair Trade Practices;

B. Modernization;

C. Rationalizing Environmental Policies and Procedures;

D. Community and Labor Assistance; and

E. Other General Measures.

A. Relief from Unfair Trade Practices -- "Trigger Price" Antidumping System

1. Introduction

The global slump in steel demand and the substantial excess capacity in the world steel industry have led to aggressive exporting by foreign steel makers, in particular, those in Japan and the European Community (EC) countries. The U.S. market, because of its size, its relatively higher rate of economic recovery, and its openness to all suppliers, is a primary market for sales of foreign steel producers. U.S. steel imports for the first three quarters of 1977 are 34% above those for the same period in 1976, and the share of U.S. steel consumption accounted for by imports is expected to rise on an annual basis from 14.1% of domestic consumption in 1976 to 17.9% this year.

Increases in U.S. steel imports are not unique to the industry's experience. Foreign steel makers began to expand their production capacity and to compete actively in the U.S. market in the late 1950's. Since that time they have captured a large share of the growth in U.S. demand, reaching a record relative level in 1971, when imports accounted for over 18% of U.S. steel consumption. The same level may be reached in 1977.

Critics of the U.S. steel industry argue that past and present increases in imports are primarily a reflection of the relative efficiency of foreign steelmakers and the willingness of foreign steel exporters to price in a more flexible manner. Moreover, they contend that imports are essential to price competition in the U.S. market, and thus an important factor in controlling inflation in this country.

The U.S. steel industry and the labor unions contend that, given the current depressed state of the domestic industry, immediate trade relief is needed. The industry's central argument is that the recent surge in imports is largely attributable to unfair trade practices, principally dumping. Accordingly, numerous complaints have been filed under the Antidumping Act of 1921. Indeed, the 19 separate petitions involving steel products now before the Treasury Department in various stages of investigation are an unprecedented number with respect to a single industry within so short a time frame.

2. Present Procedures under the Antidumping Act

It has been the policy of the Treasury Department to initiate antidumping investigations only upon receipt of a complaint setting forth a *prima facie* case of "dumping," i.e. sales in the United States below "fair value" that injure or are likely to injure a U.S. industry. Fair value is generally established from the home market prices of the exporter. This policy has obligated the firms affected by imports to furnish in some detail available evidence concerning prices in the home market of the foreign exporter as well as the exporter's prices offered in the United States. In addition, a submission concerning the extent to which such imports have injured or are likely to injure the domestic industry must be included in the complaint. Pursuant to amendments to the Antidumping Act adopted as a part of the Trade Act of 1974, home market prices as a reference for determining the "fair value" of imported merchandise may be disregarded if substantial sales in the home market have been made at prices below the cost of production not permitting the recovery of all costs within a reasonable period of time. If such home market prices are disregarded, fair value is, as a rule, to be established from the "constructed value" of the product, meaning its cost of fabrication, plus statutorily mandated minimum additions of 10% for overhead and 8% for profit. Many of the complaints filed with respect to steel mill products have included allegations invoking these provisions.

If a complaint is deemed sufficient, an investigation is opened in which the Customs Service examines the level of home market and U.S. sales prices of the foreign exporter in the country under consideration. Moreover, if the case involves an analysis of alleged sales below the cost of production, the foreign producers' production costs must also be determined. Investigation of such facts is complex and time consuming, involving the verification of extensive documentary evidence in foreign countries and in the United States. Such investigations have also been impeded by the objections of the producers to the cost and time involved in compiling and submitting cost data and to the submission of such sensitive competitive data to a foreign government, with a potential for its possible - even inadvertent - release to competitors.

As noted in the introduction, only one of the major dumping investigations affecting steel mill products has, as of December 1, 1977, reached the point at which the Treasury has made a tentative determination of sales at "less than fair value." This stage of the proceedings is usually reached six months after the formal initiation of the investigation. The tentative determination announces the margin of dumping, (i.e., the percentage of the U.S. weighted average prices by which such prices are less than the "fair value" of the merchandise) found during the period of investigation (usually the six month period surrounding the date on which the complaint was initially filed with the Treasury). Withholding of the appraisement of imports of the type covered by the investigation then begins. Thereafter, all imports of the affected merchandise can only be made if covered by a bond equal in value to the estimated antidumping duties that may become due. As a rule, the bond is fixed at a percentage of the value of the imports equal to the margin of dumping announced in the tentative determination. Following publication of the tentative determination, all interested parties are afforded an opportunity to present briefs and oral arguments to the Treasury Department before it announces its final determination. If the final determination is affirmative (which must be announced within three months of the tentative determination), the case is referred to the U.S. International Trade Commission for its investigation of whether the sales at less than fair value have caused or are likely to cause injury to a domestic industry. If the ITC finding is in the affirmative, a dumping finding is then published and antidumping duties can be assessed on all merchandise as to which appraisement was withheld and on all further imports sold at dumping margins. In most cases, the entire procedure, from the date of initial filing of a complaint through the publication of the dumping finding takes approximately 13 months. However, this period must be added to the time it takes the affected industry to prepare a suitable complaint.

3. <u>Criticism of the Present System</u>

The steel industry has suggested that the traditional procedure is too cumbersome to provide relief quickly from sudden surges of imports that may cause injury to an American industry. On the other hand, once the investigation is concluded and a dumping finding has been issued, its effect may be to staunch all imports of the product concerned. In the case of carbon steel plate from Japan, which is the only steel mill product that has, to date, been the subject of even a tentative determination of sales at less than fair value, it has been reported that the high margins of dumping found (with the concurrent requirement for an equivalent bond on future entries) have resulted in a virtual halt in orders for that product from the foreign suppliers.

The steel industry has also criticized existing antidumping remedies because of the specific product orientation of individual investigations and findings. Cases relate only to specific types of products and it is only such specific types that are subjected to the investigative analysis and withholding/bonding aspects of antidumping proceedings. Industry sources contend that in the event that a proceeding is initiated with respect to one product, foreign suppliers can readily shift to another product outside the scope of the first investigation. It has only been in the most recent months that steel companies have attempted to file a series of antidumping complaints, covering a broad spectrum of steel products so as to overcome such attempted shifts in supply strategies.

The Task Force has attempted to take all of these concerns into account and at the same time comply with the objective set out in Part II of this report in developing a technique for providing the industry with relief from unfair trade practices. Accordingly:

We recommend that the Department of the Treasury, in administering the Antidumping Act, set up a system of trigger prices, based on the full costs of production including appropriate capital charges of steel mill products by the most efficient foreign steel producers (currently the Japanese steel industry), which would be used as a basis for monitoring imports of steel into the United States and for initiating accelerated antidumping investigations with respect to imports priced below the trigger prices.

The trigger price mechanism is intended to provide the Secretary of the Treasury with a basis for initiating antidumping investigations without any prior industry complaint. Such authority exists under the Antidumping Act although it has not been used in recent years. As such it does not detract from any of the legal rights that foreign producers or the domestic industry presently enjoy under the Act. The trigger price is also a device for applying the resources of the Treasury Department to a constant monitoring of imports affecting a particularly sensitive industry viewed as a whole, instead of focusing on the investigation of individual complaints with respect to specified products -- and then taking expedited action under the law. It thus meets the principal criticisms of present practices under the Act.

1. <u>Determining the Trigger Price</u>

The trigger price will be determined by the Treasury as follows:

-- The unit cost of producing carbon and alloy steel in the most efficient exporting country -- currently Japan -- will be estimated at current prices and exchange rates from the best evidence available. Such evidence will consist of financial statements routinely prepared by the largest producers of carbon steel in Japan, data on the cost of labor, materials, and capital equipment used in the production of Japanese steel, as well as cost data which the companies have agreed to make available in aggregate form to the Treasury. The "costs of production" as calculated are intended to cover the traditional costs of labor, materials and directly related overhead, as well as general administrative expenses and a capital charge.

-- Discrete product groups will be established pursuant to internationally recognized classifications for steel mill products. For each product, a trigger price will be determined either directly from the financial statements and cost of production information supplied by the steel companies, or will be derived through procedures based upon the best available information on Japanese input costs and production experience.

-- It is contemplated that trigger prices will be adjusted quarterly to reflect intervening changes in costs of production components and in currency values.

-- At the time of each quarterly adjustment, the trigger price for each product will be set within five percent of that product's full cost of production. The flexibility in either direction will permit smoothing out sharp fluctuations of the components of the cost of production that may only be temporary. Taking immediate account of all such fluctuations would be unnecessarily disruptive to both domestic and international patterns of trade.

-- The trigger price will be identical for all imports regardless of source and constructed on a "CIF" basis. Transportation from Japan to each major importing region of the country and insurance costs for each product class will be added to the production cost to arrive at the higher price.

-- Stainless steel will be excluded from the trigger price system because a quota system is in effect with respect to such products. On the other hand, alloy products will be included.

-- Only steel mill products as conventionally defined in the United States will be included in the system.

2. Operation of Trigger Price Mechanism

The Customs Service will organize a special task force to administer the trigger price system. Regulations will be published shortly for public comment which would obligate importers to present at entry of all steel imports a new "Special Customs Steel Invoice," and to certify on the invoice or otherwise that no rebates, drawbacks or unrelated incentives have been or will be paid or granted in connection with the transaction reflected in the invoice. The Special Customs Steel Invoice would be modeled upon the Special Customs Invoice presently in use and would provide space for the recording of product definitions, the base price and significant extras used in calculating the transaction price for the imported product. The total price shown on the Special Customs Steel Invoice would be compared to the trigger price data at the port of entry. Imports priced below the trigger price would be promptly identified and the information immediately forwarded to the Treasury in Washington for further investigation. If warranted, a formal antidumping investigation could be initiated within a matter of weeks.

Once the trigger price mechanism has been set in place, it is contemplated that information will be currently obtained both in the United States and abroad concerning steel prices and costs of steel production and the condition of the domestic industry. Therefore, if a formal antidumping investigation should appear warranted, it could not only be opened quickly but it could be concluded within a time period substantially shorter than is presently the case. In general, except where a case is unusually complex, we expect that action could be taken under this procedure within 60 to 90 days, as opposed to the 13 months-plus period required under the normal procedures, although in more intricate cases it may take longer. In the event the investigation indicates such action is warranted, existing statutory powers to impose a retroactive withholding of appraisement could be ordered at the time the tentative determination is published. Following completion of the Treasury's "fast track" investigation, the case would be referred to the U.S. International Trade Commission for the required injury determination, which could similarly be expedited.

As noted, the implementation of the trigger price mechanism will require the publication of a form of Special Customs Steel Invoice and draft regulations prescribing its use. Public comments on the form and regulations will be solicited, as well as on the proposed procedures for applying the mechanism. As presently conceived, all contracts concluded before the announcement date of the trigger prices, and with goods loaded on board ship prior to the effective date of the proposed system, would not be subject to the trigger price mechanism. It would seem difficult to subject existing contracts to ex-post-facto application of the system. All contracts concluded prior to the announcement of the trigger prices but shipped after their effective date would be subject to scrutiny, and substantial under-pricing could warrant immediate initiation of an antidumping investigation. Contracts and shipping concluded after the publication of the trigger prices would be subject to the mechanism as though such contracts had been made and the shipments completed following the effective date of the system. The trigger prices will be published promptly after their calculation to provide as much advance notice to the trade as possible.

The trigger price mechanism and its associated procedures can be instituted within approximately 60 days, including a period of 30 days for public comments on the proposed regulations and the form of the Special Customs Steel Invoice. The trigger price mechanism is intended only to provide the Secretary with a basis for self-initiating antidumping investigations; they are not a "minimum price" system. Thus, none of its terms are keyed to statutory definitions of, for example "foreign market value" or "constructed value." But they are fully consistent with existing statutory law and with the international obligations of the United States under the General Agreement on Tariffs and Trade and the International Antidumping Code.

Implementation of the trigger price mechanism should result in a substantial elimination of the injury the steel industry claims it is presently suffering due to sales of imported steel below its "fair value." This should, in turn, eliminate the need for the domestic steel companies to file new antidumping complaints and encourage them to consider the prompt withdrawal of the petitions now under investigation. The internal resources of the Treasury Department required to operate the proposed trigger price system would make it difficult simultaneously to carry on numerous full scale dumping investigations. The system is intended to provide all concerned with constant, current information on price trends and, thus, to permit prompt investigations of violations.

The implementation of the trigger price mechanism may not prevent less efficient producers from selling steel products at less than "fair value" within the meaning of the Antidumping Act. Such high-cost producers may be selling in both the home market and for export at prices below their costs of production. However, to the extent that the more efficient producers also retain excess capacity to compete in the U.S. market, it may not be possible for the domestic industry to prove injury as a consequence of the sales at less than fair value from the less efficient producers. Furthermore, the anticipated increase in the share of the market supplied by the domestic industry should make injury allegations harder to prove. Nevertheless, it would be open to the affected U.S. industry to pursue the traditional remedies under the Antidumping Act if that appeared appropriate.

3. Effect of the Trigger Price

Data from which the trigger prices will be fixed have not yet been finally analyzed. But preliminary review suggests it is reasonable to assume that the trigger price mechanism will lead to a rapid amelioration of the problems the U.S. industry has endured from unfairly priced imports. The industry should recapture a substantial share of the U.S. market that it has lost to imports on this account. The precise level of import reduction will, however, depend upon the price behavior of the domestic steel companies. The more sharply the domestic firms raise prices, the smaller will be their recapture of the market. The expected expansion in shipments for U.S. firms should result in a much greater level of steel employment and an increase in capacity utilization with its associated benefits in lowering costs of production.

4. Potential Problems

Implementation of the trigger price approach, particularly the monitoring of imports of thousands of different products, poses substantial problems. However, these problems are qualitatively no different than those that would be required in the effective monitoring of a quantitative restraint approach or in full-scale administration of the Antidumping Act. Initial efforts to implement the trigger price approach will undoubtedly not be perfect, but experience in working under it should teach us how to cure its inadequacies. There are nevertheless two problems which may not be fully met by the proposed system:

-- The system extends only to steel mill products; hence, there is some risk that steel fabrications will substitute for the more basic steel products in U.S. imports, as occurred during the quantitative import restrictions on steel mill products imposed in the late 1960s..

-- Exporters may attempt to shift their mix of products to the highest valued items in each product category and, thus, "skim the cream" of the trade while leaving lower-valued, less profitable items to the domestic industry.

The Customs Service Task Force implementing the system will be alerted to these problems. Should sales of fabrications or top-of-the-line items provide significant opportunities for evasion of the intended relief of the system, appropriate action will be taken.

5. <u>Duration of the "Trigger-Price" System</u>

This system of resolving issues of unfair trade practices on an accelerated basis is designed to address the specific problems which now exist with respect to steel imports. An expansion of the world economy in future years will gradually eliminate the "overhang" of excess steel production capacity. As a result, pricing practices in world markets will return to more normal patterns and the need for a special program for dealing with import prices will recede.

This program will be reviewed from time to time to insure its consistency with the original concerns. The strength of the world steel markets, domestic capacity utilization, profitability, employment conditions, and the behavior of domestic and international prices and costs will be examined. When conditions warrant, the system will be terminated and the more traditional procedures restored.

In the recent past and for the foreseeable future the United States has carried and will continue to carry on with the EC, Japan and other countries a frank and extensive dialogue both on the nature of the problems of the world's steel industry and the implications of alternative measures for dealing with them. The proposals made here have benefitted from understandings gained through these consultations. These consultations should continue on both a bilateral and multilateral basis.

B. Modernization

The steel industry is currently facing another serious problem -- the industry needs to modernize to compete effectively.

The U.S. steel industry's capital expenditures totalled \$21 billion over the last ten years (1967-1976). Despite this level of spending there remains a significant need for modernization of plant and equipment. This is due in large part to the pattern of spending by the industry. Faced with scarce funds and a physical plant that was largely fixed in terms of location, the industry concentrated its spending on its newer existing plants in growing markets, largely ignoring the older plants in traditional and in some cases declining markets. The result is that while the industry does have modern up-to-date facilities in some areas, selected plants or parts of plants are unquestionably obsolete, and badly in need of medernization.

There is also some question of whether the industry was too slow to adopt newer technologies. Recent research by the FTC indicates the U.S. industry has not been remiss in adopting new techniques.

Nevertheless, the U.S. steel industry acknowledges that there is a need for further modernization, and is willing to commit funds to this purpose. However, it contends that it does not have the funds to engage in modernization programs.

The industry estimates that it must spend between \$2.0-\$2.5 billion to maintain and refurbish its existing plant and equipment. These expenditures include some modernization through replacement. Capital expenditures necessary to comply with environmental regulations are also substantial and are rising. Recent studies on the industry's capital requirements for pollution control reveal that the industry will have to spend a minimum of \$6 billion from 1977 to 1983 to comply with environmental standards. Moreover, a large portion of these expenditures will have to be made in earlier years to bring older plants, which require expensive retrofitting, into compliance.

With the exception of the boom years 1973 and 1974, the steel industry's profitability over the last decade has been substantially below the average for all manufacturing industries. Since 1974 the industry's earnings declined sharply from a 6.4% return on sales in 1974, to 3.6% in 1976, and a record low of 1.4% in the first half of 1977.

The decline in earnings has reduced the industry's cash flow (net income plus allowances for capital consumption) by 23% from $3.8 billion in 1974 to $3.0 billion in 1976. Recent forecasts indicate it will decline further to between $2.0 and $2.2 billion in 1977. The result is the industry's ability to finance near term replacement and modernization through internal funding is seriously diminished.

This reduction in internal funds is further exacerbated by the industry's inability to acquire funds through external financing. The decline in the fortunes of domestic steel companies, damaging reports from Wall Street and the increase in steel imports have combined to make debt and equity markets increasingly inaccessible to steel companies.

The trigger price antidumping system should deter unfair import competition, and thus result in an increase in domestic steel production and industry earnings. The steel industry will also benefit from passage of the Administration's general tax package which we are now considering. The general tax package will probably include a number of measures which, on balance, will stimulate investment and increase cash flow in the steel industry as well as other industries.

Assuming that the industry spends $2.5 billion per year on maintenance and replacement, $1 billion on pollution control equipment, and $0.5 on additional modernization projects, its annual capital requirements should average $4.0 billion (in 1977 dollars) over the next several years. Given that 1977 cash flow is likely to be no higher than $2.2 billion, there is a $1.8 billion gap between industry cash flow and investment requirements. The combination of the trigger-price anti-dumping system and general tax reform will not completely close this gap but it should narrow it appreciably. With increases in volume, improvements in cash flow, and widening profit margins, the industry should be in a position to finance the remainder through the capital market.

In addition to these general tax package measures, the Task Force recommends that the Treasury Department investigate the feasibility of reducing the guideline life for depreciation of new steel industry machinery and equipment from 18 years to 15 years. Under the asset depreciation range (ADR) system, and with an 18 year guideline life, the industry can depreciate its machinery and equipment over a period of 14.5 years (20% less than the guideline life). The 18 year guideline life for steel is among the highest for manufacturing industries because steel equipment has tended to be longer-lived than equipment in most other industries.

Under the ADR system, if the guideline life were reduced to 15 years, the industry could depreciate equipment over 12 years. A decrease in the guideline life from 18 years to 15 years would produce additional tax benefits averaging nearly $60 million over the next four years.

This reduction of the guideline life to 15 years may be justified on the basis of more rapid modernization of basic facilities. The U.S. steel industry has agreed to commit the increase in cash flow from the comprehensive Task Force program to stepped-up modernization for their steel plant and equipment.

The Task Force investigation has revealed that there are a number of smaller integrated and nonintegrated steel companies which are extremely depressed financially and which would benefit only marginally from the tax measures.

These firms are located in areas where most of the recent steel plant closings and cutbacks occurred. There is the very real prospect that if these firms are not provided additional assistance they will either curtail production at some mills or even close them. Such closings or cutbacks by these firms would exacerbate the already depressed economic conditions in these areas, and remove a substantial source of capacity and competition from the U.S. steel market. The Task Force estimates that these firms currently employ approximately 83,000 workers and account for 16% of the U.S. steel industry's raw steel production.

In an effort to prevent the closing of facilities that could prove viable and the substantial economic dislocation these closings would cause, the Task Force recommends that additional funds be made available for the current and future budget of the Economic Development Administration of the Department of Commerce for industrial loan guarantees and continue to provide further appropriations for this loan guarantee fund in the next few years.

The Task Force suggests that steel firms meeting all of the following criteria be considered eligible for loan guarantees and be given priority:

-- firms with serious financial problems, with little or no access to capital markets;

-- firms seeking funds for modernization of plants located in areas of high and rising unemployment or threatened massive layoffs; and

-- firms with viable plans for modernization.

The Task Force has examined the available alternative means for providing funds to smaller depressed steelmakers for projects that are economically justified. We feel the use of EDA loan guarantees is the simplest and most direct way to assure that viable modernization projects of these firms actually receive the funds necessary for their completion. These funds may be complemented to some degree by those now available in other government programs that relate to communities with steel making facilities that require, and can justify on an economic basis, modernization projects in steelmaking.

C. Rationalizing Environmental Policies and Procedures

The steel industry is one of the largest contributors to air and water pollution in the nation. Steel plants emit into the air vast quantities of particulates, sulfur oxides, and hydrocarbons. In 1975, 20 percent of all U.S. man-made particulate pollution came from the steel industry.

Steel plants also discharge solids, acids, heavy metals, arsenic, cyanide, phenols, ammonia, oil, grease, and heat into the water. The water pollutants, like the air pollutants, are dangerous to health. Unless controlled at the source, they must be removed by expensive treatment facilities to protect the drinking water of downstream communities.

Regardless of the industry's economic situation, it is imperative that expenditures for pollution control in the steel industry be spent, to the extent possible, in a way that results in the most clean-up possible per dollar. Controlling this pollution imposes particularly significant costs on the industry at a time when it is operating at low levels of profitability. In 1977 the U.S. steel industry expects to spend $600 million on pollution abatement investment. Estimates of the total capital costs of pollution control for the industry in the years up to 1983 range from $6.8 billion (EPA) to $14 billion (American Iron and Steel Institute) in 1975 dollars.

The current costs of meeting environmental standards represent a significant but not a major portion of the costs of steel production. Estimates made by EPA, COWPS[1/], and the industry indicate that under present legislation and regulations these costs will rise to between 5% and 10% of the price of steel in the future.

Newer, more modern mills and processes are generally cleaner. Any given level of control is less costly to attain in new plants than to retrofit older plants.

1/ The Council on Wage and Price Stability

Indeed, some emission control techniques, such as dry quenching (and recycling) of steel gases are only feasible in a completely new or substantially modernized plant.

However, as the COWPS study indicates, replacement of existing plants by efficient, new greenfield operations is simply not economic at today's capital costs. The most economic path for the industry is to replace parts of existing mills or to round out existing facilities. The result is that pollution control costs will be high, particularly in the near term, as the industry retrofits older plants to bring them into compliance.

The current financial plight of the industry should not deter us in seeking a cleaner environment. <u>We do not recommend a relaxation of our basis environmental goals. We also recommend against differential or more lenient treatment in the regulation or enforcement for the steel industry</u>.

However, we do believe it may be possible to achieve our goal of a cleaner environment at a reduced economic cost if there were certain changes in the regulatory process. The EPA agrees and is willing to investigate certain areas to see if this is possible and appropriate.

<u>Openness and access</u>: Consistent with the spirit of the President's recent Executive Order designed to improve the regulatory process, the EPA affirms its policies of openness and access to the Agency. The Administrator of EPA will make new opportunities for dialogues available to the public, including the U.S. steel industry and other industries which are regulated by it. These opportunities will be expanded and increased in the future.

EPA will also address the following specific points in its regulatory review:

<u>Coordination of standard-setting and enforcement for EPA programs</u>: EPA will coordinate all future air and water pollution standard-setting and enforcement efforts for the steel industry, as well as future

environmental requirements under the toxic substances and solid waste statutes, to ensure that they are compatible.

Coordinating EPA and OSHA regulations: EPA and OSHA[1/] will coordinate their regulatory efforts to insure that regulations for steel mills are compatible. EPA will continue to consider the combined effects of the costs of EPA and OSHA requirements in assessing the appropriate levels of control in future EPA regulations.

Banking of emission offsets: EPA is reviewing its current policy for location of new polluting facilities in areas which violate air quality standards. EPA policy requires that before a new polluting facility can be constructed in an area violating air quality standards, at least as great an offsetting reduction of pollution from existing sources of pollution must be accomplished. The current policy does not generally allow emission reduction occurring at one time to be "banked" or "saved" to offset future emission increases, but EPA will review its policy to determine if this banking of offsets is desirable.

EPA will also examine the following additional issues to determine whether they are practicable and appropriate:

-- Whether air pollution permits for new industrial facilities should be issued to new facilities on a plant-wide basis rather than on a process-by-process basis. This approach of specifying the total amount of emissions of each given pollutant allowable for an entire plant would provide a firm the flexibility to control emission from whichever part of the plant can be controlled at lowest cost.

[1/] The Occupational Safety and Health Administration of the Labor Department

-- How possible disincentives to modernization should be considered in setting future New Source Performance Standards.

-- Whether EPA's policy on location of new polluting facilities in areas not meeting the health standards should be modified or extended.

-- Considering the impact of state regulations which require new operating permits for re-opened facilities.

In general, the EPA review of its regulatory processes and standards should reduce rigidities and unnecessary barriers to modernization.

D. Community and Labor Assistance

In recent months there have been numerous plant cutbacks or shutdowns. These cutbacks and shutdowns resulted in the permanent loss of around 20,000 jobs, and an additional 1,100 workers are scheduled to be dismissed by the end of the year. The loss of jobs, while tragic, is only one element of the impact of these plant closings or cutbacks. The impact on the community and region in which the plant is located is also substantial. Steel plants generate substantial indirect income and employment through their purchases from supplying firms and peripheral businesses. Steel firms also pay substantial amounts of state and local taxes. The impact of a plant closing on a community is much broader than the direct job and income loss and is particularly severe when the bulk of the smaller businesses in a community are heavily dependent on the plant. Unfortunately, this is the case for several of the communities where recent cutbacks or shutdowns have occurred.

The impact is further aggravated because the recent plant cutbacks or shutdowns tend to be concentrated regionally. Eight of the 16 plant closings and cutbacks and 78% of the resulting job losses occurred in a region which includes parts of the states of Ohio, Pennsylvania and New York.

These affected steel communities have vital interests in retaining, or in some cases recovering, their economic viability. This interest -- which includes workers and their families, small businesses, and often the main portion of the community's overall economic base -- needs to be considered in the design of any comprehensive plan of assistance for the steel industry. The direct human impact of massive layoffs and shutdowns can be seen wherever major steel plants have been closed. They call for the highest priority in the search for all reasonable and appropriate actions that can lead to rebuilding these local economies.

There are two broad approaches for providing assistance to these affected steel communities. The first is to revitalize steel plants that were cut back or shut down, where the revitalization is economically viable. The loan guarantee fund described in Part III.B above focuses on this goal. The criteria for loans are geared toward providing assistance to firms located in areas of high unemployment or areas threatened with massive lay-offs. Thus they are also strongly oriented toward community assistance. The second approach is to provide transitional and longer-term assistance to communities and affected workers where plants have been shut down or cut back and cannot be revitalized, and there is thus a need to seek out other alternatives.

A flexibile and effective source of support for this second approach to community recovery and future health is the funding available under the economic adjustment authority of Commerce's economic development and adjustment aid to assist states and local areas to meet needs arising from actual or threatened severe unemployment.

EDA has funded several Title IX projects related to steel industry problems. These include a wide range of projects in the Mahoning Valley; Gary, Indiana; and Lackawanna, New York.

In Gary, Indiana, recent cutbacks in steel led to the need for drastic action to revitalize the city, diversify its economic base, and enable the city to regain a sound economic base. Following development of an adjustment strategy, a Title IX grant of $6.6 million was made to the city.

Title IX funds can be used for one or more of the following purposes: (1) public facilities; (2) business development; (3) planning; (4) research; (5) technical assistance; (6) public services; (7) rent supplements; (8) mortgage payment assistance; (9) relocation of individuals; (10) training; (11) unemployment compensation if the eligible recipient is a state; and (12) other appropriate assistance.

Since this flexible source of Federal support is effective in allowing communities to carry out local initiatives that could lead to viable community economic recovery plans, <u>we recommend that up to $20 million of the remaining FY 1978 appropriations for EDA's Title IX authority be made available for worthwhile proposals from communities with actual or threatened unemployment due to cutbacks in steel production</u>.

Funds are also available under two other EDA authorities: Title I -- Regular Public Works and Title III - Technical Assistance. Eligible steel communities may qualify for funds under each of these programs. However, a large portion of the total funds appropriated this year for each has either already been committed for approved projects or has been earmarked for projects already well advanced. To the extent that steel communities qualify under the standard criteria used to allocate these funds, this assistance is being made available.

An additional and potentially significant source of aid that could be provided by the USG is to make affected communities aware of the possible economically viable uses for abandoned steel facilities. It may not be economically possible to continue steelmaking in some areas. The market may have shifted to another area of the country and plant location and other factors may prohibit production at competitive costs.

There are several alternative uses for abandoned steel facilities. For example, the Department of Energy and the EPA are currently reviewing one alternative of a gasification process which uses abandoned blast furnaces to produce industrial fuel gases that may be sold to the steel industry and utilities.

<u>We recommend the Administration prepare a study reviewing and evaluating alternative uses for abandoned steel facilities and report their findings</u>.

Within the context of community self-help and potential alternative uses for abandoned steel facilities, there are currently several groups from areas with substantial layoffs who are developing feasibility studies with the objective of community and/or worker takeover. While there is some precedent for this endeavor, it is impossible at the present time to judge whether these efforts will be successful. We believe, however, that in selective cases and under certain conditions community and/or worker takeover may prove to be realistic and economically viable if it can be accompanied by sufficient modernization. However, the judgment as to its viability must be made on a case-by-case basis and can only be made after a hard-headed feasibility study.

We recommend that the EDA, and other relevant agencies, give consideration in their analyses of funding requests to economically viable projects involving community or worker takeovers of abandoned steel facilities.

The Task Force also believes that action on the proposed Trade Adjustment Assistance program would offer substantial help to the affected steel communities and their unemployed labor force. It would also provide the Congress with guidance in any legislation that they might propose. The Task Force recommends, therefore, that a final decision be made, before the Congress resumes in January, on the exact content of the Trade Adjustment Assistance package.

E. Other General Measures and Recommendations

The Task Force investigation has exposed several areas where small but significant changes in existing policies or practices or their clarification could lead to an increase in the efficiency of steel firms -- in particular the weaker firms -- thus promoting competition and employment in the industry. These areas include joint ventures and mergers, funding of research and development, and transportation systems.

Joint ventures and mergers. Some recent studies suggest that certain kinds of joint ventures in the steel industry (e.g., furnace melt capacity, coke ovens, research and development) could reduce costs, lower energy consumption and make it easier to meet environmental standards. In addition, it is possible that mergers of small firms could lead to increased efficiency as a result of scale economies. On the other hand, both joint ventures and mergers between actual or potential competitors can reduce competition, increase prices, and lower incentives for individual firm innovation.

There is some interest in the industry in both joint ventures and mergers, but the application of the antitrust laws to such activity must be considered in the light of the specific facts and circumstances of each proposal. While the Department of Justice cannot limit or completely clarify the scope of the antitrust laws, it does have a procedure for stating in advance its enforcement intentions for proposed business conduct, including joint ventures and mergers.

> The Task Force recommends that the Department of Justice expedite its evaluation of requests by steel companies for the Department's enforcement intentions as to specific joint ventures or mergers.

Research and Development. The steel industry is the second largest energy consumer among U.S. industries and is a major polluter. The development of new technology which saves energy and reduces the costs of pollution control would lower the industry's costs. However, the industry's total R&D spending as a percentage of sales is the lowest of all U.S. industries except for food and textiles. This is due in part to the depressed earnings in the industry. Policies that permit sharing of costs could reduce the burden of individual firms and could spur spending on R&D.

Federal contributions to industry R&D are currently heavily imbalanced in favor of a few industries. Despite the fact that steel is an important basic industry, Federal contributions to the steel industry's R&D expenditures are low, representing only 3% of the industry's R&D spending -- compared with 9% for the chemical industry, 14% for the machinery industry, 47% for the electrical equipment industry, and 78% for the aircraft industry.

> The Task Force recommends that in addition to your request for expedited evaluation by the Justice Department of steel industry R&D joint venture proposals, the President direct that an examination be conducted of the adequacy of Federal R&D funding in the steel industry with special reference to funding of research on energy conservation and pollution abatement technology.

Transportation. Transportation costs are relatively important for steel and other basic industries, particularly those located at inland sites. The Task Force has evidence indicating that rail service is currently more expensive than truck service for bulk commodities in some areas of the country because of regulations and other characteristics of the transportation system. For example, iron ore is transported to Youngstown by truck rather than rail because of the differences in rates and time required for delivery. An alternative now under investigation that would lower costs is the concept of unit ore trains.

A vigorous pursuit of opportunities to increase the efficiency of transportation systems and reduce their costs is also compatible with the Administration's announced objectives on regulatory reform and the public interest.

> We therefore recommend that the Administration review transportation systems serving the steel industry and report to you on what

regulatory and other reforms could be made to improve the efficiency and to lower the costs of these systems.

Conclusion

This program will provide the industry with an opportunity to regain a strong competitive position in the domestic economy. Specific proposals are developed to respond to each of the major areas where government policies impact upon the industry. Other problems critical to successful recovery must be dealt with by the companies and the workers. The success of individual business firms cannot and should not be guaranteed by the Government. At the same time, the Government does have an obligation to maintain competition based on normal concepts of fairness, and to avoid undue government impingement on the operations of any individual firm or industry.

In order to ensure that the specific measures of this program are enacted in an effective fashion we believe that a continuing dialogue with the industry and labor will be useful. The problems of the steel industry cannot be resolved by the Government or the industry alone. Without intruding into the domain of collective bargaining, a tripartite committee of labor, business, and the Government can help promote greater efficiency and provide for a continued exchange of views.

We recommend the establishment of a tripartite committee of industry, labor and government representatives as a mechanism to ensure a continuing cooperative approach to the problems and progress of the steel industry.

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THE WHITE HOUSE

BRIEFING BY
ANTHONY M. SOLOMON
UNDER SECRETARY OF THE TREASURY
FOR MONETARY AFFAIRS

THE BRIEFING ROOM

1:05 P.M. EST

MR. GRANUM: As you know, Treasury Under Secretary Solomon will brief now on the Steel Report.

I would re-emphasize the embargo on the materials and on Secretary Solomon's briefing until completion of the briefing.

We will follow with the general, hopefully, brief session which will not be for broadcast after Secretary Solomon's presentation.

Q At the completion of your briefing?

MR. GRANUM: That is correct.

MR. SOLOMON: I gather you all have the report?

Q Sir, was your 90-minute briefing at Treasury -- is that embargoed also?

MR. SOLOMON: Yes.

Q Until what?

MR. SOLOMON: Until after this.

You all have had a chance to read the report, so why don't we go right into questions.

Q What is the overall economic impact of this program both in terms of inflation and overall employment?

MR. SOLOMON: Well, we cannot give accurate estimates, but clearly the effect of preventing or quickly catching up with imports that come in below fair value as defined by the trade law will result in a major recapture, a very substantial recapture of the import sales that were lost on that account. Therefore, there should be a very substantial increase in employment as well as volume of production and there is no way of calculating an inflationary, or attributing an inflationary impact to this except to the extent that a deep cut price discounting, namely, dumping, is eliminated. Then presumably there would be an

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impact on the average price. But there is nothing in the system which should increase the general list prices, as such. In fact, the Council of Economic Advisers and the Council on Wage and Price Stability agreed with me that this was the least inflationary of either continuing with the existing situation, namely, the massive anti-dumping suits that are being brought now which are disrupting imports on the one hand or on the other hand moving to an import restriction, a quantitative import restriction.

Q But there almost has to be some inflationary impact by virtue of the fact you are driving up costs to at least whatever American producers or American manufacterers are buying the lower cost steel.

MR. SOLOMON: You are talking about the extent to which importers are buying the steel that is presently being dumped?

Q Yes.

MR. SOLOMON: Right. There is no way of estimating that in terms of an average percentage; no way.

Q Mr. Secretary, about six, eight weeks ago, the Council on Wage and Price Stability concluded that the problem of imports was not a major one as far as what ailed the American steel industry. How much of an effect do you believe that the imports are having, and if the Council is right, then this wouldn't do that much good, would it?

MR. SOLOMON: I think that you are oversimplifying what the Council on Wage and Price Stability said. They said that the problems were both on the import side and on the domestic side, in terms of the inability of certain elements of our industry to compete with imports. But the Council did point out that the cost of production of the most efficient producers when landed in the United States and sold in the U. S. market, were on the average only about 5 percent below American selling prices; so that you have got to look at the whole complex of factors here.

Certainly we are clear in our minds that since this system does nothing but deter dumping, and if it will result in the major recapture of the imports that are lost because of dumping, that clearly the import problem in this narrower context is a very serious problem.

We have had at least 19 cases filed with the Treasury Department and based on some preliminary indications in analyzing those studies as well as studies done by the Council for Wage and Price Stability and other groups as a result of their own analysis, we have come to that conclusion that if dumping can be effectively deterred or prevented through a quick track reaction, that we can have a substantial impact on the health of the industry.

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Q Mr. Secretary, this morning after the briefing that you gave for Members of Congress, you got mixed reviews, to say the least. Metzenbaum said it was a step forward. Heinz said gutless. And Schweiker said seldom has government labored so long on so much and produced so little; that it is the worst example of bureaucracy he has ever seen. What do you say to that type of criticism?

MR. SOLOMON: Everybody is entitled to their own opinion. I think that the fact that my consultations with the industry, with the labor union leadership have indicated support in principle for the concept, the fact that the European Community and the Government of Japan have indicated, also, support for the concept in principle and are prepared to cooperate -- the Japanese team is arriving tomorrow with cost of production information to help us establish the reference price, the trigger price levels. All those are quite encouraging.

Now, I think you need a certain amount of time to see how the system works. I think it is a fairly technical concept. I am not quite sure that everyone understands it.

Q Are you suggesting they don't understand it?

Q Don't they understand it?

MR. SOLOMON: I am sorry. I am getting too many questions at once.

Q Let me follow up, then. As Ann said, don't they understand it, Heinz and Schweiker? Pennsylvania is surely one of the most affected States in the country. They could understand what you are trying to say.

MR. SOLOMON: I think they understand the concept. I think that they are disappointed by the fact that they don't know yet what the trigger levels would be. So they have indicated to me, and obviously we are in the middle of that process. It will be some time during the course of this month that we will complete our analysis as to what those levels will be.

I think it is quite clear that whenever you work on a new system, you cannot give exact quantification as to what the results will be. But if the system works as we expect it to, I think the legitimate complaints of the industry will have been met. I think that is the view in the industry itself.

Obviously, there may be some Members of Congress who would like protection for the industry. We feel strongly that we have certain national policies that must be consistent with our recommendations. And we believe that these are consistent with our general anti-inflationary policies and our general normal foreign trade policies. This is not an attempt to put a quantitative limitation on. We want to maintain price discipline, discipline of price competition at all levels above those which represent unfair trade practices.

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Q I have two questions. How much faith can you place in the cost of production figures which the Japanese will give you in view of their vested interest in the matter?

MR. SOLOMON: The law requires the Treasury to make its own best estimates of cost of production. We will be using both Japanese cost of production information and cost of production information available to us from other studies and from other sources. It will ultimately be our judgment.

Q My second question is, since the steel companies are now talking about price increases in the near future, is this not likely to defeat the objective of this scheme in that it will widen the gap between whatever the trigger price is and their prices, thereby making foreign steel still a bargain?

MR. SOLOMON: Remember, the objectives of this scheme are many-fold. They are to stop dumping, in effect. They are also to maintain the healthy discipline of price competition. And there obviously is a trade-off between the extent to which the domestic industry raises prices and the extent to which we recapture a larger share of the import market. That is exactly what we feel is the strength of this game.

Q How would you characterize the European reaction to this plan?

MR. SOLOMON: Supportive in principle.

Q There is a question, sir, on that very subject.

Q Couldn't the Europeans still in effect dump their products here. After all, their costs of production are higher than the Japanese. If they sell only at the trigger level based on the Japanese level, then in effect they could engage in dumping still?

MR. SOLOMON: Right. The point is this: The law requires that there both be dumping and injury. We believe that if the system works, it will remedy the injury situation and therefore the remedy of the injury situation will be clearer from a very substantial increase of production and a recapture of imports. If this works as a whole, then we believe that we are within the intent of the law in meeting the injury problem.

Now, there are various specific reasons why it is impossible to have a separate reference price system or trigger price system for every single country exporting steel to the United States. The logical rationale of the system is that you base your trigger price on the industry that has the most efficient cost of production. This happens to be currently the Japanese. The reason for that is that you can make a safe presumption that if sales come in, imports come in at prices below the cost of production of the most efficient overseas industry, then there is a presumption of dumping.

Now we still leave the foreign exporter the right to come in and prove that his costs of production are below that of the most efficient overseas industry. But that is highly unlikely, that will occur only in a minor operational case.

So therefore, to have an administrative mechanism which really gets to the heart of the dumping problem quickly enough to remedy the injury caused by it, we had to make a different administrative arrangement of our resources.

The way it works now is that individual anti-dumping petitions brought by companies first require considerable preparation and time on their part. Then there is a process which involves up to 13 months of investigation and pending finding and permanent finding by the Treasury, and since you have a shifting scene of imports coming into different regions at different times and deep-cut pricing and different products, this delay, when you have this widespread a pattern of dumping, this delay means that you are not effectively dealing with the problem.

Now we feel that if we can set up this alternative administrative arrangement of our resources in such a way that we can catch up with any violations of the trigger price, and then expedite our normal processes, still giving everybody the same legal rights they have under the present law, that this will probably remedy the injury situation more satisfactorily.

Q When will the remedy start? When does it take hold?

MR. SOLOMON: We expect to announce the reference prices sometime during this month. Then we will publish the new customs steel invoice that will be required to help implement the system and there will be 30 days of comment on that from various parties, interested parties. We would expect the system to be fully in place and being administered within 60 days, roughly.

However, there will be an immediate impact as soon as the reference price system is published. In fact, there have been newspaper reports to the effect that since everybody is aware that this system is evolving that there has been an immediate impact already on new import orders, but the system, the administrative mechanism for full administration will be in place within about 60 days.

Q Mr. Solomon, let me ask you a factual question and then another question, if I may. This is just something that confuses me. On page 8 of the report it says that the share of U. S. steel consumption accounted for by imports is expected to rise on an annual basis from 14.1 percent of domestic consumption in 1976 to 17.9 percent this year.

MORE

MR. SOLOMON: What are you reading, sir?

Q I am reading from the report to the President, as given to us.

MR. SOLOMON: I am sorry. I have the wrong section. Go ahead.

Q Page 9. I am merely concerned with that figure 17.9 percent this year, at the bottom of page 9 because on page 2 it says, in the third paragraph, the share of the market supplied by foreign producers is currently running at 20 percent?

MR. SOLOMON: Right. Those two are consistent. The last two months it has been running about 20 percent. But for the year as a whole, we project it will be about 17.9.

Q My second question is this: For the non-specialists in the group here, including myself, can you describe briefly to us what happens in an anti-dumping proceeding, that is, what the importer is required to do if there is a finding -- or during the time when the anti-dumping proceeding is going on?

MR. SOLOMON: Are you talking about the present procedure or under the new system?

Q What I am asking is a brief description of the present procedure and will it be the same except accelerated under the trigger pricing mechanism?

MR. SOLOMON: Why don't I ask the General Counsel, Mr. Mundheim, who handles that, to speak up at this point.

MR. MUNDHEIM: When a petition is filed, we then have 30 days to decide whether to initiate an investigation. Once we do that, make that determination, we have another six months to make a tentative determination of sales at less than fair value. If we make such a determination, we then withhold appraisement, which really means at that time dumping duties become -- somebody becomes potentially liable for dumping duties. That is the importer's responsibility.

Q In other words, the buyer in this country?

MR. MUNDHEIM: That is right. We than have three additional months to make a final determination, that is, of sales at less than fair value. After that, if we make a final determination that there are such sales, then there is a reference to the ITC for a determination of injury. That is the end of the case at that point. In other words, they find injury and then you have got the whole dumping procedure in place. And from that point forward duties will be assessed, going back to the entries after the tentative determination has been made.

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Q Are they assessed on all future imports -- I am referring to the language on page 5 -- all future imports equal to the margin of dumping tentatively established?

MR. MUNDHEIM: That is correct.

Q What is meant by that?

MR. MUNDHEIM: For example, in the Gilmore case we made a tentative determination that there were sales of less than fair value and that the margin was 32 percent, in other words, that the cost of production in that case compared to the import price; that then becomes the measure of the bond which must be posted with respect to all future imports until we make new findings of margins.

For example, we are now a month away from making the final determination in the Gilmore case. We may come out with smaller margins or bigger margins. That would then have an impact on what bond is required to be posted.

Q My final question is, will the same procedure operate under the fast trigger mechanism, except on an accelerated basis?

MR. MUNDHEIM: It will be basically the same thing with one possible difference from procedures that now exist. That is that now we withhold appraisement and have those possible duties take place from the time that we make tentative determination. The report warns that we may exercise our power under the statute to withhold appraisement retroactively. In other words, to make the date of a buy on which duties are assessable go back earlier than the withholding of appraisement date. That is a risk, then, that the importer has to take into account.

Q On earlier sales?

MR. MUNDHEIM: That is on sales that have entered the United States, have come here but haven't been liquidated, prior to the tentative determination date, that is correct. That is an option we are indicating we may utilize in an appropriate case.

Q Mr. Secretary, you said earlier if the program is effective, that the domestic industry might recapture imports that were lost in effective dumping, increase production and employment. Do you have any rough estimate vis-a-vis Japan as to by how much Japanese exports here might be reduced on a percentage basis if this system works the way it is expected to?

MR. SOLOMON: We have no way of making an estimate because it depends on the pricing behavior of the pricing industry. The more the domestic industry sharply raises prices --

Q Let's assume they don't raise prices.

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MR. SOLOMON: It is very hard for me to make a judgment. It is a very wide range. Some people have estimated at the outer end of the range, that you could have as much recapture of half the imports. Other people have indicated significantly lower than that. There are so many factors involved in trying to come up with an estimate that we abandoned the idea of making an estimate.

Q Is it your judgment they stand the best chance of recapturing most of the market if they maintain prices where they are domestically?

MR. SOLOMON: What do you mean by most of the market?

Q Some people said there might be recaptured as much as a half, and you said these figures would vary depending on what they do to the prices. Will they do best in terms of recapturing the market under this system if they don't raise prices?

MR. SOLOMON: They certainly will do better if they don't raise prices, in fact, they would do even better if they lower prices.

Q Did President Carter make any changes in the plan that you submitted and if so, what were they?

MR. SOLOMON: The President did not make any. But in the final review by the agencies with White House staff involvement, the OMB wanted to keep its options open as to whether the recommendation on loan guarantees under certain selective criteria that would be given by the Economic Development Administration of the Department of Commerce, whether those funds would come either from a revolving fund which is now in the fiscal '79 budget, or would come from appropriations. The reason for that is simply that the OMB has in general a policy concern about revolving funds that go on indefinitely.

Therefore, that change was made in order to leave both options open. That decision will be made later.

Q In terms of the 60,000 jobs or so that have been lost in the last year in the industry, either through the money that you propose to give in direct aid to those communities or any other parts of those programs, how many of those jobs can be reclaimed?

MR. SOLOMON: Again it depends on what assumptions you make about the volume of production increase, the recapture of the substantial share of the import market. The figures have ranged from as low as 18,000 jobs up to 30,000, 35,000 jobs. But those are very rough estimates. Again, it depends on pricing behavior and competition.

All you are doing, remember, gentlemen, with this system is you are effectively deterring, we believe, imports at unfair value, less than fair trade value, as defined by the trade law.

The crude word for it is dumping. That is all you are doing with the system. You are not giving quantitative protection. You are still maintaining price competition and the system should not be exaggerated for what it attempts to do. It happens that in this particular industry that particular problem of unfair trade practices and dumping has been so widespread, we believe, that this may have a major impact on the industry.

For other industries that, for example, would like protection but don't have a dumping problem, this system would have absolutely no value whatsoever. This is not a protection system. It does not set a minimum import price. All it does is set a trigger price. But any foreigner who has a lower cost of production can prove that and can continue to sell at whatever his cost of production is in this country.

The rights that people have under the law are still preserved both on the foreign side and on the domestic side.

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Q Will there be additional help for the industry in the tax package the President will propose next year? And, if so, in what form will it be?

MR. SOLOMON: Not specialized for the steel industry as such. But, as you know, the President is preparing to send up a general tax stimulation package. Even though he hasn't made his final decision on that, we are sufficiently clear on what the options were, the most likely options, that we were able to make some rough assessments on, estimates as to what the cash flow impact on the steel industry would be. But there is no special treatment for the steel industry as such envisioned in the program that the President will be sending up.

Q What cash flow benefits would there be? What assumptions or options have you presented to the President?

MR. SOLOMON: We believe that the general, taking an average, an annual average over the next four years -- for example, we have made a rough estimate that it would be in the neighborhood of $150 million net impact on the steel industry. Then, as you noticed in the report --

Q A year?

MR. SOLOMON: Annually -- we are recommending that the Office of the Industrial Economics and the Treasury investigate and review whether the average depreciable life for the steel industry -- this is an administrative decision, not a legislative one -- whether that is not justifiable to reduce that in view of the fact that the enhanced earnings, the enhanced cash flow will lead to stepped up modernization which automatically means quicker retirement of older equipment and therefore if a shorter average appreciable life is not justifying for the industry.

Q In addition to the industries which have already received some kind of help, the shoe industry, TV, et cetera, there are others which are in trouble -- textiles principally. Do you see this as a pattern for helping out other industries which have the same complaints as the steel industry?

MR. SOLOMON: No, because remember this isn't going to help anybody who doesn't have a widespread dumping problem to confront. Much of the import competition that other industries suffer from is simply that they can't compete with cost of production abroad. But this is based, remember, gentlemen, on the trigger price being based on full cost of production including a charge for overhead and a charge for profits as well. Therefore, unless another industry has this type of dumping problem where foreign exporters are selling into this market at significantly below cost over a period of time, this system will not help them.

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The only reason why this situation prevails in the steel industry is, as you all know, the steel industry is heavily cyclical. At the moment, there is a huge global excess capacity hanging over the world and particularly pushing into this market. Because of that, we have recommended this unusual administrative arrangement to catch up with such a widespread pattern. When those conditions no longer obtain, the cyclical conditions eliminate the overhang of global excess steel capacity, we would assume and recommend that there would be no need for continuing this system.

Q Mr. Secretary, recently the head of the French Industrialists Association met with Blumenthal and said that Blumenthal confirmed with him that it was still the Treasury's policy to allow the dollar to continue to fall. What I am wondering is, does that appear to you to be an ally on what you are trying to do for the steel industry?

MR. SOLOMON: It has got no relationship. I even challenge the basic assumption.

Q Which assumption? Are you saying it is not Treasury's policy?

MR. SOLOMON: You are misrepresenting what Blumenthal said. Let's keep this to steel for the moment. Any other questions?

Q Mr. Solomon, doesn't reference pricing give the Administration a significant new lever in terms of trying to keep the domestic steel prices down, and does the Administration plan on using it that way, i.e., threaten to drop the trigger price if, for example, Mr. Roderick does what he says he is going to do, which is raise the price of U.S. steel?

MR. SOLOMON: We intend to do exactly what we said we were going to do, which is base this on Japanese total cost of production, the most efficient overseas industry.

Q You say that everyone's rights are preserved under this program, but on page 18 of your report you say in effect that the steel companies may as well abandon their individual dumping petitions. Isn't that correct?

MR. SOLOMON: What we are saying is this: That if this faster administrative arrangement works to remedy injury much more successfully than the individual cases brought under the normal arrangements, then obviously if the injury is remedied then we would assume -- and I think the industry would assume as well -- that there would be no point in bringing the regular anti-dumping suits in the normal way. That is all that means.

Q But you are encouraging, according to your own words, prompt withdrawal of present petitions.

MORE

MR. SOLOMON: Exactly, because if it worked -- when you say prompt withdrawal, we have not asked for withdrawal. We have said that we assume that after people see how this system works, if it remedies injury, that there would be no point in continuing either to bring new cases or in failing to withdraw existing cases. It seems to me that is fairly obvious because you can't continue on both tracks at the same time. I mean, maybe that is only apparent to us people who work in these areas. But there is no way of continuing both tracks at the same time.

Q But yesterday, Mr. Secretary, Armco Steel, which I presumed got a pretty good idea of what was in the task force report, filed anti-dumping suits against the British steel manufacturers. Is that sheer bloody-mindedness -- (Laughter) -- or does it represent a lack of confidence in the task force report, or what?

MR. SOLOMON: I think if you check with Armco, you will find that this case was in the hopper beforehand and that they are not intending to bring any new cases until they see how this system works. Any other questions?

Q How large will the load guarantees be? On page 24, some 83,000 workers are affected by -- are involved in very weak companies. You then go on to mention possible loan schemes for those. Do you have a rough idea or estimate for the sort of scale of those loans?

MR. SOLOMON: We have some rough ideas as to what the possible size of the petitions might be in one or two cases. But we don't have a clear idea. We certainly have no idea how many petitions would be able to demonstrate that with a loan guarantee they could achieve a viable modern competitive plant. So it has got to be a case-by-case decision. There is no way of judging that ahead of time. All we feel is that if a company can meet those three criteria -- and remember the facilities have to be located in communities with high unemployment or threatened high unemployment -- and if it can present that kind of a viable modernization plan then case-by-case the Economic Development Administration of the Department of Commerce would work out what would be an appropriate loan guarantee for whatever part of that modernization plan seemed appropriate to them.

Remember, this is something that EDA has done on a small scale as part of its regular procedures and it has been a program which has been in effect since 1965. What we basically are recommending is that the program be expanded. It still would not be just for steel companies. It would be for any companies that are in areas of high unemployment and where this kind of an assistance would bring about a development, healthy economic development in the impacted community.

MORE

Q Could I have one question?

Mr. Solomon, Lloyd McBride, the head of the Steel Workers Union, estimated the other day that this program would prevent 25,000 more jobs from being lost but that very few if any of the 60,000 jobs which have been lost would be restored under this program. You have mentioned a moment ago that 18,000 to 35,000 jobs, if I understood you, might be restored, which seems like a good deal more optimistic projection than his. Have I understood you correctly?

MR. SOLOMON: If you are reflecting Mr. McBride's position correctly -- but it seems to me a little strange -- I am not sure that you haven't made an error. Think about it. If there is a substantial increase in the volume of production by the domestic industry, it needs labor to produce it. If there is a substantial reduction in the volume of imports due to stopping the dumping, then you are going to have an automatic increase in the volume of production. If you have an automatic increase in the volume of production, you can see, based on the ratios of manpower to ton of steel, it is hard to conceive of that taking place without an increase in the number of steel workers employed at current levels.

Q His position was that there were a number of facilities that were about to go under and would go under with a loss of 25,000 jobs if they did not have the kind of help that this offers.

MR. SOLOMON: Let me put it this way: My estimate, when I was asked what the possible impact on jobs would be, has to be namely that as we economists say ceteris paribus -- in other words, what the job impact would be to this and all other conditions being the same.

If you are introducing other conditions of facilities being closed anyway, then I have no way of judging at this point what the total absolute job impact would be. All I can say is that given the probable range of recapture of imports which have been coming in at below fair trade value and given the probable increase in volume of production, there should be a much larger number of jobs in the steel industry than there otherwise would be.

Q Thank you.

Q Can we go back to the question of what Treasury is going to do with the existing anti-dumping or dumping petitions? You can say there is no way we can continue on both tracks at the same time. You also said if the scheme works as you envision it working, the injury ought to be eliminated implying that the Treasury can comply with the law even if the Europeans were coming in at less than fair market prices.

Does the Treasury envision dismissing the existing anti-dumping complaints once you have this scheme in effect?

MORE

MR. SOLOMON: I better have my general counsel answer that.

MR. MUNDHEIM: I don't think that any determination on that has been made. Obviously, we have got to look and see how things go and then make an appropriate determination at the appropriate time.

Q Let me just follow that up. If the U.S. companies don't drop their complaints, in effect, if they take your reference price system or trigger price system and say loss will continue without formal complaints, and you don't dismiss them, what happens? What are the foreign implications of that?

MR. SOLOMON: You are posing a situation which is really untenable, in the sense it can't coexist. There would be no point -- if the industry felt that their injury situation was not being, on balance, better remedied by this system than by pursuing these individual petitions and cases, clearly they have the right to make that judgment and therefore there would be no point in continuing this kind of administrative, new administrative arrangement. It is only if on balance this system with its short time frame will work to redress the injury problem better than the normal system -- it doesn't make sense. Therefore, it is only in those terms I can answer it.

Q What you are saying in effect is you expect the U. S. industry to withdraw its complaints --

MR. SOLOMON: If they feel the system is working better on balance.

Q If they don't --

MR. SOLOMON: If they don't, presumably they will follow the path they have been following the last few months, in which case this system would not be operative.

We would not put the vast resources required into both systems, having to individually analyze, send Customs people all around the world to analyze every one of these massive anti-dumping cases and at the same time also run a system like this. It would make no sense.

Q Could you say how much you would expect this to reduce the level of steel imports in the United States?

MR. SOLOMON: No, I have already given as much indication as I can on that. It is not a question of being coy. There are too many different assumptions, depending upon pricing behavior, both by the domestic industry and by foreign industry, there is no way of -- all one can say is that the direction clearly will be towards a reduction in imports, a very substantial reduction in imports, unless for some reason the sharp price increasing -- there should be sharp enough price increases in the domestic industry that it completely offsets that. But that would be highly unlikely.

Q Is it realistic to accept the Treasury claims that this would add only 80 people to the Federal payroll?

MR. SOLOMON: That is a Customs analysis. It seems to me they would have no reason -- their actual number was 83 man years' work, involved in monitoring. I am talking about the Customs people. I am not talking about the work that goes on in Mr. Mundheim's Office of Tariff Reports, ariff and rade, whatever it is called. But there we will be saving manpower if we don't have to individually analyze all these individual cases that have been brought. So we feel that as far as the increased load in Customs goes, based on Customs' own analysis and projections, it would be roughly 83 man years.

Q Could you give us a little more detail on how communities that are suffering pronounced lay-offs in steel could make use of this $20 million fund that you set up for in this plan to get special assistance, how would they go about that, make special application to EDA, any particular type projects envisioned? Any details?

MR. SOLOMON: This is a pretty broad frame of reference. They make application to EDA. They present plans which

MORE

they want support on for developing the community.

As I understand it, there really is no type framework. They have a broad frame of reference established by the law, by administrative behavior. EDA is free to look at almost any kind of proposal that will help the community.

Q Clarification on his previous question: Would you scrap the whole system or just the trigger price system if the companies aren't satisfied?

MR. SOLOMON: The normal anti-dumping procedure --

Q I mean the loans, the revolving fund, that kind of thing.

MR. SOLOMON: I see. You are talking about the rest of the package.

Q Yes.

MR. SOLOMON: Remember, most of the cash flow will be part of the general tax program. It is not special for the steel industry. The determination as to whether average depreciable life can be reduced will be a function of the amount of modernization investment. Frankly, it would seem to me that there would be difficulty in justifying, unless there is an improvement in the cash flow of the industry, and therefore a stepped-up modernization rate, there would be difficulty in justifying reduction and average depreciable life. It would seem to me we would not scrap-- no one thing depends upon anything else as far as the overall program of recommendations go. But quite clearly, the centerpiece of the package is the trigger price fast track mechanism. That is the one that will have the major impact on industry earnings, volume production, employment and the cash flow, and therefore the ability to step up modernization.

The otherelements are quantitatively much less significant.

THE PRESS: Thank you.

END (AT 1:46 P.M. EST)

EMBARGOED FOR RELEASE
AFTER THE BRIEFING

DECEMBER 6, 1977

Office of the White House Press Secretary

THE WHITE HOUSE

The President has received and approved the recommendations of the Interagency Task Force Report on Steel prepared by the Under Secretary of the Treasury, Anthony Solomon.

The President indicated that the recommendations in the Task Force Report will help revitalize the health of the domestic steel industry, will encourage its modernization, and will assist workers, firms and communities that have been disadvantaged by its current problems.

The President stressed that these purposes would be achieved:

--with maintenance of existing environmental goals;
--within the framework.of existing anti-trust laws;
--with a minimum of inflationary impact;
--with modest federal budget expenditures;
--in a way which encourages greater productivity and modernization in the steel industry;
--consistent with competitive market forces.

The President noted the rapidity with which the Administration had responded to the problems of the steel industry and applauded the expeditious work by the Task Force and particularly by Under Secretary Solomon.

# # #

THE SECRETARY OF THE TREASURY

WASHINGTON 20220

December 7, 1977

I am deeply saddened by the death of Larry Woodworth. His passing is a shock and a source of great sorrow to all of us who were closely associated with him.

Dr. Woodworth generated in all who worked with him a deep respect for his dedication to principle and devotion to duty. The sharpness and depth of his mind and the warmth and generosity of his spirit was an inspiration to all who came in contact with him. Dr. Woodworth will be missed for a long time.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE AT 4:00 P.M. December 6, 1977

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $5,700 million, to be issued December 15, 1977. This offering will provide $200 million of new cash for the Treasury as the maturing bills are outstanding in the amount of $5,516 million. The two series offered are as follows:

91-day bills (to maturity date) for approximately $2,300 million, representing an additional amount of bills dated September 15, 1977, and to mature March 16, 1978 (CUSIP No. 912793 P3 4), originally issued in the amount of $3,377 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $3,400 million to be dated December 15, 1977, and to mature June 15, 1978 (CUSIP No. 912793 Q8 2).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing December 15, 1977. Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,855 million of the maturing bills. These accounts may exchange bills they hold for the bills now being offered at the weighted average prices of accepted competitive tenders.

The bills will be issued on a discount basis under competitive and noncompetitive bidding, and at maturity their par amount will be payable without interest. Except for definitive bills in the $100,000 denomination, which will be available only to investors who are able to show that they are required by law or regulation to hold securities in physical form, both series of bills will be issued entirely in book-entry form in a minimum amount of $10,000 and in any higher $5,000 multiple, on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20226, up to 1:30 p.m., Eastern Standard time, Monday, December 12, 1977. Form PD 4632-2 (for 26-week series) or Form PD 4632-3 (for 13-week series) should be used to submit tenders for bills to be maintained on the book-entry records of the Department of the Treasury.

Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used.

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account.

Payment for the full par amount of the bills applied for must accompany all tenders submitted for bills to be maintained on the book-entry records of the Department of the Treasury. A cash adjustment will be made on all accepted tenders for the difference between the par payment submitted and the actual issue price as determined in the auction.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, or for bills issued in bearer form, where authorized. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Competitive bidders will be advised of the acceptance or rejection of their tenders. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action shall be final. Subject to these reservations, noncompetitive tenders for each issue for $500,000 or less without stated price from any one bidder will be accepted in full at the weighted average price (in three decimals) of accepted competitive bids for the respective issues.

Settlement for accepted tenders for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, and bills issued in bearer form must be made or completed at the Federal Reserve Bank or Branch or at the Bureau of the Public Debt on December 15, 1977, in cash or other immediately available funds or in Treasury bills maturing December 15, 1977. Cash adjustments will be made for differences between the par value of the maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which these bills are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of these bills (other than life insurance companies) must include in his or her Federal income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Department of the Treasury Circulars, No. 418 (current revision), Public Debt Series - Nos. 26-76 and 27-76, and this notice, prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

federal financing bank NEWS
WASHINGTON, D.C. 20220
Press inquiries: 202-566-2615

FOR IMMEDIATE RELEASE December 6, 1977

SUMMARY OF FEDERAL FINANCING BANK HOLDINGS

November 1-November 30, 1977

Federal Financing Bank activity for the month of November, 1977, was announced as follows by Roland H. Cook, Secretary:

The FFB purchased the following notes from the Student Loan Marketing Association guaranteed by the Department of Health, Education and Welfare:

Date	Amount	Note #	Maturity	Interest Rate
11/1	$30,000,000	116	1/31/78	6.593%
11/8	40,000,000	117	2/7/78	6.498%
11/15	50,000,000	118	2/14/78	6.399%
11/22	50,000,000	119	2/21/78	6.389%
11/29	30,000,000	120	2/28/78	6.361%

The U.S. Railway Association made the following borrowings against Note #8 guaranteed by the Department of Transportation:

Date	Amount	Maturity	Interest Rate
11/2	$2,433,700	4/30/79	7.322%
11/9	584,500	4/30/79	7.282%
11/14	362,125	4/30/79	7.273%
11/15	2,472,100	4/30/79	7.150%
11/22	1,182,900	4/30/79	7.171%

On November 4, the Bank advanced $1,409,038 to the Missouri, Kansas, Texas Railroad (KATY) at an interest rate of 7.853% on a quarterly basis. The note under which the advance was made matures on November 15, 1997, and is guaranteed by the Department of Transportation.

On November 4, the Bank advanced $935,059 to the Trustee of Chicago, Rock Island and Pacific Railroad at a rate of 6.895%. The Trustee's certificate under which the advance was made is guaranteed by the Department of Transportation and will mature on June 21, 1991.

B-587

The National Rail Passenger Service (Amtrak) drew the following amounts under Note #13 guaranteed by the Department of Transportation:

Date	Amount	Maturity	Interest Rate
11/1	$10,000,000	1/30/78	6.532%
11/3	5,000,000	1/30/78	6.469%
11/4	4,000,000	1/30/78	6.458%
11/7	6,000,000	1/30/78	6.454%
11/10	7,000,000	1/30/78	6.438%
11/15	5,000,000	1/30/78	6.359%
11/16	5,000,000	1/30/78	6.376%
11/21	5,000,000	1/30/78	6.340%
11/23	5,000,000	1/30/78	6.374%
11/30	3,500,000	1/30/78	6.354%

The FFB purchased participation certificates from the General Services Administration in the following amounts:

Date	Series	Amount	Maturity	Interest Rate
11/9	M	$5,106,964.24	7/31/03	7.992%
11/14	L	3,058,090.93	11/15/04	7.964%

The Tennessee Valley Authority sold notes to the FFB in the following amounts:

Date	Amount	Note #	Maturity	Interest Rate
11/14	$ 50,000,000	66	2/28/78	6.614%
11/30	280,000,000	67	2/28/78	6.375%

On November 20, the Western Union Space Communications drew $9.4 million at a rate of 7.812% on an annual basis. The drawdown is guaranteed by the National Aeronautics and Space Administration and will mature on October 1, 1989.

On November 23, the FFB purchased $5.9 million of debentures from Small Business Investment Companies guaranteed by the Small Business Administration:

Amount	Maturity	Interest Rate
$ 350,000	11/23/85	7.655%
5,550,000	11/23/88	7.755%

The FFB made advances to foreign governments under loans guaranteed by the Department of Defense:

Borrower	Date of Promissory Note	Date of Advance	Amount	Maturity	Interest Rate
Argentina	6/30/76	11/2	$ 84,521.21	6/30/83	7.522%
	6/30/76	11/22	184,285.39	6/30/83	7.386%
	6/27/75	11/28	1,590.51	4/30/83	7.378%
	6/30/76	11/28	29,332.00	6/30/83	7.391%
	6/30/76	11/29	522,521.00	6/30/83	7.397%
Ecuador	7/28/76	11/1	46,444.24	6/30/83	7.522%
	7/28/76	11/3	559,866.39	6/30/83	7.547%
	9/15/77	11/30	1,600,000.00	8/25/84	7.459%
Israel	6/24/77	11/9	35,699,051.02	5/12/07	7.980%
Jordan	5/26/76	11/1	430,000.00	11/26/85	7.615%
	5/26/76	11/7	566,332.70	11/26/85	7.598%
	5/26/76	11/14	223,761.02	11/26/85	7.521%
	5/26/76	11/22	1,063,704.85	11/26/85	7.486%
Korea	9/6/77	11/16	1,270,126.45	12/31/84	7.450%
Lebanon	9/19/77	11/4	23,693,559.61	10/15/84	7.614%
	9/19/77	11/16	1,306,440.39	10/15/84	7.452%
Malaysia	8/23/76	11/14	3,135,820.00	12/31/82	7.412%
Morocco	9/28/77	11/29	2,315,295.41	9/10/85	7.488%
Panama	9/30/77	11/3	1,669,588.79	3/31/83	7.547%
Paraguay	6/30/76	11/10	17,111.03	6/30/81	7.342%
Philippines	8/12/76	11/9	97,327.44	6/30/82	7.422%
	9/29/77	11/14	143,799.83	9/12/83	7.443%
Thailand	9/29/76	11/1	159,362.58	6/30/83	7.522%
	9/29/77	11/11	11,300,000.00	9/20/86	7.558%
Turkey	9/22/77	11/16	5,499,810.21	10/1/87	7.557%

The Federal Financing Bank purchased Rural Electrification Administration guaranteed notes in the following amounts from utility companies:

Date	Borrower	Amount	Maturity	Interest Rate
11/1	United Power Association	$17,000,000.00	12/31/11	7.904%
11/1	Oglethorpe Elect. Membership Coop.	4,120,000.00	12/31/11	7.904%
11/2	Arkansas Electric Coop.	809,000.00	12/31/11	7.936%
11/7	Allied Tele. Co. of Arkansas	3,000,000.00	12/31/11	7.967%
11/9	Colorado-Ute Electric	2,708,000.00	11/9/79	7.279%
11/10	Tri-State Gen. & Trans.	2,758,000.00	12/31/11	7.927%
11/14	Tri-State Gen. & Trans.	300,000.00	12/31/11	7.924%
11/14	Central Iowa Power Coop.	1,512,000.00	12/31/11	7.924%
11/15	United Power Association	5,000,000.00	12/31/11	7.882%
11/15	Arizona Elect. Pwr. Coop.	9,400,000.00	12/31/11	7.882%
11/16	Northwest Telephone Co.	1,971,000.00	12/31/11	7.892%
11/18	Big River Elect. Corp.	4,068,000.00	12/31/11	7.885%
11/21	South Mississippi Elect.	145,000.00	11/21/79	7.220%
11/23	Big River Electric Corp.	1,311,000.00	12/31/11	7.885%
11/25	Allied Tele. Co. of Oklahoma	116,000.00	12/31/11	7.870%
11/28	Golden Valley Electric Pwr.	3,426,000.00	11/28/79	7.275%
11/28	East Kentucky Power Coop.	5,037,000.00	12/31/11	7.874%
11/28	Basin Electric Power Coop.	1,751,000.00	11/28/79	7.275%
11/29	Arkansas Elect. Coop. Corp.	1,509,000.00	12/31/11	7.871%
11/30	Southern Illinois Pwr. Coop.	3,415,000.00	11/30/79	7.220%
11/30	Big River Electric Corp.	141,000.00	12/31/11	7.880%
11/30	East Ascension Tele. Co.	600,000.00	12/31/11	7.880%

Interest payments on the above REA loans are made on a quarterly basis.

Federal Financing Bank holdings on November 30, 1977, totalled $37.1 billion.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

CONTACT: A. M. Hattal
202/566-8381

FOR IMMEDIATE RELEASE December 6, 1977

TREASURY ANNOUNCES PRELIMINARY COUNTERVAILING DUTY DETERMINATION ON HANDBAG IMPORTS FROM URUGUAY

The Treasury Department announced today its preliminary determination that the Government of Uruguay subsidizes exports of handbags to the United States. This action, taken under the Countervailing Duty Law, was coupled with Treasury's announcement that it plans to waive countervailing duties on imports of handbags, non-rubber footwear and leather wearing apparel from Uruguay.

Under the Countervailing Duty Law the Treasury Secretary is required to assess an additional customs duty that is equal to a "bounty" or "grant" that has been found to be paid on imported merchandise. In the case of Uruguayan handbags, shoes and leather wearing apparel, it was determined that the Government of Uruguay provides export certificates, known as reintegros, that directly subsidize the exported merchandise. In addition, Treasury's investigation revealed that special incentives are provided to exporters that reduce income taxes as well as preferential terms provided by the Government for short-term financing.

It is the Treasury's preliminary determination that it will waive countervailing duties for a temporary period not to extend beyond January 4, 1979. The waiver will be subject to the following conditions:

(1) that the Government of Uruguay phase out all reintegro certificate payments to all leather goods exports with a 50 percent reduction of the reintegro to commence January 1, 1978. Fifty percent of the remaining reintegro rebate must be dropped on or before July 1, 1978, and the remaining subsidy to be eliminated by January 1, 1979.

(2) that the Government of Uruguay commence a phase-out of all reintegro rebates for all exported products, to be concluded by January 1, 1983.

Interested parties will be given a period of 15 days in which to submit written views on Treasury's preliminary action on handbags and its intention to waive countervailing duties on shoes, leather wearing apparel, and handbag imports from Uruguay.

This action will be published in the Federal Register of December 7, 1977. Imports of handbags from Uruguay in 1976 were approximately $1.5 million. Leather wearing apparel imports from that country during 1976 were $21 million. Non-rubber footwear imports during 1976 were approximately $12 million.

* * *

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE

December 7, 1977

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for $3,506 million of 52-week Treasury bills to be dated December 13, 1977, and to mature December 12, 1978, were accepted at the Federal Reserve Banks and Treasury today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS: (Excepting 2 tenders totaling $5,930,000)

	Price	Discount Rate	Investment Rate (Equivalent Coupon-Issue Yield)
High -	93.398	6.529%	6.97%
Low -	93.378	6.549%	6.99%
Average -	93.382	6.545%	6.98%

Tenders at the low price were allotted 24%.

TOTAL TENDERS RECEIVED AND ACCEPTED
BY FEDERAL RESERVE DISTRICTS AND TREASURY:

Location	Received	Accepted
Boston	$ 58,965,000	$ 39,445,000
New York	4,610,395,000	2,919,775,000
Philadelphia	1,935,000	1,935,000
Cleveland	61,140,000	43,540,000
Richmond	26,265,000	6,110,000
Atlanta	17,745,000	6,745,000
Chicago	434,065,000	196,365,000
St. Louis	30,705,000	6,295,000
Minneapolis	27,780,000	17,780,000
Kansas City	25,415,000	13,135,000
Dallas	12,025,000	3,025,000
San Francisco	514,295,000	250,475,000
Treasury	1,075,000	1,075,000
TOTAL	$5,821,805,000	$3,505,700,000

The $3,506 million of accepted tenders includes $ 62 million of noncompetitive tenders from the public and $1,162 million of tenders from Federal Reserve Banks for themselves and as agents of foreign and international monetary authorities accepted at the average price.

An additional $328 million of the bills will be issued to Federal Reserve Banks as agents of foreign and international monetary authorities for new cash.

B-589

Department of the TREASURY
WASHINGTON, D.C. 20220 TELEPHONE 566-2041
NEWS

FOR RELEASE AT NOON
THURSDAY, DECEMBER 8, 1977

REMARKS BY THE HONORABLE C. FRED BERGSTEN
ASSISTANT SECRETARY OF THE TREASURY
FOR INTERNATIONAL AFFAIRS
BEFORE THE
AMERICAN CHAMBERS OF COMMERCE
SÃO PAULO, BRAZIL

BRAZIL AND THE UNITED STATES IN THE WORLD ECONOMY

The economic relationship between Brazil and the United States has undergone substantial change in recent years. Today Brazil is clearly one of the most important participants in the international economic system. We fully recognize that position. We welcome it, as the basis for strengthened cooperation between our countries in a wide range of policy areas.

In the past, economic discussions between the United States and Brazil have tended to focus on bilateral problems between our two countries. Today, I am pleased to report that there are no major bilateral economic problems between us. This is doubly fortunate, because our economic relationship should now, in any event, focus increasingly on the global roles of the United States and Brazil -- and on our potential contributions to the future strength of the world economy, for our own benefit as well as that of other nations.

This transformation in our relations derives primarily from the increasingly central role which Brazil has come to play in world economic affairs:

-- Brazil is the world's tenth largest economy.

-- Brazil is one of the few countries which maintained an impressive rate of economic growth through the world recession of 1974-1975, helping buoy the world economy in the process.

-- Its international monetary reserves are eleventh highest in the world.

-- It is the world's thirteenth largest importer and fifteenth largest exporter.

-- Brazil ranks second only to the United States as an exporter of food products.

-- Brazil is seventh among all countries as a host to direct investment by American firms, and has ranked as high as third in recent years in terms of annual increases in such investment.

-- It is the largest single borrower from the World Bank and the Inter-American Development Bank, and is one of the largest borrowers from the international capital markets as well.

Brazil is clearly moving into the front ranks of the world's economic powers. It should thus participate fully in the management of the international economic system. The key issue for the United States and Brazil, as well as for the world's other major economies, is how to work together to translate this change in Brazil's position into more effective Brazilian participation in the affairs of the world economy.

At the outset, let me state unequivocally that there is room for Brazil -- and other nations which can qualify -- in the world of industrialized major economies. Brazil's capacity to so participate is a result of its dramatic economic success, which the United States has strongly supported. We now support the enhanced role which Brazil is currently equipped to play on a whole range of international economic issues. As we welcomed the transition of Japan in the late 1950s and early 1960s, we welcome the transition of Brazil in the late 1970s and early 1980s.

As Brazil increasingly assumes the position dictated by its growing role in the world economy, it must of course also assume enhanced responsibilities for the functioning of that economy. The economic relationship between the United States and Brazil -- indeed, much of our political relationship as well -- is likely to focus increasingly on ways in which these responsibilities can be exercised most effectively.

In presenting this basic American view of Brazil's new role in the world economy, I fully recognize that Brazil remains in many respects a developing country. Its per capita income is still only $1350 -- far above the average per capita income of most developing countries, but still well below that of the mature industrial states. Some areas of the country, such as the Northeast which I visited yesterday, remain desperately poor. Inflation is much higher than in the more mature industrial countries. The external balance bears close watching. Brazil's progress was severely affected by the multiplication of oil prices and subsequent world recession.

Yet Brazil has moved far beyond the traditional concept of a "less developed country". Large parts of its modern manufacturing sector compete effectively in world markets. Its economy has diversified smoothly. Its export growth, in both manufactured goods and a growing array of primary products, is deeply impressive. Its resource base is developing rapidly. Its economic management is admired throughout the world. It is rapidly developing its own multinational companies. At a minimum, Brazil is a charter member of the new "international middle class" -- which, in many senses, is much farther removed from the poorest countries of the Fourth World than from today's mature industrialized powers.

This new economic situation raises fundamental, and profound, questions concerning the world role of Brazil:

-- What should be its relationship with the United States, with the other industrial countries, and with the developing world?

-- Does Brazil lie closer to the countries which still receive large amounts of outside assistance or to those which extend such assistance? Should it be somewhere in the middle, neither giving nor receiving? Should it continue to receive in some areas, and give in others?

-- How should the monetary, trading and investment rules apply to Brazil: as they do to the industrial powers, or as they apply to the poorer countries? Or are new rules needed for Brazil and others in a more intermediate position?

-- Would it be easier for Brazil to play such an intermediate role alone, or in the company of other members of a new "international middle class"?

-- How are Brazil's own vital interests affected by the impact on others of its answers to these questions -- in terms, for example, of the willingness of the United States and other industrial countries to maintain policies which help foster further economic growth in Brazil?

We in the United States have no clear answers to these questions. Indeed, it would be highly presumptuous for us to suggest answers even if we thought we had them.

We feel, however, that it is essential to raise the questions -- because the answers to them which emerge over the next few years will go far to determine the economic future of Brazil, the United States, and perhaps the world economy as a whole. In these remarks today, I would like to discuss three key areas of economic interaction between the United States and Brazil -- and illustrate, in each, how Brazil's new world role suggests policy approaches in both our countries which may differ from those of the recent past.

Trade

As we in the United States view the economic needs of Brazil, we recognize the high priority which you place on access to our markets -- access for your exports of manufactured goods and primary products, access to our private capital. The other more advanced developing countries have similar interests. Our policy is to provide such access to our markets to the maximum extent possible.

We are fully aware of concern, in Brazil and elsewhere, that -- to the contrary -- the United States is on the verge of going protectionist. I believe that concern to be totally unjustified.

Soon after President Carter took office last January, he had to make decisions on a number of recommendations from our International Trade Commission for comprehensive controls on imports of several major products. At least two of these, shoes and sugar, were of major importance to Brazil. Domestically, the President risked Congressional override if he rejected the Commission's proposals.

But the President did reject them. He viewed the institution of such controls as harmful to our own economy, because they would intensify inflationary pressures and insulate us from the beneficial effects of international competition. But he also rejected import quotas because of the injurious impact on other countries, notably the developing countries. And the impact on Brazil was a specific consideration of considerable weight in both those decisions. The Congress has subsequently forced an increase in the U.S. sugar tariff, but even that action will be superseded next year by the International Sugar Agreement -- which was recently negotiated in large part due to the efforts of the United States and Brazil, and will help sugar exporters such as Brazil to raise prices from extremely low levels which obtain at present.

The President currently faces strong pressure to further restrain imports in the textile and steel sectors, both of which are also of great interest to Brazil. However, he has rejected any amendment of the Multi-Fiber Agreement on textiles, which would make it more restrictive, and any quantitative import barriers on steel. Again, his concern for the developing countries has been an important factor in the ultimate decision.

In addition, there have been a multitude of proposals to remove specific products -- many of interest to Brazil -- from eligibility under the system of generalized tariff preferences which we extend to exports from the developing countries. In some cases, Brazilian products have been removed from GSP eligibility because of the requirement in our trade law that exports of specific products from individual countries must be disqualified from preferences once that country becomes internationally competitive in those articles. Beyond these, however, very few products have been withdrawn -- despite hostility to the whole system of preferences from some key elements of the American public.

Finally, the United States has taken the lead in infusing new life into the Multilateral Trade Negotiations in Geneva. We are seeking further liberalization of world trade, by steep cuts in tariffs and meaningful reductions of non-tariff barriers. We are encouraged by the response from the other major trading countries; we hope and expect that the negotiations will bring major success in 1978.

The record is thus clear. Throughout its first year the Carter Administration has rejected comprehensive new import restrictions -- and, indeed, has sought renewed trade liberalization. In part to provide growing markets for world trade, we have taken steps to assure continued rapid growth of our own economy and urged the other stronger countries around the world -- notably Japan and Germany -- to do the same. Our concern to maintain market access for Brazil and other developing countries has been central to our response to pressures for trade restraints. Our success can be measured by the fact that Brazil has now returned to running a bilateral trade surplus with the United States, accounting for about $1 billion of the adverse swing in the U.S. trade balance in 1977.

Trade, however, reveals the intimate interaction of national policies. We do face serious pressures to restrict imports coming into the United States, as do the Europeans and Canadians. And we are now seeing clearly how policies and economic performance in one major country, Japan, can jeopardize the openness of the entire trading system via the reactions which it triggers in other major countries. It is not too soon to ask whether Brazilian policies might have somewhat similar effects in the future.

Brazil maintains extremely high tariffs. In recent years, it has instituted and tightened quantitative import restrictions on a wide array of products. It extends export incentives, often of considerable magnitude, to many of its exports of manufactured products -- some of which can run directly afoul of countervailing duty statutes in the United States and elsewhere. Through the "performance requirements" which it levies on incoming multinational enterprises, such as minimum export quotas and value-added requirements, Brazil's policies also impinge upon the ability of other countries to market their products on a fair and competitive basis.

We fully recognize that Brazil has adopted many of these measures in recent years under extreme balance of payments pressures, and in response to a marked slowdown in world economic growth (and thus export markets). We recognize that many of them are intended to offset distortions elsewhere in the economy, and to accelerate the diversification of Brazil's economy. We recognize that some are intended to counter what is perceived as the excessive strength of firms based outside Brazil. We know that current practices cannot be eliminated overnight. We do not believe that the situation has reached a crisis point.

Yet we are deeply concerned that prolonged continuation of such policies will help bring about the very responses which Brazil is so right to fear, and which would be so injurious to its own vital interests. Brazil has already taken the lead on several trade issues within the Multilateral Trade Negotiations in Geneva. Perhaps the time may soon come for more steps in this direction.

Might it be sensible for Brazil, as soon as possible, to embark on a deliberate and announced course of winding down -- and eventually out -- its export subsidies and liberalizing its import restraints? In response, we would surely be prepared to respond constructively in our use of countervailing duties.

Might it be sensible for Brazil -- in terms of its own economic interests, and to get a better deal for its exports -- to offer concessions of its own in the Multilateral Trade Negotiations in Geneva, rather than concentrating its negotiating efforts on perpetuating preferential treatment for less developed countries through such measures as the binding of margins of preference? In response, we and other industrialized countries would surely be able to grant greater concessions on products of interest to Brazil.

It seems to us that the United States and Brazil should work closely together on all these issues, sharing as we do the perspective of great exporters of both industrial and primary products. None of the steps mentioned are easy to undertake. All confront economic and political pitfalls. Yet a failure to face them would be a dereliction of duty on the part of countries, like ours, whose own vital interests would be deeply affected by a relapse into trade restrictions around the world.

Commodities

Such collarboration has already marked much interaction between the United States and Brazil in the area of commodity policy, where both of us are both major producers and consumers. We recently worked closely together toward the successful negotiation of the International Sugar Agreement. We should be able to work together on cocoa, where Brazil's role as a producer is growing rapidly and the United States is willing to participate in negotiating a new international agreement. Our countries have adopted similar views on the need to maintain the maximum play of market forces for such key raw materials as bauxite and iron ore.

The similarity of our interests is perhaps most apparent regarding the most important commodity of all -- oil. Every one percent increase in the price of oil adds over $400 million to the annual import bill of the United States, and about $40 million to the annual import bill of Brazil. Our mutual interests in conservation, the development of new energy sources, and moderation in international oil pricing are thus clear. This is yet another area where our policies should run in parallel.

I must add, however, that there is one commodity -- coffee -- for which Brazilian policy has led to deep concern in the United States in recent months. The United States and other importing countries cannot be expected to cooperate to protect producer prices from falling below agreed levels, as we have agreed to do in successive International Coffee Agreements, if Brazil and other exporting countries seek to hold prices artificially high by the exercise of "market discipline" and national export levies. Such an approach, or even appearances thereof, adversely affect our ability to cooperate across the whole range of commodity, and indeed trade, issues -- not just on the specific product involved. It is simply not an appropriate posture for one of the world's major economic powers.

International Capital

The international capital markets are a third area where intense cooperation is needed between our two countries. The United States offers the world's largest and most flexible capital market. Brazil is one of the world's largest borrowers. We are the largest contributor to the international lending institutions, of which Brazil is the largest client.

Despite its own continuing needs to import large amounts of capital, Brazil has already adopted a number of extremely cooperative policies in this area. It has stopped borrowing foreign exchange from the concessional windows of the development banks. It has made part of its contributions to the Inter-American Development Bank in convertible currency. It has contributed to the African Development Fund. It has begun to extend bilateral aid to poorer countries.

Even here, however, more could be done as Brazil advances along the continuum from recipient to donor country. Thought might be given to a contribution to the next replenishment of the International Development Association, the concessional window of the World Bank. Brazil could help the IDB use its cruzeiro holdings throughout the hemisphere. And Brazil might extend technical assistance to other countries in managing their external debt, a problem which Brazil has mastered with great skill and success, both bilaterally and through efforts in responsible multilateral forums such as the IMF/World Bank Development Committee.

For our part, the Carter Administration has taken a number of steps to improve Brazil's access to U.S. capital. We have declared our support for an expansion of the lending capacity of the World Bank. We would hope to support expansion of the lending capacity of the Inter-American Development Bank. We are sharply increasing the activity of our own Export-Import Bank, from which Brazil is also a major borrower. We have repeatedly indicated our confidence in the stability of private international capital flows, and have supported steps strengthen the official backstopping of such flows by expanding the financial capability of the International Monetary Fund and through other measures. Over one half of Brazil's external bank borrowing comes from American banks, including overseas branches.

In the area of private direct investment, Brazil has also demonstrated an impressive ability to attract needed capital -- joined in this case by technology and marketing skills. The United States has thus decided to cut back on its program of insuring U.S. investors against non-commercial risks in Brazil except for minerals development and for projects of exceptionally high developmental benefit.

Despite its success in this area, however, we fully recognize that Brazil -- like most countries which host multinational enterprises -- feels a need to maintain effective control over incoming investors. At the same time, the investors must be assured of fair and consistent treatment. And, as I have already noted in discussing trade, we are concerned that some Brazilian policies may adversely affect U.S. economic interests by artificially diverting production, and therefore jobs and exports, across national boundaries. For example, a 100 percent value-added requirement on automobile production is equivalent to a zero import quota on components.

As in trade, there is a risk that, over time, our own open approach to foreign investment will be eroded by certain types of policies in key host countries. Yet, in the investment area, unlike in trade and international monetary affairs, there are virtually no international rules by which home and host countries alike can assure protection of their legitimate national interests -- including the legitimate interests of the private firms. This is surely an issue on which the United States and Brazil, from their complementary vantage points should be looking toward the possibility for new international action via both multilateral and bilateral channels.

Conclusion

Economic relations between the United States and Brazil have clearly entered a new era. The donor-client relationship of the past is dead, and properly so. Its legacy remains only in isolated areas, such as generalized tariff preferences and limited extensions of investment insurance.

The task for the future is to find a new mode of relations which rest on the new world role of Brazil, along with the traditional world role of the United States. It would seem that the new relationship should rest fundamentally on a common effort -- sometimes in explicit collaboration, sometimes simply in parallel -- to deal with the complete spectrum of international economic problems which we both face, from our different perspectives but with underlying national interests which are very similar.

There are instances in which such efforts have already been undertaken. I have referred to several in my remarks today, and there are others -- as in international monetary affairs, and the negotiations for a Law of the Sea treaty. But there are also many instances where we have not seized opportunities to work together -- indeed, I have suggested an extensive agenda ranging across trade, commodity and investment issues where we could do so. And there are a few issues, to which I have also referred, where we have failed to collaborate and hence weakened both our efforts.

I am deeply honored to be in Brazil this week, at the invitation of your Minister of Finance and within the framework of close economic consultation and cooperation between our countries. As I said at the outset, there are now no major bilateral economic problems between our countries. We thus have the opportunity to find improved means to work together on a wide range of global economic issues. In sharing these thoughts with you today, my objective is to help provide a basis for such further, deeper partnership between Brazil and the United States. I and my colleagues in the United States look forward to receiving your ideas on these issues, and to even closer collaboration between us in the future.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

Contact: Jack Plum
566-2615

FOR IMMEDIATE RELEASE December 9, 1977

NEW REGULATIONS PROPOSED ON TAX AND LOAN ACCOUNTS

The Department of the Treasury today announced proposed regulations to implement new legislation authorizing the Treasury to invest tax and loan account funds.

Written comments on the proposed regulations should be received no later than January 19, 1978, addressed to the Fiscal Assistant Secretary, Department of the Treasury, Washington, D. C., 20220. A public hearing on the regulations is scheduled at 9:00 a.m., Thursday, January 12, 1978, in Treasury Department's Cash Room. Treasury Department plans to issue final rules to become effective during the second quarter of 1978.

Under the new legislation, financial institutions will be paid on a fee basis for handling Federal tax deposits and administering Treasury tax and loan accounts. A fee schedule is also established for issuance and redemption of U.S. Savings Bonds.

Tax and loan accounts have been maintained in some 14,000 commercial banks interest-free as compensation for services rendered to the Treasury Department. The new law extends eligibility for these accounts to savings and loan associations and to credit unions. The proposed fees to be paid by Treasury Department are based upon a survey by Treasury of a sampling of depositaries.

The proposed regulations, implementing Public Law 95-147, are published today in the Federal Register.

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B-591

DEPARTMENT OF THE TREASURY

TREASURY DEPARTMENT ORDER NO. 255

By virtue of the authority vested in me as Secretary of the Treasury, Donald C. Lubick is designated Acting Assistant Secretary (Tax Policy) effective immediately and continuing until an Assistant Secretary (Tax Policy) is appointed and takes office. As such, he is authorized to exercise all authority delegated to the Assistant Secretary (Tax Policy).

W Michael Blumenthal

W. Michael Blumenthal
Secretary of the Treasury

Date: December 12, 1977

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE December 12, 1977

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,307 million of 13-week Treasury bills and for $3,402 million of 26-week Treasury bills, both series to be issued on December 15, 1977, were accepted at the Federal Reserve Banks and Treasury today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing March 16, 1978			26-week bills maturing June 15, 1978		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.469 a/	6.057%	6.24%	96.785 b/	6.359%	6.66%
Low	98.464	6.076%	6.26%	96.775	6.379%	6.68%
Average	98.465	6.073%	6.25%	96.779	6.371%	6.67%

a/Excepting 1 tender of $500,000
b/Excepting 1 tender of $30,000

Tenders at the low price for the 13-week bills were allotted 67%.
Tenders at the low price for the 26-week bills were allotted 79%.

TOTAL TENDERS RECEIVED AND ACCEPTED
BY FEDERAL RESERVE DISTRICTS AND TREASURY:

Location	Received	Accepted	Received	Accepted
Boston	$ 20,800,000	$ 19,810,000	$ 27,820,000	$ 17,820,000
New York	4,094,795,000	1,849,320,000	4,940,945,000	2,895,565,000
Philadelphia	54,660,000	36,410,000	25,975,000	5,975,000
Cleveland	62,425,000	30,325,000	72,100,000	55,000,000
Richmond	25,520,000	17,190,000	25,455,000	19,455,000
Atlanta	28,530,000	27,200,000	16,575,000	16,035,000
Chicago	355,415,000	169,270,000	259,550,000	92,400,000
St. Louis	48,570,000	27,070,000	46,765,000	27,610,000
Minneapolis	19,100,000	13,780,000	29,735,000	24,735,000
Kansas City	41,860,000	37,440,000	23,170,000	23,170,000
Dallas	20,815,000	13,815,000	16,765,000	8,765,000
San Francisco	242,470,000	59,170,000	438,430,000	213,020,000
Treasury	6,665,000	6,665,000	2,255,000	2,255,000
TOTALS	$5,021,625,000	$2,307,465,000 c/	$5,925,540,000	$3,401,805,000 d/

c/Includes $342,580,000 noncompetitive tenders from the public.
d/Includes $154,550,000 noncompetitive tenders from the public.
1/Equivalent coupon-issue yield.

B-592

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE ON DELIVERY
EXPECTED AT 10:00 A.M.
DECEMBER 14, 1977

STATEMENT OF THE HONORABLE W. MICHAEL BLUMENTHAL
SECRETARY OF THE TREASURY
BEFORE THE
SENATE COMMITTEE ON BANKING, HOUSING
AND URBAN AFFAIRS

Mr. Chairman and Members of the Committee:

I am pleased to have the opportunity to appear before you to report on New York City's fiscal condition. My testimony will cover three basic topics. Initially, I will review City budget and financing trends since the 1975 enactment of the Seasonal Financing Act. In particular, my remarks will address New York's recent unsuccessful effort to re-enter the public note market. Next, I will describe the City's current fiscal status. My testimony will conclude by addressing the City's uncertain financing outlook and those steps which must be taken to improve it.

To begin, let me observe that many in Washington and elsewhere have the impression that the New York City fiscal situation has not changed at all since the 1975 near bankruptcy. That impression is not correct. Much fiscal progress has been made during the past two and a half years. I would like to summarize that progress, at the outset, to provide a better perspective for my later discussion of the current situation and future outlook.

Review of the 1975-1977 Period

First, I think it is instructive to recall the circumstances prevailing when Congress enacted the 1975 legislation to authorize federal seasonal financing for the City.

New York then was incurring a deficit of $968 million annually in its operating budget. Moreover, another $800 million in operating expenses was carried in its capital budget. The real deficit in fiscal 1976, therefore, approximated $1.8 billion. In addition, the City's accounting and financial record keeping systems were in disarray.

Faced with the spectre of bankruptcy, New York began to take large and painful steps to reduce expenses. It also initiated serious efforts to modernize its accounting and financial information systems. Let me mention a few of these difficult, but important steps.

-- The City reduced its work force substantially. The current level of City employment involves 60,000 fewer jobs than the early 1975 level. Overall employment there, today, is 300,000.

-- It also negotiated a two and a half year wage freeze, ending during the March-June period next year.

-- The nearly $1 billion deficit in its operating budget has been eliminated. During this fiscal year, that operating budget is balanced as defined under existing State law.

-- More than $4 billion of short-term notes, which were outstanding in mid-1975, has been converted into long term MAC bonds.

-- For the first time, tuition payments have been initiated at City college, covering all students.

-- The City has implemented a $16 million management information and expense control system (IFMS). It provides sharply improved financial controls which combine, in a common data base, the major budgeting and accounting functions.

Mr. Chairman, these steps illustrate that New York has made major progress to improve its fiscal condition. Indeed, every step that it pledged to take, in discussions before Congress in 1975, has been taken.

The Seasonal Loan Program

Let me turn now to a review of the Seasonal loan program itself. The City has complied with all provisions of the legislation.

During City fiscal 1976, $1.26 billion was borrowed and repaid with interest, on time or ahead of schedule. In fiscal 1977, the City borrowed $2.1 billion and repaid it with interest, again on time or ahead of schedule.

Last spring, the City presented us with a 1978 Financial Plan which included a $14 billion budget and $2 billion in seasonal borrowing. I said before this Committee in May that Treasury would only begin this final year of the loan program if we were convinced that the City's budget was balanced (as defined under State law) and that, relative to the first loan request, there was "a reasonable prospect of repayment."

During June, we evaluated that budget and the related cash flow outlook, with the help of our consultants -- Arthur Andersen & Co. I assure you that it was a careful evaluation. We concluded that the proposed budget would result in balance and that seasonal loans made in July could be repaid. Accordingly, on July 5, we provided a $300 million loan, the first during this current City fiscal year.

In recent months, Treasury has extended an additional $1.325 billion in seasonal loans after determining, in each case, that a reasonable prospect of repayment existed. All loans mature during April, May and June of 1978 and are fully collateralized by State aid payments to the City. We continue to believe that all of these loans will be repaid on time or ahead of schedule.

The City has borrowed or expects to borrow an additional $400 million this month, on the same basis. This will represent the final loan this year, barring unforeseen circumstances. Such borrowing will raise total loans to the City during this fiscal year to $2.03 billion.

Let me highlight one aspect of this year's program which differs from its first two years. This year, our Credit Agreement requires the City to make every effort to borrow in the public markets before submitting a loan request to Treasury. Specifically, Section 6.11 of that Agreement requires that the City "certify" in writing to us exactly what steps it took to borrow from conventional sources. As I also said to you in May, we have taken this "certification" requirement literally all year. We have scrutinized each proposed loan request to satisfy ourselves that the City actually could not borrow elsewhere. The steps the City has taken to fulfill this requirement have satisfied us, in each instance, that a "best effort" was made.

Since its inception the New York City loan program has not cost the U.S. taxpayer anything. Under the law, Treasury is required to charge the City one percent more than the rate on outstanding government obligations of comparable maturity. As a result, the program will yield a net surplus of approximately $12 million this year. As you know, this amount will be returned to Treasury's general fund.

Recently Aborted Public Note Offering

I would like to discuss now, Mr. Chairman, the specific circumstances surrounding the City's recent effort to re-enter the short-term market. A minute ago, I described our Credit Agreement requirement that New York make every effort to borrow on its own this year. In keeping with that requirement, we have been insisting all year long that the City remove all obstacles, within its control, to re-enter this market. Accordingly, City officials worked diligently for several months to prepare for a public offering of short-term notes.

It is worthwhile to review here what that effort entailed.

-- Virtually, all of the $1.8 billion of so-called "moratorium notes", held both by the public and financial institutions, have been retired. These were short-term notes, on which principal payments had been unilaterally deferred by the City.

Retirement of this enormous amount of notes, through both cash payments of principal and exchanges of MAC bonds, removed a key obstacle to re-entering the markets. Had these notes not been retired, those financial institutions holding these "defaulted" notes would have been understandably reluctant to buy new ones from the same issuer.

-- This accomplished, the City turned to structuring the note itself in a way which, under the circumstances, would offer appropriate collateral to investors. As this Committee knows, State legislation was necessary to allow the City to segregate revenues to appropriately secure these new notes. The Governor cooperated and called a special session of the State legislature, which quickly enacted the necessary legislation.

-- The City engaged Merrill Lynch and First Boston, two of the nation's leading investment banking firms, to serve as managing underwriters for the offering. Their legal counsel worked with the City's counsel to prepare the massive disclosure document (prospectus) necessary for this first offering since 1975.

These efforts consumed the July through October period, and the City completed its preparation for this offering during the first week in November. The underwriters' intention was to sell $200-450 million of notes. The only remaining step was to obtain a sufficient credit rating from Moody's Investors Service, Inc., a recognized rating agency for municipal securities.

<u>Unfortunately, as you know, Moody's surprised and disappointed City officials and the financial community by assigning its lowest rating -- MIG-4 -- to the proposed notes.</u> In light of the strong collateral arrangements, the managing underwriters and the overall financial community had expected a higher rating. When the MIG-4 rating was received, they concluded that an underwriting was not possible.

One day later, a group of underwriters offered to try selling some City notes on an unorthodox basis involving no underwriting commitment. In their view, however, there was no certainty that any meaningful amount could be sold. The City Comptroller concluded that this approach involved a high risk of complete failure -- in a way which would delay even further the City's eventual return to the short-term market. We checked carefully with various municipal bond experts, who concurred in his judgment. Accordingly, we did not try to influence the City to accept this approach.

Naturally, Mr. Chairman, we were disappointed by the failure of this effort to re-enter the short-term market. My staff worked extensively with the City officials to make an offering possible and to clear the obstacles encountered along the way. But the outcome demonstrates conclusively that there is no market, at the moment, for City notes. Yet, New York came very close to a modest re-entry and that is cause for some encouragement. As I will discuss later, we think that prospects are reasonably good for achieving such re-entry during fiscal 1978.

The Recent SEC Staff Report

As you requested, let me also mention the recent SEC staff report on the City's security transactions during the October 1974 - March 1975 period.

We have reviewed the report, but have not undertaken our own investigation of these events. We have neither the staff nor the Congressional mandate to do so. I am not prepared, therefore, to comment on any of the specific allegations in the report.

I will say, however, that this report covers events of nearly three years ago and should be viewed in that context. No one, least of all Treasury, would argue that the City's financial and accounting practices were acceptable then. It is fair to say, however, that these practices have improved significantly during the intervening years. In addition, this SEC report is not a major factor preventing the City from regaining access to the credit markets today.

New York City's Current Fiscal Condition

I would like to discuss now the City's current budget and cash flow condition. This year's operating budget is balanced, as defined by the emergency State legislation of 1975. Operating revenues have materialized as expected and operating expenditures have been consistent with the City's projections.

Despite achieving this "defined balance", however, New York City's budget outlook remains uncertain. The City's projections for next year, fiscal 1979, indicate a "potential gap" in the operating budget of $249 million. Moreover, this estimate does not include any increases in salaries for City employees, whose contracts will be negotiated this spring. These projections concern us, and, I'm sure, concern this Committee.

The City faced a similar "gap" this year, and closed it through legitimate budget measures. City officials again assert that next year's potential gap also will be closed; indeed, it must be closed under State law. The unfortunate problem is that city revenues are growing more slowly than its expenditures so that there will be a potential gap of similar proportions in each of the next several fiscal years.

Closing this $249 million "potential gap" in next year's operating budget will not be easy. Nevertheless, as I will describe later, it must be done. The overall budget balancing task is, moreover, much larger than this potential gap. The latter, after all, assumes a phase-out of the $600 million of operating expenses in the capital budget over an unduly long eight year period. That phase-out period must be shortened.

Turning to the present financing situation, Mr. Chairman, it is even more uncertain. Currently, New York borrows $3 billion annually -- $2 billion on a seasonal basis and approximatley $1 billion on a long-term basis.

Yet, the City's two sources of borrowing are each scheduled to terminate next June 30. The Seasonal Financing Act has provided the short-term financing, of course, but it will expire then. Moreover, the City retirement systems, which have supplied long-term loans since 1975, will have completed their commitment to finance the capital budget by that same date. In addition, beyond June 30, their tax-exempt status could be endangered by increasing their total loans to New York -- although reinvestments of maturing principal should be considered.

The likelihood that New York will return to the public markets, beginning July 1, for the full amount of its short and long term needs, is poor. There simply is no market for the public sale of either type of security today, as evidenced by the recent failure to sell a modest amount of short-term notes. This is particularly unfortunate because the City has done everything it originally pledged to do.

Let me say, however, that this delay in New York's full return to the credit markets is not without parallel in modern finance. An analysis of the years immediately following near-bankruptcy by large corporate enterprises, for example, indicates that they generally could not return to the public markets for a number of years. Despite selling or closing large numbers of facilities, which New York obviously cannot duplicate, these enterprises generally needed several years to rebuild the confidence of public lenders in their creditworthiness.

Steps Which Must Be Taken

Let me conclude today, Mr. Chairman, by discussing a series of steps which we think that the City and State must take in order to improve this financing outlook. I met recently with Governor Carey, Mayor Beame, Mayor-Elect Koch and Comptroller Goldin to discuss this matter, and asked that comprehensive budget and financing plans covering the next three years or four years be developed immediately. I advised them that these plans must include a series of major actions to remove the continuing obstacles to returning New York to fully independent borrowing status.

I would like to discuss our views as to the required elements of each plan. First, the budget plan's objective must be to achieve a condition of truly recurring budget balance. Essentially, this means that the operating expenses must be phased out of the capital budget over the plan period.

In addition, the City must close the "potential gap" of $249 million or more which underlies its current operating budget.

This budget plan should specify those actions which the City will take, and which the State will take, to finally eliminate this overall deficit. The plan may assume continuation of certain federal fiscal assistance but the principal actions must be local ones.

Second, all of us here also need a plan for financing the City over this interim period -- one which will "lead" it back fully into the markets at the end of the period. The City already has asked Congress to extend federal lending, and I realize that their plan, whatever form it finally takes, will involve a role for Treasury. Nevertheless, most of New York's overall borrowing needs should be satisfied locally, and the plan must be convincing in that respect.

It seems to me that one objective of this financing plan should be to reduce the total borrowing need itself. The current need -- $3 billion annually -- may be too large for markets to absorb from a single city, even a more solid one. We think that there may be methods of reducing both the seasonal and the long term borrowing needs, and we await the City's proposal.

We further believe, Mr. Chairman, that the municipal unions and the local financial community, primarily the clearinghouse banks, should be integral elements in both plans. These plans only can work if these private parties provide strong support.

Regarding the unions, they have already made substantial sacrifices to maintain New York's solvency during the past two and a half years. They have both participated in a wage freeze and have financed the capital budget. Their role has been remarkable. Nevertheless, the City cannot regain fiscal stability unless they continue their exemplary record of wage restraint.

Concerning the banks, they also have bolstered the City's finances since mid-1975. They have facilitated several refinancings of City and MAC debt, and have helped underwrite new issues of MAC bonds. Their continued, and perhaps intensified, support also is needed if these plans are to work. We hope that they will begin to again participate in sales of the City's own securities.

One key element in these plans, Mr. Chairman, must be the continuation of a strong and independent budget review mechanism. Such a board is necessary to assure that City budgets remain in balance during the plan period. More importantly, however, it is needed to rebuild the confidence of long-term lenders that budgets will be balanced over many years. It is incumbent on City and State officials, therefore, to reach agreement on a mechanism which will succeed the expiring Emergency Financial Control Board. Determining this successor mechanism could involve, of course, simply extending this present Board. We hope they will reach agreement soon, however, because any proposed legislation to extend federal lending must address this issue.

We want to emphasize once again, Mr. Chairman, that New York City should remain primarily the responsibility of New York State. While the Federal government has supported the City in many crucial ways during this difficult period, we should not allow the City to become a ward of the Federal government. President Carter has stated on many occasions that cities, first and foremost, are political subdivisions of states. We thus encourage Governor Carey and the New York State Legislature to review the State's capacity to provide additional direct financial assistance to the City. In addition, we suggest that the State carefully examine ways to borrow an increased portion of the City's annual short-term financing requirements. Only through the combined commitment and support of the State and City can a workable budget and financing plan be developed.

Let me close by stating that the Administration is studying the City fiscal situation very closely. The President is firmly committed to maintaining New York's solvency. The recommendations on legislation which we make to this Committee early next year, Mr. Chairman, will reflect both that specific pledge and our overall commitment to restoring an economically healthier and financially independent New York.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE December 12, 1977

STELLA B. HACKEL IS SWORN IN
AS DIRECTOR OF THE BUREAU OF THE MINT

Stella B. Hackel was sworn in today as director of the Bureau of the Mint by Secretary of the Treasury W. Michael Blumenthal. Mrs. Hackel was nominated for the position by President Carter on October 26, 1977, and confirmed by the Senate on November 4.

From April, 1977 until her appointment, Mrs. Hackel was city attorney of Rutland, Vermont. Before that, she held many high-level positions in her native state of Vermont. She was elected state treasurer and served from 1975 to 1977 and was the Democratic candidate for governor in 1976.

Mrs. Hackel was elected city grand juror (city prosecutor) of Rutland in 1956 and was reelected every year through 1963. From 1963 to 1973 she was commissioner of the Vermont Department of Employment Security and chairman of the Employment Security Board, having been appointed by both Democratic and Republican governors.

In 1971 she was elected president of the National Interstate Conference of Employment Security Agencies and served in 1971-72 as ex-officio member of the National Unemployment Insurance Advisory Committee and the National Employment Service Advisory Committee.

From 1973 to 1975 Mrs. Hackel was in private law practice as a member of the law firm of Ryan, Smith & Carbine Ltd.

Mrs. Hackel was born in Burlington, Vermont. She received a J.D. cum laude from Boston University School of Law in 1948. She is a member of the Vermont Bar Association and the Rutland County Bar Association and was its president in 1973.

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B-594

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE AT 4:00 P.M. December 13, 1977

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $5,500 million, to be issued December 22, 1977. This offering will not provide new cash for the Treasury as the maturing bills are outstanding in the amount of $5,508 million. The two series offered are as follows:

91-day bills (to maturity date) for approximately $2,200 million, representing an additional amount of bills dated September 22, 1977, and to mature March 23, 1978 (CUSIP No. 912793 P4 2), originally issued in the amount of $3,502 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $3,300 million to be dated December 22, 1977, and to mature June 22, 1978 (CUSIP No. 912793 Q9 0).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing December 22, 1977. Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $3,026 million of the maturing bills. These accounts may exchange bills they hold for the bills now being offered at the weighted average prices of accepted competitive tenders.

The bills will be issued on a discount basis under competitive and noncompetitive bidding, and at maturity their par amount will be payable without interest. Except for definitive bills in the $100,000 denomination, which will be available only to investors who are able to show that they are required by law or regulation to hold securities in physical form, both series of bills will be issued entirely in book-entry form in a minimum amount of $10,000 and in any higher $5,000 multiple, on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20226, up to 1:30 p.m., Eastern Standard time, Monday, December 19, 1977. Form PD 4632-2 (for 26-week series) or Form PD 4632-3 (for 13-week series) should be used to submit tenders for bills to be maintained on the book-entry records of the Department of the Treasury.

B-595

Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used.

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account.

Payment for the full par amount of the bills applied for must accompany all tenders submitted for bills to be maintained on the book-entry records of the Department of the Treasury. A cash adjustment will be made on all accepted tenders for the difference between the par payment submitted and the actual issue price as determined in the auction.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, or for bills issued in bearer form, where authorized. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Competitive bidders will be advised of the acceptance or rejection of their tenders. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action shall be final. Subject to these reservations, noncompetitive tenders for each issue for $500,000 or less without stated price from any one bidder will be accepted in full at the weighted average price (in three decimals) of accepted competitive bids for the respective issues.

Settlement for accepted tenders for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, and bills issued in bearer form must be made or completed at the Federal Reserve Bank or Branch or at the Bureau of the Public Debt on December 22, 1977, in cash or other immediately available funds or in Treasury bills maturing December 22, 1977. Cash adjustments will be made for differences between the par value of the maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which these bills are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of these bills (other than life insurance companies) must include in his or her Federal income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Department of the Treasury Circulars, No. 418 (current revision), Public Debt Series - Nos. 26-76 and 27-76, and this notice, prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

FOR IMMEDIATE RELEASE DECEMBER 12, 1977

Office of the White House Press Secretary

THE WHITE HOUSE

The White House today announced a Cabinet-level interagency study of nonfuel minerals policy. The study, to be chaired by Interior Secretary Cecil D. Andrus, will consider international and domestic minerals supply and demand and the economic health of the minerals industry. It will focus on the most critical minerals.

The Cabinet-level coordinating committee will submit policy options and recommendations to the President within 15 months. The study was initiated by the President in response to Congressional and public concerns.

Members of the coordinating committee will be the secretaries of the Interior, State, the Treasury, Commerce, and Energy; the administrators of EPA and GSA; the director of the National Science Foundation; the assistant to the President for national security affairs; the chairman of the Council of Economic Advisers; the special representative for trade negotiations; the chairman of the Council on Environmental Quality; the director of OMB; and the director of the Office of Science and Technology Policy.

Some of the concerns to be addressed by the study are whether the trends toward international interdependence and the politicization of certain minerals markets are increasing U.S. vulnerability to foreign supply curtailments and price manipulations; whether U.S. reserves, production capacities, and inventories are adequate to deal with possible supply/price interruptions, or with the economic and social consequences of such disruptions; whether the economic health of the domestic minerals industry is adequate; and whether land use decisions are based on adequate minerals information and analysis.

The study will be the first to use the Domestic Policy Review system, a process designed to insure high-level interagency consideration of important issues.

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(For further information, contact Ed Essertier at Interior-343-3171.)

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE AT 4:00 P.M. December 13, 1977

TREASURY TO AUCTION $3,000 MILLION OF 2-YEAR NOTES

The Department of the Treasury will auction $3,000 million of 2-year notes to refund $2,428 million of notes held by the public maturing December 31, 1977, and to raise $572 million new cash. Additional amounts of these notes may be issued at the average price of accepted tenders to Government accounts and to Federal Reserve Banks for their own account in exchange for $337 million maturing notes held by them, and to Federal Reserve Banks as agents of foreign and international monetary authorities for new cash only.

Details about the new security are given in the attached highlights of the offering and in the official offering circular.

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Attachment

B-596

HIGHLIGHTS OF TREASURY
OFFERING TO THE PUBLIC
OF 2-YEAR NOTES
TO BE ISSUED JANUARY 3, 1978

December 13, 1977

Amount Offered:	
To the public......................	$3,000 million
Description of Security:	
Term and type of security...........	2-year notes
Series and CUSIP designation........	Series X-1979 (CUSIP No. 912827 HH 8)
Maturity date.......................	December 31, 1979
Call date...........................	No provision
Interest coupon rate................	To be determined based on the average of accepted bids
Investment yield....................	To be determined at auction
Premium or discount.................	To be determined after auction
Interest payment dates..............	June 30 and December 31
Minimum denomination available......	$5,000
Terms of Sale:	
Method of sale......................	Yield auction
Accrued interest payable by investor............................	None
Preferred allotment.................	Noncompetitive bid for $1,000,000 or less
Deposit requirement.................	5% of face amount
Deposit guarantee by designated institutions........................	Acceptable
Key Dates:	
Deadline for receipt of tenders.....	Wednesday, December 21, 1977, by 1:30 p.m., EST
Settlement date (final payment due)	
a) cash or Federal funds.......	Tuesday, January 3, 1978
b) check drawn on bank within FRB district where submitted..................	Wednesday, December 28, 1977
c) check drawn on bank outside FRB district where submitted..................	Tuesday, December 27, 1977
Delivery date for coupon securities.	Friday, January 6, 1978

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

ADVANCE FOR RELEASE
8:00 PM E.S.T.

REMARKS OF
THE HONORABLE W. MICHAEL BLUMENTHAL
SECRETARY OF THE TREASURY
TO THE
CITIZEN EXCHANGE CORPS
NEW YORK, NEW YORK
DECEMBER 13, 1977

I am pleased and honored to be with you tonight and to have the opportunity to speak to this distinguished group, which has done so much for increased international understanding.

It is a particular pleasure that I am able to join with you in honoring Governor Harriman for his many contributions to understanding between the United States and the Soviet Union.

His accomplishments in this field are pre-eminent, unequaled by any other person of whom I have knowledge.

Averell Harriman was negotiating with Soviet officials on economic matters over fifty years ago, when some of us here were not yet in kindergarten. His involvement, through both good times and bad, has been continuous ever since, to the advantage of both countries.

His first direct contact with the Soviet Union was in the 1920's, when he negotiated with Leon Trotsky and other Soviet leaders for a manganese mining concession in the Caucasus.

Later, in 1941, he returned to Moscow as head of a mission to discuss delivery of U.S. supplies to help the Soviets withstand the Nazi onslaught. Hitler had announced the final drive on Moscow. The sound of German artillery was in the ears of the negotiators as they arranged for the supplies which in future years would help turn the tide of victory.

In 1943, he returned to Moscow as American Ambassador, where he served until 1946. During these critical years, he showed himself a firm defender of American interests, yet one who enjoyed the confidence and respect of Soviet leaders.

A hard bargainer, he was recognized for his probity. The esteem he enjoyed with Soviet leaders is illustrated by a remark by Anastas Mikoyan after difficult negotiations on wartime supplies. "We have," he said, " complete confidence in your good intentions because you have been so careful in your promises."

Governor Harriman has continued to serve as intermediary between U.S. and Soviet leaders -- in the negotiations with former Chairman Khrushchev for the nuclear test ban signed at Moscow in 1963, in dealings with Premier Kosygin and others concerning the war in Vietnam in the mid-sixties, and in contacts with Chairman Brezhnev and other Soviet leaders on a wide range of difficult and contentious issues.

As an adviser to Presidents and Secretaries of State, he has always been firm and realistic. Yet he has never wavered in his belief that closer economic ties between the U.S. and the Soviet Union can benefit us all. For he has always seen U.S. - Soviet relations in historical perspective, as a long-term exercise in "competitive coexistence" -- his own description -- in which economic relationships can play an important and constructive role.

History

Recalling the history of our trade relations with Russia, which go back to the early days of our nation, provides a useful framework for a review of present day issues. That history, indeed, goes back to the earliest years of the Republic and has frequently been of considerable import.

In 1811, Russia was taking about one-tenth of U.S. exports, and the United States depended heavily on imports of Russian naval stores.

By the eve of the October Revolution, Russia had become an important customer for U.S. industrial and agricultural equipment.

Moreover, in the wake of the turbulent events following 1917, American help to the Soviet Union added another chapter to U.S. - Soviet economic relations. Herbert Hoover's American Relief Administration spent some $20 million of U.S. Government funds, primarily in the distribution of American grain to famine-stricken Russian peasants.

In the 1920's, under Lenin's New Economic Policy, American investors participated in concessions granted by the Soviet Government to foreign capitalists. Armand Hammer, who is also with us here tonight, established an asbestos mine and a successful pencil-manufacturing operation in the U.S.S.R., and once more, Averell Harriman's manganese negotiations of 1926 mark him as another of these early pioneers.

When Stalin came to power in the late 1920's, Lenin's New Economic Policy was abandoned. Nevertheless, the American contribution to the Soviet economy increased markedly. American engineering services and technical know-how were essential to the success of Stalin's First Five-Year Plan, commencing in 1929. American firms rendered key assistance in the construction of fertilizer factories and in the planning for the Soviet electric-power industry. American engineers won acclaim in the Soviet Union for their services in railroad construction, mechanized farming, and dam building.

Henry Ford took a leading part. By 1927, Ford enterprises had produced 85 percent of all tractors in use in the U.S.S.R. Ford engineers laid the foundations for the Soviet automotive industry during the First Five-Year Plan. The word "fordization" entered into the Russian language as a synonym for modernization.

During the Depression, when the American economy was going through the worst economic crisis in its history, sales to the Soviet Union sharply increased. By 1931, the Soviet market was absorbing nearly two-thirds of all U.S. exports of agricultural equipment and power-driven metal-working machinery.

When the United States Government recognized the Soviet Government in 1933, the interest of American businessmen in Soviet trade increased. Few may remember that, the following year, the Export-Import Bank was established for the express purpose of financing trade with the Soviet Union.

The first Soviet-American trade agreement was signed in 1935. It granted most-favored-nation treatment to the U.S.S.R. in exchange for a Soviet commitment to buy a fixed amount of U.S. products each year. The agreement was renewed annually for five successive years and served as the basis for U.S. - Soviet commerce until the signing of the Lend-Lease Agreement in 1942. At this point, American exports to the Soviet Union amounted to nearly $2.5 billion a year and made a substantial contribution to the Soviet war effort and to postwar reconstruction.

The onset of the Cold War quickly had a negative effect on trade. Controls on exports to the Soviet Union and other Communist countries were established in 1947. More comprehensive controls were imposed by the Export Control Act of 1949. In 1950, the United States joined with most of its NATO allies and Japan in forming COCOM, a coordinating committee for controlling strategic exports to Communist countries. In 1951, the Trade Agreements Extension Act revoked most-favored-nation status for Communist countries. In the same year, Congress passed the Battle Act, designed to control more closely exports to "nations threatening the national security of the U.S." The Soviet Union was specifically singled out in this context. This was the nadir of our relations.

The first step toward a renewed expansion of U.S. - Soviet trade came in 1956, when President Eisenhower authorized the decontrol of some 700 items for export to the Soviet Union and Eastern Europe. Once again, the two countries began, tentatively and slowly, to expand their economic relationships. Further initiatives were taken in 1959 during the Eisenhower - Khrushchev meeting at Camp David. These actions brought forth a prompt increase in American exports of manufactured goods.

During the Kennedy Administration, the climate for U.S. - Soviet trade continued to improve. There was an emerging consensus that American exporters should not be subject to controls more restrictive than those imposed by other Western countries. In October 1966, the Johnson Administration removed a large number of nonstrategic items from the U.S. control list.

In the first Nixon Administration, the American business community spoke out in favor of liberalization with increased conviction. In 1969, the Export Administration Act was enacted, with the stated purpose of favoring expansion of peaceful trade with the Soviet Union and Eastern European countries.

On the Soviet side, the 1960's were characterized by significant changes away from autarky and toward greater participation in commercial relations with the non-Communist world. The directives of the 23rd Congress of the Communist Party in 1965 clearly stated the need for increasing substantially the volume of purchases in capitalist countries.

In short, by the early 1970's, Russians and Americans alike had come to recognize that there were tangible advantages to expanding commercial exchanges, despite differences in political philosophy.

<u>The 1972 Summit in Moscow: Turning Point in Commercial Relations</u>

The turning point in commercial relations occurred in Moscow in May, 1972, at the Summit Meeting, when agreement was reached on "Basic Principles of Relations" between the United States and the Soviet Union. These stated that "the United States and the Soviet Union regard commercial and economic ties as an important and necessary element in the strengthening of their bilateral relations and thus will actively promote the growth of such ties."

Agreement was also reached to establish a joint commercial commission, charged with negotiating a comprehensive trade agreement and laying the groundwork for future commercial exchanges.

Following the 1972 Summit, the United States and the Soviet Union concluded a grains agreement, a series of commercial accords, and a number of agreements for scientific and technological cooperation.

In October 1972, agreement was reached on settlement of lend-lease debts. The Soviets agreed to pay $722 million, of which $674 million would be payable after the U.S. accorded most-favored-nation treatment to the Soviet Union. A trade agreement was also negotiated, to enter into force after Congressional action to accord most-favored-nation status.

With official encouragement, Soviet-American trade increased rapidly, from $221 million in 1971 to $957 million in 1974 -- a fourfold increase. Many U.S. firms entered into industrial cooperation agreements with their Soviet counterparts. The non-governmental U.S. - U.S.S.R. Trade and Economic Council was established in 1973, with a membership which has grown to include hundreds of leading American enterprises and major Soviet organization.

Problems

However, the trade agreement has not entered into force. The Trade Act of 1974 contained provisions which linked freedom of emigration with extension of most-favored-nation status and of official credits by U.S. Government agencies. As a result, neither the MFN nor credit problems have as yet been resolved between us.

Yet Soviet - American trade has continued to grow. It totaled $2.1 billion in 1975 and $2.5 billion in 1976. This was mainly because of large shipments of U.S. agricultural products, which accounted for 62 percent of U.S. exports to the Soviet Union in 1975 and 64 percent in 1976. However, exports of manufactured goods also increased to $670 million in 1975 and $794 in 1976.

The picture has not been as good in 1977, which saw a downturn in Soviet - American trade. Total trade amounted to only $1.5 billion during the first ten months of 1977, compared with $2.2 billion during the comparable period of 1976. In large part this reflected reduced shipments of U.S. grain, after the bumper harvest in the Soviet Union last year. Soviet grain purchases are on the rise again, after the poor harvest this year. However, there has also been a sharp drop in U.S. exports of manufactured goods to the Soviet Union, amounting to only $459 million in the first ten months of 1977, about one third less than the comparable period of 1976.

There are indications of a downturn in Soviet purchases from other Western countries also. This is probably due in part to Soviet efforts to reduce their trade deficit with the West and to restrain the increase in their hard-currency debt.

For Soviet exports to the United States have not kept pace with the growth of U.S. exports to the Soviet Union. Since 1969 there has been a persistent imbalance in trade between the U.S. and the U.S.S.R. By 1973, the excess of U.S. exports over imports rose to almost $1 billion. The U.S. export surplus fell to $258 million in 1974 but soared to over $1.5 billion in 1975 and to over $2 billion in 1976.

The Soviets have been concerned about this imbalance in trade and have sought to reduce it by developing markets in the United States for Soviet products. They have, for instance, marketed Soviet agricultural tractors in the United States, and Americans now quaff Stolichnaya vodka.

Opportunities and Prospects

I do not believe that a continuation of the downward trend in our trade relations is desirable or inevitable. Indeed, there is now considerable hope -- and some effort -- to reverse it and, once again, to make progress toward expansion of mutually beneficial trade and economic relations between us.

I believe that there are important markets which can be developed in the United States for Soviet products. We have welcomed the opportunity to collaborate in marketing seminars and to explore means of developing markets for Soviet products in the United States and for American products in the Soviet Union.

The commercial agreement negotiated in 1972 provided that both governments would promote cooperation in projects for the development of natural resources and in manufacturing. The United States is a latecomer in this field, compared with other major Western nations, which have encouraged their enterprises to enter into such arrangements with the Soviet Union. These have involved, for example, Western exports of gas-field equipment and large-diameter pipe, to be paid for with exports of Soviet natural gas. Other projects have involved forestry equipment and pulp plants, to be paid for with wood products; and aluminum refineries, to be paid for with aluminum.

An outstanding example of American-Soviet cooperation is the fertilizer project entered into by the Occidental Petroleum Company under the leadership of Dr. Armand Hammer. It is expected to generate billions of dollars in Soviet exports to the United States of ammonia and other products over the years, and exports of U.S. phosphate fertilizers to the Soviet Union. Dr. Hammer tells me that this project is well advanced.

Naturally, there have been problems in working our cooperative arrangements between Americans and Soviet organizations, which form part of widely differing economy systems. On the U.S. side, we prefer to rely on private initiative and are committed to an open trading system. We recognize that government intervention may be necessary in some circumstances, but we prefer to limit it to what is required in the national interest.

In many cases, the cooperative projects are so huge that only the largest consortiums of Western firms are able to handle them. The agreements are often for long terms -- as much as 20 years in some cases -- so that it is often difficult for the parties to agree upon the basis for pricing products to be delivered far in the future. Often the amounts of product to be marketed in the West are so large that there are problems of assuring stable marketing conditions. National interests may be affected to a degree that makes the Western partner desire assurances of support from its government.

U.S. firms, in entering into such cooperative projects, frequently would prefer to have an equity interest -- "a piece of the action." This has not been possible in the Soviet Union. Questions also arise as to the degree of management responsibility and quality control to be exercised by the U.S. partner.

Experience shows that such problems can be worked out, with good will on both sides, although the process is often a long one.

The most important reason for optimism about the future lies in the determination of both governments to find ways to remove obstacles to increased trade.

The United States Government favors expansion of economic relations with the Soviet Union, while recognizing that the decision by private American enterprises to participate rests with these enterprises.

President Carter has stated that his administration firmly supports expanded bilateral trade as an important factor in pormoting world peace and goodwill. Last month I joined Soviet Foreign Trade Minister Patolichev in a meeting with President Carter. The President expressed his hope for expanded economic relations with the U.S.S.R. and looked forward to the time when these relations would be fully normalized.

I am happy to note that there are signs of progress toward the normalization of economic relations, including normalization of trading and credit relations which are now subject to restrictions. There has been an improvement in the tone of the political relations between the United States and the Soviet Union. There has also been an increase in the number of persons emigrating from the Soviet Union. In working toward normalization, factors like these affect Soviet - American economic relations and can help to maintain trade momentum and improve the structure we have built.

I believe that these favorable developments are being noted by the American people and the Congress, as well as by the

Executive Branch. We hope that trends will continue to a point where we can reach complete normalization of our trading and credit relations.

The development of economic relations is an important component of the total relationship between the United States and the Soviet Union. Soviet trade and economic cooperation with the United States and other advanced industrial nations can be a stabilizing factor in Soviet policy toward the world. Mutually advantageous economic arrangements give each side an interest in maintaining good relations.

There are areas in which Soviet and U.S. economic policies interrelate and can have a critical impact on the rest of the world. Foremost among these are international grain trade and energy problems. The cooperation of the Soviet Union will be increasingly important in the orderly allocation and handling of food reserves, as well as the supply of oil.

Questions have been raised about the risks and benefits to the United States. A period of national discussion and consultations with the Congress lies before us as we seek to clarify such issues as the extension of most-favored-nation status to the Soviet Union, to what extent we should participate in energy-related projects and other resource development, and what criteria should govern the transfer of technology. We also have to address the question of how to achieve the necessary degree of coordination between the U.S. Government and the private sector and between the United States and its allies.

We must recognize frankly that Soviet - American relations involve elements of both competition and cooperation: Competition, because the two countries have quite different views of the world and have conflicting long-term aims; Cooperation, because, as inhabitants of the same world, we have many overlapping interests.

As Governor Harriman has said, "We are the only two countries that have the capacity to destroy each other and, incidentally, the better part of the world as well, in the doing. This gives both of us an incalculably heavy responsibility to find a way to get along on this small planet in spite of our differences."

Common sense dictates that we should, while advancing our own interests energetically, seek to regulate the competitive aspects of our relationship with the Soviet Union to reduce the danger of war and at the same time to enlarge the area of cooperation where our interests are not in conflict. Strengthening our economic relations and promoting peaceful trade can be important areas of cooperation serving our mutual interest. Moreover, expanded trade is very much a people-to-people activity. As American and Soviet engineers, technicians and business executives work together on projects, they will get to know each other better and develop a better understanding of our two ways of life. As these small, personal efforts take place, they can add up to a much larger basis for a full range of improved relations.

In our efforts to strengthen Soviet - American cooperation, activities such as those of the Citizen Exchange Corps contribute significantly by fostering better understanding between the two nations. In turn, we all can play an important role in strengthening the structure of world peace, which we all desire.

Thank you.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE UPON DELIVERY
Expected at 7:00 p.m.
December 14, 1977

REMARKS BY
THE HONORABLE W. MICHAEL BLUMENTHAL
SECRETARY OF THE TREASURY
TO THE
NEW DETROIT TENTH ANNIVERSARY DINNER
DETROIT, MICHIGAN
DECEMBER 14, 1977

It's good to see so many familiar faces and to share with you this 10th Anniversary of our organization.

I still consider myself a member, although I formally resigned before leaving for Washington. And I remember my years of involvement as challenging and deeply rewarding.

Certainly the best reward is to see this organization remain strong and effective, and to see the City of Detroit making solid progress toward revitalization.

Nearly three years ago, over one out of five Detroit workers was jobless. Now, unemployment is down below nine percent -- still much too high -- but a dramatic improvement, nonetheless.

Two years ago, the city budget was about $100 million in the red -- and was forced to carry out deep job cuts. Now, the budget is in balance, with those lost jobs restored.

Add to that the recent progress in educational funding, public transit, housing, crime prevention -- and you have a great city making a broad comeback.

From where we are tonight, we can see the Renaissance Center -- a monument to this revitalization. And I have the feeling that this is just the beginning.

As a member of New Detroit, I learned what it takes to find solutions to urban problems.

I also learned a good deal when serving as chairman of the Michigan Economic Action Council, which was concerned with urban problems as well as the statewide economy. Many of you served with me on the council when we made our recommendations for long-term economic development in the state. Of course, New Detroit was instrumental in getting many of the recommendations adopted.

Through this effort, it became clear that many solutions could be found only at the national level. On others, it was clear that state and local efforts were needed. We addressed those problems with recommendations for a budget stabilization fund, to counter the fiscal impact of economic downturns; reform of the single-business tax, now being considered by the Legislature; and a state council of economic advisors and an economic research institute for Michigan.

Perhaps the most important result, however, was to show what can be done when you bring together business, labor and government to work on our common problems.

As Treasury Secretary, I have been trying to put into action at the national level what I learned here. While I am not the Administration's chief spokesman for the cities, I am a member of the Urban and Regional Policy Group -- and, within that, an advocate of the successful public-private strategies that are working here.

From what I can see from Washington, our nation's cities are still in deep trouble.

Unemployment in the nation's 48 largest cities in 1976 was 9.4 percent, nearly two points above the national rate. Many of those with jobs are making wages too low to support their families.

Poverty persists as a city problem. Typically, two-thirds of a metropolitan area's poverty population live in the central city. With businesses continuing to leave cities for the suburbs or other regions, city governments find it increasingly difficult to meet the needs of their citizens without raising taxes and further discouraging business from cities.

Equally serious are problems of an aging population, abandoned and dilapidated housing, inadequate schools and teaching staffs, and seriously high crime rates.

Anyone need only to walk through any of America's cities to learn about the seriousness of these problems.

Clearly, the problems of our cities are a massive, difficult national challenge. And while the descriptive term, "urban crisis," has been used for years, it still remains accurate.

But as 1977 draws to a close, there is a difference -- we have a President and an Administration in Washington committed to finding workable, long-term solutions to our urban crisis.

I am happy to bring with me a message of congratulations from President Carter to New Detroit, for this 10th anniversary observance. And I also want to assure you of his strong personal belief that the Federal government must have a strong role in ensuring a bright future for our cities.

As President Carter said over a year ago, "Our goal must be to develop a coherent national urban policy that is consistent, compassionate, realistic, and that reflects the decency and good sense of the American people."

The Federal Government can and must work together with State governments -- local governments -- and the private sector to make our cities better places to live and work. Cooperation is an absolute necessity, since none of us alone can be effective.

That's an obvious fact of life when you look at the complex causes of urban decline.

To some extent, past Federal programs have at times actually aggravated our problems. Federal highway programs, various tax policies, environmental protection requirements, and the location of Federal facilities have contributed to the decline in America's urban centers. We must and will pay more attention to such factors in the future.

But most causes involved in this decline are beyond Federal control. Technological changes -- lifestyle choices -- regional, national, and international economic trends -- and resource shortages and costs are the more basic causes.

I am especially concerned about the effect on cities as we stimulate our economic expansion to reduce unemployment. Detroit, more than most cities, is all too familiar with the effects of ups and downs in the nation's economy.

Obviously, we cannot expect real improvement in urban problems like unemployment until our general economy has fully recovered.

But we also know that, while fiscal and monetary policies can improve the overall economy, they are not enough to reverse urban decline -- especially the aspect of structural and hard-core unemployment.

Our most recent figures show while overall unemployment has dropped over one percentage point this year -- unemployment is still 7.1 percent for women, 13.8 percent for blacks, and 17.1 percent for teenagers. The rate for black unemployment has actually increased in the past year. The rate of black teenagers, moreover, is close to two out of five.

And it is frustrating to find that seemingly every new attempt to solve structural unemployment uncovers a new dimension of the problem. For years, for example, we provided job training and remedial education. But when the training is over, there are often simply no jobs in the area where the trainees live. An auto plant outside Detroit may be hiring workers, but it does not help someone who lives in the city without transportation to the plant.

In providing CETA funds to hire the hard-core unemployed in cities, for another example, the Federal government found that city governments needed the money to rehire regular city employees laid off by budget cuts.

This illustrates the ultimate futility of depending on Federal aid to solve this very deep problem. We can help temporarily, but the only real alternative is to encourage the private sector to expand job opportunities in cities where the jobless are. This also makes good economic sense. Cities have underutilized capacity and idle workers. Overall costs can be lower when a firm remains or expands in a depressed urban area, rather than relocating where new roads, water supplies or sewers will be required.

Private expansion, in turn, can reduce welfare and unemployment costs and strengthen local government finances. And the ultimate beneficiary is the city dweller with a permanent, rewarding private-sector job.

I emphasize private jobs and private investment in cities simply because they provide the principal source of income for the central city -- and provide the opportunities for economic and social advancement that are essential to eliminating the despair of the urban poor.

Because of my personal interest, members of my staff at Treasury have met over the past few months with city officials, businessmen, academic experts, and public interest groups to discuss the Federal role. As a result of this work, we are considering new financing incentives to improve private economic development in distressed cities.

One idea has been a financing facility that could provide incentives to the private sector in distressed areas. These incentives would help businesses and lenders who plan job-intensive projects, but might otherwise locate them away from cities which need them. Among the suggested incentives have been direct or capital investment grants, an expanded limit on industrial revenue bonds, and creating a secondary market for long-term loans to small and medium-size businesses.

The Treasury Department has devoted considerable effort to studying means of expanding the capital available for private expansion in the cities. I believe that we need to fill the current gap in our urban strategy, which up to now has not sufficiently emphasized private-sector solutions. And we need to concentrate more on urban programs targeted at specific problems, such as private job creation in cities, but which add up to a systematic effort to improve the economic condition of our cities.

Obviously, our financing proposal would not solve the whole problem -- nor would it yield results right away, so we would continue such programs as public service jobs and direct fiscal aid to city budgets.

That continuing need is a necessity we knew when we took office and made major changes to the 1978 budget already sent to Congress. The proposal then before Congress contained a 10 percent reduction, for example, in requested appropriations for the Department of Housing and Urban Development. Other parts, as well, would have had an adverse impact on cities.

Within six weeks, we restored those cuts. We increased funding for assisted housing, community development, housing rehabilitation loans, public housing subsidies, and other important aid to cities.

I might add that, as a result of early Administration initiatives, Detroit in its 1977 fiscal year received $42 million more Federal aid than it would have, for a total of $283 million -- and for fiscal year 1978, $50-53 million more expected, for a total of $295 million.

But we also wanted to find more permanent comprehensive solutions, as well. With this in mind, President Carter in March organized the Urban and Regional Policy Group, an interagency task force to coordinate the efforts of every agency with an impact on cities, and to find ways to help cities.

So our Treasury proposal represents part of a broad effort throughout the Administration for new ideas and better use of existing programs. We know that there is much more that we could be doing to help cities -- and we will be coming through with that help.

I must also remind you that there are limits to what the Federal government can do. In the first place, our budget is already running huge deficits, as a result of high unemployment. So money for new programs will be extremely scarce.

But even with a better budget situation, Federal aid alone cannot provide the permanent solutions to our urban problems. We do not want our nation's cities to become wards of a distant Federal bureaucracy. That's why the future of our cities depends on finding the right balance between Federal aid, help from State governments, from city leaders, from the business community, and from the people themselves.

One model for this has taken place here, in connection with the Federal grant of $600 million for an improved public transportation system. When the Detroit business community organized plans for private development along the proposed transportation corridor, that made the difference for approval of the grant.

It helps illustrate what it takes to turn a city around. And that is, quite simply, a coalition -- just like New Detroit -- which can bring together all segments of a city, unified by your common interests. In the final analysis, that is the critical element -- the spirit of community and hope of the people of a city.

We've begun to succeed here. We can succeed in other cities. And I and the rest of the Carter Administration will do all we can to make this happen -- however long it may take.

In closing, I recall the words of the oath taken by the citizens of Athens more than 2,000 years ago:

"We will ever strive for the ideals and sacred things of the city;

"We will unceasingly seek to quicken the sense of public duty;

"We will revere and obey the city's laws;

"We will transmit this city not less, but greater, better, and more beautiful than it was transmitted to us."

Thank you.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE AT 4:00 P.M. December 16, 1977

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $5,400 million, to be issued December 29, 1977. This offering will not provide new cash for the Treasury as the maturing bills are outstanding in the amount of $5,403 million. The two series offered are as follows:

91-day bills (to maturity date) for approximately $2,100 million, representing an additional amount of bills dated September 29, 1977, and to mature March 30, 1978 (CUSIP No. 912793 P5 9), originally issued in the amount of $3,302 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $3,300 million to be dated December 29, 1977, and to mature June 29, 1978 (CUSIP No. 912793 R2 4).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing December 29, 1977. Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,692 million of the maturing bills. These accounts may exchange bills they hold for the bills now being offered at the weighted average prices of accepted competitive tenders.

The bills will be issued on a discount basis under competitive and noncompetitive bidding, and at maturity their par amount will be payable without interest. Except for definitive bills in the $100,000 denomination, which will be available only to investors who are able to show that they are required by law or regulation to hold securities in physical form, both series of bills will be issued entirely in book-entry form in a minimum amount of $10,000 and in any higher $5,000 multiple, on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20226, up to 1:30 p.m., Eastern Standard time, Friday, December 23, 1977. Form PD 4632-2 (for 26-week series) or Form PD 4632-3 (for 13-week series) should be used to submit tenders for bills to be maintained on the book-entry records of the Department of the Treasury.

B-599

Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used.

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account.

Payment for the full par amount of the bills applied for must accompany all tenders submitted for bills to be maintained on the book-entry records of the Department of the Treasury. A cash adjustment will be made on all accepted tenders for the difference between the par payment submitted and the actual issue price as determined in the auction.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, or for bills issued in bearer form, where authorized. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Competitive bidders will be advised of the acceptance or rejection of their tenders. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action shall be final. Subject to these reservations, noncompetitive tenders for each issue for $500,000 or less without stated price from any one bidder will be accepted in full at the weighted average price (in three decimals) of accepted competitive bids for the respective issues.

Settlement for accepted tenders for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, and bills issued in bearer form must be made or completed at the Federal Reserve Bank or Branch or at the Bureau of the Public Debt on December 29, 1977, in cash or other immediately available funds or in Treasury bills maturing December 29, 1977. Cash adjustments will be made for differences between the par value of the maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which these bills are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of these bills (other than life insurance companies) must include in his or her Federal income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Department of the Treasury Circulars, No. 418 (current revision), Public Debt Series - Nos. 26-76 and 27-76, and this notice, prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE December 19, 1977

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,201 million of 13-week Treasury bills and for $3,300 million of 26-week Treasury bills, both series to be issued on December 22, 1977, were accepted at the Federal Reserve Banks and Treasury today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing March 23, 1978			26-week bills maturing June 22, 1978		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.493 a/	5.962%	6.14%	96.803 b/	6.324%	6.62%
Low	98.484	5.997%	6.17%	96.792	6.345%	6.65%
Average	98.487	5.985%	6.16%	96.796	6.338%	6.64%

a/ Excepting 1 tender of $50,000
b/ Excepting 2 tenders totaling $950,000

Tenders at the low price for the 13-week bills were allotted 59%.
Tenders at the low price for the 26-week bills were allotted 100%.

TOTAL TENDERS RECEIVED AND ACCEPTED BY FEDERAL RESERVE DISTRICTS AND TREASURY:

Location	Received	Accepted	Received	Accepted
Boston	$ 23,485,000	$ 18,485,000	$ 30,730,000	$ 20,730,000
New York	3,646,350,000	1,823,475,000	4,804,575,000	2,900,575,000
Philadelphia	21,560,000	21,560,000	33,760,000	13,760,000
Cleveland	59,385,000	44,385,000	31,780,000	16,780,000
Richmond	24,880,000	22,470,000	20,755,000	15,255,000
Atlanta	25,410,000	25,410,000	14,420,000	14,420,000
Chicago	241,945,000	50,535,000	179,865,000	47,865,000
St. Louis	47,785,000	28,375,000	57,805,000	22,805,000
Minneapolis	26,175,000	22,485,000	38,710,000	24,710,000
Kansas City	31,985,000	31,165,000	22,185,000	22,185,000
Dallas	18,145,000	16,735,000	8,935,000	6,935,000
San Francisco	295,675,000	90,870,000	522,210,000	192,210,000
Treasury	4,575,000	4,575,000	1,600,000	1,600,000
TOTALS	$4,467,355,000	$2,200,525,000 c/	$5,767,330,000	$3,299,830,000 d/

c/ Includes $318,615,000 noncompetitive tenders from the public.
d/ Includes $149,460,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE AT 4:00 P.M. December 19, 1977

TREASURY TO AUCTION $1,500 MILLION OF 15-YEAR 1-MONTH BONDS

The Department of the Treasury will auction $1,500 million of 15-year 1-month bonds to raise new cash. Additional amounts of the bonds may be issued to Federal Reserve Banks as agents of foreign and international monetary authorities at the average price of accepted tenders.

Details about the new security are given in the attached highlights of the offering and in the official offering circular.

Attachment

HIGHLIGHTS OF TREASURY OFFERING TO THE PUBLIC OF 15-YEAR 1-MONTH BONDS TO BE ISSUED JANUARY 6, 1978

December 19, 1977

Amount Offered:	
To the public........................	$1,500 million
Description of Security:	
Term and type of security...........	15-year 1-month bonds
- Series and CUSIP designation........	Bonds of 1993 (CUSIP No. 912810 CA 4)
Maturity date........................	February 15, 1993
Call date............................	No provision
Interest coupon rate.................	To be determined based on the average of accepted bids
Investment yield.....................	To be determined at auction
Premium or discount..................	To be determined after auction
Interest payment dates...............	August 15 and February 15 (first payment on August 15, 1978)
Minimum denomination available......	$1,000
Terms of Sale:	
Method of sale.......................	Yield auction
Accrued interest payable by investor............................	None
Preferred allotment..................	Noncompetitive bid for $1,000,000 or less
Deposit requirement..................	5% of face amount
Deposit guarantee by designated institutions........................	Acceptable
Key Dates:	
Deadline for receipt of tenders.....	Tuesday, December 27, 1977, by 1:30 p.m., EST.
Settlement date (final payment due)	
a) cash or Federal funds.......	Friday, January 6, 1978
b) check drawn on bank within FRB district where submitted...................	Wednesday, January 4, 1978
c) check drawn on bank outside FRB district where submitted...................	Tuesday, January 3, 1978
Delivery date for coupon securities.	Thursday, January 12, 1978

Department of the TREASURY
WASHINGTON, D.C. 20220 TELEPHONE 566-2041
NEWS

Contact: Alvin M. Hattal
566-8381

FOR IMMEDIATE RELEASE December 21, 1977

TREASURY ANNOUNCES INITIATION OF
ANTIDUMPING INVESTIGATION ON STEEL WIRE ROD
FROM THE UNITED KINGDOM

The Treasury Department announced today that it will begin an antidumping investigation on "low carbon industrial quality wire rod" from the United Kingdom.

The Treasury Department's announcement followed a summary investigation conducted by the U.S. Customs Service after receipt of a petition filed on behalf of Georgetown Steel Corporation and Georgetown Texas Steel Corporation, alleging that this merchandise is being dumped in the United States.

Information contained in the petition indicates that the prices in the United States of steel wire rod imported from the United Kingdom are less than the prices of the same merchandise in the home market. The petition also includes information that the U.S. industry is being injured by the alleged "less than fair value" imports.

If sales at less than fair value are determined by Treasury, the U.S. International Trade Commission will decide the injury question. Both "sales at less than fair value" and "injury" must be determined before a dumping finding is reached.

Notice of the above action will appear in the Federal Register of December 22, 1977.

Imports of low carbon industrial quality wire rod from the United Kingdom during the first half of 1977 were valued at roughly $4 million.

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B-602

EMBARGOED FOR USE
after the briefing

December 21, 1977

Office of the White House Press Secretary

STATEMENT BY THE PRESIDENT

The United States balance of trade and payments has shifted this year to a large deficit position. The two main causes appear to be: large oil imports by the United States and relatively slow economic growth in Japan, Germany and other nations.

These deficits have contributed to some disorder in the exchange markets and rapid movements in exchange rates. Heightened uncertainty and increased exchange market pressure in recent weeks have coincided with the delay in Congressional action on our energy legislation. A mistaken belief that the United States is not prepared to adopt an effective energy program has been partly responsible for recent unsettled conditions in the exchange markets. We have a responsibility to protect the integrity of the dollar. Prompt action is needed in energy and other fields to reduce our deficits.

Last April I submitted to the Congress a comprehensive conservation and conversion program to reduce our dependence on foreign oil. I am confident that the Congress will not allow this situation to continue to deteriorate through inaction. I am equally confident that the American people will fully support this critically important program. When enacted, the measures now under consideration will have increasingly beneficial effect in coming years and exert their main impact by 1985.

The United States is currently importing petroleum at a cost of about $45 billion a year. In 1978, taking account of planned production of Alaskan oil, our oil imports will be stable despite substantial purchases for our Strategic Petroleum Reserve. Nevertheless, it is essential that we take further steps to curtail these imports, in order to reduce both our excessive dependence on imported oil and the burden on our balance of payments. The energy measures I am now proposing are designed to serve these ends.

I have instructed the Department of Energy to pursue efforts to:

-- expand production of oil at the Elk Hills Naval Petroleum Reserve;

-- encourage an expansion of production at Prudhoe Bay above the 1.2 million barrels a day planned for early 1978;

-- maintain production of California crude at a high level;

-- work with appropriate governmental and private interests in expediting provision of adequate pipeline capacity for transport of Alaskan and Californian oil east of the Rocky Mountains.

Combined with conservation measures, these efforts offer good promise.

The new measures will take effect in the period immediately ahead and serve as a bridge until the implementation of the more comprehensive legislative program begins to exert fundamental changes in our energy balance in the years ahead.

I have also instituted measures to expand U.S. exports:

-- We have doubled Commodity Credit Corporation credits to support agricultural exports.

-- In 1978, we will increase sharply lending activity by the Export-Import Bank, to support exports generally.

We will not engage in unfair competition for export markets; we will fully respect our understandings with other Governments regarding export credit terms. But within these understandings there is room for a more active effort to expand our exports. Through such an effort, I believe we can achieve substantial increases in exports in 1978, as well as in subsequent years.

With these measures, the prospects for an improvement in our trade position will be good. Some of these measures will begin to take effect in 1978. When fully implemented, these measures, energy and non-energy, should produce an annual improvement in our trade position of several billion dollars, and will improve the U.S. balance of payments.

There has been a great deal of public discussion in recent weeks about the large U.S. trade and payments deficits, and the movement of rates in the exchange markets, mainly between the dollar and the German mark and Japanese yen. The American economy and the dollar are fundamentally sound; U.S. products on the whole are competitive. While some exchange rate adjustment has been understandable in light of economic developments in Germany, Japan, and the United States, recent exchange market disorders are not justified.

The new energy measures strike directly at a key part of the balance of trade problem. The export measures will enable us to respond effectively to expanding export opportunities. Together, the energy and export measures represent action to strengthen our balance of payments and deal with our trade deficit in a substantive way, by improving the underlying conditions upon which the value of the dollar fundamentally depends.

Furthermore, next month I shall be presenting to the Congress a comprehensive economic program, designed to insure a healthy and growing economy, to increase business capital investment, to expand industrial capacity and productivity, and to maintain prudent budgetary policies, while counteracting inflationary pressures. These and related measures will promote economic progress and underscore our commitment to a strong and sound U.S. economy.

In the discharge of our responsibilities, we will, in close consultation with our friends abroad, intervene to the extent necessary to counter disorderly conditions in the exchange markets. The measures I have enumerated will deal with the root causes of these market disturbances in a more direct and fundamental way.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE December 21, 1977

RESULTS OF AUCTION OF 2-YEAR NOTES

The Department of the Treasury has accepted $3,000 million of $4,213 million of tenders received from the public for the 2-year notes, Series X-1979, auctioned today.

The range of accepted competitive bids was as follows:

Lowest yield	7.16% 1/
Highest yield	7.23%
Average yield	7.20%

The interest rate on the notes will be 7-1/8%. At the 7-1/8% rate, the above yields result in the following prices:

Low-yield price	99.936
High-yield price	99.808
Average-yield price	99.863

The $3,000 million of accepted tenders includes $457 million of noncompetitive tenders and $2,468 million of competitive tenders (including 72% of the amount of notes bid for at the high yield) from private investors. It also includes $ 75 million of tenders at the average price from Federal Reserve Banks as agents for foreign and international monetary authorities in exchange for maturing securities.

In addition, $888 million of tenders were accepted at the average price from Government accounts and Federal Reserve Banks for their own account in exchange for securities maturing December 31, 1977, ($328 million) and from Federal Reserve Banks as agents for foreign and international monetary authorities for new cash ($560 million).

1/ Excepting 3 tenders totaling $1,065,000

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE December 22, 1977

WILLIAM T. ARCHEY APPOINTED DEPUTY ASSISTANT SECRETARY FOR OPERATIONS IN THE OFFICE OF CHIEF DEPUTY TO THE TREASURY UNDER SECRETARY

William T. Archey, a career Federal employee with management and policy development experience at the Law Enforcement Assistance Administration of the Department of Justice, has been appointed by Secretary of Treasury W. Michael Blumenthal as Deputy Assistant Secretary for Operations in the Office of the Chief Deputy for Enforcement and Operations to the Under Secretary. Mr. Archey, who is 34 years old, replaces John H. Harper, who resigned.

Mr. Archey received a Bachelor's Degree in Economics at Providence College, Providence, Rhode Island, in 1964. He received a Master's Degree in Organization Theory and Behavior at Northeastern University, Boston, Massachusetts, and a Ph. D. in the same discipline at Boston University.

In 1974, Mr. Archey became Director of the Policy Analysis Division, Office of Planning and Management, in the Law Enforcement Administration. He was responsible for developing the program for LEAA to deliver high quality law enforcement technical assistance to state and local governments and to criminal justice operating agencies. In addition to carrying out program review and program development within LEAA, Mr. Archey chaired the Community Anti-Crime Task Force and served as Executive Director of LEAA's National Advisory Committee on Criminal Justice Standards and Goals.

Before joining the Law Enforcement Assistance Administration, Mr. Archey was a Consultant and Research Assistant at the Boston University Center for Applied Social Science and was a free-lance consultant on community drug abuse programs. From May, 1972 until January, 1973 he was a consultant on leave of absence from Boston University to the Special Action Office for Drug Abuse Prevention in the Executive Office of the President.

Mr. Archey's writings include Managing the Worker (with A. Walker, J. Zif), 1970, and Sales Strategy and Management (with W. Orbach, I. Ayal), 1971 and The Social Seminar-Community at the Crossroads, 1971.

Mr. Archey lives in Arlington, Va. He is the son of Henry L. Archey of Pittsfield, Massachusetts.

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B-604

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE December 23, 1977

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,100 million of 13-week Treasury bills and for $3,301 million of 26-week Treasury bills, both series to be issued on December 29, 1977, were accepted at the Federal Reserve Banks and Treasury today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing March 30, 1978			26-week bills maturing June 29, 1978		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.453 a/	6.120%	6.30%	96.741 b/	6.446%	6.76%
Low	98.441	6.167%	6.35%	96.729	6.470%	6.78%
Average	98.445	6.152%	6.34%	96.734	6.460%	6.77%

a/ Excepting 2 tenders totaling $2,190,000
b/ Excepting 1 tender of $1,170,000

Tenders at the low price for the 13-week bills were allotted 65%.
Tenders at the low price for the 26-week bills were allotted 2%.

TOTAL TENDERS RECEIVED AND ACCEPTED
BY FEDERAL RESERVE DISTRICTS AND TREASURY:

Location	Received	Accepted	Received	Accepted
Boston	$ 18,605,000	$ 17,605,000	$ 16,985,000	$ 11,985,000
New York	3,695,555,000	1,742,805,000	6,176,850,000	2,908,505,000
Philadelphia	56,070,000	29,610,000	7,075,000	6,585,000
Cleveland	26,705,000	26,705,000	102,335,000	14,835,000
Richmond	19,300,000	19,300,000	29,875,000	7,935,000
Atlanta	24,720,000	24,720,000	12,980,000	11,340,000
Chicago	231,305,000	84,805,000	420,240,000	208,660,000
St. Louis	50,225,000	28,825,000	46,790,000	13,790,000
Minneapolis	22,175,000	10,175,000	27,180,000	8,220,000
Kansas City	35,150,000	35,150,000	20,070,000	17,790,000
Dallas	13,190,000	11,190,000	8,510,000	7,510,000
San Francisco	175,070,000	64,820,000	236,225,000	81,525,000
Treasury	4,700,000	4,700,000	2,380,000	2,380,000
TOTALS	$4,372,770,000	$2,100,410,000 c/	$7,107,495,000	$3,301,060,000 d/

c/ Includes $312,315,000 noncompetitive tenders from the public.
d/ Includes $142,745,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

B-005

Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE AT 12:00 NOON December 23, 1977

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $5,600 million, to be issued January 5, 1978. This offering will not provide new cash for the Treasury as the maturing bills are outstanding in the amount of $5,609 million. The two series offered are as follows:

91-day bills (to maturity date) for approximately $2,200 million, representing an additional amount of bills dated October 6, 1977, and to mature April 6, 1978 (CUSIP No. 912793 P6 7), originally issued in the amount of $3,506 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $3,400 million to be dated January 5, 1978, and to mature July 6, 1978 (CUSIP No. 912793 R9 9).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing January 5, 1978. Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,819 million of the maturing bills. These accounts may exchange bills they hold for the bills now being offered at the weighted average prices of accepted competitive tenders.

The bills will be issued on a discount basis under competitive and noncompetitive bidding, and at maturity their par amount will be payable without interest. Except for definitive bills in the $100,000 denomination, which will be available only to investors who are able to show that they are required by law or regulation to hold securities in physical form, both series of bills will be issued entirely in book-entry form in a minimum amount of $10,000 and in any higher $5,000 multiple, on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20226, up to 1:30 p.m., Eastern Standard time, Friday, December 30, 1977. Form PD 4632-2 (for 26-week series) or Form PD 4632-3 (for 13-week series) should be used to submit tenders for bills to be maintained on the book-entry records of the Department of the Treasury.

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Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used.

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account.

Payment for the full par amount of the bills applied for must accompany all tenders submitted for bills to be maintained on the book-entry records of the Department of the Treasury. A cash adjustment will be made on all accepted tenders for the difference between the par payment submitted and the actual issue price as determined in the auction.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, or for bills issued in bearer form, where authorized. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Competitive bidders will be advised of the acceptance or rejection of their tenders. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action shall be final. Subject to these reservations, noncompetitive tenders for each issue for $500,000 or less without stated price from any one bidder will be accepted in full at the weighted average price (in three decimals) of accepted competitive bids for the respective issues.

Settlement for accepted tenders for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, and bills issued in bearer form must be made or completed at the Federal Reserve Bank or Branch or at the Bureau of the Public Debt on January 5, 1978, in cash or other immediately available funds or in Treasury bills maturing January 5, 1978. Cash adjustments will be made for differences between the par value of the maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which these bills are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of these bills (other than life insurance companies) must include in his or her Federal income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Department of the Treasury Circulars, No. 418 (current revision), Public Debt Series - Nos. 26-76 and 27-76, and this notice, prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

Contact: George G. Ross
(202) 566-2356

FOR IMMEDIATE RELEASE December 23, 1977

UNITED STATES AND FRANCE DISCUSS AMENDMENTS TO INCOME TAX TREATY

The Treasury Department today announced that representatives of the United States and France have reached tentative agreement on a protocol to the present income tax convention between the two countries. The protocol must be signed by the two governments and instruments of ratification exchanged before its provisions take effect.

The protocol deals primarily with the taxation of American residents of France. It also eliminates the need for registration by shipping and airline companies, covers the excise tax on insurance premiums, and brings up to date certain definitions.

With respect to taxation of American residents of France, the protocol generally provides that France will exempt from tax United States source business income. Investment income will be subject to French tax, with a credit allowed for the amount of tax that the United States could impose if the recipient were not an American citizen.

The United States, in turn, will allow a credit for French tax on such income by treating a portion of the investment income as if it came from sources within the country of residence.

The protocol further provides that pensions will be exempt from French tax to the extent that they are attributable to service during periods in which an American's principal place of employment was the United States.

Prior to the period when the protocol becomes effective, the Explanatory Note issued jointly by the United States and France in November 1976 remains in force.

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B-607

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

Contact: Robert E. Nipp
566-5328

FOR IMMEDIATE RELEASE December 27, 1977

ECONOMIC DISCUSSIONS BETWEEN THE U.S. AND PERU

The Treasury Department today announced that Dr. C. Fred Bergsten, U.S. Assistant Secretary for International Affairs, and Richard Alcantara, Vice-Minister of Finance for Peru, met at the Treasury on Wednesday, December 14, for an informal exchange of views about the Peruvian economy and the role the U.S. is playing and might play in the future in assisting Peru.

The Treasury Department officials are encouraged by the recent agreement between the Peruvian Government and the IMF on a reform package designed to stabilize the economy.

Vice-Minister Alcantara assured the U.S. that while the stabilization measures are difficult, the Peruvian Government intends to meet all its goals and objectives. In that context, Alcantara informed Bergsten that the Government of Peru attaches high priority to meeting its international payments on external debt. Contrary to early reports, the Peruvian Government representative made no request to the Treasury Department for $100 million in short-term financial support.

Although the question of short-term financing was discussed, there appears to be no need for such support from the U.S. Treasury at this time. Any such request would of course have to be considered in light of established U.S. requirements.

The U.S. Government continues to contribute to Peru's development through our AID and food assistance programs. Recently, the U.S. Government extended $57 million to Peru in CCC lines of credit and has authorized negotiation of a $5 million program under PL-480 Title I. The U.S. is currently reviewing its aid programs and will shortly be considering further U.S. assistance to Peru.

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B-608

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE December 27, 1977

RESULTS OF AUCTION OF 15-YEAR 1-MONTH TREASURY BONDS

The Department of the Treasury has accepted $1,500 million of $2,966 million of tenders received from the public for the 15-year 1-month bonds auctioned today.

The range of accepted competitive bids was as follows:

Lowest yield	7.92% 1/
Highest yield	7.96%
Average yield	7.95%

The interest rate on the bonds will be 7-7/8%. At the 7-7/8% rate, the above yields result in the following prices.

Low-yield price	99.575
High-yield price	99.228
Average-yield price	99.315

The $1,500 million of accepted tenders includes $ 78 million of noncompetitive tenders and $1,423 million of competitive tenders (including 67% of the amount of bonds bid for at the high yield).

Excepting 5 tenders totaling $63,000

B-609

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE December 28, 1977

AMENDED RESULTS OF TREASURY'S 26-WEEK BILL AUCTION

The announcement of December 23 of the results of the 26-week Treasury bill auction for the bills to be issued December 29 is corrected below to reflect an increase in the total tenders received and accepted. This adjustment was due to an error in recording competitive bids during the auction process. This error did not affect the average price as reported in the December 23 announcement.

Location	Received	Accepted
Boston	$ 16,985,000	$ 11,985,000
New York	6,176,850,000	2,908,505,000
Philadelphia	7,075,000	6,585,000
Cleveland	102,335,000	14,835,000
Richmond	29,875,000	7,935,000
Atlanta	12,980,000	11,340,000
Chicago	420,240,000	208,660,000
St. Louis	46,790,000	13,790,000
Minneapolis	27,180,000	8,220,000
Kansas City	20,070,000	17,790,000
Dallas	8,510,000	7,510,000
San Francisco	316,225,000	161,525,000
Treasury	2,380,000	2,380,000
TOTALS	$7,187,495,000	$3,381,060,000

All other particulars in the announcement remain the same.

B-610

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

File Co,

FOR IMMEDIATE RELEASE

Contact: Robert Nipp
566-5328

December 28, 1977

PROPOSED REGULATIONS ON TRIGGER PRICES RELEASED

The Treasury Department today released proposed Customs regulations to implement the trigger price mechanism proposed by the Interagency Task Force on Steel chaired by Treasury Under Secretary Anthony M. Solomon.

The proposed regulations will be published in the Federal Register on Friday, December 30 and will be open for public comment through January 27, 1978.

B-611

DEPARTMENT OF THE TREASURY
UNITED STATES CUSTOMS SERVICE

(19 CFR Part 141)

ENTRY OF MERCHANDISE

PROPOSED AMENDMENTS TO THE CUSTOMS REGULATIONS RELATING TO THE DOCUMENTS AND INFORMATION REQUIRED TO BE FILED AT THE TIME OF IMPORTATION OF CERTAIN ARTICLES OF STEEL

AGENCY: United States Customs Service, Department of the Treasury.

ACTION: Notice of proposed rulemaking.

SUMMARY: It is proposed to amend the Customs Regulations to require that a special invoice be presented to Customs for each shipment of certain articles of steel having an aggregate purchase price over $2,500. The additional information provided by the special invoice would be used in the administration and enforcement of the Antidumping Act, 1921, as amended.

DATES: Comments must be received on or before January 27, 1978.

ADDRESS: Comments should be addressed to the Commissioner of Customs, Attention: Regulations and Legal Publications Division, U.S. Customs Service, 1301 Constitution Avenue, N.W., Washington, D.C. 20229.

FOR FURTHER INFORMATION CONTACT:

With respect to the trigger price mechanism (described under "SUPPLEMENTARY INFORMATION," below), Peter D. Ehrenhaft, Deputy Assistant Secretary and Special Counsel (Tariff Affairs), Department of the Treasury, Washington, D.C. 20220 (202-566-2806).

With respect to other aspects of the proposal, Ben L. Irvin, Duty

Assessment Division, U.S. Customs Service, 1301 Constitution Avenue, N.W., Washington, D. C. 20229 (202-566-8121).

SUPPLEMENTARY INFORMATION:

BACKGROUND

Acting under the authority of section 201(a) of the Antidumping Act of 1921, as amended (19 U.S.C. 160(a)), and section 153.25 of the Customs Regulations, the Secretary of the Treasury will implement a "trigger price mechanism" as recommended to, and approved by, the President on December 6, 1977. The trigger price mechanism ("TPM") will consist of four parts: (1) the establishment of trigger prices for steel mill products imported into the United States; (2) adoption of a new Special Summary Steel Invoice ("SSSI") applicable to imports of all steel mill products; (3) the continuous collection and analysis of data concerning (a) the cost of production and prices of steel mill products in the countries that are the principal exporters of such products to the United States, and (b) the condition of the domestic steel industry; and (4) where appropriate, the expedited initiation and disposition of proceedings under the Antidumping Act of 1921 with respect to imports below the trigger prices.

(1) Establishment of Trigger Prices

The Secretary of the Treasury intends to publish shortly "trigger prices for the steel mill products so identified by the American Iron and Steel Institute (AISI) that are imported in significant quantities. Each such "trigger price" will be calculated from the best evidence available concerning cost of production of that product by the industry considered to be the world' most efficient. At this time, this has been determined to be the Japanese steel industry. Initial trigger prices are now being developed from information collected from the six largest and some non-integrated smaller producers, and made available to the Treasury Department by the Japanese Ministry of International Trade and Industry. Such data has been adjusted to reflect yields of production and capacity utilization over the average business cycles of three years. The establishment of a trigger price for any particular steel mill product is not intended to suggest that the cost of production of such product may not be higher or lower in the case of any particular exporting company.

The Secretary will also publish a complete set of trigger prices for the "extras" usual in the steel trade, applicable to the steel mill products for which base prices are fixed. (Trigger prices for alloy and wire products will be announced shortly.)

For the purposes of the trigger price mechanism, stainless steel products, presently subject to import restraints, will be excluded from the TPM, as will other specialty steel products which have not entered the United States in significant quantities in the recent past, even if categorized as "steel mill products." Similarly, fabricated articles and other items not presently included as "steel mill products" by the AISI will be excluded. However, consideration will be given to including additional products should circumstances warrant following the initiation of the program.

The trigger base prices and extras will be reviewed quarterly as more current cost information becomes available. Trigger prices will be published sometime in advance of the calendar quarter to which they will apply. The unit invoice prices of all imports, whenever entered, will be compared with the trigger prices in effect as of the date the shipment was loaded for export to United States ports. The initial trigger prices will be [illegible] shipments between the date of their publication through the second quarter of 1978. The application of the trigger prices to contracts concluded before the announcement of the trigger prices will be addressed in a subsequent notice.

For purposes of determining whether or not to initiate an investigation, the total unit invoice price of each import will be compared with the aggregate trigger base price plus all extras for that product. Such unit invoice price, as well as the base price plus extras, are to be shown on the SSSI. The fact that any particular item reflected on the SSSI is not at or above the trigger prices established by the Secretary will not, by itself, result in any action by the Department.

(2) Use of the SSSI

This notice sets forth proposed regulations prescribing the use of the SSSI in connection with imports of all steel mill products subject to the TPM. This form is modeled on the present Special Customs Invoice (Customs Form 5515), and is intended to permit the identification of base prices and all extras. The proposed regulations would require that an SSSI be presented for each shipment having an aggregate purchase price over $2,500 and containing any of the steel mill products subject to the TPM.

A duplicate copy of the SSSI will be forwarded immediately upon receipt by the Customs Service to the Special Customs Steel Task Force in Washington for analysis. Forms reflecting substantial or repeated shipments below trigger prices may result in prompt informal inquiries or such other action as the Secretary deems appropriate, as more fully described in (4) below. It is essential to the operation of the monitoring system that exporters forward commercial invoices and the SSSI's immediately upon the export of the products, so that they may arrive prior to the shipment to which they apply. In any case, SSSI's will be required as a condition of entry. For shipments which are released from Customs custody under immediate delivery procedures, importers should be aware that if they are unable to produce the SSSI, entry may not be made and redelivery of the merchandise would be required.

(3) Collection and Analysis of Data

Throughout the duration of the TPM, the Special Customs Steel Task Force will collect information concerning the costs of production and prices in the home markets (or quoted for export to third countries) by producers in the principal steel exporting countries of the world. Such data will be used in the periodic review of trigger prices and in the evaluation of cases in which SSSI's reflect sales below trigger prices.

In addition, information will be collected on a continuous basis concerning the condition of the United States industry. Data with respect to capacity utilization, employment, profitability, shipments, shares of the market, and other indicia of the economic condition of the industry will be monitored to determine whether imports of steel mill products are causing or threatening to cause injury to the United States industry.

(4) Initiation and Disposition of Proceedings Under the Antidumping Act

All SSSI's reflecting imports below the trigger prices applicable to the quarter in which the shipment was made will be evaluated by the Special Customs Steel Task Force. Informal inquiry may then -- but need not -- be

DEPARTMENT OF THE TREASURY
UNITED STATES CUSTOMS SERVICE
19 U.S.C. 1481, 1482, 1484

SPECIAL SUMMARY STEEL INVOICE

(Prepare in Duplicate)

1. SELLER

2. DOCUMENT NO.

3. INVOICE NO. AND DATE

ADDITIONAL SPACE FOR EXTRAS SHOWN IN BOX 11.

4. REFERENCES

5. CONSIGNEE

6. BUYER *(if other than consignee)*

7. ORIGIN OF GOODS

8. DATE PRICE TERMS AGREED

8B DATE OF EXPORTATION

9. TERMS OF SALE, DISCOUNTS

10. ☐ If the production of these goods involved furnishing goods or services to the seller *(e.g., assists such as dies, molds, tools, engineering work)* and the value is not included in the invoice price, check box (10) and explain below.

12. DECLARATION OF SELLER/SHIPPER (OR AGENT)

I declare:

(A) ☐ If there are any rebates, drawbacks or bounties allowed upon the exportation of goods, I have checked box (A) and itemized separately below.

(B) ☐ If any unrelated incentives or reimbursement of dumping duties, or other inducements not reflected in this invoice have been, or will be, paid or granted, I have checked box (B) and explained below.

I further declare that there is no other invoice differing from this one (unless otherwise described below) and that all statements contained in this invoice and declaration are true and correct.

(C) SIGNATURE OF SELLER/SHIPPER (OR AGENT):

11. CODE FOR OTHER EXTRAS*

A. Thickness
B. Edging
C. Surface Treatment
D. Special Specifications
E. Special Packing
F. Other (specify)

22. PACKING COSTS

23. OCEAN OR INTERNATIONAL FREIGHT

24. DOMESTIC FREIGHT CHARGES

25. INSURANCE COSTS

26. OTHER COSTS *(Specify Below)*

13. MARKS AND NUMBERS ON SHIPPING PACKAGES	AISI CATEGORY	15. DESCRIPTION OF GOODS	16. QUANTITY	17. BASE PRICE	18. EXTRAS a. WIDTH	b. LENGTH	c. CODE	d. $	UNIT PRICE 19. HOME MARKET	20. INVOICE	21. INVOICE TOTALS

made of the importer to determine the basis for the entry below the trigger price. Unless the Secretary is promptly satisfied, on the basis of such informal inquiry, that no reasonable possibility of sales at less t fair value of such merchandise may be found, the Secretary will promptly publish an Antidumping Proceeding Notice pursuant to section 153.31(a) of t Customs Regulations. It is the intention of the Department of the Treasury to expedite a full scale antidumping investigation of such possible sales at less than fair value, so that a Tentative Determination as to the belief or suspicion of the existence of such sales at less than fair value can be made within a period substantially shorter than the six months provided in section 153.32 of the Customs Regulations. In appropriate cases, the Secretary may also issue a "Withholding of Appraisement Notice" providing for the retroactive withholding of appraisement pursuant to section 153.35(f) of the Customs Regulations. In all other respects, foreign exporters, importers and the affected United States industry will retain any and all rights otherwise available under the Antidumping Act and its implementing regulations.

SPECIAL SUMMARY STEEL INVOICE

A sample of the proposed new form, to be titled the "Special Summary Steel Invoice" (SSSI), follows:

INSTRUCTIONS FOR PREPARATION OF SPECIAL SUMMARY STEEL INVOICE
(on reverse side of form)

(Required for all shipments of iron or steel valued over $2,500)

Note: Where this summary invoice covers several types of merchandise priced in different ways, each should be shown separately. Prepare in duplicate.

Section 1-7, 9, 10, 12, 13, 15, 16, and 19-26 may be completed in the same manner as the equivalent sections on Special Customs Invoice, Customs Form 5515.

Section 8A. Data Price Terms Agreed: Show here the date on which the final sales price for this shipment was agreed.

Section 8B. Date of Exportation: Show here the date on which the merchandise left the last port in the country of exportation.

Section 11. Codes for extras: This section refers to the additional price charged for extras other than width and length. The code(s) for the extras shown should be reflected in section 18c, and the amount, total for combinations of extras, should be shown in 18d. The extras listed are expressed in terms as now understood in the U.S. market. K-N of section 11 should be completed for extras not itemized.

Section 14. AISI Category: This column should be completed with the appropriate category number from the list below.

Section 17. Base Price: Show here for each steel category the base price on which the total sales price was based.

Section 18. Extras: Show here the charge for each category of any extra added to the base price. Use appropriate codes from section 11 where appropriate.

Category No.	Products
I	Ingots, blooms, billets, slabs, etc.
II	Wire rods
III	Structural shapes -- Plain 3" & over
IV	Sheet piling
V	Plates
VI	Rail and tract accessories
VII	Wheels and axles
VIII	Concrete reinforcing bars
IX	Bar shapes under 3"
X	Bars -- Hot rolled -- Carbon
XI	Bars -- Hot rolled -- Alloy
XII	Bars -- Cold finished
XIII	Hollow drill steel
XIV	Welded pipe and tubing
XV	Other pipe and tubing
XVI	Round and shaped wire
XVII	Flat wire
XVIII	Bale ties
XIX	Galvanized wire fencing
XX	Wire nails
XXI	Barbed wire
XXII	Black plate
XXIII	Tin plate
XXIV	Terne plate
XXV	Sheets - Hot rolled
XXVI	Sheets - Cold rolled
XXVII	Sheets - Coated (incl. galvanized)
XXVIII	Sheets - Coated - Alloy
XXIX	Strip - Hot rolled
XXX	Strip - Cold rolled
XXXI	Strip - Hot & Cold rolled - Alloy
XXXII	Sheets other - Electric coated

AUTHORITY

The authority for the proposed amendments is R.S. 251, as amended (19 U.S.C. 66), section 407, 42 Stat. 18 (19 U.S.C. 173), sections 481 484, 624, 46 Stat. 719, 722, as amended, 759 (19 U.S.C. 1481, 1484, 1624), 77A Stat. 14, Tariff Schedules of the United States (19 U.S.C. 1202, General Headnote 11).

COMMENTS

The Customs Service invites written comments from all interested parties on the proposed amendments. Comments submitted will be available for public inspection in accordance with section 103.8(b) of the Customs Regulations (19 CFR 103.8(b)) during regular business hours at the Regulations and Legal Publications Division, Headquarters, U.S. Customs Service, 1301 Constitution Avenue, N.W., Washington, D.C.

DRAFTING INFORMATION

The principal authors of this document were Edward T. Posse and Paul G. Hegland, Regulations and Legal Publications Division, U.S. Customs Service. However, other personnel in the Customs Service and Department of the Treasury assisted in its development.

PROPOSED AMENDMENTS

PART 141 - ENTRY OF MERCHANDISE

It is proposed to amend the first sentence of section 141.81 of the Customs Regulations (19 CFR 141.81) to read as follows:

141.81 Invoice for each shipment.

A special Customs invoice, a special summary invoice, or a commercial invoice shall be presented for each shipment of merchandise at the time of entry, subject to the conditions set forth in these regulations. * * *

It is proposed to add a new paragraph (e) to section 141.82 of the Customs Regulations (19 CFR 141.82(e)) to read as follows:

141.82 Invoice for installment shipments arriving within a period of 10 days.

* * * * *

(e) Special summary invoice. The provisions of this section shall not apply if a special summary invoice is required by section 141.83(b).

It is proposed to redesignate present paragraphs (b) and (c) of section 141.83 of the Customs Regulations (19 CFR 141.83(b), (c)) as paragraphs (c) and (d), respectively, of that section, and to add a new paragraph (b) to section 141.83 to read as follows:

141.83 Type of invoice required.

* * * * *

(b) Special summary invoice. A special summary invoice shall be presented for each shipment of merchandise described in section 141.89(b). The district may waive production of a special Customs invoice (Customs Form 5515) if a special summary invoice is required.

* * * * *

It is proposed to amend section 141.89 of the Customs Regulations (19 CFR 141.89) by designating the present provisions of that section as paragraph (a) and adding a new paragraph (b) to that section to read as follows:

141.89 Additional information for certain classes of merchandise.

* * * * *

(b) Special summary steel invoice.

(1) A Special Summary Steel Invoice (Customs Form) shall be presented in duplicate for each shipment which is determined by the district director to have an aggregate purchase price over $2,500, including all expenses incident to placing the merchandise in condition packed ready for shipment to the United States, and which contains any of the articles of steel listed in paragraph (b)(2) of this section. In addition to the information required by section 141.86, the Special Summary Steel Invoice shall set forth the following:

(A) The date price terms were agreed upon (the date of agreement on the final sales price for the shipment).

(B) Description and cost of extras (a description of, and the additional price charged for, extras, other than width and length, with the extras described in terms understood in the United States market).

(C) American Iron and Steel Institute (AISI) category.

(D) Base price (the base price for each steel category on which the total sales price was based).

(2) The following articles of steel are subject to the special invoice requirements of section 141.89(b)(1):

(A) Ingots, blooms, billets, slabs, etc.

(B) Wire rods.

(C) Structural shapes - plain 3 inches and over.

(D) Sheet piling.

(E) Plates.

(F) Rail and track accessories.

(G) Wheels and axles.

(H) Concrete reinforcing bars.

(I) Bar shapes under 3 inches.

(J) Bars - hot rolled - carbon.

(K) Bars - hot rolled - alloy.

(L) Bars - cold finished.

(M) Hollow drill steel.

(N) Welded pipe and tubing.

(O) Other pipe and tubing.

(P) Round and shaped wire.

(Q) Flat wire.

(R) Bale ties.

(S) Galvanized wire fencing.

(T) Wire nails.

(U) Barbed wire.

(V) Black plate.

(W) Tin plate.

(X) Terne plate.

(Y) Sheets - hot rolled.

(Z) Sheets - cold rolled.

(AA) Sheets - coated incl. galvanized.

(BB) Sheets - coated - alloy.

(CC) Strip - hot rolled.

(DD) Strip - cold rolled.

(EE) Strip - hot and cold rolled - alloy.

(FF) Sheets other - Electric coated

It is proposed to amend the introductory clause of section 141.9 of the Customs Regulations (19 CFR 141.91) to read as follows:

141.91 Entry without required invoice.

If a required invoice, other than a special summary invoice is not available in proper form at the time of entry and a waive in accordance with section 141.92 is not granted, the entry shal be accepted only under the following conditions: * * *

* * * * *

It is proposed to amend the introductory clause of section 141.9 of the Customs Regulations (19 CFR 141.92(a)) to read as follows:

141.92 Waiver of invoice requirements.

(a) When waiver may be granted. The district director may waive production of a required invoice, except a special summary invoice required by section 141.83(b), when he is satisfied that either: * * *

* * * * *

R. E. Chasen
Commissioner of Customs

Approved: DEC 28 1977

Anthony M. Solomon
Acting Secretary of the Treasury

CERTIFIED COPY

CERTIFIED TO BE A TRUE COPY OF THE ORIGINAL

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

Contact: Alvin Hattal
202/566-8381
December 29, 1977

FOR IMMEDIATE RELEASE

TREASURY ANNOUNCES START OF ANTIDUMPING INVESTIGATION ON PNEUMATIC MARINE FENDERS FROM JAPAN

The Treasury Department announced today that it will begin an antidumping investigation on pneumatic marine fenders from Japan.

Treasury's announcement followed a summary investigation conducted by the U.S. Customs Service after receipt of a petition filed on behalf of Seaward International, Inc., of Falls Church, Virginia, and Samson Ocean Systems, Inc., of Boston, Massachusetts. The petition alleges that pneumatic marine fenders, imported from Japan, are being dumped in the United States.

Information contained in the petition indicates that the prices of Japanese pneumatic fenders in the United States are less than the prices of the same merchandise in the home market. The petition also includes information that the U.S. industry is being injured by the alleged "less than fair value" imports. If sales at less than fair value are determined by Treasury, the U.S. International Trade Commission will subsequently decide the injury question. Both "sales at less than fair value" and "injury" must be determined before a dumping finding is reached.

For purposes of this investigation, the term "pneumatic marine fenders" means pneumatic marine fenders used on vessels, docks and quays to absorb impact, and are provided for under item 790.39 of the Tariff Schedules of the United States.

Notice of the start of this antidumping investigation appeared in the Federal Register of December 28, 1977.

The value of imports of pneumatic marine fenders from Japan appears to amount to $3-4 million per year.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

Contact: Alvin Hattal
202/566-8381

FOR IMMEDIATE RELEASE December 29, 1977

TREASURY DEPARTMENT FINDS
ICE HOCKEY STICKS FROM FINLAND ARE SOLD HERE
AT LESS THAN FAIR VALUE

The Treasury Department announced today that it has determined, within the meaning of the Antidumping Act of 1921, that ice hockey sticks from Finland are being sold in the United States at "less than fair value."

The case has been referred to the U. S. International Trade Commission, which must decide within 90 days of this determination whether a U. S. industry is being, or is likely to be, injured by these "less than fair value" imports.

Sales at less than fair value generally occur when the prices of the merchandise sold for export to the United States are less than the prices of the same or comparable merchandise sold in the home market. Interested persons were offered the opportunity to present oral and written views prior to this determination.

Dumping results only when both sales at less than fair value and injury have been determined.

If the Commission finds injury, a "Finding of Dumping" will be issued and dumping duties will be assessed on an entry-by-entry basis.

Notice of this action will appear in the Federal Register of December 30, 1977.

Imports of ice hockey sticks from Finland during calendar year 1976 were valued at roughly $2 million.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

Contact: Alvin Hattal
202/566-8381

FOR IMMEDIATE RELEASE December 29, 1977

TREASURY ANNOUNCES START OF ANTIDUMPING INVESTIGATION ON CERTAIN STEEL WIRE NAILS FROM CANADA

The Treasury Department announced today that it will begin an antidumping investigation on imports of certain steel wire nails from Canada.

Treasury's announcement followed a summary investigation conducted by the U. S. Customs Service after receipt of a petition filed on behalf of eight U. S. steel companies alleging that these nails are being dumped in the United States.

Information contained in the petition indicates that the prices of the merchandise sold in the United States are less than the prices of the same merchandise in the home market.

The petition also includes information that a U. S. industry is being injured by these alleged "less than fair value" sales. If sales at less than fair value are determined by Treasury, then the case will be forwarded to the U. S. International Trade Commission for an investigation to determine whether a domestic industry is being injured by the "less than fair value" sales. Both "sales at less than fair value" and "injury" must be determined before a dumping finding is reached.

Petitioners in this proceeding are: Armco Steel Corporation, CF & I Steel Corporation, Davis Walker Corporation, Keystone Steel and Wire, Northwest Steel and Wire, and Pen-Dixie Steel Corporation.

Notice of the start of this investigation will appear in the Federal Register of December 30, 1977.

Imports of steel wire from Canada during the first nine months of 1977 were valued at roughly $26 million.

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Department of the TREASURY
NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE AT 4:00 P.M. December 29, 1977

TREASURY'S 52-WEEK BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for $ 3,071 million, or thereabouts, of 364-day Treasury bills to be dated January 10, 1978, and to mature January 9, 1979 (CUSIP No. 912793 V3 7). The bills, with a limited exception, will be available in book-entry form only, and will be issued for cash and in exchange for Treasury bills maturing January 10, 1978.

This issue will not provide new money for the Treasury as the maturing issue is outstanding in the amount of $3,071 million, of which $1,594 million is held by the public and $1,477 million is held by Government accounts and the Federal Reserve Banks for themselves and as agents of foreign and international monetary authorities. Additional amounts of the bills may be issued to Federal Reserve Banks as agents of foreign and international monetary authorities. Tenders from Government accounts and the Federal Reserve Banks for themselves and as agents of foreign and international monetary authorities will be accepted at the average price of accepted tenders.

The bills will be issued on a discount basis under competitive and noncompetitive bidding, and at maturity their par amount will be payable without interest. Except for definitive bills in the $100,000 denomination, which will be available only to investors who are able to show that they are required by law or regulation to hold securities in physical form, this series of bills will be issued entirely in book-entry form on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20226, up to 1:30 p.m., Eastern Standard time, Wednesday, January 4, 1978. Form PD 4632-1 should be used to submit tenders for bills to be maintained on the book-entry records of the Department of the Treasury.

Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders, the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used.

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(OVER)

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon may submit tenders for account of customers, provided the names of the customers are set forth in such tenders. Others will not be permitted to submit tenders except for their own account.

Payment for the full par amount of the bills applied for must accompany all tenders submitted for bills to be maintained on the book-entry records of the Department of the Treasury. A cash adjustment will be made for the difference between the par payment submitted and the actual issue price as determined in the auction.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities, for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, or for definitive bills, where authorized. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $500,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids.

Settlement for accepted tenders for bills to be maintained on the records of Federal Reserve Banks and Branches must be made or completed at the Federal Reserve Bank or Branch on January 10, 1978, in cash or other immediately available funds or in Treasury bills maturing January 10, 1978. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of bills (other than life insurance companies) issued hereunder must include in his Federal income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on a subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76, and this notice, prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

Contact: Alvin Hattal
202/566-8381

FOR IMMEDIATE RELEASE

December 30, 1977

TREASURY DEPARTMENT FINDS
IMPRESSION FABRIC OF MAN-MADE FIBER
FROM JAPAN SOLD HERE AT LESS THAN FAIR VALUE

The Treasury Department announced today that it has determined that impression fabric of man-made fiber from Japan is being sold in the United States at "less than fair value," as defined by the Antidumping Act.

The case is being referred to the U.S. International Trade Commission, which must decide, within 90 days, whether a U.S. industry is being, or is likely to be, injured by these sales. If the ITC's decision is affirmative, dumping duties will be collected on all but two Japanese producers.

Sales at less than fair value generally occur when the prices of the merchandise sold for export to the United States are less than the prices of the same merchandise sold in the home market. Interested persons were offered the opportunity to present oral and written views prior to this determination.

With respect to the two companies excepted from this determination, Asahi Chemical Industry Co., Ltd. is being excluded on the basis of de minimis, or insignificant margins, and Shirasaki Tape Co., Ltd. is being given a discontinuance based upon minimal margins and assurances that all future sales will not be at less than fair value.

Notice of this action appears in the Federal Register of December 30, 1977.

Imports of impression fabric of man-made fiber from Japan were valued at approximately $2.2 million during the period October 1976 through March 1977.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

MEMORANDUM TO THE PRESS: December 30, 1977

Treasury officials will hold a news briefing at 3 p.m. Tuesday, January 3, 1978 in Room 4121 to announce the steel price trigger program. Press only. Contact Robert Nipp, Treasury Public Affairs, 566-5328.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

Contact: Alvin Hattal
(202) 566-8381

FOR IMMEDIATE RELEASE December 30, 1977

TREASURY DEPARTMENT ANNOUNCES THREE FINAL DECISIONS UNDER THE COUNTERVAILING DUTY LAW

The Treasury Department today announced final actions under the Countervailing Duty Law concerning imports of footwear, handbags, and leather wearing apparel from Uruguay, butter cookies from Denmark, and leather wearing apparel from Taiwan.

In the cases affecting Denmark and Uruguay, Treasury found that these governments subsidize the referenced exports but is waiving countervailing duties on these items.

A final negative decision was made in the case of leather apparel imports from Taiwan.

Under the Countervailing Duty Law, the Treasury Secretary is required to assess an additional customs duty equal to the amount of a "bounty" or "grant" (subsidy) paid on imported merchandise. The law permits the Secretary to temporarily waive countervailing duties when the following criteria are met:

(1) Adequate steps have been taken to eliminate or substantially reduce the adverse effects of the subsidies;

(2) Negotiations are proceeding internationally to eliminate barriers to trade;

(3) To countervail would seriously jeopardize those negotiations.

In the butter cookie case, Treasury found that Danish butter cookie exports are subsidized by export "restitution" payments made on the ingredients of the product or from reduced prices on butter from European Community intervention stocks. These programs fall under the Common Agricultural Policy of the European Community. The Treasury decided to waive countervailing duties because the Danish butter cookie exporters have made commitments not to accept future increases in the subsidies mentioned above, to avoid "aggressive marketing" of their butter cookies in the United States, and not to reduce the CIF wholesale price for these cookies below the amount shown on December 9, 1977. In view of the small volume of trade ($6.7 million in 1976) and the relatively high price of Danish butter cookies, Treasury determined that these steps satisfied the first criterion of the waiver. Treasury's decision also took account of the recent progress achieved in the trade negotiations and the possible adverse effect a countervail could have against a program under the Common Agricultural Policy of the European Community.

Notice of this action will appear in the Federal Register of January 5, 1978. In 1976, trade volume was $6.7 million.

In the Uruguayan cases, "bounties" were found in the form of direct export subsidies, preferential income tax treatment on export earnings, and preferential financing. A waiver is being granted based on actions by the Uruguayan Government to eliminate completely the effective export subsidy on all leather products exports within the next year, with a 50-percent reduction to occur January 1, 1978. The Government of Uruguay is also committed to remove export subsidies for all products by January 1, 1983. The waiver provision expires by law on January 4, 1979.

Notices of the Uruguayan actions will appear shortly in the Federal Register. During 1976, handbag imports were $1.5 million, leather apparel imports amounted to $21 million, and footwear imports were approximately $12 million.

In the Taiwan leather apparel case, Treasury found that leather goods exporters benefit from several programs. However, their aggregate benefit is considered to be de minimis, or too inconsequential to have any impact on the value of the imports. On this basis there are no "bounties" or "grants" paid on Taiwan leather apparel imports.

Notice of the Taiwan action appears in the Federal Register of December 30, 1977.

Leather apparel imports from Taiwan in 1976 were $28.6 million.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE December 30, 1977

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,202 million of 13-week Treasury bills and for $3,401 million of 26-week Treasury bills, both series to be issued on January 5, 1978, were accepted at the Federal Reserve Banks and Treasury today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing April 6, 1978			26-week bills maturing July 6, 1978		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.450 a/	6.132%	6.31%	96.758	6.413%	6.72%
Low	98.446	6.148%	6.33%	96.750	6.429%	6.74%
Average	98.447	6.144%	6.33%	96.753	6.423%	6.73%

a/ Excepting 1 tender of $10,000

Tenders at the low price for the 13-week bills were allotted 100%.
Tenders at the low price for the 26-week bills were allotted 43%.

TOTAL TENDERS RECEIVED AND ACCEPTED
BY FEDERAL RESERVE DISTRICTS AND TREASURY:

Location	Received	Accepted	Received	Accepted
Boston	$ 20,480,000	$ 19,180,000	$ 33,980,000	$ 18,980,000
New York	3,633,990,000	1,808,260,000	5,041,595,000	3,229,080,000
Philadelphia	25,370,000	25,370,000	54,020,000	9,320,000
Cleveland	45,530,000	30,530,000	54,440,000	9,040,000
Richmond	26,400,000	22,400,000	23,685,000	7,685,000
Atlanta	29,805,000	27,805,000	13,780,000	12,780,000
Chicago	223,645,000	114,545,000	470,025,000	30,025,000
St. Louis	41,045,000	15,445,000	29,455,000	10,255,000
Minneapolis	22,485,000	22,485,000	15,850,000	9,850,000
Kansas City	24,385,000	21,680,000	24,540,000	21,540,000
Dallas	13,660,000	13,660,000	15,295,000	14,295,000
San Francisco	260,345,000	75,145,000	530,735,000	24,915,000
Treasury	5,985,000	5,985,000	3,145,000	3,145,000
TOTALS	$4,373,125,000	$2,202,490,000 b/	$6,310,545,000	$3,400,910,000 c/

b/ Includes $321,725,000 noncompetitive tenders from the public.
c/ Includes $151,205,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

B-619

Embargoed for release
until after the
briefing

January 3, 1978

DEPARTMENT OF THE TREASURY

OFFICE OF THE SECRETARY

NOTICE

"Trigger Prices" for
Imported Steel Mill Products

On December 28, 1977, the Treasury Department announced proposed rulemaking procedures with respect to regulations applicable to the information required to be filed at the time of importation of certain articles of steel (42 Fed. Reg. 65214). As was there indicated, the Secretary intends to implement a "trigger price mechanism" as recommended to, and approved by, the President. For that purpose, "trigger prices" for steel mill products are to be published as the basis upon which imported steel products will be monitored for the purpose of determining whether investigations under the Antidumping Act of 1921, as amended, 19 U.S.C. §160 et seq., would be appropriate.

I am hereby announcing the base prices to be used in the trigger price mechanism (TPM) for certain imported steel mill products. These prices are based upon evidence made available to the Treasury Department by the Japanese Ministry of International Trade and Industry (MITI) concerning the current cost of producing steel in Japan, recognized as the most efficient exporting country today, as well as other information available to the

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Department. The data supplied by MITI were compiled by the six major, integrated steel companies in Japan, as well as by a number of smaller, electric-furnace steel makers.

The methodology employed in arriving at a cost of production estimate is similar to that utilized in the Council on Wage and Price Stability (CWPS) Report to the President on Prices and Costs in the United States Steel Industry, released in October 1977, but the product coverage is different.

The individual components of the cost of producing raw steel are totaled and then divided by the appropriate yield factor to obtain the cost of finished steel products. To that figure, appropriate coefficients, expressing the average experience of the Japanese firms in producing individual types of steel mill products, are used to derive the costs of those products. The conclusions published in the CWPS Report concerning costs of producing steel in Japan were based on average data for the Japanese steel industry as a whole, as reflected in published sources. The figures for the estimated costs of production being published today are for items produced principally by the large, integrated companies and, therefore, are based on information from these firms. As a result, they differ from the estimates published in the CWPS Report. The data being submitted by the smaller, nonintegrated companies through MITI will be utilized to construct the costs of production for such items as alloy products, wire, and small structural shapes. These cost estimates will be published shortly.

The total Japanese costs of production for the major firms are found to be:

TABLE 1

ESTIMATED JAPANESE COST OF PRODUCTION
($ per net ton of finished product)

Raw Materials	$165.19
Labor	68.56
Other Expenses	19.39
Depreciation	16.79
Interest Plus Profit	33.83
Less Scrap Credit	-5.96
Total	$297.80

1. <u>The Construction of "Trigger Prices" for "Steel Mill Products</u>." "Steel mill products" include a wide variety of commodities, produced in a multitude of grades and sizes. For each major steel mill product (excluding stainless steel) imported into the U.S. in significant quantities, a set of "base prices" is being or will be announced, based upon the estimated Japanese costs of production of all steel products. Most of these base prices are being announced with this Notice; others -- including alloy products, wire,

tubular and the remaining bar products -- will be announced shortly, as soon as the necessary information is obtained and analyzed. Some products which are not imported in significant quantities, or for which cost data are difficult to obtain, may not be assigned a base trigger price. The Treasury Department will continually review the coverage of the trigger price mechanism at a later date to determine the appropriateness of the coverage of product categories.

Most imported steel mill products are sold to specifications for width, thickness, chemistry, or surface preparation that differ from the base product. To establish "trigger prices" for most of these combinations, "extra" charges must be added to the base price. A complete set of charges for extras is being supplied by MITI as a reflection of the Japanese differentials between the various combinations. In many cases, these "extras" charges are similar to those charged for extras by the U.S. industry; in others they diverge. The Treasury Department will publish the extras charges it will use for the trigger price mechanism as soon as possible.

2. Cost of Production for Basic Carbon Steel Products. The estimated cost of production for the base products comprising the most significant imports, as produced by the six integrated Japanese firms, are listed in Table 2. The Treasury estimates are based on an addition of raw material inputs, labor expenses, overhead and a profit margin, as well as all other capital charges for all

TABLE 2

ESTIMATED COST OF PRODUCTION INCLUDING ALL CAPITAL CHARGES — BASE ITEMS
(F.O.B., JAPAN)

Category Number	Products	Specification	Dimension	Cost of Production ($/Net Ton)
II	Wire Rods			
	Commercial Quality	AISI 1008	5.5m/m	240
	Welding Quality	JIS G3503 SRWYLL equivalent	5.5m/m	241
	High Carbon	AISI 1065 (specific)	5.5m/m	280
	Cold Heading Quality	AISI 1038 (specific)	12.7m/m	289
III	Wide Flange Beams	ASTM A36	12" x 12"	235
IV	Sheet Pilings	ASTM A-372	ARCH WEB PDA-27	265
V	Steel Plates	ASTM A36	1/2" x 80" x 240"	241
X	Hot-rolled Carbon Bars	AISI 1045 40 mm round x 4 meters		308
XXII	Black Plate	ASTM A-625-76	0.0083" x 34" x Coil	338
XIII	Electrolytic Tin Plate	SR-25/25	75L x 34" x C	433
XXV and XIX	Hot-Rolled Steel Sheets in Coil	ASTM A569	0.121" x 48" x C	210
XVI and XX	Cold-Rolled Steel Sheets in Coil	ASTM A366	1.0m/m x 48" x C	269
XVI	Electrical Steel Sheets			
	Grain-Oriented	M-4	0.012" x 33" x C	907
	Non-Oriented	M-45	0.018" x 36" x C	488
XVII	Electro-Galvanized Iron Sheets in Coil	EGC-10g/M^2	1.0m/m x 48" x C	311
XVII	Galvanized Iron Sheets in Coil	ASTM A525G90	0.8m/m x 48" x C	313
XXII	Tin Free Steel Sheets in Coil	SR	75L x 34" x C	375

steel, multiplied by an appropriate coefficient based on the experience of the reporting firms.

3. Importation Charges. To the estimated cost of production for each steel mill product consisting of its base price and "extras," there must be added importation costs (excluding duty) from Japan. The resulting total constitutes the Treasury trigger price. The importation costs include Japanese inland freight, loading, ocean freight, insurance, interest, and wharfage charges. These have been calculated for each broad product category on the basis of existing data on average freight rates and wharfage charges for each of four regions of the country -- East, West, Gulf, and Great Lakes. Insurance and interest costs have been estimated, based on reported transactions. The resulting importation costs for each major product category appear in Table 3. Importers' sales commissions are excluded, since the "trigger price" is based upon the cost to the importer, assuming the importer is dealing on an arms' length basis. To the extent the importer is related to the producer exporting the steel mill product and the transfer price does not reflect an arms' length transaction, the first resale price by the related importer to an unrelated U.S. buyer will be used as the comparison with the trigger price.

TABLE 3

IMPORTATION CHARGES ON
JAPANESE STEEL PRODUCTS
($/net ton)

PRODUCT	FREIGHT	INSURANCE	INTEREST	HANDLING	TOTAL
II Wire Rods					
Commercial Quality					
East	28.13	2.69	6.73	3.63	41.18
Lakes	40.83	2.82	8.66	3.63	55.94
Gulf	23.59	2.65	6.62	4.54	37.40
Pacific	22.69	2.64	5.10	2.72	33.15
High Carbon					
East	28.13	3.13	7.87	3.63	42.76
Lakes	40.83	3.25	10.06	3.63	57.77
Gulf	23.59	3.08	7.76	4.54	38.97
Pacific	22.69	3.07	5.98	2.72	34.46
III Wide Flange Beams					
East	30.85	2.66	6.57	3.63	43.71
Lakes	42.65	2.78	8.44	3.63	57.50
Gulf	27.22	2.62	6.48	4.54	40.86
Pacific	24.50	2.60	4.97	2.72	34.79
IV Sheet Piling					
East	30.85	2.96	7.31	3.63	44.75
Lakes	42.65	3.08	9.35	3.63	58.71
Gulf	27.22	2.92	6.56	4.54	41.24
Pacific	24.50	2.90	5.53	2.72	35.65
V Plates					
East	28.13	2.69	7.04	3.63	41.49
Lakes	36.30	2.77	8.91	3.63	51.61
Gulf	22.69	2.64	6.91	4.54	36.78
Pacific	22.69	2.64	5.35	2.72	33.40
X Hot Rolled Carbon Bars					
East	28.13	3.36	8.77	3.63	43.89
Lakes	40.83	3.49	11.18	3.63	59.13
Gulf	23.59	3.32	8.66	4.54	40.11
Pacific	22.69	3.31	6.68	2.72	35.40
XXII Black Plate					
East	24.50	3.62	9.55	3.63	41.30
Lakes	31.76	3.70	11.97	3.63	51.06
Gulf	20.87	3.59	9.46	4.54	38.46
Pacific	20.87	3.59	7.32	2.72	34.50

TABLE 3
(continued)

PRODUCT	FREIGHT	INSURANCE	INTEREST	HANDLING	TOTAL
XIII Electrolytic Tin Plate					
East	30.85	4.64	11.77	3.63	50.89
Lakes	33.58	4.67	14.57	3.63	56.45
Gulf	24.50	4.58	11.62	4.54	45.24
Pacific	23.59	4.57	8.97	2.72	39.85
XXII Tin Free Steel					
East	30.85	4.06	10.83	3.63	49.37
Lakes	33.58	4.09	13.40	3.63	54.70
Gulf	24.50	4.00	10.67	4.54	43.71
Pacific	23.59	3.99	8.24	2.72	38.54
XXV XXIX Hot Rolled Sheets					
East	24.50	2.34	6.14	3.63	36.61
Lakes	31.76	2.42	7.77	3.63	45.58
Gulf	20.87	2.31	6.05	4.54	33.77
Pacific	20.87	2.31	4.68	2.72	30.58
XXVI XXX Cold Rolled Sheets					
East	24.50	2.94	7.73	3.63	38.80
Lakes	31.76	3.01	9.73	3.63	48.13
Gulf	20.87	2.90	7.64	4.54	35.95
Pacific	20.87	2.90	5.91	2.72	32.40
XVII Galvanized Sheets and Electro Galvanized					
East	24.50	3.36	8.91	3.63	40.40
Lakes	32.67	3.45	11.21	3.63	50.96
Gulf	20.87	3.33	8.82	4.54	37.56
Pacific	21.78	3.34	6.84	2.72	34.68
XII Electrical Sheets					
East	29.95	7.27	19.55	3.63	60.40
Lakes	33.58	7.31	24.16	3.63	68.68
Gulf	24.50	7.22	19.41	4.54	55.67
Pacific	23.59	7.21	15.00	2.72	48.52

4. Assumptions Utilized in Estimating Japanese Cost of Production.

a. Exchange Rate. All calculations have been based upon an exchange rate of 240 yen to the U.S. dollar applied to the most recent data made available on raw material, labor, capital, and other costs incurred by the Japanese steel industry.

b. Capacity Utilization. All calculations have been based upon a "standard" utilization ratio of 85 percent of capacity. While the Japanese industry is currently operating at only 70 percent of capacity, it has averaged more than 85 percent utilization through its business cycles since 1956. Therefore, a standard volume, equal to 85 percent of capacity, is considered the appropriate basis for calculating Japanese production costs.

c. Labor Productivity. All calculations have been derived from an estimated labor usage of 7 manhours per metric ton of raw steel produced. At present, the entire Japanese steel industry is utilizing nearly 10 manhours per metric ton of raw steel, but this includes the labor-intensive speciality steel firms. Moreover, the Japanese industry has reduced its employment levels by less than 1.5 percent since 1973, while it has reduced output by more than 10 percent. During this period, the industry has made continued technological progress. Therefore, it can expand output to 85 percent of capacity with little or no additional employment. At this higher level of utilization, the average manhours per metric ton of crude steel for the entire industry would be approximately 8.2. Excluding specialty steel production and eliminating labor not applied to steel-making operations, the average manhours required at an 85 percent capacity utilization in integrated carbon steel production has been determined to be about 7 manhours per metric ton.

d. Yield. The Japanese steel industry yield from raw steel to finished products is placed at 80% in calculating production cost. In the CWPS *Report*, the Japanese yield was estimated to be 77.8 percent in 1976 on a U.S. product-mix basis. The evidence obtained from the MITI and other sources indicates that this estimate was too low.

A study to be released next year by the International Iron and Steel Institute, based in Brussels, demonstrates that the Japanese steel industry obtains a yield of more than 93 percent from raw steel to such semifinished products asbillets, blooms, and slabs. By contrast, the IISI study shows that the U.S. industry obtains only an 86 percent yield from raw steel to these semifinished products. This difference of more than 7 percent is attributable to more continuous casting in Japan and Japanese experience in both continuous casting and the rolling of ingots.

From the semifinished stage to the final product, the Japanese industry as a whole also enjoys a considerable advantage because of computer control of rolling mills, more precise control over the thickness of the final product, cold scarfing techniques, longer runs, and larger coils. The United States industry realizes an 83 percent yield from semifinished to finished products. A conservative estimate of Japanese yields from semi finished products, is 86 percent. Therefore, the Japanese yield to finished products has been calculated as: 0.86 x 0.93 = 0.80. This 80 percent yield factor is used in the cost calculation in Table 1.

e. Capital costs. Total depreciation charges per net ton of finished products are approximately $17 for the six largest firms. Net interest expenses and a profit margin add another $34 per net finished ton. The total before-tax payments to capital are therefore $50.62 per net ton, or more than 13 percent of total assets related to steel production. This compares most favorably with the better years for the U.S. industry in the past decade. In the boom year of 1974, U.S. producers realized 20 percent on assets before taxes, but this was the only year in the past decade in which these gross returns were greater than 15 percent. In calculating total charges against capital, interest charges were adjusted to avoid double counting for the highly-leveraged Japanese steel firms. Total interest payments, depreciation and other fixed charges represent overhead expenses of considerably more than 10 percent of direct costs.

f. Scrap netback. In calculating production costs based upon Japanese raw materials and labor costs, it is necessary to credit the Japanese firms for scrap or secondary product generated. Yield factors reported by the Japanese industry were not used in the calculation of trigger prices in the belief that some of the products considered "finished" would be regarded by U.S. standards as low quality, perhaps not much above scrap. However, this low quality product must receive a cost credit based, at the minimum, on the current market price of high quality scrap. So doing yields a value of $5.96 per net ton of finished steel.

5. Implementation of the trigger price mechanism

a. Publication. The trigger prices hereby established and to be published for additional products in the near future will be applicable to all shipments loaded for export through the second calendar quarter of 1978. Cost of production data will be collected and reviewed on a continuous basis and trigger prices will be revised on a quarterly basis to reflect changes in costs and in exchange rates. It is the present intention of the Treasury Department to announce trigger prices 60 to 90 days before they become applicable. Therefore, trigger prices applicable to shipments loaded during the third calendar quarter in 1978 will be published during April 1978. Revised trigger prices will be established within 5 percent above or below any revised cost of production data where necessary to minimize fluctuations.

b. Imports below trigger prices. Following the date as of which the Special Steel Summary Invoice (SSSI) is to be used for steel imports, currently estimated to be February 15, 1978, all imports of steel mill products loaded for export to the United States after the publication of the relevant trigger prices will be examined by the Customs Service. Forms reflecting substantial or repeated imports at prices below applicable trigger prices will be investigated by the Special Customs Steel Task Force. If the accompanying documentation demonstrates to the satisfaction of the Secretary that the prices for any particular shipment were fixed before the publication of the applicable trigger price and could not be varied in accordance with the terms of the parties' contract, no immediate formal investigation will be initiated in the absence of other information indicating that such shipments are at less than fair value, as defined in the Antidumping Act. In all other cases in which a shipment is found to be at prices below applicable trigger prices, the Customs Service may initiate immediate, informal inquiries of the importer to determine whether such sale is less than fair value within the meaning of the Antidumping Act. Unless the Secretary is satisfied within the time to be allotted therefor, that no reasonable possibility of sales at less than fair value may be found, an Antidumping Proceeding Notice will promptly be published with respect to that shipment and other shipments of such or similar merchandise from the same exporter or from the same country of exportation as he deems appropriate.

c. Rights of interested parties preserved. Implementation of the trigger price mechanism is not intended to deny to any party interested in the importation of steel mill products any rights it may have under the Antidumping Act or other applicable law. It is intended and will be used solely to enable the Secretary to determine on an expedited basis whether or not to initiate antidumping proceedings pursuant to Section 153.30(a) of the Customs Regulations and to reach the stage of making a Tentative Determination with respect to sales at less than fair value within a period substantially shorter than the six months provided in Section 153.32 of the Customs Regulations.

6. Public Comment

Comments from the public should be addressed to:

Peter D. Ehrenhaft
Deputy Assistant Secretary and Special Counsel
(Tariff Affairs)
Room 3424, Main Treasury
Washington, D. C. 20220

Anthony M. Solomon
Acting Secretary of
the Treasury

December 30, 1977

EMBARGOED FOR RELEASE
UNTIL AFTER BRIEFING
January 3, 1978

Robert Nipp
566-5328

STEEL TRIGGER PRICES ANNOUNCED

The Treasury Department today announced "trigger prices" for imported steel mill products representing approximately 75 percent by value of U. S. steel imports during 1977.

Additional trigger prices will be announced within about two weeks for other types of steel mill products and for the "extras" applicable to particular steel imports.

The trigger prices consist of the Japanese cost of production, including overhead and a profit margin, plus shipping, insurance and handling costs to each of four U. S. regions. Normal U. S. Customs duties and importers' markups must be added to the trigger prices to provide a basis for comparison with the prices of U. S. steel products.

When imports include "extras," the trigger prices for the relevant extras will be added to the trigger price for the basic product.

The trigger prices were calculated based on information supplied by the Japanese Ministry of International Trade and Industry obtained from the six major integrated steel companies in Japan as well as a number of smaller, electric furnace steel makers. Comparisons with studies by the International Iron and Steel Institute in Brussels, published Japanese industry data, and information on the American steel industry indicate that the figures provide a reliable basis for computing the costs of production.

In computing the costs of production the total cost for all raw or unfinished Japanese steel products was determined and that sum divided by a factor reflecting the yield of finished steel products from raw steel production.

The costs of different steel products were then determined by applying coefficients expressing the average relationship of the cost of producing those types of steel to production costs for all steel.

Assumptions used in the calculations included the following:

1. Costs have been translated into dollars at the rate of 240 Yen to the U. S. dollar. In future quarterly revisions of the trigger prices, a moving average of the exchange rate will be used.

2. The calculation of costs is based on an assumed operating ratio of 85 percent of capacity in the Japanese steel industry. Although the industry is actually using only 70 percent of its capacity at present, it has averaged more than 85 percent capacity utilization over normal business cycles since 1956.

3. High Japanese yield factors were not used to calculate trigger prices because some of the products considered as finished by the Japanese would be regarded by U. S. standards as not much above scrap. However, account was taken of this lower quality production in a credit for scrap of $5.96 per ton of finished steel.

The cost of raw materials was calculated as $165.19 per finished ton, labor costs at $68.56, and other costs, chiefly overhead, at $64.05, resulting in a total cost of production of $297.80 per finished ton for all steel products made by the six major integrated Japanese producers.

Depreciation charges per net ton of finished steel are approximately $17. Net interest expenses and profit equal $34 per net finished ton. The total before-tax payments to capital are therefore $50.62 per net ton, or more than 13 percent of total assets. This return to capital compares favorably with the better years for the U. S. industry in the past decade.

The attached table shows the cost of production, and the estimated average costs for freight to the East Coast, insurance and handling, which are added to produce the trigger prices for 17 types of steel products. Customs duties and normal importers' markups must be added to the trigger prices in the table to obtain delivered prices in the United States.

The weighted average of total trigger prices plus estimated duty, using weights based on the amounts of different types of steel imported into the United States for the first nine months of 1977 totals $330 for steel products landed on the East Coast. This cost, which excludes importers' markups, is $20 or 5.7 percent below the weighted average list price of the comparable U. S. steel products in the Eastern region of the United States.

The trigger prices of some of the more significant imported products, landed on the East Coast, plus estimated Customs duties in comparison with current U. S. list prices are:

	Trigger price plus estimated Customs duties, Eastern United States	Current U. S. list price, Eastern United States
Cold-rolled sheet	$329	$333
Hot-rolled sheet	$262	$288
Plate	$301	$324
Tin plate	$500	$481
Hot-rolled bars	$373	$359

When imports include "extras," the trigger prices for the basic product will be increased by the amount of the trigger prices for those extras.

While the impact of the trigger prices will vary from product to product and among different markets, the calculated costs of importation should allow domestic manufacturers to recapture a substantial share of the market lost to imports. The final outcome will depend in part on the pricing practices of the American firms.

The establishment of a trigger price mechanism is a principal component of the comprehensive program for the U. S. steel industry recommended by a task force chaired by Under Secretary of the Treasury Anthony M. Solomon and approved by the President on December 6, 1977.

Under the trigger price mechanism, all importers will be required to submit on entry of any steel mill product a new Special Steel Summary Invoice describing and valuing the import in terms of a base price and relevant extras. (The regulation implementing the use of this invoice was published in the Federal Register on December 30, 1977.)

Invoices reflecting shipments below applicable trigger prices will be immediately investigated by the Customs Service. Unless the Secretary is satisfied that the revelant shipment is not at prices below "fair value," as that term is defined in the Antidumping Act, he may immediately initiate an antidumping investigation. "Fair value" is generally defined by the prices at which the same products are sold in the home market of the exporter, provided such prices are above the cost of production in that country. If prices in the home market are below cost of production, the Treasury uses a "constructed value" to determine "fair value," based on actual costs plus a minimum profit margin of 8 percent.

The establishment of the trigger prices is not intended to deny to any interested party -- whether foreign exporter or domestic producer -- any rights under the Antidumping Act or other applicable law. Therefore, foreign exporters selling at prices below the trigger prices will be entitled to claim such sales are not below fair value. The U. S. industry, on the other hand, will be able to contend that sales above the trigger prices are nevertheless at less than fair value. However, it is assumed that sales at or above the trigger prices will not be injurious to the domestic industry.

Dumping is defined in the law as the injurious sale of goods below their fair value. Before dumping duties may be applied, both sales at less than fair value and injury or threat of injury to a domestic industry as a result of those sales must be found.

TABLE

Product	Cost of Production $/Net Ton	+	Total Import Charge to East Coast $/Net Ton	=	Total Trigger Price
Wire Rods					
Commercial Quality	240		41.18		281.18
Welding Quality	241		41.18		282.18
High Carbon	280		42.76		322.76
Cold Heading Quality	289		42.76		331.76
Wide Flange Beams	235		43.71		278.71
Sheet Pilings	265		44.75		309.75
Steel Plates	241		41.49		282.49
Hot Rolled Carbon Bars	308		43.89		351.89
Black Plates	338		41.30		379.30
Electrolytic Tin Plate	433		50.89		483.89
Hot-Rolled Steel Sheets in Coil	210		36.61		246.61
Cold-Rolled Steel Sheets in Coil	269		38.80		307.80
Electro-Galvanized Iron Sheets in Coil	311		40.40		351.40
Galvanized Iron Sheets in Coil	313		40.40		353.40
Electrical Steel Sheets					
Grain-Oriented	907		60.40		967.40
Iron-Oriented	488		60.40		548.40
Tin Free Steel Sheets In Coil	375		49.37		424.37

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE AT 4:00 P.M. January 3, 1978

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $5,700 million, to be issued January 12, 1978. This offering will not provide new cash for the Treasury as the maturing bills are outstanding in the amount of $5,711 million. The two series offered are as follows:

91-day bills (to maturity date) for approximately $2,300 million, representing an additional amount of bills dated October 13, 1977, and to mature April 13, 1978 (CUSIP No. 912793 P7 5), originally issued in the amount of $3,406 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $3,400 million to be dated January 12, 1978, and to mature July 13, 1978 (CUSIP No. 912793 S2 3).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing January 12, 1978. Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,903 million of the maturing bills. These accounts may exchange bills they hold for the bills now being offered at the weighted average prices of accepted competitive tenders.

The bills will be issued on a discount basis under competitive and noncompetitive bidding, and at maturity their par amount will be payable without interest. Except for definitive bills in the $100,000 denomination, which will be available only to investors who are able to show that they are required by law or regulation to hold securities in physical form, both series of bills will be issued entirely in book-entry form in a minimum amount of $10,000 and in any higher $5,000 multiple, on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20226, up to 1:30 p.m., Eastern Standard time, Monday, January 9, 1978. Form PD 4632-2 (for 26-week series) or Form PD 4632-3 (for 13-week series) should be used to submit tenders for bills to be maintained on the book-entry records of the Department of the Treasury.

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Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used.

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account.

Payment for the full par amount of the bills applied for must accompany all tenders submitted for bills to be maintained on the book-entry records of the Department of the Treasury. A cash adjustment will be made on all accepted tenders for the difference between the par payment submitted and the actual issue price as determined in the auction.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, or for bills issued in bearer form, where authorized. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Competitive bidders will be advised of the acceptance or rejection of their tenders. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action shall be final. Subject to these reservations, noncompetitive tenders for each issue for $500,000 or less without stated price from any one bidder will be accepted in full at the weighted average price (in three decimals) of accepted competitive bids for the respective issues.

Settlement for accepted tenders for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, and bills issued in bearer form must be made or completed at the Federal Reserve Bank or Branch or at the Bureau of the Public Debt on January 12, 1978, in cash or other immediately available funds or in Treasury bills maturing January 12, 1978. Cash adjustments will be made for differences between the par value of the maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which these bills are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of these bills (other than life insurance companies) must include in his or her Federal income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Department of the Treasury Circulars, No. 418 (current revision), Public Debt Series - Nos. 26-76 and 27-76, and this notice, prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

The Department of the TREASURY NEWS
OFFICE OF REVENUE SHARING
WASHINGTON, D.C. 20226
TELEPHONE 634-5248

FOR IMMEDIATE RELEASE
THURSDAY, JANUARY 5, 1978
CONTACT: Robert Childers (202) 634-5248

OFFICE OF REVENUE SHARING RELEASES AUDIT GUIDE

The Treasury Department's Office of Revenue Sharing has released its new Audit Guide for State and local governments who receive funds from both the Antirecession Fiscal Assistance and General Revenue Sharing Programs. The new guide reflects the requirements of both programs.

In an effort to streamline its operation and to make the audit requirements simpler for recipient governments, the audit and accounting requirements of both programs have been made identical to the maximum extent possible.

The General Revenue Sharing Program provides funds to eligible State and local governments using a formula based on such factors as per capita income, population, local taxes and intergovernmental transfers of funds.

B-623

The Antirecession Fiscal Assistance Program provides funds to State and local governments on a quarterly basis. Allocations are based on unemployment rates and general revenue sharing amounts for the eligible recipient governments.

Copies of the Audit Guide are available from the Office of Revenue Sharing, 2401 E Street, N.W., Washington, D.C. 20226.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE January 4, 1978

The United States Treasury and the Federal Reserve Board today issued the following announcement at 1:15 EST:

The Exchange Stabilization Fund of the United States Treasury will henceforth be utilized actively together with the $20 billion swap network operated by the Federal Reserve System. A swap agreement has just been reached by the Treasury with the Deutsche Bundesbank and is already in force. Joint intervention by the Treasury, the Federal Reserve and foreign central banks is designed to check speculation and re-establish order in the foreign exchange markets.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE January 4, 1978

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for $3,072 million of 52-week Treasury bills to be dated January 10, 1978, and to mature January 9, 1979, were accepted at the Federal Reserve Banks and Treasury today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Price	Discount Rate	Investment Rate (Equivalent Coupon-Issue Yield)
High -	93.384	6.543%	6.98%
Low -	93.368	6.559%	7.00%
Average -	93.375	6.552%	6.99%

Tenders at the low price were allotted 37%.

TOTAL TENDERS RECEIVED AND ACCEPTED
BY FEDERAL RESERVE DISTRICTS AND TREASURY:

Location	Received	Accepted
Boston	$ 22,145,000	$ 2,145,000
New York	4,263,765,000	2,553,845,000
Philadelphia	56,250,000	31,250,000
Cleveland	73,380,000	17,355,000
Richmond	14,915,000	7,265,000
Atlanta	21,125,000	9,655,000
Chicago	423,890,000	244,740,000
St. Louis	41,700,000	7,200,000
Minneapolis	23,105,000	5,105,000
Kansas City	46,170,000	40,850,000
Dallas	9,525,000	4,525,000
San Francisco	434,295,000	146,455,000
Treasury	1,335,000	1,335,000
TOTAL	$5,431,600,000	$3,071,725,000

The $3,072 million of accepted tenders includes $121 million of noncompetitive tenders from the public and $1,165 million of tenders from Federal Reserve Banks for themselves and as agents of foreign and international monetary authorities accepted at the average price.

An additional $ 84 million of the bills will be issued to Federal Reserve Banks as agents of foreign and international monetary authorities for new cash.

B-625

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

Contact: Alvin M. Hattal
202/566-8381

FOR IMMEDIATE RELEASE

January 4, 1978

TREASURY AUTHORIZES PERSONS IN THE UNITED STATES TO SEND FUNDS TO THEIR CLOSE RELATIVES IN CUBA AND VIET-NAM

The Treasury Department today authorized residents of the United States to send funds to close relatives in Cuba and Viet-Nam.

In amendments to the Cuban Assets Control and Foreign Assets Control Regulations, the Treasury authorized persons in the United States to make remittances totaling $500 quarterly to their close relatives in Cuba, and $300 quarterly to their close relatives in Viet-Nam.

An additional remittance of $500 to any one close relative is authorized on a one-time basis to assist the recipient in emigrating from Cuba. An additional remittance of $750 to any one close relative is authorized on a one-time basis to assist the recipient in emigrating from Viet-Nam. The amendments do not authorize any remittances to be made from blocked accounts.

Persons wishing to make such remittances should seek advice as to method and current exchange rates from the foreign departments of their local banks. At the present time, remittances to persons in Cuba are being handled through facilities of major banks in Canada; remittances to persons in Viet-Nam are being handled through facilities of major banks in Paris and Hong Kong.

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B-626

DEPARTMENT OF THE TREASURY

PRESS CONFERENCE

by

ROBERT W. CRANDALL
Acting Deputy Director of the
Council on Wage and Price Stability

and

PETER D. EHRENHAFT
Deputy Assistant Secretary (Tariff Affairs)

Room 4121
Treasury Department
15th & Pennsylvania Ave., N.W.
Washington, D. C.

3:05 p.m.
January 3, 1978

B-627

P R O C E E D I N G S

MR. MUNSEY: Are there questions for Mr. Ehrenhaft and Mr. Crandall?

QUESTION: Mr. Crandall, would you tell us if the list prices that you are using here are what say the current price is, the February or March price?

MR. CRANDALL: The current price.

QUESTION: Would you compare this price to these products with what the prices will be in February?

MR. CRANDALL: I have not done that, no. I don't have a full list. For each one of the basic products, the price will be in February.

QUESTION: It is known that the price increases which have been announced are 5 to 7 percent.

In terms of these major products, does it make it in the interest of American firms that use steel to import or to use domestic steel?

MR. CRANDALL: I think as you look at these products and compare the individual trigger prices with the U. S. prices you see that you cannot generalize. In some cases, for instance, just the selected products we have on page 3 of the press release, there is quite a bit of difference in the difference between the current U. S. price plus the imported total trigger price, including duties, but excluding importers' markup, say as little as $4.00 for cold-rolled sheet to as much as $26.00 for hot-rolled sheet.

It depends upon the product I suspect.

QUESTION: What are the importers' markups usually?

MR. CRANDALL: As I understand it, this varies, depending upon the source of the product and the type of product. They range in the 3 to 4 percent range.

QUESTION: Could you explain the rationale, referring to page 2, paragraph No. 2, paragraph numbered 2, for using an assumed 85 percent operating ratio when the actual is only 70?

MR. CRANDALL: The idea is to calculate the total cost of production for the Japanese over an entire business cycle, not for simply the current moment where the capacity utilization is atypically low.

QUESTION: You might be at a point far removed from the average business cycle for a long time. Doesn't that tend to distort the real price picture?

MR. CRANDALL: I don't know why we should assume necessarily the Japanese will over the next business cycle, subsequent business cycles, operate either at a higher average capacity utilization or lower. The only thing we can be guided by is the past, and over the last 20 years, they have averaged 85 percent.

QUESTION: Isn't the problem of import and price cutting by foreign shippers, isn't it most acute when their utilization rates are low?

MR. CRANDALL: I would think that is when the problem is the greatest. That doesn't suggest, however, that in order to establish trigger prices for Customs to administer the trade law that you would set those on the basis of the worst case when operating at the lowest capacity utilization.

MR. EHRENHAFT: I think, as Bob indicated, the Antidumping Act itself, which this is really a part of, requires one to look at costs over what is described in the law as a reasonable time, and we have interpreted that to mean over a business cycle.

The concept of selling below cost is a concept that requires one to look at average costs over a reasonable business cycle. That is what the law presently requires us to do when we administer the statute, and this trigger price system which is built on that as that same concept.

QUESTION: The release says that these trigger prices should allow domestic manufacturers to recapture a substantial share of the market lost imports.

What is the substantial share?

MR. EHRENHAFT: I don't think that we would care to or could quanity that, although Mr. Crandall is our numbers expert. I don't know if he has a number.

MR. CRANDALL: We certainly don't have an opinion as to precisely what the import share would be, and that depends a great deal upon what happens to domestic prices.

QUESTION: There is no forcast of the anticipated effect on imports?

MR. CRANDALL: No.

QUESTION: How do prices, trigger prices, compare with the prices now being charged by exporters to the United States?

MR. CRANDALL: Those numbers--the exchange rate has been changing. It is rather hard. We have not done a reappraisal calculation on that. I think this is the latest numbers available, right back to September, and the prices have been turning upward from Japan because of the change in the exchange rate.

QUESTION: You don't know what adjustment upward there will be by the people for imported steel?

MR. CRANDALL: No, we don't know that

precisely. We haven't look at all the products. I warn you about one thing. This does not represent the total of trigger prices. This represents those products for which the six major Japanese producers are the dominant exporters from Japan and, therefore, the numbers came from them first.

There will be subsequent trigger prices announced for wire, alloy products, cold finished bars and the like, and tubular products very shortly.

MR. EHRENHAFT: I would just like to make one other comment about the question of importers' prices. I think it is important to underscore that these particular trigger prices were based upon information submitted concerning the cost of production in Japan. That is all that they are, and that is what, all that we took into account in building. There was no relationship between what these figures provided and what, actual quotations.

QUESTION: We had allegations from the prices people that the Japanese and the Europeans are selling below cost, and now we have gotten production costs plus profit margins.

I want to know whether this will mean an increase in import prices or whether they will be the same.

MR. EHRENHAFT: It was precisely because of that that I answered as I did, which was to say that these trigger prices are based on our calculations based upon information submitted by the Japanese firms concerning their cost of production, and these were not based upon any information that we have or might have received with regard to the prices that would be being charged.

QUESTION: How can you say that domestic manufacturers are going to recapture a substantial share of the market if they don't know how prices relate to the prices being charged?

MR. EHRENHAFT: The concept that this was really built upon was the assurances that we received from the domestic industry that in the event that the foreign exporters sold at or above the cost of production that they would have no difficulty in competing, and we are in essence taking them at their face value.

QUESTION: Have the American manufacturers seen these trigger prices so far and do they buy them more or less as being prices they can compete with?

MR. EHRENHAFT: No, they have not seen the actual calculations. This was the concept that they expressed and on which these prices were built, on which the trigger price system as a whole is really premised.

QUESTION: In layman's terms, can you talk as to a hypothetical example showing us how the mechanism itself works? I don't mean a figure, but generally the concept line?

MR. CRANDALL: Mechanism? Are you talking about--

QUESTION: Trigger price mechanism, for a general audience.

MR. EHRENHAFT: We published in the "Federal Register" at the end of last week a new form, a special Customs invoice that importers of steel are going to be required to file when bringing a shipment of steel in, and that new special invoice will identify the base trigger price and the extras trigger prices and the cost of transportation of the particular shipment being imported.

The special invoice will be examined by the Customs personnel at the pier when the shipment arrives, and they will compare that with the trigger prices that we have established.

In the event that the invoice reveals that the shipment prices are higher than the trigger prices, nothing further will be done at that time.

In the event that the invoice shows that the sale price is below our trigger price, then a quick investigation will be started and informal incuiries will be made of the importer as to the reasons why this particular shipment is below the trigger prices.

If an adequate explanation is provided, nothing further will happen. In the event it appears that there are significant sales, repeated sales below the trigger price, then it is contemplated that we will initiate an anti-dumping proceeding under the Act very rapidly, and that we will hopefully conclude that investigation in a matter of 60 to 90 days. We will be collecting data all the time that will enable us to do such investigation in a period shorter than it now takes us, which is usually six months.

QUESTION: If there is a finding of dumping, then?

MR. EHRENHAFT: If there is a finding of--what we do, we determine whether there are salea t less than fair value, which is a term of art in the Act that is described in the press release meaning that it is sales in the United States below either the home market price or below the cost of production, and those are the tests that we would apply in an actual investigation.

We would not be applying the trigger prices as such, and if we were to determine that there are sales at less than fair value, we can withhold the appraisement on future imports of that product from that company, or from that country as a whole, and we would then have a further period of time in which to determine finally whether those sales less than fair value exist, and if we find that they do, we then refer it to the International Trade Commission for its determination of whether injury to a U. S. industry exists or is threatened, and at the end of that, we then issue a dumping finding if the ITC does find injury.

QUESTION: In this connection, why is the price, the estimated Custom price, below the current American price level? I don't understand that. Can you explain that to me?

MR. CRANDALL: Why on some occasions does it come out below the U. S. price? Because our cost, estimated cost of production for Japan plus what we know of the, plus the total estimated freight, insurance, interest, handling and duty charges from Japan to the United States to that particular part of the country, which, summarized in the press release, is the East Coast, is less than the current list price in the United States.

QUESTION: Bob, could you just run over the items that are still to come? You mentioned them very rapidly.

MR. CRANDALL: Let me go over this. First of all, we estimate the cost of production for Japan. On your press release, the back table, it is total import charges exclusive of Customs duties. Included in those import charges are freight, insurance, interest while in transit and handling at the U. S. docks.

The duty can range from as little as $2.00 per ton specific duty to as much as 10 percent ad valorem 2 percent specific duty on an item such as wide flange beams, 10 percent on electrical sheets, in the examples listed, and by the way, those items are those chosen as fairly large items in terms of their relative importance in imports.

On page 3 of your press release, to that numbers on the table, we have added an estimated Customs duty. We have nowhere added the importers' markup. These are based upon the sale from the exporter to the importer. The importer normally charges some markup, some commission for handling the goods and selling them to the U. S. customer. That is to be added, too, in making any valid comparison.

QUESTION: Over the whole range of these imports, considering also the West Coast problem, would you expect that many items, most items, will have lower trigger points than the current domestic steel prices for comparable products?

MR. CRANDALL: As you go to the West Coast, you will get lower trigger prices because they are based upon transportation charges from Japan. However, as you go to the Great Lakes, they will be somewhat higher and in the notice you can see the difference, on page 7 of the notice which was distributed today, also you see the components broken down by East Coast, Great Lakes, Gulf or Pacific Coast, and you will notice that there the prices would be the highest in the inland ports in the Great Lakes.

As tothe remainder of the products that are not listed today, I can't speculate, of course.

QUESTION: Could you just list those products again?

MR. CRANDALL: The main ones still are, for which we have to announce something, are wire, wire products, the tubular products, the cold finished bars, and the allow products.

MR. EHRENHAFT: One additional point to be made about something still to come, the normal way in which steel is sold, as all of us who have recently been educated in the subject are learning, is that it is sold with a base price plus extras. The extras are separate charges for dimensions for finishing the goods, for treating the ends, this kind of thing, sizing, and the trigger price mechanism is also constructed in that same way. What you are getting today are the base price trigger prices, but we will be publishing in a couple of weeks a complete extras book along the lines that is usual in the steel industry, both here and abroad, which will have additional prices for the dimensions of the particular steel product, how long and how short, how thick, how thin, the finishing on it, the ends, the sizing and that kind of thing.

QUESTION: What bureaucracy in terms of size, both imports and often down the line, all the things you have been talking about, is it going to take to run this thing?

MR. EHRENHAFT: The Custom Service estimated they will be able to operate this system with approximately 80 to 85 additional people.

QUESTION: How about the people in Treasury and in other agencies which are going to be involved presumably on a continuing basis making the necessary adjustment for the value of the yen and so on? Won't that involve a lot of people as well?

MR. EHRENHAFT: The principal responsibility for the operation of this trigger price system is in the Customs Service, and there will be a special Customs Steel Task Force. It will have that responsibility, and the figure 85 that I have given you is the personnel in the Custom Service who will have the responsibility of the administration of this system.

I think that otherwise there will be the people normally at Treasury that have this job of supervising the Antidumping Act that will continue to work on it. No extra people are contemplated just for this in that connection.

QUESTION: Would either of you describe what the mood of the Japanese was in terms of providing this information and cooperating with you?

MR. CRANDALL: I don't know that I can characterize their mood. I can say they were most cooperative.

QUESTION: Did they challenge the figures or raise any questions about what you established to be their costs?

MR. CRANDALL: They have not had the opportunity to do that because they haven't seen them. They came here with a large delegation to give us information about production costs in Japan, and since that time, we have made our calculations.

QUESTION: Did you find their figures turned out to be the same as your own?

MR. CRANDALL: They just gave us components. I don't know if they were trying to estimate the same thing we were.

QUESTION: Can we go into the possibility of steps as outlined because it indicated a process that could run for quite a few months, 2 or 3 months just to find out about fair value, beyond that, damage and so on? At what point in that process, in what way would this new system create relief that the domestic industry would feel? Where would that impinge?

MR. EHRENHAFT: In a few situations: first of all, it has been the practice of the Treasury Department not to initiate anti-dumping proceedings unless a complaint was filed, and as we indicated, in order for a complaint to be filed, it has to allege that there were sales below fair value, and that means the domestic company has to itself try and find out about foreign market sales. It has to try and make estimates of foreign costs of production and put together a complaint.

This new system will avoid the need for the domestic industry to prepare complaints because we are going to be monitoring all imports and presumably we will also be continuously collecting information about foreign sales and foreign costs of production so that we will be able much more rapidly than in the past to initiate a formal investigation if there is evidence of sales at less than fair value in this country.

Secondly, because we wukk be collecting the data on an on-going stream, we hope to be able to complete our investigations in a much shorter timeframe than now exists. At the present time, we almost never are able to complete that investigation in less than six months, and we are shooting for less than half that period.

At the end of that investigative period comes what really is the teeth of the Antidumping Act, which is the withholding of the appraisement; that is the point at which we say no further imports will be permitted unless the importer posts a bond equal to the margin of dumping that we have found, and that creates some uncertainty in the import trade, and it requires the importer to post this bond, and that is the remedy that really is the most effective part of the Act.

You have to remember that the Act really is remedial in its effect. It is intended to equalize the price to this fair value.

QUESTION: You said no further imports will be allowed. What about the importation, the shipment, that causes the process to start? Is Appraisement withheld on it, or is it cleared?

MR. EHRENHAFT: The merchandise that has entered before usually tends to be cleared before the withholding of appraisement is announced.

However, under the law and under our regulations, we do have the authority to withhold appriasement retroactively to uncleared merchandise, and if there were situations that warranted it, if there were a very substantial underselling in a particular situation, we would utilize that authority to withhold retroactively.

QUESTION: Does that decision tentatively have to be made at the time the goods are coming through Customs? Do you have to make a spot decision, give notice?

MR. EHRENHAFT: No. That decision is made at the conclusion. First, we tentatively determine that there are sales of less than fair value before any withholding can be ordered.

QUESTION: The Treasury reserves the right to impose additional duties retroactively and without prior notice?

MR. EHRENHAFT: It wouldn't be without prior notice because that retroactive withholding would occur only after the anti-dumping investigation had been underway.

QUESTION: I meant without notice at the time of importation.

MR. EHRENHAFT: Yes.

QUESTION: Just to clarify, did you attempt to verify the accuracy of the cost of production figures provided by the Japanese?

MR. CRANDALL: Well, yes, certainly we verified against other sources of information, which would include a variety of published statistics on the Japanese, certain checks such as the metal balance, the balance of scrap and iron ore used in Japanese steel production. There are published data on labor utilization, published data on yields. We used studies. We mentioned one in the notice, from the International Iron and Steel Institute. We used what we know about American costs of production differentials and so forth.

QUESTION: Congressman Vanik suggested these prices are weighted and they are not really accurate.

MR. CRANDALL: Congressman Vanik suggested what?

QUESTION: These prices are weighted and the cost production figures are not really accurate.

MR. CRANDALL: I have no response. I don't know what it means to say they are weighted.

QUESTION: Could you tell us of the original list of 32 products which you put out, how many will there not be published a reference price for?

MR. EHRENHAFT: I think there are a very small group of those, primarily those that there is very little likelihood that significant imports of those products are coming in, and I think that tractor accessories and wheels and axles, for example, might be those for which no reference prices are fixed, perhaps one or two others, but that is about all.

At the sametime, as you will see from today's notice, we have broken down further some of the 32 categories that were published in the prior notice, and we have trigger prices established for a number of subdivisions of those 32 categories.

MR. CRANDALL: There will not be 32 base prices as such. There are probably 32 base prices in tubular products alone, which are one of your categories.

QUESTION: What percentage of imports will not be covered by reference price?

MR. CRANDALL: A very small percentage.

QUESTION: Less than five?

MR. CRANDALL: I don't have a number, but that would be a good guess, yes.

QUESTION: Do you have an overall weighted trigger price?

MR. CRANDALL: We don't, couldn't because we don't have all the trigger prices yet. We gave you a weighted average, what we have done thus far based upon 77 import weights, but we don't have an overall yet because we haven't yet published them for wire and cold finished bars.

QUESTION: How do the base prices compare with the base prices charged by domestic producers?

MR. CRANDALL: We gave you some of those charges, and we gave you a wide comparison.

QUESTION: Are these domestic producers in the right-hand column?

MR. CRANDALL: Yes.

QUESTION: What happens, as I would imagine, would be theoretically the possibility that steel products come in above the trigger price that are still being dumped.

MR. EHRENHAFT: Dumping is a two-pronged word. Dumping is the injurious sale below fair value. It is not simply a sale below a certain price. In order to find dumping, you have to find the sale of the product is below the fair value, which I indicated was either the home market price of the cost of production, and secondly, that injury has been caused or threatened to a domestic industry.

The whole concept of these trigger prices is that if imports are coming in at above these costs of production, and the American industry ought not to be injured and, therefore, even if in a particular case of a particular company the sale were below its home market price or below its cost of production, the idea is that there would be no injury and, therefore, there would be no dumping.

QUESTION: Can you tell us how much of these base trigger prices are above the base prices charged by the foreign steel makers in the past? Does this represent a sizable, significant increase in the costs, in their price?

MR. EHRENHAFT: I think that is, as Mr. Crandall has indicated, we did not utilize past prices by the foreign companies in coming up with these figures, and therefore I don't really think that we have an answer.

MR. CRANDALL: Let me go a little bit further. One of the reasons you don't do that with the publishings today are the basic commodities within each one of these categories, the specifications listed in the notice, these are the lower end of the value spectrum to which extras are added, but there are no trade statistics on these base products. There are trade statistics on two categories which we collected, hot and cold rolled steel. You have to know something about what the average mix of extras is.

QUESTION: In general you can't say these are higher than what they have been charging before? You haven't borne out the domestic industry's complaint that these products were being dumped?

MR. CRANDALL: No. This is not a determination on dumping. It is an attempt to measure what the cost of production currently is.

QUESTION: Is the $330.00 figure comparable to the $360.00 figure that Mr. Roder gave?

MR. CRANDALL: No, it is not. The $360.00 figure which is utilized is the average price before the price increases go into effect, is for all carbon steel products, as I understand it.

I have never seen a precise breakdown of that number. This is for a select subsample of lower value products within each one of these categories.

QUESTION: You think of it as the weighted average, total trigger prices?

MR. CRANDALL: They are what we are announcing today, which are 13 prices which you have before you, all of which are relatively basic commodities within their own categories.

QUESTION: How much flexibility will you have in this? Say someone shows 328 instead of 329?

MR. EHRENHAFT: We don't intend to apply a rigorous mechanical test to each import. I don't think that is the intent of the law or an appropriate allocation of our resources. We are going to be looking at this on a regular, serious basis, and to the extent that we see any patterns emerging, constantly, would be tested at 328 one day and the next day is 327 and they are coming down to 326 and so on, obviously we are going to begin to take action.

We intend to look at everything that is mechanically below the trigger price. What formal actions we are going to take will depend on a number of factors that will be impossible to enumerate at this moment.

QUESTION: How long do you expect this system to operate, the whole of 1978?

MR. EHRENHAFT: I would think it is going to be at least all of 1978. How much longer depends on the, a whole variety of factors. It would be impossible to speak about now.

QUESTION: Is there an average figure for extras for the group of products for which you calculated the $330.00?

MR. CRANDALL: That number is not available anywhere, to my knowledge.

QUESTION: What is the analogous figure to the $360.00 figure?

MR. CRANDALL: You mean as far as the weighted averages? It doesn't exist because we haven't set the trigger prices on the remaining products, and we would have to calculate an average mix of extras.

QUESTION: If cost of production is one test of dumping, why isn't the trigger price a good first approximation of a dumping value, or is it?

MR. EHRENHAFT: Well, I think to some extent it is. The cost of production is one of the standards that we determine whether sales are at less than fair value.

QUESTION: Doesn't that create a prima facie case that sales below the trigger price more likely than not fall within the meaning of dumping?

MR. EHRENHAFT: Could be, but you see, each company is enabled to determine, to prove for itself that it is not engaged in sales of less than fair value.

This is the cost of production of the average of the Japanese industry as a whole during a particular historical slice of time. Could well be there is a company in Canada or even in Japan or Europe anywhere that it can demonstrate that as far as its costs are concerned, it has a lower cost of production and, therefore its sales, even though significantly below the trigger prices, are not below the cost of production.

QUESTION: What will be the impact of these trigger prices on the dumping cases already filed?

MR. EHRENHAFT: Well, we are not applying it mechanically one way or the other. We are going to have to review those existing cases to determine whether the sales that are alleged in those cases are below fair value, and this information will be helpful in that regard, and similarly, we are going to have to determine, the ITC will have to determine whether the American industry is injured or threatened with injury in the event that sales are below ~~these trigger prices~~ fair value.

QUESTION: How long is it likely to take American producers to follow a dumping case all the way through the ITC and to the end?

MR. EHRENHAFT: The average time today is 13 months following the filing of the complaint, but if you add to that the time that it takes to prepare the complaints, probably it takes 16, 17 months. This is intended to compress that significantly.

QUESTION: You say significantly?

MR. EHRENHAFT: It should knock off at least six months I would say, and perhaps more.

QUESTION: You mentioned an average business cycle in determining this 85 percent capacity. How long is that? Five years, twenty years?

MR. CRANDALL: Business cycles vary in length. The reason we are saying 85, we look at the capacity utilization in Japan over 20 years, which is several business cycles. They have managed to maintain the 85 percent.

QUESTION: Seven cycles, is that about three years per cycle?

MR. CRANDALL: You can use any number you want. The cycles vary in length.

QUESTION: How long before you get your triggers on extras out?

MR. CRANDALL: Two weeks maybe, three weeks.

QUESTION: Will it not be impossible for the industry to really judge the effectiveness of this in terms of providing relief until you complete your work?

It seems to me if you can't provide an

analogous figure to that $360.00 figure which they name, it is impossible for the industry to determine what kind of relief this is giving them.

MR. CRANDALL: I don't think they have to have every last product. They can weight the thing up and know whether it comes out to 358 or 359 or 360, but rather they would like to see where we are coming out on the major items, and obviously the steel plates, rod and bar items we have in here contain a very large percentage of imports.

QUESTION: Cold-rolled, the hot-rolled and the plate constitutes what percentage of imports would you say, the first three items?

MR. CRANDALL: So far this year, their total weight in tonnage is about 60 percent.

QUESTION: What is the effective date for this?

MR. EHRENHAFT: Well, the effective date as far as the trigger prices is today when we announce it.

As far as the entire system, the trigger price mechanism I was describing earlier, which includes the submission of the form at the ports and so on, that depends on when we can get that regulation in effect. We published the proposed form last Friday, and we gave the public until January 27 to comment on that form and on the utilization of the form since as always we never get the comments until the 30th day, probably it will take us a while to digest all the comments that we receive, but we do hope that new form will be in place February 15, and that will be then the date the whole system is in effect.

MR. CRANDALL: Let me amend one thing I said earlier. I said that the three items--plates, hot and cold-rolled steel, was 60 percent of total imports. It is 60 percent of what we are announcing today. It is about 45 percent of the total imports.

QUESTION: In the past, the Council has been responsible for reviewing regulations for inflationary impact, and on this case, you have been drawn in from the beginning.

I am wondering first whether you have developed inflation impact; second, whether you plan to, and third, whether you feel the Council has been compromised in its inflation watchdog position by participating in the drafting of the regulation?

MR. CRANDALL: We are participating in this only providing technical assistance on a short-term basis to Treasury because we have some experience with trying to understand the economics of the steel business.

This is a mechanism by which Treasury carries out its responsibilities under the Trade Act. This in no way suggests that the ultimate outcome would be all that much different when finally reached.

What we hope to do in this case is to get a speedier resolution of complaints of dumping, and finally, I don't feel that this is in any sense a compromise of the usual functions of the Council.

QUESTION: Will you be commenting on the inflationary impact?

MR. CRANDALL: No, I don't think we will be commenting specifically. If in fact it is possible to measure how much something like this has contributed to inflation, we might do that. That would be a very difficult task indeed.

QUESTION: What will happen if the U. S. domestic industry does not withdraw its existing anti-dumping complaints?

MR. EHRENHAFT: Well, if it does not withdraw, we have a number of options available. First, of course, is to continue to proceed with these cases to the conclusion as provided by the law, and if we were to find that in the historic period of investigation there were sales at less than fair value, we might issue a finding of that to that effect and refer the case to the International Trade Commission and allow it to determine whether there was injury that was caused by these sales or threatened in the future.

QUESTION: Would you have the trigger price system, or would that be the alternative to the price system?

MR. EHRENHAFT: Excuse me. You were asking about the existing cases, and I think that is a bit different than future cases that would be filed.

I think Mr. Solomon when he first made the, presented his plan, he indicated that it would not make sense for Treasury to both have a trigger price system in effect and simultaneously to pursue numerous dumping complaints, and this was intended to be an alternative way of coping with the problem of dumping, and I think that that is certainly a position to which we are continuing to adhere.

With regard to the existing cases, however, it may be slightly different, and we may pursue them to completion and then refer them to the ITC. We may consider discontinuing them under regulations that now exist for the discontinuation of cases, depending upon developing circumstances, so I don't think that it is possible at this juncture to say what is going to happen with the existing cases.

QUESTION: In other words, you are telling me that I think the implication was that the industry did have a choice. It could keep the trigger price system and drop the existing cases. That was the implication you left, and I think under questioning, or pursue the existing case. You are saying that that choce is not clear-cut, that even if the industry decides to pursue the existing cases, which would cover a large percentage of imports, they may still benefit from the trigger price system.

What you are saying is that they cannot have the trigger price system and file new cases.

MR. EHRENHAFT: Well, I think that the latter part is correct, a most correct summary of what Mr. Solomon indicated, namely, that it would not make sense to have the trigger price system and to process numerous new cases.

With regard to the past cases, I think that this point about, quote, pursuing cases may be a little bit misleading because the way that the Antidumping Act works really it isn't up to the domestic company to pursue the case or not. Once it files the complaint, the case is really for the Treasury Department to investigate and the Treasury Department carries the ball thereafter. Are we going to continue the investigation? Are we going to stop the investigation? Are we going to come up with a finding? Are we going to come up with a discontinuance? It is not really up to the domestics to pursue it or not, or for the foreigners.

QUESTION: Could you discontinue--

QUESTION: The Treasury decides whether or not you want to implement the trigger price system if domestic companies could withdraw their existing cases, and again that is the implication that he left, that you can't have both. They couldn't have both.

You are saying that they, maybe they can have both?

MR. EHRENHAFT: I don't necessarily agree with that characterization of what happens if they did not withdraw their case because, as I indicated, we could discontinue whether they withdrew or not.

MR. MUNSEY: Is there a final question?

QUESTION: Did you discontinue the Gilmore case or is that an example of one so far along you wouldn't?

MR. EHRENHAFT: I am rather dubious we are going to do that in Gilmore because we have to come up with our final determination this Friday.

QUESTION: You mentioned trigger prices, the same for European exporters.

MR. EHRENHAFT: Yes.

QUESTION: Did you get any reaction from Europe?

MR. EHRENHAFT: No, we have not disclosed them to anyone.

QUESTION: If the prices of, the steel prices are going up in the United States, will that reflect the trigger price? That means will the trigger price go up?

MR. CRANDALL: No. They are based upon the Japanese cost of production. They are not based upon U. S. domestic prices.

MR. MUNSEY: Thank you very much.

(Whereupon, at 3:45 p.m., the press conference was concluded.)

The Department of the TREASURY
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FOR IMMEDIATE RELEASE
MONDAY, JANUARY 9, 1978
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GENERAL REVENUE SHARING AND ANTIRECESSION FISCAL ASSISTANCE FUNDS PAID TO STATES AND LOCAL GOVERNMENTS

Approximately $2.1 billion in Federal funds is being paid to more than 36,000 States, counties, cities, towns, townships, Alaskan native villages, Indian tribes and American territories by the Department of the Treasury's Office of Revenue Sharing today.

The Office of Revenue Sharing is issuing payments totaling $1.7 billion to 36,583 units of State and local general government in the first quarterly payment of funds for the ninth entitlement period of the General Revenue Sharing Program. The ninth entitlement period is equivalent to Federal fiscal year 1978, but payments are required by law to be issued at the end of each quarter: in January, April, July and October.

The remaining $408 million being issued by the Office of Revenue Sharing today is being paid to 15,234 States and local governments that qualify to receive funds for the calendar quarter beginning January 1978 under the Antirecession Fiscal Assistance Program (also known as countercyclical aid). Antirecession money is allocated according to a formula which uses quarterly unemployment data and other factors to determine amounts available to be distributed each quarter. Nearly $9 million of the antirecession money being paid today was drawn from excess reserve funds which had been withheld previously to make payment adjustments.

The Office of Revenue Sharing presently is authorized to provide general revenue sharing money to States and local governments on a regular basis through the end of Federal fiscal year 1980, at a current annual level of approximately $6.82 billion.

The Antirecession Fiscal Assistance Program is authorized through September 30, 1978. Although funding levels for the Antirecession program vary each calendar quarter as applicable unemployment rates vary, the Office of Revenue Sharing estimates the current annual payout rate to be about $1.6 billion.

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MISSING

Treas. Press Release B-629 1-6-78

Blumenthal hears record report from U.S.
Industrial Payroll Savings Committee

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

Immediate Release
Monday, Jan. 9, 1978

Contact: Jack Plum
566-2615

TREASURY DEPARTMENT ANNOUNCES FINAL DETERMINATION OF SALES AT LESS THAN FAIR VALUE OF JAPANESE CARBON PLATE STEEL

The Treasury Department today announced a final determination that five Japanese steel companies have been selling carbon steel plate in the United States at prices, compared to weighted average sales in the home market, of 5.4 to 18.5 percent less than fair value.

The case, initiated on the petition of the Gilmore Steel Co., will now be referred to the U.S. International Trade Commission for its determination of whether such sales have caused or threaten injury to the U.S. industry.

Using home market prices which are above the cost of production as the standard for "fair value", weighted average dumping margins were found as follows:

Nippon Steel	9.1 percent
Nippon Kokan	7.3
Sumitomo	18.5
Kawasaki	5.4
Kobe	13.9

In October, the Treasury Department had tentatively determined that sales at less than fair value had occurred. At that time, the available information indicated that there were insufficient sales in the home market above the cost of production to provide a basis for comparison with export prices. Therefore, "fair value" was based on the constructed value of Japanese costs of production, including a mandatory 8 percent minimum profit. When compared with this constructed value, weighted average margins of 32 percent by all five of the large Japanese mills were found.

Since its tentative determination, an extensive study of Japanese steel costs has been made in connection with the establishment of the steel trigger price mechanism.

This study, conducted by the staff of the Council on Wage and Price Stability, was based on aggregated data obtained from the six largest Japanese steel mills, which were checked against other available information from U.S. and foreign sources.

These data are considered by the Treasury Department now to be the "best available information" concerning Japanese costs of production. With adjustments for differences in exchange rates, inflation, raw material costs and capacity utilization for the period relevant to this case, October 1976 to March 1977, they provide the best basis for determining costs of production applicable to this case.

Enough sales in the home market above the calculated cost of production occurred during the period of investigation to permit the use of home market prices as the bases for determining "fair value."

The Treasury Department's findings are based on a single "cost of production" figure for all carbon steel plate for all companies and the weighted average of all home market sales prices above that figure for each company. Home market sales below cost of production were excluded from the calculations.

The individual import sales of each company were then compared against these averages to obtain the dumping margins. The margins found will be used to fix the amount of the bonds that must be posted henceforth on imports from all Japanese producers.

Actual dumping duties will be assessed only if the ITC determines that injury was caused or threatened by these sales and a final dumping finding is issued. The ITC must make its decision within three months, after which dumping findings are usually published within 30 days.

The amount of actual duties that importers will be required to pay will not be based on average margins. Duties are based on precise comparisons of sales of carbon plate of approximately the same type (including extras) made at home and in the U.S. market at approximately the same time. Actual dumping duties on any particular entry may, therefore, be lower or higher than the weighted average margins announced today.

Carbon steel plate, as covered by this finding, means hot-rolled carbon steel plate, .1875 inches or more in thickness, over 8 inches in width, not in coils, not pickled, not coated or plated with metal, not clad, and not cut, pressed, or stamped to non-rectangular shape. In calendar 1976 imports of this product were valued at $174 million.

The text of the notice to be published in the Federal Register is attached.

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DEPARTMENT OF THE TREASURY
OFFICE OF THE SECRETARY

CARBON STEEL PLATE FROM JAPAN

DETERMINATION OF SALES AT LESS THAN FAIR VALUE

AGENCY: U.S. Treasury Department

ACTION: Determination of Sales at Less Than Fair Value

SUMMARY:

This notice is to advise the public that an antidumping investigation has resulted in a determination that carbon steel plate from Japan is being sold at less than fair value. (Sales at less than fair value generally occur when the price of merchandise sold for exportation to the United States is less than the price of such or similar merchandise sold in the home market or to third countries or the constructed value of the merchandise). This case is being referred to the United States International Trade Commission for a determination concerning possible injury to an industry in the United States.

EFFECTIVE DATE:

(Date of publication in the Federal Register).

FOR FURTHER INFORMATION CONTACT:

Ms. Mary S. Clapp or Mr. Stephen Nyschot, Operations Officers, U.S. Customs Service, Office of Operations, Duty Assessment Division, Technical Branch, 1301 Constitution Avenue, NW., Washington, D.C. 20229, telephone (202-566-5492).

SUPPLEMENTARY INFORMATION:

On March 8, 1977, information was received in proper form pursuant to section 153.26 and 153.27, Customs Regulations (19 CFR 153.26, 153.27), from counsel acting on behalf of Oregon Steel Mills, Division of Gilmore Steel Corporation, indicating a possibility that carbon steel plate from Japan is being, or is likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended (19 U.S.C. 160 _et seq._) (referred to in this notice as "the Act"). An "Antidumping Proceeding Notice" was published in the _Federal Register_ of March 30, 1977 (42 FR 16883), indicating that there was evidence on record concerning injury to or likelihood of injury to, or prevention of establishment of, an industry in the United States. A "Withholding of Appraisement Notice" was published in the _Federal Register_ of October 6, 1977 (42 FR 54489).

For purposes of this notice, the term "carbon steel plate" means hot-rolled carbon steel plate, 0.1875 (3/16) inches or more in thickness, over 8 inches in width, not in coils, not pickled, not coated or plated with metal, not clad, and not cut, pressed or stamped to non-rectangular shape.

FINAL DETERMINATION OF SALES AT LESS THAN FAIR VALUE

On the basis of the information developed in the Customs Service investigation and for the reasons noted below, carbon steel plate from Japan, is being or is likely to be sold at less than fair value within the meaning of section 201(a) of the Act (19 U.S.C. 160(a)).

STATEMENT OF REASONS ON WHICH THIS DETERMINATION IS BASED

The reasons and bases for the above determination are as follows:

a. Scope of the Investigation. It appears that during the period of investigation covering October 1, 1976 to March 31, 1977, over 70 percent of the imports of the subject merchandise from Japan were manufactured by Nippon Steel Corporation (Nippon Steel), Nippon Kokan K.K. (NKK), Sumitomo Metal Industries, Ltd. (Sumitomo), Kawasaki Steel Corporation (Kawasaki), and Kobe Steel, Ltd. (Kobe). Therefore, the investigation was limited to these five manufacturers.

b. Basis of Comparison. For the purpose of considering whether the merchandise in question is being, or is likely to be, sold at less than fair value, within the meaning of the Act, the proper basis of comparison appears to be between purchase price and home market price of such or similar merchandise on all sales by Nippon Steel, NKK, and Kobe, and on most sales by Sumitomo and Kawasaki. Purchase price, as defined in section 203 of the Act (19 U.S.C. 162), was used for most sales since those export sales were made to unrelated Japanese trading companies. On the remaining sales by Sumitomo and Kawasaki, the proper basis of comparison appears to be between exporter's sales price, as defined in section 204 of the Act (19 U.S.C. 163), and home market price, since those sales in the United States are made by importers who are related to those manufacturers. Home market price, as defined in section 153.2, Customs Regulations (19 CFR 153.2), was used since such or similar merchandise was sold in the home market in sufficient quantities at not less than the cost of production to provide a basis of comparison for fair value purposes.

In accordance with section 153.31(b), Customs Regulations (19 CFR 153.31(b)), home market pricing information was obtained for the period October 1, 1976, through March 31, 1977. Since the question of sales prices below cost was raised, cost information was requested with respect particularly to the period April 1, 1976, through March 31, 1977.

c. Purchase Price. For the purpose of this tentative determination of sales at less than fair value, purchase price has been calculated on the basis of the f.o.b. or f.a.s. price to the unrelated trading company for export to the United States. A deduction has been made for inland transportation costs included in the price.

d. Exporter's Sales Price. For the purpose of this tentative determination of sales at less than fair value, exporter's sales price has been calculated on the basis of the price to the first unrelated purchaser in the United States. Deductions have been made for ocean freight and insurance, brokerage charges, import duties, and for expenses incurred in selling the merchandise in the United States.

e. Home Market Price. For the purpose of this determination of sales at less than fair value, the home market price has been calculated on the basis of the delivered, net, packed price. Adjustments have been made for interest costs, freight, reimbursements to customers for defective merchandise, and packing cost differentials, as appropriate, in accordance with section 153.10, Customs Regulations (19 CFR 153.10). Adjustments for interest costs relate to extended payment terms granted to customers in the home market.

Additional adjustments were claimed by counsel for differences in circumstances of sale in accordance with section 153.10, Customs Regulations (19 CFR 153.10), for warehousing costs for inventory purposes, salesmen's salaries and office expenses, higher computer costs involved in following orders in the home market, bad debts, and technical services. These expenses do not bear a direct relationship to

> the sales under consideration and no adjustment has been allowed for these expenses.
>
> Where exporter's sales price was used as the basis of comparison, selling expenses incurred in the home market were deducted from the home market price, up to the amount incurred in the United States, in accordance with section 153.10, Customs Regulations (19 CFR 153.10).

Counsel for petitioner has claimed that sales of this merchandise for home consumption or to third countries have been made in substantial quantities over an extended period of time at prices which are less than the cost of production within the meaning of section 205(b) of the Act and which do not permit recovery of all costs within a reasonable period of time in the normal course of trade. Because some evidence was received indicating that such claims may have been well founded, it was determined that an investigation of respondents' costs of production was warranted.

Respondents sought a hearing to contest the substantiality of the petitioner's claims and to raise alleged conflicts between section 205(b) of the Act and the General Agreement on Tariffs and Trade and the International Anti-Dumping Code. No hearing was deemed necessary, however, since (1) the evidence of possible sales below cost of production was considered sufficiently reliable to warrant a further inquiry which would permit the respondents to provide such facts -- as they were by far in the best position to do -- to demonstrate their actual costs of production, and (2) the mere inquiry into whether sales in the home market or to third countries fell within the provisions of section 205(b) of the Act gave rise to no conflict with applicable provisions of the GATT or the International Anti-Dumping Code. There is no question that responding to requests for information concerning costs of production may be time-consuming and costly and that its delivery creates a possible risk of its release to competitors or other parties. However, neither of these factors can be an acceptable basis to the Secretary for declining to investigate allegations based upon a <u>prima facie</u> showing as made by the complainant in this case. In that connection, it is imperative to underscore, first, that the mere investigation of the facts does not in any way suggest that the outcome of the inquiry has been predetermined; on the contrary, an effort is made to obtain the most complete factual picture necessary to reach the required decisions within the time constraints of the law. Second, the respondents are generally best able to provide the type of information requested. However, their refusal to provide it cannot prevent the Secretary from applying the Act on the basis of whatever evidence he has available, including that furnished solely by the complainant. And, third, serious effort is made by the Department to assure to all parties submitting information that may properly be considered confidential that its confidentiality is preserved.

The respondents in this case nevertheless declined to provide any information concerning their costs of production prior to the publication of the Tentative Determination. Under those circumstances, relying on section 153.31(a) of the Customs Regulations, the best evidence of costs of production was utilized in an effort to determine whether §205(b) of the Act was applicable. Using the information described in that Determination, including the financial statements filed by the respondents with the Japanese Ministry of Finance, it was tentatively determined that virtually all sales in the home market during the period of investigation were below what appeared to be the cost of producing carbon steel plate. Accordingly, those sales were disregarded in establishing "fair value." No evidence of third country sales having been submitted, weighted average margins of 32 percent were then found between the constructed value of the merchandise and the applicable purchase or exporter's sale prices of the five respondents.

Following publication of the Tentative Determination, the respondents decided that they would furnish some information regarding their costs of production. Claiming the effort would be complex and time-consuming, they requested an extension of the date by which a Final Determination in this case would be made. The suggestion was made that, analogizing to §201(b)(2) of the Act, dealing with investigations <u>preceding</u> the publication of a Tentative Determination, a three-month extension should also be possible in the making of the Final Determination. However, the applicable section 201(b)(3) is mandatory in fixing three months as the maximum time within which a Final Determination must be made following publication of a Tentative Determination. Accordingly, the request for an extension was denied.

The information furnished by the respondents concerning their costs of production was not identical in each case. Some have provided some data concerning costs of raw materials, labor and similar elements of costs of production, claimed to be drawn from the books and records of the companies that are maintained in the ordinary course of their business. However, due to the shortness of time between the submission of this data and the date by which a Final Determination was due, it has not been possible for Customs Service personnel to "verify" that data pursuant to standards and procedures normally followed and developed over many years of experience both under the Antidumping Act and other customs laws. Such verification normally includes a comparison of the submissions made to the Customs Service with the actual books and records of the companies, a comparison of such books and records with underlying source documents (such as suppliers' invoices, payroll checks and delivery receipts), and a review of the accounting practices used to keep the company books for conformity with generally accepted accounting principles. However, it has not been the past practice of the Customs Service -- nor, indeed, would it be possible in view of the time restrictions imposed by the law and the resources available for investigating antidumping complaints -- to conduct what an accountant would regard as an "audit" of respondents' operations. And the Antidumping Act imposes no such obligation on the Treasury Department in implementing the law. However, it was not possible to follow even the normal procedures for verification in this case.

The complainant has urged that because of their belated submission and the lack of opportunity for normal verification, all of the respondents' submissions be totally disregarded. As the Treasury Department has no authority to require respondents to furnish information and to submit to verification, the Secretary has generally declined to consider incomplete or unverified information, since to do otherwise may discourage cooperation in the submission and verification of data considered essential in administering the law. However, it would be patently self-denying to disregard information not verified by the methods normally used by the Customs Service if other relevant evidence available to the Secretary tends to corroborate a respondent's submission. There are, in fact, instances in which the best "verification" of cost information may be available from sources external to the books and records of a particular respondent. Therefore, the complainant's suggestion has not been followed.

A further problem is presented by other data submitted which was even further removed from the facts, based on the books and records of the companies, normally used to calculate cost of production. This data was derived by using as a starting point a company's published financial statements, apparently audited by independent certified public accountants and submitted under local law to the Japanese Ministry of Finance, and applying a series of allocations to the aggregate cost data there reflected to arrive at a cost of production of the merchandise relevant to these proceedings. The use of this technique can, of course, lend itself to manipulation and abuse.

Most fundamentally, if a company, as a whole, is profitable as a result of the sale of all products and services, and cost allocations are based solely on sales revenues, then no single product will be shown as having been sold at a loss. A company deriving significant income from wholly unrelated activities, for example, the sale of securities held in portfolios, could thereby purport to demonstrate that no losses were experienced in steel plate operations even if more traditional cost accounting practices would clearly demonstrate a contrary result.

Nevertheless, as with "unverified" cost data submitted, the Secretary is not required to disregard information submitted in this form, if it can be corroborated from other sources. And, indeed, it would be anomolous to disregard it entirely and, at the same time, use the same financial statements submitted to the Ministry of Finance as the "best available evidence" of costs -- as was done at the time of the Tentative Determination.

The present case is unique in that at the very time it has been under consideration, the Treasury Department has been establishing a "trigger price mechanism" (TPM) to monitor the prices of imported steel mill products. As reflected in Federal Register notices published on December 30, 1977 (42 Fed. Reg. 65214) and January 9, 1978 (43 Fed. Reg.   ), this mechanism is based upon determinations of the costs of producing steel in Japan, including the carbon plate that is the subject of these proceedings. The cost of production has been calculated on the basis of submissions made by the six largest steel companies in Japan, including the five respondents in this case, to the Japanese Ministry of International Trade and Industry and transmitted, in aggregate form, to the U.S. Treasury Department. These cost figures were analyzed and corroborated by the staff of the Council on Wage and Price Stability.

It has been concluded that the information developed in the context of establishing the "trigger prices" for the TPM, appropriately adjusted for the time period under investigation in this case, constitutes the "best available evidence" of the cost of producing the subject merchandise by respondents. Information submitted by respondents has been examined and has also been taken into consideration to the extent it is not inconsistent with the information from which the "trigger prices" were calculated. The company data was used primarily in determining the appropriate relationship between the cost of producing finished steel products and the cost of producing the merchandise subject to this investigation by all the firms in the aggregate.

The cost of production thus established has been compared with the home market prices of each of the five companies under investigation. Any sale made at a price less than such cost of production has been disregarded and the remaining sales, made at not less than the cost of production, have been utilized in determining the appropriate home market price for each company. In each instance, the remaining, above-cost sales representing at least 10% of all sales during the period, were deemed adequate for the purpose of establishing a foreign market value for that respondent.

Counsel for petitioner has claimed that possible additional dumping margins may have been created by sales below the cost of acquisition by trading companies which export carbon steel plate from Japan and also sell this merchandise to ultimate users and other home market purchasers. Information relevant to this claim was collected from trading companies accounting for more than 60 percent of the subject merchandise exported to the United States by the respondent manufacturers. Examination of this information indicated that in virtually all instances sales to unrelated United States buyers were made at prices equal to or greater than the cost of acquisition plus the relevant selling, shipping and other related expenses. It has therefore been determined that no basis exists to deviate from the normal practice of examining pricing behavior at the primary level of trade. Therefore for purposes of this determination, prices of the five respondent manufacturers in the home market and for export to the U.S. have been utilized for fair value comparison purposes.

f. Result of Fair Value Comparisons. Using the above criteria, purchase price or exporter's sales price was found to be lower than the home market price of such merchandise. Comparisons were made on a significant portion of the subject merchandise sold to the United States during the investigative period. Weighted average margins over the total sales compared for each firm were approximately 9.1 percent for Nippon Steel, 7.3 percent for NKK, 18.5 percent for Sumitomo, 5.4 percent for Kawasaki, and 13.9 percent for Kobe.

The Secretary has provided an opportunity to known interested persons to present written and oral views pursuant to section 153.40, Customs Regulations (19 CFR 153.40).

The U.S. International Trade Commission is being advised of this determination.

This determination is being published pursuant to section 201(d) of the Act (19 U.S.C. 160(d)).

General Counsel of the Treasury

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041
THE DEPARTMENT OF THE TREASURY 1789

Immediate Release
Monday, Jan. 9, 1978

Contact: Jack Plum
566-2615

TREASURY ANNOUNCES TENTATIVE FINDING OF SALES AT LESS THAN FAIR VALUE OF STAINLESS STEEL PIPE AND TUBING FROM JAPAN

The Treasury Department today announced a tentative finding that four Japanese steel companies have been selling welded stainless steel pipe and tubing in the United States at prices, compared to weighted average sales in the home market, of 1 to 12 percent below fair value.

Two other Japanese companies were found not to have sales below fair value.

Stainless steel products are not included in the Administration's recently announced trigger price system since imports of these products are partially subject to quotas.

Appraisement for the purpose of determining customs duties on imports from all Japanese companies, except one, has been suspended for six months. Importers must immediately post bonds to cover any dumping duties that may result from a final determination of dumping.

The Treasury Department must make a final determination of sales at less than fair value within 90 days. If sales at less than fair value are finally determined, the International Trade Commission has 90 days to determine whether the imports cause or threaten injury to a domestic industry.

If a final determination of sales at less than fair value and a finding of injury are made, dumping duties generally equal to the difference between the price of the merchandise in the home market and an unrelated importers' purchase price, will be imposed for each shipment after the tentative finding.

The finding resulted from a complaint filed with the ITC by nine American companies which prompted a reopening by the Treasury Department of a previously discontinued anti-dumping investigation.

The Treasury Department's investigation found dumping margins ranging from .5 to 20 percent, with a sales weighted average of about 4 percent, for Yamato Industries Co., Ltd.; margins from .4 to 17 percent, with a sales weighted average of 1 percent for Nisshin Steel Co., Ltd.; margins of .4 to 12 percent, with a sales weighted average of 1 percent for Stainless Pipe Industries, Ltd., and margins of .9 to 42 percent, with a sales weighted average of 12 percent, for Tokyo Nishimura Kogyo Co., Ltd.

Since no margins were found on sales by Toa Seiki Co., it was excluded from the withholding of appraisement. In addition, no margins were found on sales by Brasiment Industries Corp. However,the company did not supply sufficient information about home market sales and sales in the United States to qualify for exclusion at this stage.

The six companies account for 85 percent of the stainless steel pipe and tubing exported from Japan to the United States. The tentative finding of sales at less than fair value applies to all Japanese producers unless they are specifically excluded.

The Treasury Department found that five of the six companies have sufficient sales in the Japanese market at prices at or above their cost of production for comparison with their export prices. Because of significant home market sales by Yamato Industries Co., Ltd. at prices below cost, Treasury utilized a "constructed value" in measuring whether that company was selling steel in the United States at less than fair value.

The American companies bringing the complaint were Acme Tube Inc., Allegheny Ludlum Steel Corp., Armco Steel Corp., Bristol Metals, Inc., Carpenter Technology Corp., Colt Industries, Inc., Consolidated Metals Corp., and Sharon Steel Corp.

In calendar 1976, imports of welded stainless steel pipe and tubing from Japan were valued at $10.7 million. The text of the notice to be published in the Federal Register is attached.

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DEPARTMENT OF THE TREASURY
OFFICE OF THE SECRETARY

WELDED STAINLESS STEEL PIPE AND TUBING FROM JAPAN

ANTIDUMPING
WITHHOLDING OF APPRAISEMENT NOTICE
AND EXCLUSION FROM ANTIDUMPING INVESTIGATION

AGENCY: U.S. Treasury Department

ACTION: Withholding of Appraisement

SUMMARY:

This notice is to advise the public that an antidumping investigation has resulted in a tentative determination that welded stainless steel pipe and tubing from Japan are being sold at less than fair value under the Antidumping Act, 1921, as amended. Sales at less than fair value generally occur when the prices of merchandise sold for exportation to the United States are less than the prices in the home market. Appraisement for the purpose of determining the proper duties applicable to entries of this merchandise, with the exception of one manufacturer, will be suspended for 6 months. Interested persons are invited to comment on this action.

EFFECTIVE DATE:

(Date of publication in the Federal Register)

FOR FURTHER INFORMATION CONTACT:

Richard Rimlinger, Operations Officer, Duty Assessment Division, U.S. Customs Service, 1301 Constitution Avenue, N.W., Washington, D.C. 20229, (202-566-5492).

SUPPLEMENTARY INFORMATION:

On March 2, 1977, the U.S. International Trade Commission ("Commission") notified the Secretary of the Treasury that pursuant to sections 334 and 337(b)(3), of the Tariff Act of 1930, as amended (19 U.S.C. 1334 and 1337(b)(3)), a complaint had been filed with the Commission on November 15, 1976, which might involve matters coming under the purview of the Antidumping Act, 1921, as amended (19 U.S.C. 160, et seq.) (referred to in this notice as "the Act"). This complaint, which formed the basis of an investigation instituted by the Commission under section 337 on February 1, 1977, concerned stainless steel pipe and tubing entering the U.S. under item 610.3720 of the Tariff Schedules of the United States Annotated. It was filed by counsel acting on behalf of Acme Tube Incorporated, Somerset, New Jersey; Allegheny Ludlum Steel Corporation, Pittsburgh, Pennsylvania; Armco Steel Corporation, Advanced Material Division, Baltimore, Maryland; Bristol Metals, Inc., Bristol, Tennessee; Carpenter Technology Corporation, Tube

Division, Union, New Jersey; Colt Industries, Inc., Trent Tube Division, East Troy, Wisconsin; Consolidated Metals Corporation, Dover, New Jersey; and Sharon Steel Corporation, Damascus Tubular Products Division, Greenville, Pennsylvania.

A previous antidumping investigation concerning welded stainless steel pipe and tubing from Japan had resulted in a "Notice of Discontinuance of Antidumping Investigation" which was published in the Federal Register of November 22, 1972 (37 FR 24838). On the basis of the information supplied by the Commission, a "Notice of Reopening of Discontinued Investigation" was published in the Federal Register of March 30, 1977 (42 FR 16883), and an investigation has been conducted to enable the Secretary of the Treasury to determine whether there are reasonable grounds to believe or suspect that there are, or are likely to be, sales to the United States at less than fair value, as required by section 153.33(g) of the Customs Regulations (19 CFR 153.33(g)).

The Secretary concluded that a Tentative Determination could not reasonably be made within the usual six-month period and the investigatory period in this case was therefore extended to no more than nine months pursuant to a "Notice of Extension of Investigatory Period" published in the Federal Register on October 6, 1977 (42 FR 54491).

TENTATIVE DETERMINATION OF SALES AT LESS THAN FAIR VALUE

On the basis of the information developed in Customs investigation and for the reasons noted below, pursuant to section 201(b) of the Act (19 U.S.C. 160(b)), I hereby determine that there are reasonable grounds to believe or suspect that the purchase price or the exporter's sales price of welded stainless steel pipe and tubing from Japan, other than that produced by Toa Seiki Co., Ltd., for export to the United States, is less, or is likely to be less, than the fair value, and thereby the foreign market value, of such or similar merchandise, or the constructed value of such imported merchandise.

STATEMENT OF REASONS ON WHICH THIS DETERMINATION IS BASED

a. Scope of the Investigation. It appears that 85 percent of imports of the subject merchandise from Japan was manufactured by: Stainless Pipe Industries Ltd., Toa Seiki Co., Ltd., Yamato Industries Co., Ltd., Brasimet Industries Corp., Ltd., Tokyo Nishimura Kogyo Co., Ltd., and Nisshin Steel Co., Ltd. Therefore, the investigation was limited to these six manufacturers.

b. Basis of Comparison. For the purpose of considering whether the merchandise in question is being, or is likely to be sold at less than fair value within the meaning of the Act, the proper basis of comparison appears to be between purchase price and the home market price of such or similar merchandise on sales by Stainless Pipe Industries Ltd., Toa Seiki Co., Ltd., Brasimet Industries Corp., Ltd., Tokyo Nishimura Kogyo Co., Ltd., and

Nisshin Steel Co., Ltd., and between purchase price or exporter's sales price and the constructed value of the imported merchandise on sales by Yamato Industries Co., Ltd. Purchase price, as defined in section 203 of the Act (19 U.S.C. 162), was used for five manufacturers since all export sales by those five companies appear to be made to non-related customers in the United States. Purchase price was also used for certain sales by Yamato Industries Co., Ltd., where the merchandise was purchased by a non-related Japanese trading firm for export to the United States. Exporter's sales price as defined in section 204 of the Act (19 U.S.C. 163) was used for those sales in which a related importer acted as the seller of the merchandise.

Prices, in the country of exportation, as defined in section 153.2, Customs Regulations (19 CFR 153.2), were used for fair value purposes with respect to Stainless Pipe Industries, Ltd., Toa Seiki Company, Ltd., Brasimet Industries Corporation, Ltd., Tokyo Nishimura Kogyo Company, Ltd., and Nisshin Steel Company, Ltd., since such or similar merchandise appears to be sold in the home market in sufficient quantities at prices equal to or above the cost of production to provide an adequate basis of comparison. With regard to Yamato Industries Company, Ltd., information indicates that a significant number of sales in the home market are made a prices below the cost of production and that remaining sales, made at prices above the cost of production, provide an inadequate basis for fair value comparisons. Since there do not appear to be sales to third countries of such or similar merchandise, the fair value was based on constructed value as defined in section 206 of the Act (19 U.S.C. 165).

In accordance with section 153.31(b), Customs Regulations (19 CFR 153.31(b)), pricing and cost of production information was obtained concerning export and appropriate home market sales of welded stainless steel pipe and tubing from Japan during the period October 1, 1976, through March 31, 1977.

c. Purchase Price. For purposes of this tentative determination, purchase price has been calculated on the basis of the f.o.b. port, f.a.s. port, or ex-go-down, packed price to the United States, or to the unrelated trading company as appropriate, with deductions for inland freight, insurance, and shipping charges as appropriate.

d. Exporter's Sales Price. For purposes of this Tentative Determination, exporter's sales price has been calculated on the basis of the c.i.f., duty paid, ex-dock, packed price to the unrelated United States customers, with deductions for Japanese shipping charges, ocean freight, insurance, brokerage, wharfage, United States import duties and selling expenses.

e. Home Market Price. For purposes of this Tentative Determination, home market price has been calculated on the weighted-average delivered packed price to unrelated purchasers with deductions for inland freight, differences in payment terms, and differences in packing cost. Adjustments were also made for differences in merchandise as appropriate.

In the case of Nisshin Steel Co., Ltd., claims were made for deductions from home market prices for smaller lot sales, shorter lead times, differences in warranty cost, and differences in merchandise. All claims have been disallowed at this time due to insufficient supporting evidence.

f. Constructed Value. For purposes of this Tentative Determination, constructed value for Yamato has been calculated on the basis of the sum of the cost of the materials and of fabrication of the merchandise, as provided by that manufacturer, a statutory minimum amount for general expenses and profit pursuant to section 206(a)(2)(A) and (B) of the Act (19 U.S.C. 165(a)(2)(A) and (B)), and the cost of all containers and coverings used to pack the merchandise ready for shipment to the United States.

g. Result of Fair Value Comparisons. Using the above criteria, preliminary analysis suggests that purchase price and/or exporter's sales price probably will be lower than the home market price of such or similar merchandise, and/or the constructed value of the imported merchandise. Comparisons were made on approximately 53 percent of the total sales of the subject merchandise to the United States by all manufacturers investigated for the period under consideration. Margins were tentatively found ranging from 0.5 to 20 percent for sales made by Yamato Industries Co., Ltd., on 72 percent of the sales compared, ranging from 0.4 to 17 percent for sales made by Nisshin Steel Co., Ltd., on 22 percent of the sales compared, ranging from 0.4 to 12 percent for sales made by Stainless Pipe Industries Ltd., on 29 percent of the sales compared, and ranging from 0.9 to 42 percent for sales made by Tokyo Nishimura Kogyo Co., Ltd., on 96 percent of the sales compared. Weighted-average margins for each firm's sales compared were approximately 4 percent for Yamato Industries Co., Ltd., 1 percent for Nisshin Steel Co., Ltd., 1 percent for Stainless Pipe Industries Ltd., and 12 percent for Tokyo Nishimura Kogyo Co., Ltd. Tentatively, no margins have been found on sales by Toa Seiki Co. Ltd., and Brasimet Industries Corp. Based upon the absence of margins on over 88 percent of its exports to the U.S. and the fact that Toa Seiki Co., Ltd. appears to be honoring the price assurances it gave in 1972, it has been determined that this firm should be excluded from this Withholding of Appraisement under section 153.38, Customs Regulations (19 CFR 153.38). Insufficient information has been supplied by Brasimet Industries Corp. with regard to home market sales and sales to the U.S. to qualify for an exclusion at this stage in the proceedings.

It is not contemplated at this time that the merchandise subject to this investigation will be covered by the "trigger price mechanism" (TPM) established. The TPM is described in Federal Register notices published on December 30, 1977 (42 FR 65214) and January 9, 1978 (43 FR 1464)

Accordingly, Customs officers are being directed to withhold appraisement of welded stainless steel pipe and tubing from Japan, other than that produced for export to the United States by Toa Seiki Co., Ltd., in accordance with section 153.48, Customs Regulations (19 CFR 153.48).

In accordance with section 153.40, Customs Regulations (19 CFR 153.40), interested persons may present written views or arguments or request in writing that the Secretary of the Treasury afford an opportunity to present oral views.

Any requests that the Secretary of the Treasury afford an opportunity to present oral views should be addressed to the Commissioner of Customs, 1301 Constitution Avenue, N.W., Washington, D.C. 20229, in time to be received by his office not later than 10 days from the date of publication of this notice in the Federal Register. Such requests must be accompanied by a statement outlining the issues wished to be discussed, which issues may be discussed in greater detail in a written brief.

All written views or arguments should likewise be addressed to the Commissioner of Customs in time to be received in his office no later than 30 days from the date of publication in the Federal Register. All persons submitting written views or arguments should avoid repetitious and merely cumulative material. Counsel for the petitioner and respondents are requested to serve all written submissions on all other counsel and to file their submissions with the Commissioner of Customs in ten copies.

This notice, which is published pursuant to section 153.35(b), Customs Regulations (19 CFR 153.35(b)), shall become effective on the date of publication. It shall cease to be effective at the expiration of 6 months from the date of this publication, unless previously revoked.

JAN 06 1978

General Counsel of the Treasury

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE January 9, 1978

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,301 million of 13-week Treasury bills and for $3,400 million of 26-week Treasury bills, both series to be issued on January 12, 1978, were accepted at the Federal Reserve Banks and Treasury today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing April 13, 1978			26-week bills maturing July 13, 1978		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.320 a/	6.646%	6.85%	96.552 b/	6.820%	7.16%
Low	98.309	6.690%	6.90%	96.524	6.876%	7.22%
Average	98.311	6.682%	6.89%	96.538	6.848%	7.19%

a/ Excepting 2 tenders totaling $1,745,000
b/ Excepting 1 tender of $100,000

Tenders at the low price for the 13-week bills were allotted 67%.
Tenders at the low price for the 26-week bills were allotted 63%.

TOTAL TENDERS RECEIVED AND ACCEPTED
BY FEDERAL RESERVE DISTRICTS AND TREASURY:

Location	Received	Accepted	Received	Accepted
Boston	$ 34,285,000	$ 32,635,000	$ 45,215,000	$ 38,215,000
New York	3,386,215,000	1,750,140,000	4,144,800,000	2,535,800,000
Philadelphia	32,580,000	32,580,000	18,695,000	18,695,000
Cleveland	91,525,000	66,825,000	38,270,000	38,270,000
Richmond	44,440,000	38,790,000	44,430,000	44,430,000
Atlanta	48,065,000	48,065,000	19,275,000	19,275,000
Chicago	327,510,000	106,510,000	452,055,000	323,355,000
St. Louis	45,390,000	25,390,000	44,020,000	36,170,000
Minneapolis	20,625,000	13,975,000	33,415,000	33,415,000
Kansas City	48,525,000	42,335,000	41,790,000	41,790,000
Dallas	22,630,000	22,630,000	23,145,000	18,145,000
San Francisco	313,355,000	113,545,000	450,090,000	248,090,000
Treasury	7,625,000	7,625,000	4,480,000	4,480,000
TOTALS	$4,422,770,000	$2,301,045,000 c/	$5,359,680,000	$3,400,130,000 d/

c/ Includes $428,850,000 noncompetitive tenders from the public.
d/ Includes $204,120,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

Contact: Carolyn M. Johnston
(202)634-5377

FOR IMMEDIATE RELEASE January 9, 1978

TREASURY SECRETARY BLUMENTHAL NAMES ROBERT P. BARNETT
SAVINGS BONDS CHAIRMAN FOR DELAWARE

Robert P. Barnett, Executive Vice President, ICI Americas Inc., has been appointed Volunteer State Chairman for the Savings Bonds Program by Secretary of the Treasury W. Michael Blumenthal, effective immediately.

He succeeds John M. Martin, Chairman of the Board, Hercules Incorporated.

Mr. Barnett will head a committee of state, business, financial, labor, media, and governmental leaders, who -- in cooperation with the Savings Bonds Division -- assist in promoting the sale of Savings Bonds.

Mr. Barnett is a 1942 graduate of Duke University. He served in the U.S. Marine Corps during World War II and, in 1947, he received a law degree from Duke University. He joined Atlas Chemical Industries in 1951 and served in various executive positions. In July 1961 he was elected Vice President. After the merger of ICI Americas and Atlas Chemical Industries, he was elected Executive Vice President of ICI Americas. In July 1974, when ICI Americas became ICI United States, he was named President of the company. In 1975 he assumed the position of Chairman & President, ICI United States Inc. In September 1977, when ICI Americas Inc. combined within a single corporation with ICI United States Inc., Mr. Barnett became Executive Vice President of ICI Americas Inc.

Mr. Barnett's professional memberships include Delaware State Chamber of Commerce, Delaware and American Bar Associations, the board of directors and the executive committee of the Wilmington Medical Center. As All-American football player during his college career, he also received the 1966 Sports Illustrated Silver Anniversary All-America Award.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

Contact: Carolyn M. Johnston
(202) 634-5377

FOR IMMEDIATE RELEASE January 9, 1978

TREASURY SECRETARY BLUMENTHAL NAMES DONALD P. KELLY SAVINGS BONDS CHAIRMAN FOR ILLINOIS

Donald P. Kelly, President and Chief Executive Officer, Esmark, Inc., Chicago, has been appointed Volunteer State Chairman for the Savings Bonds Program in Illinois by Secretary of the Treasury W. Michael Blumenthal, effective immediately.

Mr. Kelly succeeds William B. Johnson, Chairman of the Board, IC Industries, Inc., Chicago.

Mr. Kelly will head a committee of state, business, financial, labor, media and governmental leaders, who -- in cooperation with the Savings Bonds Division -- assist in promoting the sale of Savings Bonds.

Mr. Kelly attended Loyola University, DePaul University and Harvard, majoring in accounting and finance. He joined Swift & Company in 1953 as Manager, Data Processing, and became successively, Assistant Controller, Controller, and Vice President, Corporate Development and Controller. In 1970 he became Financial Vice President and Director. Upon reorganization of Swift & Company on April 30, 1973, Mr. Kelly became Financial Vice President and Director of Esmark, Inc., and currently he serves as President & Chief Executive Officer.

Mr. Kelly is on the Board of Trustees of Michael Reese Hospital and Medical Center, Chicago; the Illinois Institute of Technology and IIT Research Institute, Chicago. He is a member of the Advisory Council, College of Business Administration, University of Notre Dame; the National Industrial Energy Council; the Economic Development Commission; the Communications Committee of Chicago, and the Economic Club of Chicago. Mr. Kelly is married and has two sons and a daughter.

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artment of the TREASURY NEWS
NGTON, D.C. 20220 TELEPHONE 566-2041

Contact: Carolyn Johnston
(202) 634-5377

FOR IMMEDIATE RELEASE January 9, 1978

TREASURY SECRETARY BLUMENTHAL APPOINTS DALE B. WRIGHT AS NEW SAVINGS BONDS CHAIRMAN FOR MARYLAND

WASHINGTON -- Secretary of the Treasury W. Michael Blumenthal has appointed Dale B. Wright, President and General Manager, WMAR, Inc. as Volunteer State Chairman for the Savings Bonds Program in Maryland. The appointment is effective immediately.

Mr. Wright will head a committee of business, banking, labor, government and media leaders who, in cooperation with the U.S. Savings Bonds Division, will assist in promoting bond sales throughout the state. He succeeds Mark F. Collins, Publisher, Baltimore News-American.

Mr. Wright is a native of Ohio and a graduate of Wesleyan University. He joined WMAR-TV in 1964 as an Account Executive and then moved on to a variety of positions including Traffic Manager, Assistant Sales Manager, Business Manager, Acting Sales Manager, and Program Director. In June of 1976 he assumed his present position of General Manager.

Mr. Wright serves on the boards of Goodwill Industries, Inc. and the Epilepsy Association of Central Maryland. In addition, he is a member of the Advertising Club of Baltimore and Secretary of the Maryland-D.C.-Delaware Broadcasters Association.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE AT 4:00 P.M. January 10, 1978

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $5,700 million, to be issued January 19, 1978. This offering will not provide new cash for the Treasury as the maturing bills are outstanding in the amount of $5,711 million. The two series offered are as follows:

91-day bills (to maturity date) for approximately $2,300 million, representing an additional amount of bills dated October 20, 1977, and to mature April 20, 1978 (CUSIP No. 912793 P8 3), originally issued in the amount of $3,403 million (an additional $3,004 million was issued on December 2, 1977), the additional and original bills to be freely interchangeable.

182-day bills for approximately $3,400 million to be dated January 19, 1978, and to mature July 20, 1978 (CUSIP No. 912793 S3 1).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing January 19, 1978. Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $3,117 million of the maturing bills. These accounts may exchange bills they hold for the bills now being offered at the weighted average prices of accepted competitive tenders.

The bills will be issued on a discount basis under competitive and noncompetitive bidding, and at maturity their par amount will be payable without interest. Except for definitive bills in the $100,000 denomination, which will be available only to investors who are able to show that they are required by law or regulation to hold securities in physical form, both series of bills will be issued entirely in book-entry form in a minimum amount of $10,000 and in any higher $5,000 multiple, on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20226, up to 1:30 p.m., Eastern Standard time, Monday, January 16, 1978. Form PD 4632-2 (for 26-week series) or Form PD 4632-3 (for 13-week series) should be used to submit tenders for bills to be maintained on the book-entry records of the Department of the Treasury.

~~B-636~~ B-650

Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used.

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account.

Payment for the full par amount of the bills applied for must accompany all tenders submitted for bills to be maintained on the book-entry records of the Department of the Treasury. A cash adjustment will be made on all accepted tenders for the difference between the par payment submitted and the actual issue price as determined in the auction.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, or for bills issued in bearer form, where authorized. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Competitive bidders will be advised of the acceptance or rejection of their tenders. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action shall be final. Subject to these reservations, noncompetitive tenders for each issue for $500,000 or less without stated price from any one bidder will be accepted in full at the weighted average price (in three decimals) of accepted competitive bids for the respective issues.

Settlement for accepted tenders for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, and bills issued in bearer form must be made or completed at the Federal Reserve Bank or Branch or at the Bureau of the Public Debt on January 19, 1978, in cash or other immediately available funds or in Treasury bills maturing January 19, 1978. Cash adjustments will be made for differences between the par value of the maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which these bills are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of these bills (other than life insurance companies) must include in his or her Federal income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Department of the Treasury Circulars, No. 418 (current revision), Public Debt Series - Nos. 26-76 and 27-76, and this notice, prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

RELEASE ON DELIVERY
January 11, 1978

REMARKS BY THE HONORABLE W. MICHAEL BLUMENTHAL
SECRETARY OF THE TREASURY
AT THE
U.S. INDUSTRIAL PAYROLL SAVINGS COMMITTEE MEETING
DIPLOMATIC FUNCTIONS SUITE, STATE DEPARTMENT
WASHINGTON, D.C.

Thank you for the report, Bill. Let me express our sincere thanks for your dedicated service.

To acknowledge your efforts on our behalf, it is now my pleasure to present a number of awards.

First, to the outgoing 1977 committee. Will all the 1977 members please stand? In grateful appreciation of your service to the payroll savings program, we would like to present each of you with the Department of Treasury's silver medal of merit.

I would also like to read one of the letters that accompanies this award. Each letter differs, of course, depending upon your assignment. This letter is to our 1977 Rubber Industry Chairman, Chuck Pilliod, and I would like to ask him to step forward at this time.

"Dear Mr. Pilliod:

"The U.S. Industrial Payroll Savings Committee had an exceptional year in 1977. While exceeding its challenging goal of enrolling 2.5 million new or increased savers, the Committee helped raise the sale of Payroll Saver denomination E Bonds to $5 billion.

"You, as chairman for the Rubber Industry, played an important role in these accomplishments. You made a significant contribution to the financial security of our citizens and of the Nation.

"It is with great pleasure and gratitude that I present to you the attached Medal of Merit, with one service star representing your previous year of distinquished service on the Committee."

I would now like the savings bonds people to present the various chairmen with their individual silver medals of merit.

The second group of awards I have goes to the distinguished past chairmen of this committee.

If Frank Milliken, 1964 National Chairman, will please come forward, I would like to read the inscription on this Minuteman plaque.

FOR PATRIOTIC SERVICE
U.S. SAVINGS BONDS PROGRAM
FRANK R. MILLIKEN
JANUARY 11, 1978

Our other former chairmen present who will receive their Minuteman plaque by mail -- are George Stinson for 1976, Gabriel Hauge for 1975, John deButts for 1974, Mil Batten for 1973, Don MacNaughton for 1972 and Lynn Townsend for 1966. My thanks to all of you.

Finally, I have two awards for Bill Miller, our campaign leader for 1977, and now chairman-designate of the Federal Reserve Board.

This was my first Savings Bonds drive as Secretary of the Treasury and having Bill Miller as volunteer National Chairman was a real pleasure. Thanks to his energy and dedication, the Committee contributed greatly to the sale of almost $8 billion of Series E and H Bonds in 1977. This was the best sales level since 1945 and $400 million more than in 1976.

Bill, if you will come up here, I would like to present you with this framed parchment citation. It reads, in part:

"G. William Miller, Chairman, U.S. Industrial Payroll Savings Committee, for exceptional achievement in the 1977 Payroll Savings Campaign, 'Take Leadership in the Nation -- Take Stock in America.'

"His generous service is in the finest tradition of the volunteer spirit that characterizes the Savings Bonds Program."

I also have for you this gold medal of merit.

Although I have no formal awards for them, I would like at this time to express my deepest thanks and appreciation to Azie Taylor Morton, National Director of the Savings Bonds Division; Jesse Adams, Deputy Director; Jack Niles, Director of Sales; Chuck Goodall, Executive Secretary of the Committee; and the entire Savings Bonds division staff, for their support of this committee. Without their help and guidance, the year's results would not have been possible.

In 1978, U.S. Savings Bonds will continue their important role for this nation's financial stability -- as a dependable, long-term foundation for our national debt.

The total U.S. debt, as of December 31, was $719 billion. Of that, an estimated $258 billion is held by Federal Reserve Banks and government trust accounts. This leaves $461 billion in privately-held debt. And $77 billion of that -- a significant portion -- are in Savings Bonds.

These bond holdings are important because they form the most stable part of the debt. Marketable securities, for example, are held for not quite three years, on the average, while savings bonds are held for almost six years.

So Savings Bonds are important from a national viewpoint. But their importance to <u>individual</u> Americans should never be underestimated.

Millions of people find this an ideal savings method. A University of Michigan poll shows that more than one-third of all American households own savings bonds. It is safe, automatic, easy, liquid, with competitive interest rates. And the tax-deferral advantage -- buyers pay taxes on interest only when they redeem Savings Bonds -- is another incentive.

The heart of the bond program is payroll savings. Some 9.5 million men and women save this way. These people are the prime market for your committee.

Earlier, I called Savings Bonds a government program. I should correct myself because, while we provide staff direction and backup, 99 percent of all bond sellers are volunteers. There are an estimated 670,000 volunteers, with many of the top ones in this room today.

I'd like briefly to mention another important volunteer group, the Advertising Council. Its professional assistance and donated space are the equivalent of $75 million worth of advertising yearly -- an immense benefit in our work for bonds.

So as you begin the 1978 campaign, I want to thank you for your efforts, and to wish you good luck. I hope that you too will receive a strong sense of personal satisfaction from your efforts.

At this point, I'd like to devote the rest of my remarks to the state of the economy. With Bill Miller here -- about to take over as Fed Chairman -- and with some of the most important figures in American business here, I feel obligated to take advantage of this captive audience.

And it's an appropriate subject. For just as we made solid progress in our savings bond program last year, we also made solid progress in our economic situation.

We can look back on a year in which we achieved over 5-1/2 percent growth in real GNP, bringing our recovery into its fourth year. We have reduced the unemployment rate by over 1 percentage point creating nearly 4 million new jobs during the year.

We ended 1977 with strong retail sales, after some slow-down in consumer demand around midyear. Housing starts were above the two million rate year end and building permits were at the highest level of the recovery.

Not that we didn't also have serious problems, of course. Our underlying inflation rate of 6 to 6-1/2 percent and unemployment rate that persists around 7 percent are much too high. Our trade deficit and lagging rate of business fixed investment are two other causes for concern.

But despite these problems, we are starting 1978 in a strong position, with the prospect of gradual, solid improvements across the economic front.

The expansion shows no real signs of imbalance that could signal its end, and we are aiming for real growth this year of about 4-1/2 to 5 percent and further reductions in both unemployment and inflation.

So we are going ahead this year with consistent, steady, prudent economic policies that increase take-home pay, improve profits and allow planning for long-term investment. This implies, and amounts to, a strong reliance on the private sector to sustain the growth of the economy and create new jobs.

Later this month, President Carter will announce the economic game plan he intends to carry out this year. I'll leave it to him to announce the detailed program. But it's no secret that the centerpiece will be tax proposals which would include a major reduction of individual and business taxes.

Once the program is announced, I think that you'll be pleased with the balance we've struck.

The program balances the need for long-sought reforms with the immediate need for a tax reduction.

The program will include tax cuts for individuals at virtually all income levels, providing needed relief to taxpayers and an added boost to consumer demand. The proposals will make the system somewhat more progressive.

The program also balances the needs of individual taxpayers with those of business. Roughly one-third of the tax reductions will be for corporations, to increase their after-tax profits and encourage new job-producing investments.

Moreover, the balance we struck will mean a tax bill that stands a much better chance for passage in Congress this year. Although the program contains substantial reforms, the tax package has been designed in a form that can be handled by Congress this year.

An immediate goal of the tax proposals is to stimulate the economy in the later part of 1978, when we expect the expansion to slow down. The effect of higher Social Security taxes, and probably higher energy costs, will then be exerting a drag on the economy. And our current economic stimulus program, which relied heavily on public spending to create jobs, will then be having a diminishing impact.

The tax proposals, however, represent not only an additional and timely stimulus measure. They also represent a shift in emphasis from public to private spending to create permanent jobs.

Moreover, don't overlook the fact that our proposals call for structural change beyond the immediate purpose of stimulating the economy. We are aiming for permanent, across-the-board tax cuts for business and individuals, not just temporary cuts scheduled to expire later.

They should be clear signals to you of the Administration's determination to restrain the growth of government spending as a share of GNP. For the private economy to grow, it needs room to grow, with the assurance that taxes will not consume an increasing share of the national income.

When the President announces the rest of the economic program, you will see that the parts add up to a meaningful overall strategy to encourage orderly, steady growth.

The 1979 Federal budget he will send to Congress reflects this same concern for caution and restrain. Despite the many requests from departments for increases, he has held the line.

On inflation, he will be addressing some of its basic causes by starting at home -- keeping down Federal spending and reducing unnecessary regulation of business, reducing some taxes which directly add to consumer costs, and seeking better labor-management cooperation.

He will be addressing our balance of payments problem by emphasizing passage of an effective energy program, and watching closely the other factors which contribute to that deficit.

Finally, the appointment of Bill Miller to the Fed should signal to you that we are serious about our private-sector orientation. Bill was chosen because of his strong business background and grasp of our economic problems. I look forward to working with him.

As I said earlier, we are relying heavily on the private sector for solutions to these probelms, without using the heavy hand of government intervention.

In closing, let me say that the successful orientation of our policies has come about because of the active involvement of the business community in our decision-making. We need more of that this year. So I ask you again for your support and cooperation, to help make 1978 another successful year for our economy.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE AT 4:45 P.M. January 12, 1978

TREASURY TO AUCTION $3,250 MILLION OF 2-YEAR NOTES

The Department of the Treasury will auction $3,250 million of 2-year notes to refund $2,239 million of notes held by the public maturing January 31, 1978, and to raise $1,011 million new cash. Additional amounts of these notes may be issued at the average price of accepted tenders to Government accounts and to Federal Reserve Banks for their own account in exchange for $272 million maturing notes held by them, and to Federal Reserve Banks as agents of foreign and international monetary authorities for new cash only.

Details about the new security are given in the attached highlights of the offering and in the official offering circular.

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Attachment

HIGHLIGHTS OF TREASURY
OFFERING TO THE PUBLIC
OF 2-YEAR NOTES
TO BE ISSUED JANUARY 31, 1978

January 12, 1978

Amount Offered:	
To the public	$3,250 million
Description of Security:	
Term and type of security	2-year notes
Series and CUSIP designation	Series K-1980 (CUSIP No. 912827 HJ 4)
Maturity date	January 31, 1980
Call date	No provision
Interest coupon rate	To be determined based on the average of accepted bids
Investment yield	To be determined at auction
Premium or discount	To be determined after auction
Interest payment dates	July 31 and January 31
Minimum denomination available	$5,000
Terms of Sale:	
Method of sale	Yield auction
Accrued interest payable by investor	None
Preferred allotment	Noncompetitive bid for $1,000,000 or less
Deposit requirement	5% of face amount
Deposit guarantee by designated institutions	Acceptable
Key Dates:	
Deadline for receipt of tenders	Wednesday, January 18, 1978, by 1:30 p.m., EST
Settlement date (final payment due)	
a) cash or Federal funds	Tuesday, January 31, 1978
b) check drawn on bank within FRB district where submitted	Friday, January 27, 1978
c) check drawn on bank outside FRB district where submitted	Wednesday, January 25, 1978
Delivery date for coupon securities	Tuesday, January 31, 1978

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE January 16, 1978

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,300 million of 13-week Treasury bills and for $3,401 million of 26-week Treasury bills, both series to be issued on January 19, 1978, were accepted at the Federal Reserve Banks and Treasury today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing April 20, 1978			26-week bills maturing July 20, 1978		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.352 a/	6.520%	6.72%	96.593	6.739%	7.07%
Low	98.346	6.543%	6.75%	96.578	6.769%	7.11%
Average	98.348	6.535%	6.74%	96.583	6.759%	7.10%

a/ Excepting 3 tenders totaling $900,000

Tenders at the low price for the 13-week bills were allotted 100%.
Tenders at the low price for the 26-week bills were allotted 3%.

TOTAL TENDERS RECEIVED AND ACCEPTED
BY FEDERAL RESERVE DISTRICTS AND TREASURY:

Location	Received	Accepted	Received	Accepted
Boston	$ 31,260,000	$ 26,260,000	$ 42,500,000	$ 23,500,000
New York	3,699,355,000	1,886,295,000	4,598,540,000	2,808,575,000
Philadelphia	22,590,000	21,590,000	45,415,000	29,965,000
Cleveland	43,070,000	40,440,000	111,825,000	66,600,000
Richmond	33,700,000	24,700,000	28,455,000	25,455,000
Atlanta	38,980,000	33,980,000	19,555,000	19,315,000
Chicago	383,250,000	80,250,000	351,705,000	174,420,000
St. Louis	51,765,000	24,400,000	34,420,000	11,710,000
Minneapolis	14,940,000	5,940,000	30,035,000	9,035,000
Kansas City	38,260,000	35,170,000	22,475,000	21,775,000
Dallas	22,165,000	19,165,000	13,960,000	13,960,000
San Francisco	310,575,000	91,265,000	340,860,000	191,910,000
Treasury	10,345,000	10,345,000	4,580,000	4,580,000
TOTALS	$4,700,255,000	$2,299,800,000 b/	$5,644,325,000	$3,400,800,000 c/

b/Includes $479,655,000 noncompetitive tenders from the public.
c/Includes $200,315,000 noncompetitive tenders from the public.
1/Equivalent coupon-issue yield.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

Immediate Release
Monday, January 16, 1978

Contact: George Ross
566-2356

TREASURY ANNOUNCES NEW IRS RULINGS
ON FOREIGN TAX CREDITS

The Treasury Department today announced the issuance of three Internal Revenue Service revenue rulings concerning the credits that U.S. businesses may take against their U.S. income taxes for taxes paid to foreign countries.

One of these rulings concludes that amounts received by Libya from U.S. oil companies operating in that country are not foreign income taxes and therefore may not be credited against U.S. income taxes. Today's ruling revokes an inconsistent 1968 ruling involving Libya.

Today's ruling also revokes a 1955 IRS ruling on the basis of which payments to Saudi Arabia under a posted price system have been treated as income taxes that may be credited by U.S. oil companies against their U.S. income taxes.

The ruling issued today will take effect for taxes paid or accrued by the companies in their taxable years beginning after June 30, 1978. When an IRS ruling is revoked, the general rule is that the revocation takes effect only for the future. Revocations are not retroactive because taxpayers are entitled to rely on an IRS ruling until the IRS concludes that the ruling is no longer valid.

A principal basis for the conclusion of the ruling is the use of posted prices in computing the companies' tax payments. "Posted prices" are an arbitrary price which exceeds the market price of oil. They have been used to determine the oil companies' income, raising their nominal income and their foreign tax liabilities above the levels that would result from actual market prices.

The IRS has recently received advice that Saudi Arabia may no longer use posted prices in determining taxpayer liability. The IRS has not received detailed disclosure of all relevant

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information as to the current system employed by Saudi Arabia and has not been asked to determine the effect that revocation of the 1955 ruling will have on foreign tax credits claimed under a system not involving posted prices.

Foreign income taxes may be credited against income taxes owed to the United States. In determining whether a foreign tax qualifies as an income tax that can be credited against U.S. taxes, the U.S. Supreme Court has held that U.S. standards apply. The IRS ruling finds the Libyan and Saudi Arabian taxes have been in conflict with important U.S. standards of when a foreign tax may be used as a credit:

* The purpose of a foreign income tax must be to reach "net gain" and the tax must be structured so as to be almost certain of doing so. Thus, a foreign levy is not an income tax as defined under United States standards if it is intentionally structured to tax artificial or fictitious income, as is the case with tax systems that use mechanisms such as the posted price.

* A foreign tax can be credited only if it is imposed on income that is "realized." Income under the Libyan system is not "realized" within the meaning of this standard since taxes are imposed even if sales are not made.

Under the ruling issued today, payments under the posted price system could be deducted from gross income in determining income subject to U.S. tax. Before today's ruling, such payments offset, dollar for dollar, taxes the companies would have owed to the United States.

For example, assume that on $100 of taxable income by U.S. standards the U.S. tax is $48 and the tax paid to a foreign government is $85. Prior to the ruling, the foreign tax credit would fully offset the U.S. tax of $48 (and leave an excess credit of $37, which could be used against U.S. tax on other lower-taxed oil extraction income from foreign sources, if any). After the ruling takes effect, the U.S. tax would be 48 percent of $15 (100 - 85) or $7.2, compared to a tax of zero before today's ruling.

Under the conditions that have prevailed in the past, the use of a credit rather than a deduction for amounts paid by U.S. oil companies to Libya and Saudi Arabia resulted in tax benefits of approximately $600 million in 1976, the most recent year for which data is available. The revocation of the ruling does not imply that the amount of such tax benefits will necessarily be eliminated or reduced. That determination cannot be made without full information about the foreign tax laws that will apply to actual operations in taxpayer fiscal years beginning after June 30, 1978. Also, it is not known if the affected companies could reorganize to avoid the effect of the revocation.

Although it is not now known if any tax increase will result from the revocation of the 1955 and 1968 rulings, if there were such an increase, it could be absorbed by the oil companies or by the producing countries or passed on in the form of higher product prices. The increase in gasoline prices attributable to the maximum conceivable tax increase would be less than one-tenth of a cent per gallon.

Today's ruling resulted from an extensive general review of the foreign tax credit conducted over the past four years.

Today's decision was made in the normal course of administering U.S. tax laws and the conclusion reached in the ruling was required by statute and court decisions. The IRS's recommendations were reviewed by Treasury Secretary W. Michael Blumenthal before the ruling was issued by IRS Commissioner Jerome Kurtz.

Two other rulings dealing with the issue of when foreign taxes may be credited against U.S. tax liabilities are also being issued today. The first of these denies a tax credit for a mining tax imposed by the Province of Ontario, Canada. The Ontario tax was found in conflict with U.S. standards concerning income taxes:

* The foreign tax on trade or business income must permit the deduction of the generally significant expenses incurred in producing that income. The failure to allow such deductions conflicts with the U.S. rule that income taxes must be designed to reach "net gain."

* The foreign tax must be imposed on the receipt of income by the taxpayer rather than on transactions such as sales or the exercise of a privilege or a franchise such as exploiting natural resources.

The IRS concluded that this tax is an excise or privilege tax, rather than an income tax, and therefore may not be credited against U.S. income taxes.

The third ruling reviews a number of court cases and IRS rulings, reverses outstanding positions allowing credits for certain Haitian, French, Indian and Cuban taxes, and reaffirms an existing ruling allowing credit for a Mexican tax on mineral royalties. This ruling also reviews pertinent court cases and generally discusses the principles of the U.S. foreign tax credit.

Copies of the ruling with respect to Libya and the accompanying rulings are attached to this news release and will be published shortly in the Internal Revenue Bulletin.

Taxpayers who desire guidance as to whether particular foreign taxes are creditable may request a ruling from the Internal Revenue Service in accordance with the procedures of Revenue Procedure 72-3, which is published at 1972-1 Cumulative Bulletin, page 698 and Revenue Ruling 67-308, which is published at 1967-2 Cumulative Bulletin, page 254.

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News Release

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Washington, D.C.--Three new rulings relating to the foreign tax credit were today issued by the Internal Revenue Service. These rulings result from the continuing IRS study of the creditability of amounts paid to foreign governments.

The three new rulings (Revenue Ruling 78-61 through 78-63) are attached and will appear in Internal Revenue Bulletin No. 1978-8, dated February 21, 1978.

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PART I

SECTION 901.--TAXES OF FOREIGN COUNTRIES AND OF POSSESSIONS OF UNITED STATES

26 CFR 1.901-1: Allowance of credit for taxes.
(Also Section 903; 1.903-1.)

Rev. Rul. 78-61

Advice has been requested whether the tax imposed by section 3(1) of the Ontario Mining Tax Act, being chapter 275 of the Revised Statutes of Ontario, 1970, as amended by Chapter 14 of the Mining Tax Amendment Act of 1971 (the Act), is an income tax within the meaning of section 901(b) of the Internal Revenue Code of 1954.

If the profit of a mine located in the Province of Ontario exceeds $50,000, section 3(1) of the Act imposes an annual tax of 15 percent on all the profit of such mine including the first $50,000 of such profit.

Section 3(3) of the Act defines the term "profit" as:

(a) the amount of the gross receipts from the output of the mine during the taxation year; or

(b) in case the ore, mineral or mineral bearing substance, or a part thereof is not sold but is treated by or for the owner, holder, lessee, tenant, occupier, or operator of the mine, the amount of <u>the actual market value of the output at the pit's mouth</u>; or

(c) if there is no means of ascertaining <u>the actual market value of the output at the pit's mouth</u>, the amount at which the mine assessor appraises such output...;

less the expenses allowed by section 3(3)(d) through (n) of the Act. (Emphasis added.)

The term "pit's mouth" refers to the loading point at the mine's ground level of the conveyor or other transportation facility that delivers a mineral substance to the pick-up point for shipment from the mine property to market or that delivers it to the treatment or manufacturing plant.

The term "output" is defined by section 1(i) of the Act as all mineral substances:

> raised, taken or gained from any mine or land in Ontario which (a) have been sold, or (b) have been incorporated in a manufacturing process, or (c) have been treated or partially treated at any mill, smelter or refinery on or off the mining premises from which they were taken, and the product thereof has been sold.

The Act is designed to tax only the profit derived from the extraction of output in Ontario (the "mining function") in contrast with the profit attributable to manufacturing that output (the "manufacturing function") or concentrating, milling, smelting, refining, or otherwise treating that output (the "treatment function"). Because profit from the mining function is essentially the value of output at the pit's mouth reduced by deductions for allowable expenses, it is necessary under the Act to determine the aggregate value at the pit's mouth of output (a) that is sold without treatment or manufacture, (b) that is incorporated in a manufacturing process, and (c) that is treated and then sold.

Output that is sold without treatment or manufacture is described in section 1(i) of the Act as "...mineral substances... which have been sold." Under section 3(3)(a) the value of output sold without treatment or manufacture is the gross sales receipts received therefor. The value of such output is included in computing the mining profit for the taxable year in which the output is sold.

Output incorporated in a manufacturing process is described in section 1(i) of the Act as "...mineral substances... incorporated in a manufacturing process..." The market value at the pit's mouth of such output is estimated pursuant to section 3(3)(b) of the Act. For example, to arrive at "actual market value" of a mineral incorporated in the manufacturing process, the Ontario mine assessor sometimes takes the actual sales price per ton received by a company from incidental sales of a mineral not incorporated in a manufacturing process or, if none, then an independent arm's length price, and discounts its price, usually not more than 20 percent. The mine assessor then multiplies this discounted figure by the number of unsold tons of the mineral incorporated in the manufacturing process to arrive at the actual market value of such mineral. The market value of the above output is included in computing the mining profit for the taxable year when the mineral is incorporated in a manufacturing process rather than when materials manufactured from such output are sold.

Output that is treated prior to being sold is described in section 1(i) of the Act as "...mineral substances which have been treated or partially treated at any mill, smelter or refinery on or off the mining premises from which they were taken, and the product thereof has been sold." The market value at the pit's mouth of such output is included in computing the mining profit for the taxable year in which such output is actually sold. If no actual market value can be attributed to the output under section 3(3)(b) before treatment, the market value at the pit's mouth of treated output is appraised under section 3(3)(c). The mine assessor is required, under Ontario law, to appraise the market value at the pit's mouth of output that is treated by reducing the sales proceeds of the treated output by: (1) the treatment and marketing costs of the treated output; (2) a 15 percent allowance for depreciation of the treatment equipment; (3) all administrative and general expenses attributable to treatment; and (4) a profit allowance for treatment.

The profit allowance for treatment is a set figure equal to 8 percent of the original cost of the concentrating facilities if output is only concentrated or milled, 16 percent of the original cost of the smelting facilities if output is concentrated and smelted, and 20 percent of the original cost of the refining facilities if the output is concentrated, smelted, and refined. However, the profit allowance for treatment cannot be less than 15 percent or more than 65 percent of the combined net profit from the mining and treatment functions.

Once the value of output sold during the taxable year without being treated or manufactured, the value of output sold during the taxable year that has been treated, and the value of output incorporated in a manufacturing process during that year, are determined, the total value is then reduced by the deductible expenses enumerated in section 3(3)(d) through (n) of the Act.

Expenses that are deductible in computing profit from output in section 3(3)(d) through (n) of the Act are generally similar to deductions allowed under the income tax laws of the United States.

Nondeductible expenses under the Act include:

(1) all development expenses paid or incurred by a mining company prior to a mine's commencing production in Ontario if the mine commenced production prior to January 2, 1965, or if and to the extent the ore taken from the mine was not smelted in Canada;

(2) any exploration expenses for ascertaining the existence, extent, location, or quality of any mineral deposit paid or incurred prior to the development stage of the mine;

(3) all expenses incurred for exploration and development work in Ontario that did not result in a producing mine, even though the taxpayer may have had a producing mine somewhere else in Ontario to which these expenses were not connected;

(4) except for a minor provincial tax on surface property and for sales and excise taxes on the purchase of goods and equipment, all Dominion, municipal, and Province of Ontario taxes including the Ontario Corporate Income Tax;

(5) any loss on the sale of the property on which the mine is located;

(6) cost or other depletion including any expense incurred in acquiring the real property on which the mine is located or in acquiring the right to mine, or an option on the right to mine, such mineral deposits;

(7) all royalties paid in respect of, or for the output of, mines located on private property, including not only payments to a person on account of that person's economic interest in the minerals in place but also payments that would be regarded under Federal income tax law as rent for the use of the land on which the mine is located;

(8) all interest paid on borrowed money including that paid on bonds issued by the taxpayer at a discount; and

(9) most expenses for annual shareholder meetings and distribution of notices and reports to shareholders, advertising expenses other than for promoting of sales and recruitment of employees, bank charges for storage of securities, 50 percent of directors' fees and expenses, stock exchange fees, transfer and registration fees, membership fees in chambers of commerce or similar organizations, subcriptions to nonmining publications, and salaries or expenses not directly connected with mining or treatment.

Section 901(b) of the Code generally allows qualifying United States taxpayers to claim a foreign tax credit for the amount of any income, war profits, or excess profits taxes paid or accrued during the taxable year to any foreign country or to any possession of the United States. Section 1.901-2(b) of the Income Tax Regulations provides, in part, that the term "foreign country" includes any foreign state or political subdivision thereof.

Section 903 of the Code provides that the term "income, war profits, and excess profits taxes" shall include a tax paid in lieu of a tax on income, war profits, or excess profits otherwise generally imposed by any foreign country or by any possession of the United States. Section 1.903-1(a) of the regulations lists the following requirements for a qualifying "in lieu of" tax: (1) that the country has in force a general income tax law; (2) that the taxpayer claiming the credit would, in the absence of a specific provision applicable to such taxpayer, be subject to such general income tax; and (3) that such general income tax is not imposed upon the taxpayer thus subject to such substituted tax.

The first question presented is whether the tax imposed by the Act is an indivisible tax or is divisible into separate taxes on three separate tax bases under section 3(3)(a), (b), and (c) of the Act.

Generally, a foreign tax is divisible into separate taxes if it is levied on more than one separate tax base and the tax on each base is separately computed. See Rev. Rul. 74-435, 1974-2 C.B. 102; Rev. Rul. 59-208, 1959-1 C.B. 192, as amplified by Rev. Rul. 63-268, 1963-2 C.B. 208; and Lanman & Kemp-Barclay & Co. of Colombia v. Commissioner, 26 T.C. 582 (1956).

Under the act gross receipts from the sale of output that is not treated or manufactured are added together with the estimated market value of output at the pit's mouth that is incorporated in a manufacturing process and with the appraised market value of output at the pit's mouth that is treated and sold. The total is then reduced by the expenses in section 3(3)(d) through (n) of the Act attributable to the three types of output referred to in section 3(3)(a), (b), and (c) of the Act in arriving at the profit or the base on which the tax is levied. Thus, in computing the mining profit subject to tax under the Act, the value of the three types of output referred to in section 3(3)(a), (b), or (c) of the Act and the expenses attributable thereto are so interwoven as to constitute a single tax base upon which the tax is computed rather than three separate tax bases. Accordingly, the tax imposed by section 3 of the Act is an indivisible tax.

The second question presented is whether the tax imposed by section 3 of the Act qualifies as an "income tax" within the meaning of section 901(b) of the Code.

Whether a foreign tax qualifies as an income tax within the meaning of section 901 of the Code depends on whether that tax constitutes an "income tax" as determined from an examination of the Federal income tax laws of the United States. Biddle v. Commissioner, 302 U.S. 573 (1938), 1938-1 C.B. 309, and Bank of America Nat'l T. & S. Ass'n v. United States, 459 F.2d 513, 518 (Ct. Cl. 1972), cert. denied, 409 U.S. 949 (1972). Thus, the courts have often said that a foreign tax will be considered to be an income tax within the meaning of section 901 only if that tax is the substantial equivalent of the income tax in the United States sense.

See e.g., Commissioner v. American Metal Co., 221 F.2d 134 (2d Cir. 1955); and F. W. Woolworth Co. v. Commissioner, 54 T.C. 1233 (1970), non acq. on another issue, 1971-2 C.B. 4.

Whether a foreign tax is the substantial equivalent of an income tax in the United States sense "depends primarily on the measure of the tax or the tax base." Rev. Rul. 69-653, 1969-2 C.B. 152. Thus, to qualify as an income tax in the United States sense, a foreign tax must, at the very least, satisfy several requirements. Whether these requirements are met is determined by reference to the entire class of taxpayers subject to the foreign tax and not on a taxpayer-by-taxpayer or transaction-by-transaction basis. Bank of America Nat'l T. & S. Ass'n v. United States, and Rev. Rul. 64-260, 1964-2 C.B. 187. Moreover, when a tax is imposed on a limited tax base or on a limited class of taxpayers and the tax includes a provision that violates one of these requirements, then the importance of that aberrational provision is necessarily increased by the limited scope of the tax base or class of taxpayers.

The first requirement relevant to the instant case is that the gain on which the foreign tax is levied must be realized in the United States sense. The United States Federal income tax, a tax of general application, does tax in certain limited situations the constructive or deemed receipt of income. However, as a whole the Federal income tax is imposed on gain actually realized. Eisner v. Macomber, 252 U.S. 189 (1920), 3 C.B. 25. A substantially equivalent degree of realization is required with respect to foreign taxes. Commissioner v. American Metal Co., Keasbey & Mattison Co. v. Rothensies, 133 F.2d 894 (3d Cir. 1943), and Lanman & Kemp-Barclay & Co. of Columbia.

The second requirement relevant to the instant case is that a foreign tax will not be considered to be an income tax in the United States sense unless its purpose is to reach net gain and it is so structured as to be almost certain of doing so. Bank of America Nat'l T. & S. Ass'n v. United States, 459 F.2d 513 (Ct. Cl. 1972); Bank of America Nat'l T. & S. Ass'n v. Commissioner, 61 T.C. 752 (1974). Generally, a foreign tax is almost certain to fall on net gain if levied on income computed in such a manner that it is very unlikely that taxpayers generally subject to that tax will have to pay it when they have no net gain. See the United States Court of Claims decision in Bank of America Nat'l T. & S. Ass'n v. United States at 524, wherein it was stated that the "...only question is whether it is very unlikely or highly improbable that taxpayers subject to the impost would make no profit or would suffer a loss." See also Allstate Ins. Co. v. United States, 419 F.2d 409 (Ct. Cl. 1969).

Certain foreign taxes on gross dividends, interest, and royalties have been held to qualify as income taxes in the United States sense. See, e.g. Rev. Rul. 73-106, 1973-1 C.B. 343. These taxes qualify because it is presumed that the expenses ordinarily connected with such income will almost never exceed that income. Therefore, a foreign tax imposed on such income will be almost certain of reaching net gain. Bank of America Nat'l T. & S. Ass'n v. United States. Additionally, similar taxes have long been imposed by the United States on dividends, interest and royalties paid to nonresident aliens and foreign corporations (which are not effectively connected with the conduct of a trade or business in the United States) as a basic part of the United States income tax system. See sections 871(a)(1)(A) and 881(a)(1) of the Code. The thrust of these United States tax provisions is realistically directed against net gain or profit. See Bank of America Nat'l T. & S. Ass'n v. Commissioner 61 T.C. 752 (1974).

However, expenses incurred in producing gross trade or business income are not inherently so slight as to insure that they will almost never exceed the amount of that gross income and thus not produce a loss. For this reason a foreign tax on income from engaging in business in the foreign country that does not permit the deduction of the generally significant expenses incurred in producing that income is not almost certain to fall on net gain. Such a tax is not creditable. Cf. Rev. Rul. 74-435, 1974-2 C.B. 204, wherein this rationale was applied to sustain the creditability of a Swiss communal tax on business income. See also Keasbey & Mattison Co. v. Rothensies; and Continental Insurance Co., 40 B.T.A. 540 (1939).

In Keasbey & Mattison Co. v. Rothensies, the court held the Quebec Mining Tax not to be a creditable income tax in part because it restricted allowable deductions only to expenses incurred in the mining operation itself and failed to allow deductions for the significant expenses incident to the general conduct of the mining business. The Court of Claims in Bank of America Nat'l T. & S. Ass'n v. United States interpreted the Keasbey opinion as involving:

> ...a mining business which obviously could either have lost or made money in any particular year. In that context, it was significant that "the expenses incident to the general conduct of the business, as distinguished from the cost incurred in the mining operation, are not deductible" (133 F.2d at 898); those non-deductible expenses could easily have made the difference between a net profit and a loss. For that business it could not possibly have been said that the tax would always, or almost always, reach some net gain. (Emphasis added.)

The final requirement relevant to the instant case is that in order for a foreign tax to qualify as an income tax in the United States sense, the tax in question must be imposed on the receipt of income by the taxpayer rather than on transactions such as sales or the exercise of a privilege or a franchise, such as exploiting natural resources. Commissioner v. American Metal Co.; Keasbey & Mattison Co. v. Rothensies; and Rev. Rul. 57-62, 1957-1 C.B. 241. Furthermore, a tax, such as an excess tax that is imposed on subjects other than the receipt of income, is not creditable even if the measure of the tax base is net income. St. Paul Fire and Marine Insurance Co. v. Reynolds, 44 F. Supp. 863 (D. Minn. 1942); Motland v. United States 192 F. Supp. 358 (N.D. Iowa 1961); and Rev. Rul. 58-3, 1958-1 C.B. 263.

Whether a tax is a privilege, excise, or income tax must be determined by examining the foreign law in its entirety. Thus, for example, to the extent that a tax is imposed on a tax base that includes a nonrealization event, does not allow for the deduction of expenses, or is a condition for permission to engage in a certain business, then these factors and others, will be considered in determining the nature of the tax. Commissioner v. American Metal Co.; Keasbey & Mattison Co. v. Rothensies; and, Elias Mallouk v. Commissioner 34 B.T.A. 269 (1936).

In the present case, the tax imposed by section 3 of the Act is an indivisible tax imposed on a very limited tax base; that is, it falls on profit from only three items: (1) the sale of mineral output; (2) the incorporation of mineral output in a manufacturing process; and (3) the sale of treated mineral output. Because section 3(1) of the Act imposes a tax when output is incorporated in a manufacturing process under section 3(3)(b), this indivisible tax, in part, is not imposed on the receipt of realized income in the United States sense in violation of requirements (1) and (3) above.

Also, the tax imposed by section 3(1) of the Act denies or limits the deduction of sufficient expenses in computing profit from the mining function on treated output under section 3(3)(c), on manufactured output under section 3(3)(b), and on output sold without treatment or manufacture under section 3(3)(a), to make it possible for the taxpayer to show a net gain and thus have to pay the Ontario Mining Tax, even though it had a net loss in the United States sense from mining. Thus, the tax is not almost certain of falling on net gain, as the following discussion indicates.

First, a tax free recovery of invested capital has always been a characteristic of an income tax in the United States sense. However, like the Quebec Mining Tax discussed in the Keasbey decision and unlike the Code, the Act allows no deduction for the taxpayer's expense in acquiring the ore body because cost or other depletion, the cost of acquiring the right to mine or an option in the right to mine, and any loss on the sale of the real property on which the mine is located are all nondeductible. Because the Act does not allow a taxpayer to recover the taxpayer's cost (invested capital), it is effectively taxing that capital.

Second, although much of the financing for mining ventures may be derived from loans, the Act prohibits the deduction of all interest expense, regardless of the amount or purpose for which it was incurred.

Third, under Federal income tax law, royalties paid by a mining company to a landowner or other person on account of that person's economic interest in the minerals in place are not included in the mining company's income. However, under the Act, a mining company cannot exclude or deduct from its gross mining profit the royalties it pays to a landowner on account of the latter's economic interest in the minerals in place. Section 3(5)(d) of the Act denies any deduction for such royalties paid in respect of, or for the output of, mines located on private property.

Fourth, the Act permits no deduction either currently or through depletion for any exploration expense incurred for ascertaining the existence, extent, location, or quality of any mineral deposit and paid or incurred prior to the development state of a mine.

Fifth, prior to the 1969 taxable year the Act did not permit through depletion or otherwise the recovery of any development expenses paid or incurred prior to a mine commencing production in Ontario. In 1969, however, section 3(3)(n) was adopted. That section allows a taxpayer to deduct annually 10 percent of the pre-production development costs (but not exploration costs) of a producing mine in Ontario. This deduction is not available, however, to all mining companies, but only to metal mining companies that brought a mine into production after January 1, 1965, and that smelt the ore taken from that mine in Canada. The inability to deduct this significant expense by some mining companies could make the difference between a net gain and a net loss.

In summary, the Act denies or limits the deduction of significant expenses in computing profit from the mining function on treated output under section 3(3)(c), on manufactured output under section 3(3)(b), and on output sold without treatment or manufacture under section 3(3)(a). Accordingly, the tax imposed by section 3(1) of the Act fails to satisfy the second requirement discussed above because it is not almost certain of falling on net gain in the United States sense.

This conclusion is bolstered by the fact that the amount of profit on which the tax is paid in the case of treated output may be artifically inflated or understated by the use of a treatment allowance formula. As previously indicated, this formula is used because the tax imposed by the Act is a tax on the mining function. That is, it is levied only on profit attributable to extraction of output in Ontario (the mining function) as opposed to net profit from the taxpayer's entire operation. Because both a mining and treatment profit may be embodied in the actual receipts from the sale of treated output, to arrive at the market value at the pit's mouth of such output, the Ontario mine assessor deducts, under section 3(3)(c) of the Act, the costs attributable to the treatment function and a profit allowance for treatment. This profit allowance is set at 8 percent of the original cost of the concentrating facilities if output is only concentrated or milled, 16 percent of the original cost of the smelting facilities if output is concentrated and smelted, and 20 percent of the original cost of the refining facilities if output is concentrated, smelted, and refined. However, the profit allowance for treatment cannot be less than 15 percent or more than 65 percent of the combined profit from the mining and treatment functions.

The use of the set profit allowance may inflate or understate the portion of profit attributable to the mining function. This is because the 65 percent limitation on the amount attributable to treatment assures that at least 35 percent of the gain will be considered as attributable to the mining function. This would be the case even when no portion of gain from treated output was actually attributable to the mining function. Under these circumstances it cannot be said that the tax is almost certain of falling on net gain from the mining function.

Regarding the third requirement of an income tax discussed above, the court in Keasbey held that a Quebec mining tax was a tax upon the mining privilege or an excise tax as opposed to an income tax. The court said that the tax, although designated as a tax on annual profits, is in reality a tax on the mining privilege, measured on the basis of gross value of the output determined under a prescribed formula, less certain deductions, and that the value of the mining output was the basis of the levy independent of either realization of gain or derivation of profits.

Although the tax imposed by the Act is levied upon a base designated as profit, the fact that the tax fails to meet the United States realization and net gain requirements, as heretofore outlined, and the fact that the tax is structured to yield taxable profit from the extraction of output (the mining function) by a formulary shifting of profit derived from treating that output (the treatment function), indicate that such tax is actually a production or severance tax on the mining privilege, such as the Quebec Mining Tax in the Keasbey case. This view is supported by the fact that the Act forbids the mine operator from carrying away from the mine any ore until the weight thereof has been correctly ascertained and entered in the books of account, and the fact that the mine's assessor can enter any mine to take samples for the purpose of determining the value of the ore.

Accordingly, for the above reasons the tax imposed by the Act is not the substantial equivalent of an income tax within the meaning of section 901(b) of the Code.

The final question is whether the tax imposed by section 3(1) of the Act is a tax in lieu of an income tax within the meaning of section 903 of the Code and the regulations thereunder.

Section 1.901-3(a)(3) of the regulations provides, in general, that a credit may be claimed under section 901 of the Code for a section 903 tax if the taxpayer is not subject to the foreign country's general income tax but is subject to a substituted tax. In addition to the tax imposed by the Act, Ontario has in force both corporate and personal income tax laws of general application that are imposed on profits from mining operations. Therefore, because the tax imposed by the Act is imposed in addition to, instead of in substitution for, a general income tax law, the tax imposed by the Act does not satisfy the requirements of section 1.903-1(a) for an in lieu of tax that would be creditable under section 901. Allstate Ins. Co. v. United States, and F. W. Woolworth.

PART I

SECTION 901.--TAXES OF FOREIGN COUNTRIES AND OF POSSESSIONS OF UNITED STATES

26 CFR 1.901-1: Allowance of credit for taxes.
(Also Section 7805; 301.7805-1.)

Rev. Rul. 78-62

The Internal Revenue Service has been asked to reconsider a number of its published revenue rulings and acquiescences relating to the creditability of certain foreign taxes under section 901 of the Internal Revenue Code of 1954. Accordingly, the purpose of the instant Revenue Ruling is to review those prior published positions of the Service and to indicate what the position of the Service is with respect to those prior published revenue rulings and acquiescences.

Whether a foreign tax qualifies as an income tax within the meaning of section 901 of the Code depends on whether that tax constitutes an "income tax" as determined from an examination of the Federal income tax laws of the United States. Biddle v. Commissioner, 302 U.S. 573 (1938), 1938-1 C.B. 309, and Bank of America Nat'l T. & S. Ass'n. v. United States, 459 F.2d 513, 515, 518 (Ct. Cl. 1972), cert. denied, 409 U.S. 949 (1972). Thus, the courts have often said that a foreign tax will be considered to be an income tax within the meaning of section 901 only if that tax is the substantial equivalent of an income tax in the United States sense. See, e.g., Commissioner v. American Metal Co., 221 F.2d 134 (2d Cir. 1955); F. W. Woolworth Co. v. Commissioner, 54 T.C. 1233 (1970), nonacq. on another issue, 1971-2 C.B. 4.

To qualify as an income tax in the United States sense, a foreign tax must satisfy certain requirements. See Rev. Rul. 78-61, 1978-8 I.R.B. . The first requirement relevant to this Revenue Ruling is that the gain on which the foreign tax is levied must be realized in the the United States sense. The United States Federal income tax, a tax of general application, does tax in certain limited situations the constructive or deemed receipt of income. However, as a whole, the Federal income tax is imposed on gain actually realized. Eisner v. Macomber, 252 U.S. 189 (1920), 3 C.B. 25. A substantially equivalent degree of realization is required with respect to foreign taxes. Commissioner v. American Metal Co., 221 F.2d 134 (2d Cir. 1955); Keasbey & Mattison Co. v. Rothensies, 133 F.2d 894, 898 (3d Cir. 1943); and Lanman & Kemp-Barclay & Co. of Colombia, 26 T.C. 582 (1956).

In addition to realization, the second requirement relevant to the instant case is that a foreign tax will not be considered to be an income tax in the United States sense unless its purpose is to reach net gain and it is so structured as to be almost certain of doing so. Bank of America Nat'l T. & S. Ass'n. v. United States; Bank of America Nat'l T. & S. Ass'n. v. Commissioner, 61 T.C. 752 (1974). Generally, a foreign tax is almost certain to fall on net gain if levied on income computed in such a manner that it is very unlikely that taxpayers generally subject to that tax will have to pay it when they have no net gain. See the United States Court of Claims decision in Bank of America Nat'l T. & S. Ass'n. v. United States at 524, wherein it was stated that the ". . . only question is whether it is very unlikely or highly improbable that taxpayers subject to the impost would make no profit or would suffer a loss." See also, Allstate Ins. Co. v. United States, 419 F.2d 409 (Ct. Cl. 1969).

The final requirement relevant to the instant case is that in order for a foreign tax to qualify as an income tax in the United States sense, the tax in question must be imposed on the receipt of income by the taxpayer rather than on transactions such as sales or the exercise of a privilege or a franchise, such as exploiting natural resources. Commissioner v. American Metal Co.; Keasbey & Mattison Co. v. Rothensies; and Rev. Rul. 57-62, 1957-1 C.B. 241.

Herbert Ide Keen v. Commissioner, 15 B.T.A. 1243 (1929), acq., VIII-2 C.B. 27 (1929), involved a French tax imposed solely on the French source income of individuals who maintain a residence in France but are not domiciled there (non-domiciliaries). These non-domiciliaries pay the aforementioned tax on estimated income fixed at a sum equal to seven times the presumed rental value of their respective residences in France, unless their actual French source income exceeds their estimated income. If so, the tax will be computed on their actual income.

The tax paid by non-domiciliaries is separate from the tax paid by individuals who are domiciled in France. The latter pay a tax on their actual income from all sources and not some form of estimated income.

The United States Board of Tax Appeals held this French tax on estimated income to be a creditable income tax principally because it was an income tax under French standards. Relying on the decision in the Keen case, the Board reaffirmed the creditability of that French tax in James R. Hatmaker v. Commissioner, 15. B.T.A. 1044 (1929) (decided for the Commissioner on other grounds). However, subsequent to the Keen and Hatmaker decisions, the Supreme Court of the United States held in the Biddle case that in order for a foreign tax to qualify as a creditable income tax, it must satisfy the United States standard and not the foreign standard of an income tax.

It is apparent that the aforementioned French tax on estimated income does not satisfy any of the United States standards of an income tax discussed above. Such tax is imposed on estimated income fixed at seven times the presumed rental value of a residence even if the non-domiciliary has not realized any gain from French sources or even if such gain as may have been realized is less than such estimated income. Thus, the Service is withdrawing its acquiescence in the Keen case and substituting a nonacquiescence therefor, see 1978-8 I.R.B. . Accord, Commissioner v. American Metal Co., wherein the court stated that Keen is in conflict with the later decision of Biddle. In addition, the Service will not follow the conclusion expressed in the Hatmaker case that the French tax is a creditable income tax.

Also decided prior to the Biddle case was Burk Bros. v. Commissioner, 20 B.T.A. 657 (1930) (decided for the Commissioner on other grounds). In that case the taxpayer, a domestic corporation that manufactured goat skins into leather, purchased some goat skins in India through its Indian office. As a result, India levied a tax on the income deemed to be derived by the taxpayer from the goat skins. This income was determined by multiplying the number of goat skins purchased by the difference between the average sales price of goat skins in Philadelphia and their average sales price in Calcutta. The resulting figure was reduced by certain transportation and skin preservation expenses. The Board of Tax Appeals held the Indian tax to be creditable. However, because the tax in Burk Bros. was triggered by a purchase and was levied without reference to the amount of income, if any, actually realized by the taxpayer during the year, it does not satisfy the first and third requirements of an income tax discussed above. Accordingly, the Service will not follow the holding in the Burk Bros. decision that the Indian tax is a creditable income tax.

Rev. Rul. 272, 1953-2 C.B. 56, involved a Haitian tax imposed at progressive rates under chapters III, IV, and V of the Haitian statute. Chapter III taxed the business income of associations, companies, corporations, except stock companies, individual or partnership enterprises, manufacturers, merchants and professional people. Income for purposes of chapter III was computed on a fixed-rate basis by multiplying by five the yearly rental value of the buildings and land occupied by the aforementioned taxpayers.

Chapter IV of the Haitian statute taxed the net profit of all partnership or individual enterprises, companies, and stock corporations conducting a business. For purposes of chapter IV, net profit was actual receipts less the ordinary and necessary expenses incurred in producing these receipts. Taxpayers who were subject both to the tax on net profits under chapter IV and the tax on income computed on a fixed-rate basis under chapter III were required to pay the net profits tax only on that portion of the net profit, if any, which exceeded the income computed on a fixed-rate basis under chapter III. Moreover, even if a taxpayer with this dual liability had no net profit, it still had to pay a tax on income computed on a fixed-rate basis.

Relying on the decision in the Keen case, Rev. Rul. 272 held that the tax imposed by chapter III on income computed on a fixed-rate basis qualified as a creditable income tax. The Revenue Ruling also concluded that the tax imposed by chapter IV was a creditable income tax. The tax imposed by chapter III is not triggered by a realization event in the United States sense and is levied on a base that is not computed from actual receipts. Therefore, the chapter III tax fails to qualify as a creditable income tax. Moreover, insofar as the chapter IV tax is concerned, the only creditable portion of such tax is that portion that exceeds the tax imposed under chapter III. Accordingly, Rev. Rul. 272 is modified to eliminate the holding thereof that the tax imposed by chapter III of the Haitian tax is a creditable tax and to provide that a taxpayer may treat as a creditable income tax only that portion of the chapter IV tax that exceeds the taxpayer's tax under chapter III. However, the holding in Rev. Rul. 272 that the tax imposed by chapter V of the Haitian statute is creditable is reaffirmed because it is the substantial equivalent of an income tax in the United States sense.

Rev. Rul. 59-192, 1959-1 C.B. 191, and Rev. Rul. 56-658, 1956-2 C.B. 501, dealt with certain Cuban Taxes on unrealized net income expected to be derived by sugar mill owners from processed sugar. The event that triggered the imposition of the taxes was the manufacture of the sugar and not its subsequent sale. Moreover, the net income of the sugar mill owners was computed by multiplying the amount of sugar produced in the mill by the average market price of sugar produced in the mills for the past three years and then reducing this figure by an arbitrary 60 percent figure to cover processing costs. Because the Cuban taxes in Rev. Rul. 59-192 and Rev. Rul. 56-658 were imposed independently of any realized gain, they do not satisfy the United States realization standard. Moreover, if a sugar mill subject to the Cuban taxes had a loss for any year by United States standards, it would still pay the tax because net income by Cuban standards is 40 percent of the average market price of sugar produced by the mill for the past three years. Therefore, the taxes fail to meet the second United States standard that the foreign tax must be almost certain of falling on net gain. For these reasons the Cuban taxes are not creditable income taxes. Accordingly, Rev. Rul. 59-192 and Rev. Rul. 56-658 are revoked.

In Santa Eulalia Mining Co. v. Commissioner, 2 T.C. 241 (1943), acq. 1946-1 C.B. 4, the United States Tax Court held that a Mexican tax of 10 percent imposed by Articles 26(I) and 27, Chapter IV, Third Schedule, of the "Ley del Impuesto sobre la Renta" is a creditable income tax under a predecessor of section 901 of the Code. The "Ley del Impuesto sobre la Renta" (Law) imposed a series of schedular taxes on various classes of taxpayers. The First Schedule of the Law imposed a tax on taxpayers engaged in commerce, industry, and agriculture and thus would include taxpayers actively engaged in the conduct of a mining business in Mexico.

Article 26(I) of the Third Schedule of the Law imposed a modified gross income tax on "(t)axpayers who . . . receive participations, whether in the form of rentals or otherwise, from the exploitation of the subsoil or concessions granted by the Federal or state Governments or Municipalities." The amount of participations subject to tax are the gross amount received, less a limited number of deductions as set forth in regulations issued under Article 27. However, persons who are actively engaged in the mining business in Mexico, " . . . taxpayers whose income consists of a participation in the profits of the exploiting concern. . .," are specifically excluded from Article 26(I) of the Third Schedule of the Law because they pay tax under the First Schedule of the Law. Thus, only taxpayers not engaged in the conduct of a mining business in Mexico who receive participations are subject to the tax imposed by Article 26(I).

Though the tax imposed by Article 26(I) falls on the gross amount of participations received by the above taxpayers as reduced by a limited number of deductions, the tax does not violate the third requirement of an income tax discussed above. Because the above taxpayers are not engaged in the conduct of a mining business in Mexico, it is presumed that the expenses ordinarily connected with such participations and incurred by such taxpayers will almost never exceed the income from such participations. Therefore, the foreign tax imposed on such participations as reduced by the aforementioned deductions will be almost certain of reaching net gain. Bank of America Nat'l T. & S. Ass'n v. United States, and Rev. Rul. 73-106, 1973-1 C.B. 343, holding a Mexican tax imposed on the gross amount of royalties received by nonresident aliens and foreign legal entities not established in Mexico to be a creditable income tax. Additionally, similar taxes have long been imposed by the United States on dividends, interest, and royalties paid to nonresident aliens and foreign corporations (that are not effectively connected with the conduct of a trade or business in the United States) as a basic part of the United States income tax system. See sections 871(a)(1)(A) and 881(a)(1) of the Code. The thrust of these United States tax provisions is realistically directed against net gain or profit. See Bank of American Nat'l T. S. Ass'n. v. Commissioner, 61 T.C. 752 (1974).

Accordingly, because the tax imposed by Article 26(I) and 27 of the Third Schedule of the Law is the substantial equivalent of an income tax in the United States sense, the Service reaffirms its acquiescence in the decision in Santa Eulalia Mining Company.

Pursuant to the authority contained in section 7805(b) of the Code, this Revenue Ruling will not be applied to taxable years beginning before January 16, 1978, with respect to taxpayers who have relied on Rev. Rul. 59-192, Rev. Rul. 56-658, and Rev. Rul. 272, but only insofar as the specific taxes discussed in those Revenue Rulings are concerned.

Rev. Rul. 272 is modified. Rev. Rul. 59-192 and Rev. Rul. 56-658 are revoked.

PART I

SECTION 901.--TAXES OF FOREIGN COUNTRIES AND OF POSSESSIONS OF UNITED STATES

26 CFR 1.901-1: Allowance of credit for taxes.
(Also Sections 903, 7805; 1.903-1, 301.7805-1.)

Rev. Rul. 78-63

The purpose of this Revenue Ruling is to reconsider Rev. Rul. 68-552, 1968-2 C.B. 306, and Rev. Rul. 55-296, 1955-1 C.B. 386. Rev. Rul. 68-552 held the "surtax" paid to Libya under Article 14(1)(a) of Libyan Petroleum Law No. 25 of 1955, as amended through Nov. 20, 1965, to be a creditable income tax under section 901 of the Internal Revenue Code of 1954. Rev. Rul. 55-296 held that amounts received by Saudi Arabia under Royal Decree No. 17/2/28/3321, dated November 4, 1950, and under Royal Decree No. 17/2/28/7634, dated December 27, 1950 are creditable income taxes.

Rev. Rul. 68-552

Article 1(1) of Libyan Petroleum Law No. 25 of 1955, as amended through January 1, 1975 (hereinafter "Petroleum Law") provides that all underground oil and gas in Libya is the property of the Libyan government.

Article 1(2) of the Petroleum Law provides, in part, that no person shall mine or produce petroleum unless authorized by a concession issued under that Law.

Article 14(1) of the Petroleum Law and Clause 8(1) of the Second Schedule (Standard Form Deed of Concession) to that Law, specify that an oil company or other concession holder under the Petroleum Law shall pay such income tax and other taxes and imposts as are payable under the laws of Libya.

All companies engaged in business in Libya must pay a company income tax. See Articles 1 and 93-104 of Part II of Law No. 64 of 1973, effective Oct. 1, 1973, as amended through December 1975 (hereinafter "Company Tax"). Prior to the effective date of this law such companies were subject to a company income tax substantially similar to the above law. See, Articles 1 and 89-99 of Income Tax Law No. 21 of 1968.

In addition, Article 14(1)(a) of the Petroleum Law, and Clause 8(1)(a) of the Second Schedule to the Petroleum Law, require that if the total annual amount of fees, rents, income tax, and other direct taxes except royalties equal to 16.67 percent of the value of crude oil exported, paid or payable by a petroleum concession holder to Libya, falls short of 65 percent of its profits from all its Libyan petroleum concessions, such concession holder must pay Libya such sum by way of "surtax" as will make the total of its payments equal 65 percent of its profits. Thus, this provision guarantees Libya at least a 65 percent share of each concessionaire's profits.

"Profits" are defined as the income resulting from the operations of the concession holder in Libya after deducting (1) operating expenses and overhead, (2) depreciation of all physical assets in Libya, (3) amortization for all other capital expenditures in Libya, (4) exploration and prospecting expenses, (5) intangible drilling costs, and (6) royalties not mentioned in Article 14(1)(a) of the Petroleum Law. Article 14(2), (3), and (4) of the Petroleum Law, and Clause 8(2), (3), and (4) of the Second Schedule to that Law. No deduction is allowed for interest or expenses incurred in organizing and initiating petroleum operations in Libya prior to receiving a concession from the government and for fees, rents, income tax, and other direct taxes mentioned in Article 14(1)(a).

Article 14(5)(a) and (b) of the Petroleum Law, and Clause 5(a) and (b) of the Second Schedule to that Law, further define "income resulting from the operations of the concession holder in Libya" as follows:

(a) In relation to crude oil exported by the concession holder from Libya: total gross receipts realized by the concession holder from such export, and such receipts shall not be less than the amount which results from multiplying the number of barrels of such crude oil exported by the applicable posted price per barrel of such crude oil less [certain marketing allowances as discussed below] . . . .

(b) In relation to other operations of the concession holder in Libya the income to be ascertained in a manner to be agreed between the concession holder and the Ministry of Petroleum.

The value of petroleum and natural gasoline taken as a royalty in kind under Article 13 of the Petroleum Law shall be deemed to form part of such income. [Emphasis added.]

The term "posted price" is defined as

> . . . the price f.o.b. Seaboard Terminal for Libyan crude oil of the gravity and quality concerned arrived at by reference to free market prices for individual commercial sales of full cargoes and in accordance with the procedure to be agreed between the concession holder and the Ministry of Petroleum or if there is no free market for commercial sales of full cargoes of Libyan Crude Oil, then posted price shall mean a fair price fixed by agreement between the concession holder and the Ministry of Petroleum. . . . [Article 14(5) of the Petroleum Law.]

Prior to 1965, Libya permitted oil companies to reduce the posted price by certain marketing discounts in computing their "surtax" under Article 14(1)(a) of the Petroleum Law. See Article 15 of Petroleum Reg. No. 6, dated December 21, 1961. The resulting net price figure was approximately equal to the actual price that an unrelated purchaser would ordinarily pay for a barrel of Libyan crude oil (hereinafter "market price"). However, in 1965, Libya began to eliminate these discounts, thereby assuring that the "surtax" would be computed on the basis of posted prices set in excess of actual market price. See, Clause 8(5)(a) of the Second Schedule to the Petroleum Law. Thereafter, Libya exercised increasing control over the level of posted prices and subsequently assumed total responsibility for fixing those prices. The posted price is an arbitrary value placed on a barrel of crude oil for the purpose of computing a foreign oil concessionaire's tax under Article 14(1)(a) of the Petroleum Law.

Except for some differences not here relevant, the "surtax" imposed by Article 14(1)(a) of Libyan Petroleum Law is essentially identical to the "surtax" imposed by Article 14(1)(a) of Libyan Petroleum Law No. 25 of 1955, as amended through Nov. 20, 1965.

Some foreign oil concessionaires sell Libyan oil directly to unrelated parties at the market price even though under either version of the Petroleum Law they are required to pay the above "tax" on a base measured from the posted price. Others sell the oil to purchasing affiliates at the posted price. These affiliates then resell the oil at the market price and regularly suffer losses equal to the difference between the posted and market price.

Foreign oil concessionaires must also pay Libya a per barrel royalty currently fixed at 16.67 percent of the value of crude oil exported as determined from the posted price.

Subject to certain limitations, section 901 of the Code permits domestic corporations to claim a credit for income taxes paid or accrued to foreign countries.

Whether a payment made to a foreign government qualifies as an income tax under section 901 of the Code depends on whether it is the substantial equivalent of an "income tax" as determined from an examination of the Federal income tax laws of the United States. E.g., Biddle v. Commissioner, 302 U.S. 573, 578 (1938), 1938-1 C.B. 309, and Bank of America Nat'l T. & S. Ass'n v. United States, 459 F.2d 513 518 (Ct. Cl. 1972), cert. denied, 409 U.S. 949 (1972).

To qualify as an income tax in the United States sense, amounts received by a foreign government must satisfy certain requirements. See generally, Rev. Rul. 78-61 , 1978-8 I.R.B. . Among these requirements, the amounts must constitute a tax that is paid or accrued. The tax must be based upon gain or profit realized by the taxpayer. The tax must be structured to be almost certain of falling on net gain.

An income tax in the United States sense is not one that is intentionally structured to tax artificial or fictitious income. F. W. Woolworth v. Commissioner, 54 T.C. 1233 (1970), nonacq. on another issue, 1971-2 C.B. 4. The Woolworth case considered the creditability of Schedule A of the British Income Tax Act of 1952. Under that schedule a tax was levied on the rent derived from real property. However, if the property was owner-occupied or otherwise not rented, the tax fell not on actual income but on a fictitious amount, the imputed rental value of the property. The court denied credit for the tax stating that:

> [t]he United States concept of "income" is based upon gain or profit realized by the taxpayer (i.e., net income as opposed to gross income, gross sales, or some other basis). . . By no stretch of the imagination could it be said that the tax under Schedule A on the ownership of property as measured by its annual rental value, which may be an estimated figure, falls within the scope of this concept. F. W. Woolworth Co. v. Commissioner, at 1260. [Emphasis added.]

As previously stated, the income subject to the "surtax" is defined under Article 14(5) of the Libyan Petroleum Law, and Clause 5(a) of the Second Schedule to that Law, as total gross receipts with the further requirement that such receipts shall not be less than the number of barrels exported multiplied by the posted price less marketing allowances. Because the "surtax" imposed by Article 14(1)(A) of the Libyan Petroleum Law is levied on a base measured from an arbitrarily determined value (the posted price), the base on which the "surtax" is levied is artificial or fictitious. For example, when a concessionaire sells Libyan oil directly to unrelated parties at the market price, the concessionaire must pay the "surtax" on a base measured from the posted price even though the sales proceeds are less than the posted price. The Libyan "tax" base is not made any less fictitious or artificial by the fact that (1) some concessionaires actually sell the Libyan oil to their affiliates at the posted price, and (2) the affiliates then dispose of the oil at the lower market price, claiming losses equal to the difference. Although the purchasing affiliate makes a payment equal to the posted price in this situation, it does so only because it is required to do so by the persons who control both it and the concessionaire.

Gain on which the foreign tax is levied must be realized in the United States sense. Since the income subject to the "surtax" cannot be less than the number of barrels exported multiplied by the posted price less marketing allowances, the "surtax" may be triggered by the export of crude oil regardless of whether a sale has taken place. Thus, the requirement that the tax be imposed on realized income is not satisfied. See, Motland v. Commissioner, 192 F. Supp. 358, 361 (N.D. Iowa 1961), denying a credit for a Cuban tax triggered by the export of capital, and Keasbey & Mattison Co. v. Rothensies, 133 F.2d 894, 895, n. 1 and 898 (3rd Cir. 1943).

In Keasbey, the court denied a credit for the Quebec Mining Tax which was imposed on the gross value of mineral output, less allowable deductions, and which was triggered by shipment, use, or sale of that output. Gross value was computed from the ruling market prices of the minerals whether or not sold and, if sold, without regard to whether the sales proceeds were greater or lesser than the ruling market prices.

For these reasons, the "surtax" imposed by Article 14(1)(a) of the Libyan Petroleum Law is not the substantial equivalent of an income tax in the United States sense as required by section 901 of the Code. F. W. Woolworth; Motland; Keasbey.

The next question is whether the "surtax" is a tax in lieu of an income tax within the meaning of section 903 of the Code.

Section 903 of the Code provides, in part, that income taxes as used in section 901 shall include a tax paid in lieu of a tax on income otherwise generally imposed.

Section 1.903-1(a) of the Income Tax Regulations provides, in part, that the term "income tax" includes a tax imposed by statute or decree by a foreign country or by a possession of the United States if (1) such country or possession has in force a general income tax law, (2) the taxpayer claiming the credit would, in the absence of a specific provision applicable to such taxpayer, be subject to such general income tax, and (3) such general income tax is not imposed upon the taxpayer thus subject to such substituted tax.

An oil concessionaire is subject to both the Company Tax and the "surtax" with respect to the profits it derives from its operations in Libya. Thus, the "surtax" cannot qualify as a tax imposed in lieu of the Company Tax within the meaning of section 903 of the Code. See, sections 1.903-1(a)(2) and (3) of the regulations; Allstate Ins. Co. v. United States, 419 F.2d 409 (Ct. Cl. 1969); Rev. Rul. 58-3, 1958-1 C.B. 263.

Accordingly, the "surtax" imposed by Article 14(1)(a) of the Libyan Petroleum Law is neither an income tax in the United States sense nor a tax in lieu of an income tax. Therefore, it is not creditable under section 901 of the Code.

Rev. Rul. 68-552 is revoked. Pursuant to the authority contained in section 7805(b) of the Code this Revenue Ruling will be applied only to amounts paid or accured to Libya for taxable years beginning on or after July 1, 1978, provided the taxpayer does not change the taxpayer's accounting period.

Rev. Rul. 55-296

Chapter I of Royal Decree No. 17/2/28/3321, dated November 4, 1950, as amended through September 2, 1970 (the November Decree), levies a tax at progressive rates on the combined Saudi source "personal income" and "income earned by investment of capitals," derived by individuals. Articles 1, 2, 3, 4, and 6 of the November Decree. Chapter I of the November Decree has been cancelled with respect to income earned by individuals after May 14, 1975.

Chapter II of the November Decree levies a tax at progressive rates currently set as high as 45 percent on the Saudi source "net profits" derived by all companies engaged in business in Saudi Arabia whose capital is non-Saudi (foreign companies). Article 11 of the November Decree.

In addition, under Royal Decree No. 17/2/28/7634, dated December 27, 1950, as amended through November 27, 1974 (the December Decree), foreign companies engaged in the production of oil and gas in Saudi Arabia and owned in whole or in part by non-Saudis (foreign oil companies) must also pay a so-called "additional income tax" on their "net operating income."

Articles 1 and 3 of the December Decree provide that if the total amount of duties, rents, income tax, Chapter II tax, other direct taxes, and that amount of royalties which exceeds 20 percent of the value of crude oil produced and sold for export does not equal 85 percent of an oil company's net operating income, then such company must pay Saudi Arabia "additional income tax" sufficient to make its total payments equal 85 percent of its net operting income. Thus, the December Decree assures that Saudi Arabia will receive at a minimum 85 percent of a foreign oil company's net operating income.

Except for differences not here relevant, the statutory provisions of both Chapter II of the November Decree and the December Decree are essentially identical to the statutory provisions of the December Decree, and Chapter II of the November Decree, respectively, in effect when Rev. Rul. 55-296 was issued.

No United States company engaged in producing oil and gas in Saudi Arabia computes the levies imposed, respectively, by the December Decree and by Chapter II of the November Decree exactly as provided by the above decrees. Instead, both the December Decree and Chapter II of the November Decree, as they apply to such companies, have been modified by individual agreements and understandings between each of the companies and the Saudi Government and, since 1973, by directives issued to each of the oil companies by that Government. It is understood that these agreements are not contractual agreements in the ordinary sense, but rather are imposed upon the oil companies by the Saudi Government.

Under the individual agreements and understandings discussed above, United States oil companies engaged in producing oil and gas in Saudi Arabia pay "Chapter II tax" calculated at a flat 20 percent rate. By contrast, companies engaged in other business activities in Saudi Arabia are required to pay such tax at progressive rates as high as 45 percent.

Also, a United States company engaged in producing oil and gas in Saudi Arabia is required by the above agreements and understandings to sell in Saudi Arabia all oil destined for export. Additionally, for the purposes of such sales and for the computation of "net profits" under Chapter II of the November Decree, and thus "net operating income" under the December Decree, the oil companies have been required, at least up until 1977, to use a posted price established by the Saudi Government. Posted price is a fixed price generally in excess of the actual price (market price) that an unrelated purchaser would ordinarily pay such companies for a barrel of Saudi crude oil.

Posted price is an arbitrary value placed on a barrel of crude oil which has been used for the purpose of computing a foreign oil company's "income tax" under Chapter II of the November Decree and its "additional income tax" under the December Decree, each as modified by the aforementioned agreements, understandings, and directives.

Foreign oil companies must also pay Saudi Arabia a per barrel royalty currently fixed at 20 percent of the posted price.

Neither the "income tax" nor the "additional income tax" imposed, respectively, on foreign oil companies by Chapter II of the November Decree, and by the December Decree, each as modified by the aforementioned agreements, understandings, and directives, has been imposed upon income in the United States sense. As is stated above, an income tax in the United States sense is not one that is intentionally structured to tax artificial or fictitious income. Accordingly, these Saudi "taxes" are not substantial equivalents of income taxes in the United States sense as required by section 901 of the Code.

The next question is whether amounts received by Saudi Arabia from foreign oil companies under Chapter II of the November Decree, as modified, and under the December Decree, as modified, respectively, are taxes in lieu of income taxes within the meaning of section 903 of the Code.

Saudi Arabia has no generally imposed income tax. Instead, it imposes a series of separate taxes restricted to limited classes of taxpayers. Companies wholly owned by Saudis are required to pay the Islamic religious tax known as the Zakat. Article 2 of Royal Decree No. 17/2/28/8634, dated April 24, 1951, as implemented by Royal Decree No. 17/2/28/8799, dated June 15, 1951. Only foreign companies engaged in activities in Saudi Arabia other than the production of oil and gas are required to pay the income tax imposed by Chapter II of the November Decree. Only foreign companies engaged in the production of Saudi oil and gas are required to pay the "taxes" imposed, respectively, by Chapter II of the November Decree, as modified, and the December Decree, as modified.

Since there is no generally imposed Saudi income tax in the United States sense for which the "taxes" on foreign oil companies imposed, respectively, by Chapter II of the November Decree, as modified, and the December Decree, as modified, are substitutes, such "taxes" cannot qualify as in lieu of "taxes" within the meaning of section 903 of the Code.

Accordingly, the levies imposed on oil companies by Chapter II of the November Decree, as modified, and by the December Decree, as modified, respectively, have been neither income taxes in the United States sense nor taxes in lieu of such income taxes in the United States sense.

Rev. Rul. 55-296 is revoked. However, pursuant to the authority contained in section 7805(b) of the Code, this Revenue Ruling will be applied only to amounts paid or accrued to Saudi Arabia for taxable years beginning on or after July 1, 1978, provided the taxpayer does not change the taxpayer's accounting period.

The holdings of this Revenue Ruling with respect to section 901 of the Code are limited to the questions discussed herein and no opinion is expressed as to whether the amounts received by Libya and Saudi Arabia might fail to qualify as creditable income taxes for any other reasons.

Rev. Rul. 68-552 is revoked. Rev. Rul. 55-296 is revoked.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE AT 4:00 P.M. January 17, 1978

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $5,800 million, to be issued January 26, 1978. This offering will not provide new cash for the Treasury as the maturing bills are outstanding in the amount of $5,807 million. The two series offered are as follows:

91-day bills (to maturity date) for approximately $2,300 million, representing an additional amount of bills dated October 27, 1977, and to mature April 27, 1978 (CUSIP No. 912793 P9 1), originally issued in the amount of $3,403 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $3,500 million to be dated January 26, 1978, and to mature July 27, 1978 (CUSIP No. 912793 S4 9).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing January 26, 1978. Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $3,106 million of the maturing bills. These accounts may exchange bills they hold for the bills now being offered at the weighted average prices of accepted competitive tenders.

The bills will be issued on a discount basis under competitive and noncompetitive bidding, and at maturity their par amount will be payable without interest. Except for definitive bills in the $100,000 denomination, which will be available only to investors who are able to show that they are required by law or regulation to hold securities in physical form, both series of bills will be issued entirely in book-entry form in a minimum amount of $10,000 and in any higher $5,000 multiple, on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20226, up to 1:30 p.m., Eastern Standard time, Monday, January 23, 1978. Form PD 4632-2 (for 26-week series) or Form PD 4632-3 (for 13-week series) should be used to submit tenders for bills to be maintained on the book-entry records of the Department of the Treasury.

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Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used.

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account.

Payment for the full par amount of the bills applied for must accompany all tenders submitted for bills to be maintained on the book-entry records of the Department of the Treasury. A cash adjustment will be made on all accepted tenders for the difference between the par payment submitted and the actual issue price as determined in the auction.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, or for bills issued in bearer form, where authorized. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Competitive bidders will be advised of the acceptance or rejection of their tenders. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action shall be final. Subject to these reservations, noncompetitive tenders for each issue for $500,000 or less without stated price from any one bidder will be accepted in full at the weighted average price (in three decimals) of accepted competitive bids for the respective issues.

Settlement for accepted tenders for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, and bills issued in bearer form must be made or completed at the Federal Reserve Bank or Branch or at the Bureau of the Public Debt on January 26, 1978, in cash or other immediately available funds or in Treasury bills maturing January 26, 1978. Cash adjustments will be made for differences between the par value of the maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which these bills are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of these bills (other than life insurance companies) must include in his or her Federal income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Department of the Treasury Circulars, No. 418 (current revision), Public Debt Series - Nos. 26-76 and 27-76, and this notice, prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE
January 18, 1978

CONTACT: Charles Arnold
(202) 566-2041

TREASURY HISTORICAL ASSOCIATION DEDICATES BUILDING

The Treasury Historical Association has unveiled a plaque dedicating the Treasury Annex on Lafayette Square as the site of the main office of the Freedman's Savings Bank. Rex D. Davis, Director of the Bureau of Alcohol, Tobacco and Firearms, and President of the Society, officiated. The guests included Mrs. Azie Taylor Morton, Treasurer of the United States. The Freedman's Bank, chartered by Congress in 1865, was established to receive the deposits of former slaves and their descendents. Frederick Douglass was its last President. When the bank failed in 1874, it had over 61,000 depositors. A bureau of the Treasury Department, the Office of the Comptroller of the Currency, was responsible for examining the Bank and for liquidating it and paying the dividends owed the depositors.

The Comptroller recommended that Congress purchase the building because of its location and fireproof character. But the building was razed a few years after its sale in 1882 and the Annex was constructed in 1918.

The Freedman's Bank had a great impact on the post Civil War economic development of Blacks. Though its failure at first created a distrust of banks, it became the model by 1888 for black banks, that is, banks owned and operated by and not just for blacks. Today there are 49 black banks and 48 black savings and loan associations.

Mr. Davis noted that it was appropriate on the day honoring Martin Luther King's birthday, to unveil the plaque which also commemorated the courage of Treasury officials who were among the few to speak out and champion the poor freedmen by insisting that an affluent nation could afford and was morally obligated to pay the entire deposit rather than the simple dividend.

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rtment of the TREASURY NEWS
GTON, D.C. 20220 TELEPHONE 566-2041

MEMORANDUM FOR CORRESPONDENTS: January 18, 1978

Secretary Blumenthal will hold a news conference on the President's tax proposals at 3:15 p.m., Friday, January 20, in the Cash Room, located directly opposite the Pennsylvania Avenue entrance to the building. The material is embargoed for 12:00 noon, Saturday, January 21. Contact: Charles Arnold, 566-2041.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE January 18, 1978

RESULTS OF AUCTION OF 2-YEAR NOTES

The Department of the Treasury has accepted $3,252 million of $6,652 million of tenders received from the public for the 2-year notes, Series K-1980, auctioned today.

The range of accepted competitive bids was as follows:

Lowest yield	7.52% 1/
Highest yield	7.56%
Average yield	7.55%

The interest rate on the notes will be 7-1/2%. At the 7-1/2% rate, the above yields result in the following prices:

Low-yield price	99.963
High-yield price	99.891
Average-yield price	99.909

The $3,252 million of accepted tenders includes $ 706 million of noncompetitive tenders and $2,441 million of competitive tenders (including 39 % of the amount of notes bid for at the high yield) from private investors. It also includes $105 million of tenders at the average price from Federal Reserve Banks as agents for foreign and international monetary authorities in exchange for maturing securities.

In addition, $ 592 million of tenders were accepted at the average price from Government accounts and Federal Reserve Banks for their own account in exchange for securities maturing January 31, 1978, ($272 million) and from Federal Reserve Banks as agents for foreign and international monetary authorities for new cash ($320 million).

1/ Excepting 7 tenders totaling $3,780,000

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE UPON DELIVERY
Expected at 9:30 a.m.
January 19, 1978

STATEMENT OF DONALD C. LUBICK,
ACTING ASSISTANT SECRETARY OF THE TREASURY FOR TAX POLICY,
ON TUITION TAX RELIEF FOR EDUCATIONAL EXPENSES
BEFORE THE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT
OF THE SENATE FINANCE COMMITTEE
JANUARY 19, 1978

Mr. Chairman and Members of this Subcommittee:

I am pleased to appear here today to present the Treasury's views on bills that would provide relief in the form of tax credits for the expenses of education. With me is Emil Sunley, Deputy Assistant Secretary of the Treasury for Tax Policy.

Before proceeding to analyze the various proposals for credits for educational expenses, we would like to make a formal request on behalf of the Administration: That the various proposals for tax relief for education expenses be considered by the Congress along with basic educational assistance programs. Only in this manner can the Federal government's programs and expenditures in assisting students be considered in a unified and comprehensive way. The Administration is formulating educational proposals that include an increase in the funds available to assist students attending institutions of post-secondary education. These proposals would provide assistance to families at higher income levels than is currently the case. Only if tuition tax credits are considered along with other educational grant

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programs can we rationally allocate dollars spent for education in a comprehensive and integrated manner. Thus, a proper consideration of our views requires a necessary evaluation of available alternatives.

I will first discuss bills such as S. 311, which would provide a tax credit for the cost of tuition for higher education. Then I will discuss such bills as S. 2142, which would extend such a credit to tuition paid to elementary and secondary schools. Finally, I will comment on proposals related to education assistance programs provided for workers by employers.

College Tuition Tax Credits

The Treasury Department supports the use of Federal monies for assisting students in meeting the costs of post-secondary education. However, the Department maintains its opposition to a tax credit because a credit is an improperly targeted and inefficient method of providing such assistance. We note that we are joined in this opposition by such groups as the National Education Association, Parent Teachers Association, and the AFL-CIO. The specific reasons for our opposition, are compelling:

(1) Contrary to popular belief -- a belief that lies at the heart of the support for the measures -- increases in student charges in recent years have not outpaced the rate of growth of family income;

(2) Relief in the form of a credit would operate to the disadvantage of private institutions of higher education;

(3) The benefits of the credit would go largely to families with incomes well above the median family income, thus having an adverse distribution effect;

(4) A credit is not an efficient means of encouraging investment in higher education;

(5) A credit would make current educational policy -- already a maze -- even more complex;

(6) A credit would increase the costs of higher education.

Revenue Cost. Most bills that provide for tuition tax credits will involve substantial losses of revenue. For example, Table 1 shows that the revenue cost of a non-refundable tuition tax credit of $250 would be in the neighborhood of $1.2 billion. A similar credit of $500 would cost $2.2 billion a year at 1978 levels of income and would grow over time. Refundability would add approximately $100 million and $150 million, respectively to these costs. Once a credit of this size is adopted, one can expect continuing efforts to increase it. Such a program could easily become an even larger drain on Federal revenues. Again, if monies are to be spent in the area of higher education they can be better targeted and more efficiently spent.

Family Income and Student Charges. The underlying basis for the belief that tax relief for the expenses of higher education is necessary is that expenses for education now take a larger share of family income than in the past. The data available to us indicate that this is not the case. During the period 1967 - 1976 median family income has risen at a rate comparable to the rate of increase in gross student charges at institutions of higher education (see Table 2). Per capita disposable personal income--or, average after-tax income of individuals -- has risen even faster than gross student charges. Moreover, the rate of growth in student charges has recently declined. Combining the increase in family income with the increase in appropriations for student aid programs, a Congressional Budget Office study 1/ concluded that during the past nine years, the charges faced by students from low and moderate income families, net of Federal assistance, have dropped as a percentage of family income; while, for middle income families, the ratio of charges net of Federal assistance to family income has remained about the same.

1/ Congressional Budget Office, Post-secondary Education: The Current Federal Role and Alternative Approaches (February, 1977).

Table 1

Maximum $250 Tax Credit for Tuition for Higher Education
Full Time Undergraduates Only (Including Vocational)
Calendar year 1978 Liability - For Full Year

Adjusted Gross Income Class ($000)	Refundable	Non-Refundable
	Number of Tax Credits Allowed	
0 - 5	750	150
5 - 10	963	642
10 - 15	1,288	1,258
15 - 20	1,069	1,069
20 - 25	800	800
25 - 30	655	655
30 - 35	323	323
35 - 50	599	599
50 - 100	274	274
100 and over	45	45
TOTAL	6,766	5,815
	Revenue Loss ($ millions)	
0 - 5	60	12
5 - 10	141	94
10 - 15	215	210
15 - 20	223	223
20 - 25	174	174
25 - 30	152	152
30 - 35	78	78
35 - 50	144	144
50 - 100	69	69
100 and over	12	12
TOTAL	1,268	1,168

Office of the Secretary of the Treasury January 14, 1978
Office of Tax Analysis

Table 2

INCOME AND STUDENT CHARGES, 1967 - 1976

Year	Median Family Income a/			Per Capita Disposable Personal Income	Total Student Charges (School year ending spring of year indicated)	
	All Families	with 18-24 yr. Dependents	with 18-24 yr. Dep. in college		Public	Private
	(1)	(2)	(3)	(4)	(5)	(6)
1967	$ 7,933	$ 9,228	$ 11,433	$ 2,740	$ 1,026	$ 2,124
1968	8,632	10,169	12,550	2,930	1,064	2,204
1969	9,433	11,076	13,712	3,111	1,117	2,321
1970	9,867	11,485	14,396	3,348	1,205	2,533
1971	10,285	11,960	15,079	3,588	1,288	2,740
1972	11,116	13,062	16,048	3,837	1,357	2,917
1973	12,051	13,956	17,220	4,285	1,530	3,035
1974	12,836	14,624	18,634	4,639	1,566	3,163
1975	13,719	15,739	20,014	5,062	1,710	3,744
1976	14,547	16,897 c/	21,918 c/	5,494 c/	1,882	3,981
Percent Change 1967 - 1976	+ 83.4	+ 83.1	+ 91.7	+100.5	+ 83.4	+ 87.4
Estimated Percent Change 1976-78 d/	--	--	--	+ 18.0 to + 22.0	+ 11.9	+ 11.8

Office of the Secretary of the Treasury
Office of Tax Analysis

April 26, 1977

a/ Family incomes for all families are those reported in the Bureau of the Census March Current Population Surveys. Family incomes for families with 18-24 year old dependents are those reported in the October Current Population Surveys but projected to March levels of income for all families. The Bureau of the Census reports that for the above period October median family income ranged from 82 to 86 percent of the median family incomes reported in March.

b/ A census family is two or more persons related by blood, marriage, or adoption, and residing together. All such persons are considered members of the same family. Columns (2) and (3) are incomes of primary families. A primary family includes a head of the household, the wife, or married. Only those in which the 18-24-year-old dependent is attending college full time are included in Column (3).

c/ Estimated

d/ College Scholarship Service estimates for changes at 4-year resident colleges.

Source: Survey of Current Business and Congressional Budget Office, Postsecondary Education: The Current Federal Role and Alternative Approaches (February, 1977), Bureau of the Census Current Population Reports, National Center for Education Statistics.

The Federal Government has substantially increased its investment in higher education over the last few years and, doubtless, will increase that investment over the coming years. However, that increased investment should be responsive to the greatest needs of our educational system, and not to an illusory need that focuses solely on price increases and does not take into account corresponding increases in income.

Private Education. We are also concerned about the competitive effect of relief through a tuition tax credit on private educational institutions. Let me illustrate the problem, using 1976 student charges. A tuition tax credit of $250 would reduce a family's total student charges for attendance at a private post-secondary school from $3,981 to $3,731 or by about 6 percent. However, it would reduce the total student charges of attending an average public school from $1,882 to $1,632 or by 13 percent. For the student living at home and attending a public institution, the percentage reduction in cost would be even greater. Thus, on the average, the cost of attending a private post-secondary school would increase relative to the cost of attending a public school and would increase even more relative to the cost of public school where the student lived at home.

A small tuition tax credit thus does little to reduce the absolute cost of private schools, and it may actually decrease their competitiveness with public schools. While it has proven difficult for various organizations of colleges and universities to formally oppose tuition tax credits for the parents of their students, I think that the lack of support from many of these organizations for such a measure indicates their own uneasiness. The Board of Directors of the National Association of Independent Colleges and Universities, for instance, stated in their December meeting that "a student aid approach is a higher priority than that embodied by a tuition tax credit."

Distributional Effects. From the standpoint of tax equity, a tax credit for tuition and related expenses would be an inappropriate tool to provide educational assistance.

First, a tax credit generally grants equal relief to taxpaying families regardless of their need and regardless of their costs of education. I believe that a program based on taxpayer ability-to-pay and the expenses of the educational institution in question would be better targeted to meet appropriate objectives of Federal policy. An across-the-board tax credit is thus inferior to programs of targeted grants or loans in meeting the goal of equalizing educational opportunity.

Second, and more specifically, the typical recipient of the tax credit would be wealthier then the average citizen. In 1975, the median family income of families with an 18 to 24 year old dependent in college was more than $4,000 greater than the median family income of all families with an 18 to 24 year old dependent and more than $6,000 a year greater than the median family income of all families. In a sense, a tuition tax credit might realistically be viewed as providing relief to upper-middle income taxpayers for the temporary liquidity problem associated with the transfer of wealth to children through payment of educational expenses.

Investment in Higher Education. It has been claimed that a tuition tax credit would permit more individuals to obtain a college education. Yet Government assistance is more likely to increase expenditures for higher education if it is designed to assist those who are on the margin in deciding whether to attend college. Since poor and low-middle income families are more likely to be at the margin, programs designed to assist such families are more likely to increase the number of students attending college -- in general, to increase overall investment in education per dollar of Federal expenditure -- than are programs that provide benefits to all families without regard to need. In fact, for a family that will spend the same for higher education regardless of whether the credit is available, the credit ends up providing resources for their consumption of such items as food, clothing or recreation. The credit then becomes selective tax relief pure and simple -- not a subsidy for education.

Complexity. I realize that the argument has been made that a tuition tax credit would be simple to administer. Yet adding an additional program onto an already large number of Federal and state programs inevitably increases complexity of both the tax system and the educational system. For example, most tuition tax credit bills require that grants received elsewhere be taken into account in determining net tuition costs, and grant and loan programs similarly would need to take into account a tax credit in determining levels of assistance.

Moreover, the Internal Revenue Service is not staffed or equipped to monitor educational institutions to determine if their courses meet the necessary requirements for tax credits, nor should it be asked to check on students to see if they are meeting requirements such as full time attendance for a tax credit. The Service does not want to duplicate the administrative efforts of other agencies. A tuition tax credit moves the administration of educational policy away from that agency of the Federal Government that is and should remain responsible for trying to bring some consistency and rationality to the existing program structure.

Effect on Student Charges. Finally, it is entirely unclear how much of the benefits of the credit would even remain with the recipients. Some of the benefits would be shared with institutions of learning through higher tuition charges. In the simplest case, we would certainly expect that the amount of the credit would set a floor on the tuition charges of eligible institutions. It is equally apparent that a rise in tuition by the amount of the credit would leave the net burden on recipient families the same. As with most subsidies, it can be expected that some of the benefits of the subsidy will go to the suppliers of the services -- the college and universities -- as well as the purchasers -- the students and their families -- and thus that at least some of the benefits to the recipient will be drained through higher tuition costs. In the case of publicly supported higher education, the credits may result in higher tuition charges and thereby indirectly substitute Federal support for State and local support.

Elementary and Secondary Education

Extending a tuition tax credit for tuition charges paid by families for the cost of elementary and secondary education raises a number of problems that are different from those bearing on a tuition tax credit for higher education. At this time, Treasury opposes extending a credit to tuition costs of primary and secondary education. Again, we note that we are joined in this opposition by such groups as the National Education Association, the National School Boards Association, and the Parents-Teachers Association. The reasons for Treasury's opposition are as follows:

(1) The credit initially would be expensive and revenue costs would rise over time even without an increase in the basic credit amount;

(2) A credit raises a number of serious issues related to the nation's historical commitment to public school education.

Let me briefly review these points:

Revenue Cost. There is additional revenue cost in extending the credit beyond higher education. For instance, in S. 2142, extending a nonrefundable maximum credit of $500 or 50 percent of tuition charges to elementary and secondary education raises the cost of the bill by about $1 billion to $4.7 billion at 1980 levels of income. However, there are at least two reasons why this revenue loss would increase over the years even without an increase in the maximum credit amount. First, as with the tuition tax credit for higher education, schools could be expected to increase their tuition charges in order to share in the benefits of the credit. Second, the number of students attending private elementary and secondary schools could also be expected to increase, and thus the cost to Federal taxpayers would rise further.

Effects on Public School Education. Any increase in private school attendance would also have serious repercussions on public schools.

First, an increase in private school attendance would correspond to a decline in the number of students attending public schools. A number of public school systems recently have undergone dramatic changes because of declines in birth rates, and a further decline would place further strains on those systems.

Second, a credit might be interpreted as an incentive for State and localities to charge tuition for public education at the primary and secondary level. Certainly, in the short run, it is doubtful that there would be any dramatic effects of the credit on charges by public schools. Institutionally, tuition charges currently are not allowed in most States and localities. However, in the long run, it is not clear what the incentive of a tax credit may do. Perhaps a small charge for books or other fees would be allowed, or some minimal tuition charge in place of a minimal fee schedule. Whatever the eventual reaction, the bill clearly reverses past practices by offering an incentive to charge such tuition or fees.

Third, substantial progress has been made over the last 15 years in the desegregation of both public and private schools. The effect of a tuition tax credit in this area is an unknown factor, and I hope that this Subcommittee would examine all possible ramifications of a credit in this area before taking action. At a minimum, it is clear that the credit would make it easier and cheaper for a student to attend a private school if his family wished to avoid an integrated public school.

I realize that most bills limit the credit to expenses of tuition and fees at tax-exempt institutions in order to prevent the credit from going to schools that have had discriminatory racial policies. Even here there is a difficulty, however, because some non-tax-exempt institutions, particularly vocational schools, have not foregone tax exemption because of segregation, but because they are profit-making.

Fourth, without a phase-out of benefits for higher income taxpayers, some of the credit would certainly go to families with substantial income and which sent their students to elite private schools. Given our commitment to providing equality of opportunity through our public school systems, I seriously question whether public monies given to those families would be well spent.

<u>Employer-provided Education Assistance</u>. Tomorrow this Subcommittee will hold hearings on legislative proposals regarding education assistance programs provided for workers by employers. We have been requested to comment briefly on this subject at this time. Under the proposals, education assistance received by employees would not be regarded as taxable income to employees. Treasury opposes a general statutory exclusion from income for employer-provided education assistance.

Equity requires that if compensation received by some employees is taxed, compensation received by other employees should also be taxed. Compensation received in kind, such as compensation received in the form of education benefits, is just as valuable as compensation received in cash. An exclusion for employer-provided educational assistance would allow students who receive education benefits from their employers to receive those benefits tax free, while other students must pay for their education out of after-tax income. A principle of our tax laws has been that those with equal incomes should pay equal taxes, and each violation of that principle erodes the confidence of taxpayers in that system.

Moreover, any proposal that provides that certain types of income not be taxed encourages taxpayers to rearrange their affairs so that taxable income is received in a non-taxable form. An exclusion for employer-provided education assistance would be likely to produce a growing revenue loss to the government.

It has been suggested that employer-provided education assistance programs should be encouraged because they promote the advancement of low-income employees with limited education or training. However, middle- and upper-income employees also receive education benefits, and, when benefits are provided tax free, those taxpayers with the highest incomes receive the greatest benefits from the tax exemption. National education policy should not be created in such a manner that those with the least needs receive the greatest benefits. Poor persons who receive employer-provided benefits which are <u>subject to tax</u> are nonetheless <u>not taxed</u> on those benefits because their total incomes are too low. The President's tax proposals will raise these tax-exempt levels of income even more. It is by raising tax-exempt levels of income that a direct and equitable attack can be made on the problems of those persons at or near poverty levels, not by providing an exemption to a selected group of persons, only some of whom may be poor.

Finally, if employer-provided education assistance were excluded from income, administrative complexity could result. For instance, a rule would be needed to prevent one- or two-person corporations from converting all their normal personal education expenses into deductible expenses of the corporation.

Consideration should also be given to the relationship between an exclusion for employer-provided education benefits and the current tax treatment of education expenses. In many cases, education expenses are already deductible by the employee as business expenses under Code Section 162 and, hence, in effect exempt from tax. In some cases, the value of deductible employer-provided education benefits need not even be reported on the employee's return. If the primary reason for proposing an exclusion is disagreement with existing rules on the circumstances under which education expenses are deductible as business expenses, consideration should be given to simply modifying those rules on deductibility. Such an approach would properly be more narrow in scope than a blanket exclusion. Such an approach would also avoid favoring employer-financed education over education financed by the individual student.

Conclusion

I would like to conclude by repeating my appeal to you: Treat educational policy more as a unified whole, and consider tuition tax credits at the same time that other measures to assist students are considered. The Administration is formulating educational proposals that include an increase in the funds available to assist students attending institutions of post-secondary education. We would like to request that direct expenditures for assistance be given due consideration as a superior alternative to tuition tax credits for higher education.

As for extending credits to elementary and secondary schools, we oppose such a proposal at this time both because of its costs and its possible effects on our historical commitment to public school education.

Finally, in the area of employer-provided education assistance, we oppose a general statutory exclusion from income because of the unfairness that such an exclusion would create and because it could represent a significant drain on Federal finances.

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Under Secretary Anderson before the Economic
Club of Orlando

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

PRESS CONFERENCE

SECRETARY OF THE TREASURY

W. MICHAEL BLUMENTHAL

ON THE PRESIDENT'S TAX PROPOSALS

FRIDAY, JANUARY 20, 1978 - 3:15 P.M.

IN THE CASH ROOM OF

U. S. TREASURY DEPARTMENT

SECRETARY BLUMENTHAL: Ladies and gentlemen, I thought I would begin with some general comments to explain a few things about the President's tax program, including the goals and principles upon which it was built up, to give you some perspectives and then to answer questions that you may have.

I understand you all have the detailed message and the explanations on each one of the proposals. The technical staff will be available to you today and tomorrow for specific technical questions that some of you may have upon any of the provisions.

As you will have noticed the President is proposing cuts for individuals of $23 and a half billion, for business of $8.4 billion, and miscellaneous cuts of $2 billion, for total cuts of $33.9 billion.

And that will be offset by $9.4 billion of various actions that limit deductions, eliminate shelters, and reduce the deductibility of certain entertainment expenses and eliminate certain business preference expenses.

And that offset of $9.4 billion to $33.9 nets a reduction of taxes for the U.S. economy of $24.5 billion of cuts in 1979.

The main emphasis of the program is to attempt to return the necessary resources to the economy so that the U.S. economy can continue to grow at a rate in real terms of four and a half percent to five percent a year over the next year or two.

And at the same time, to change the tax system to make it simpler and easier for the average American taxpayer, as well as to make it fairer.

The need for this tax cut for the economy as a whole is clear, by virtue of this action; by the end of 1979 there will be created approximately one million addi-tional jobs in the U.S. economy.

Unemployment will decrease by at least a half a percentage point below what it would be without the tax reduction.

We will add more than one point to the GNP and real terms, and in that way we will be able to sustain the growth of the four and a half to the five percent level. Moreover, by using the tax route, the President is imple-menting the general philosophy which he has outlined, which is to use not government spending, but the private sectors, and to rely on the private sector for creating the jobs that are needed to provide opportunities for all Americans, and to bring down the rate of unemployment.

The principles that underlie this program are, first, to stimulate purchasing power for the average Ameri-can. I have indicated there are $23.5 billion of those tax cuts designed to do so, by taking account of the [illegible]-

increases in Social Security taxes, and inflation.

Secondly, to concentrate importantly on lower and middle-income groups in the country. And 94 percent to 95 percent of all of the tax cuts that are being proposed therefor will go to taxpayers making less than $30,000 a year.

I think if we can look at the first chart it will demonstrate that. You will see from this chart that there is a substantial reduction, that it is heavily concentrated in percentage terms at the lower level, and that the emphasis is, indeed, on those that make less than $30,000 a year.

I will have a few other examples to cite in that regard. The third principle is one of seeking to simplify the tax system that will be accomplished by various reforms, which will reduce from 25 to 15 lines the tax form that most Americans will use.

It will be achieved by increasing by our estimate of the total number of taxpayers using the standard deduction from the present 77 percent to about 84 percent of all taxpayers filing returns.

And, importantly, it will be achieved by substituting for the present combination of an exemption and a credit, a single tax credit. That single tax credit, also, will have the effect of aiding substantially people in the ph

lower and middle tax brackets for a much more significant benefit to those taxpayers than it is to those at the upper tax level.

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SECRETARY BLUMENTHAL: The fourth principle is to make the system more equitable. That is achieved by the introduction of the single credit of $240.00. The old exemption system was obviously more significant to people who were in higher income brackets.

And importantly, we increase equity in the system by eliminating many of the abuses, and the tax shelters that were taking up, and still exist under the present system. That involves four to five billion dollars of additional tax revenues that we gain by this means, which we can use as a means of offset, and as a means of reducing taxes, particularly those in the lower brackets.

On the business side, we are primarily emphasizing the stimulation of private investment as a means to create the jobs that are needed. So the tax cuts are designed to increase productivity, increase investment and productive facilities, and to spur business investment overall.

By doing so we're also thinking of a contribution to fighting inflation, for as the economy continues to move up at the four and a half to five percent real level that we anticipate, we will create additional capacities that will eliminate the risk of bottlenecks in particular parts of the economy, bottlenecks which would add to the inflationary pressures in this society.

Morever, another important principle that underlines the business tax reduction is to help not just big companies, but also small companies. And there are a number of provisions that you may have already noticied that are particularly designed for this purpose.

This includes, amongst other things, the President's proposal to reduce corporate tax rates at the bottom levels, reducing them from 22 to 20 percent on the first $25,000, and from 20 to 18 on the next $25,000 as well as for all additional income making some changes in the shelter tax provisions, and broadening the possibility for write-offs as ordinary losses of stock in small corporations which will be particularly helpful for debenture capital and small business activities.

Let me then, in conclusion to these introductory comments, refer you merely to some of the examples in the rate tables. You will notice the impact that the tax cuts that we are proposing by reducing the rate levels and introducing the single credit has on the average taxpayer.

The average income tax is reduced, in fact, for all taxpayers, below $100,000.00. For example, for a single taxpayer it is reduced by 16.4 percent, for a single taxpayer who makes $10,000.00 or less.

And for the single taxpayer earning between 50 and 100,000, it is reduced only by three percent, 3.1 percent.

If you take the typical taxpayer, who files a joint return, and has two dependents, a typical family of four, at the bottom level, if such taxpayer makes less than $10,000.00, there would be a very substantial reduction, in fact there would be an earned income tax credit.

The actual changes would be a reduction of 976 percent, so the tax is actually negative. And for a taxpayer in the 50 to 100 percent bracket, it would involve a reduction of 1 1/2 percent.

So again the tax cuts are very much skewed toward the lower level. And for a taxpayer with two dependents, at the $10,000 to $15,000.00 level, as another example, there will be a substantial reduction, of 32.1 percent.

The total taxes by income class, that are paid by the Américan public, will again be essentially reduced for the lower and middle levels. At the $5,000 to $10,000.00 level, one will notice that under the present set of circumstances, 8.2 billion dollars out of all income taxes collected come from people who make $5,000 to $10,000.00.

That, under the new proposals, will be reduced 6.37 billion dollars, in other words a reduction of 23 percent in that income class.

At the $30,000 to $50,000.00 level, we presently collect $22 billion from that group, and that will be reduced to a little less than $21 billion, for a five percent reduction; again, a much heavier reduction at the lower level. A more moderate reduction, and still a significant one is at the $30,000 to $50,000.00 level. At the $200,000.00 and up level,

there actually is an increase.

We presently collect about six and a half billion dollars from that group making more than 200,000, and that will go up to over $6.8 billion for an increase of five to six percent.

Finally, just one other set of statistics that I believe is significant. These proposals by the President substantially raise the levels that are not taxable any longer, and indeed they raise the non taxable levels above the property level, and that is, I think, a very important point.

For a single taxpayer, the present level of income that is not taxable is $3,200.00. That will rise to almost $4,000.00, $3,967.00 to be exact,

For a married taxpayer, again, with two dependents, the present level is $7,520.00 and that will rise to 9,256 dollars in 1979.

Just for reference, the poverty level for a single taxpayer in 1977 is calculated at $3,252.00, so we are beginning to tax at this point, slightly below the poverty level.

In 1979 the poverty level we calculate will be $3,449.00, so our cut off point for beginning taxation $3,967.00, substantially above the poverty level. I think these are a few of the significant points that I thought I wanted to mention by way of introduction, and I will be glad to answer any questions.

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QUESTION: Mr. Secretary, the President refers to this message taking millions off the tax rolls. How many millions would really come from the tax rolls?

SECRETARY BLUMENTHAL: I think it's about 5 or 6 million -- 6 million.

QUESTION: What's the total universe, Mr. Secretary? Is that like 90 million taxpayers all together? Six million of the 90?

SECRETARY BLUMENTHAL: No, not that many. About 80. We are talking about 80. I am sorry, it is close to 90.

QUESTION: Mr. Secretary, on Wednesday Senator William Proxmire met with the President and was briefed on this topic, and afterwards he told the reporters that the President's tax reductions have a good chance of getting through, but your tax reform is not likely in this election year.

Do you agree with that assessment?

SECRETARY BLUMENTHAL: I don't agree with that. I feel that it's important to recognize that we have a total of $34 billion of tax reductions, and with a package of net reductions of $24.5, we have something like nine or $10 billion of reductions that we will have to finance out of some of the reforms that we are proposing.

This revenue will go for two purposes: It will go, particularly, to provide relief for low and middle-income taxpayers. And, secondly, it will go to business, large and small, to provide the additional one million jobs by about the end of 1979 that we need.

If we cannot get these reforms we would, therefore, not have the revenues necessary to do the kind of job we have in mind.

I think that in addition to that, the reforms will make the system so much simpler and so much more equitable that the Congress certainly will want to help in that regard.

And we will work very hard to make that point in our discussions and testimony with the Congress.

QUESTION: Does that mean, sir, that the President would veto reductions without the reforms?

SECRETARY BLUMENTHAL: I certainly cannot speculate upon that now. We haven't even begun, at this point.

QUESTION: The President said he would not find it advisable to veto the entire tax cut if the reforms --

SECRETARY BLUMENTHAL: I believe that is saying -- what I have said is that he is saying the same thing. If we cannot get the reforms, we will be short something like $9 billion or more for the gross reductions of $33.9 billion, so, clearly, we would have to cut back somewhere in that case.

QUESTION: Mr. Secretary, I would like to ask you about the rationale for increasing the deductible on the combined medical casualty, from three percent to ten percent.

That excludes a great deal of deductions for many people. What is the reason for that?

SECRETARY BLUMENTHAL: Well, there are two reasons. One, we are combining -- it is not a simple raising from three to ten percent -- we are combining the casualty deduction and the medical deduction into one single deduction, to make the system much simpler.

And we are, for the combined total, saying that it will be in excess of ten percent.

QUESTION: With respect, I don't think that meets the main part of the question. Most people, many more people take deductions from medical expenses than from casualty losses, and it seems to me it's in that area that you are effectively raising the tax burdens.

What reason is there for doing that?

SECRETARY BLUMENTHAL: I think you have to take the net of all of these things. In fact, most of the reductions that we are making are going to the lower and middle levels.

It means that people at these levels of income will have a considerable incentive to use the standard deduction into which there has been imputed some recognition of the costs of medical expenses.

When medical expenses are truly extraordinary, taken together with casualty losses, and we think that they are truly extraordinary when they begin to exceed ten percent, then they are large enough that it pays you to itemize your deduction, then you would get recognition for that in the tax code.

And I think that that is fair.

QUESTION: Mr. Secretary, why isn't there a dollar limit on business lunch deductions? Now the President proposes 50 percent, while, on the other hand, the airline fares, he proposed to completely disallow first class fare and have coach fare.

Now maybe that is a fair proposal, but that is a business deduction, and you are penalized for those who deduct a reasonable amount and for those who do not engage in a three-martini lunch.

Now why the disparity or this discrimination between the two flights, which are basically the same thing? If you are trying to curtail abuse, it is not fair.

SECRETARY BLUMENTHAL: Well, we studied various means of accomplishing the basic objective, which is to try to separate out from business meal deductions that element which represented, really, the personal expenditure of an individual which he would have to undertake -- he or she would have to undertake in any case, and to do that in a fair way.

But also to do it in a manageable way. The costs for meals under different circumstances in different parts of the country are very different, and a typical lunch in one part of the country under one circumstance is quite different than it is in another part.

A dollar limit would have been not only difficult but also unfair in some instances, so we felt that recognizing that half could be deductible, which is at the individual's own expense, was not and was the easiest and the fastest way to deal with that problem.

Yes?

QUESTION: On Table 5, Fact Sheet 5-A, where you cite the deduction of $258 to the taxes of a family of four with an income of $15,000,to put this in perspective, how much of that $258 tax reduction will be offset by Social Security increases and increases from inflation on the tax liability of that family?

SECRETARY BLUMENTHAL: Which table is this?

QUESTION: This is Fact Sheet 5-A, the Burden Table for joint returns with two dependents, and I was citing the

$15,000 wage earner gets a tax cut of $258. The question is, How much of that is offset by increased Social Security, payroll taxes, and by the effects of inflation on that taxpayer's liability?

SECRETARY BLUMENTHAL: Well, I can give you the effect for a four-person, one-earner family of the increase in the payroll taxes against the $258 reduction of income tax.

That is $42. I do not have the number broken down in this way for inflation '78 to nine or '77 to nine. I don't have that number broken down in this way. But it is $42 on

QUESTION: Mr. Secretary, what will be the effect of the tax benefit --

SECRETARY BLUMENTHAL: Could you repeat that?

QUESTION: What will the effect be on foreign investment?

SECRETARY BLUMENTHAL: The question is, What would be the effect on foreign investment of the elimination of deferral? Our view is that the effect will be minimal, if nonexistent.

Indeed, in terms of the overall position of US industry within the context of a world economy, our view is that it may well be favorable, for we are doing many things in this program to make American industry more competitive.

And we do not believe that any artificial means are needed in that regard, and that providing for more investment by providing many of the benefits that are in the program we are helping American industry to be more efficient.

Also, by reducing the corporate tax rate from 48 percent to 44 percent we are, in any case, reducing substantially the benefit that would have accrued in any case from deferral of taxation on foreign source income.

So, all together, we do not believe that it will have any significant impact on foreign investment. It will mean that the system will be neutral,in the sense that investments that have gone abroad because of these tax benefits may well be made in this country.

And, therefore, they will add to employment and, hopefully, also to exports from this country which will be helpful to our balance of trade and to our current economy.

QUESTION: Mr. Secretary, I wonder whether we might have a table that shows the slightly increased Social Security taxes that went into effect this year as a result of previous law and set off against the interim tax reductions so we can see whether the taxpayer can expect -- how he will do in calendar year 1978?

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SECRETARY BLUMENTHAL: We prepared these tables in many different forms. We have one here which we have tried to include several, in fact, which would in fact include the impact of Social Security increases.

Q. I see one for 1979.

SECRETARY BLUMENTHAL: Well, the '76 levels of income -- I'm looking at this one -- table 10. There are several. If you look at table 10, in the presidential message, would you turn to that.

That is one effort to set off payroll tax increases, based on the recent changes in the law. Again, the income tax reductions at various levels of income. Is what what you had in mind?

Q. I couldn't find the table, but doesn't that cover calendar year 1978?

SECRETARY BLUMENTHAL: It says at the bottom, that's for 1979.

Q. My question dealt with what about this year that we are now in.

SECRETARY BLUMENTHAL: Well, the changes that were mandated -- oh, you mean the changes that were effective as of January of this year?

Q. Yes. In other words, do I end up paying more taxes or less taxes when I count both Social Security and income tax?

SECRETARY BLUMENTHAL: Less taxes. I can give you that number in global terms, if you like. For the economy as a whole, if you take -- let me start at the beginning. If you take that individual reduction out, individual, if you take cuts of 23.5 billion gross, and you take out the elimination of various deductions and shelters, you have a net cut of 16.8 billion.

Then we have -- this is now for fiscal '79 -- we have $3.9 billion for employee Social Security taxes, just passed. And we have another 1.8 billion that were previously enacted, and which went into effect on January 1 of this year.

So it would be about $13 billion, without the -- those that went into effect at the beginning of th- this year, just those that were enacted and will begin in 1979.

If you take into account what began at the beginning of this year, you would have a net reduction for individualsof 11billion.

Q. This is for calendar year?

SECRETARY BLUMENTHAL: Yes.

Q. What about --

SECRETARY BLUMENTHAL: I'm sorry, one at a time, please.

Q. What about the calendar year '78. People pay taxes by calendar year, sir.

SECRETARY BLUMENTHAL: Well, I'm going to have to see whether we make that calculation for you. I don't have that. I think there was a gentleman here. Yes.

Q. Mr. Secretary, the President says nothing about extending the new jobs credit, the new jobs credit expires at the end of 1978. What is your intention about the new jobs credit Congress passed last spring?

Will that add to the cost of your present cost if you do extend it, or did you figure that extension into the president's message?

SECRETARY BLUMENTHAL: We have not yet made a recommendation to the Congress on the extension of that credit. We, as you know, opposed that credit when it was before the Congress, and I would suspect that we will probably oppose it again.

Q. Is it possible to get some breakdown of how you arrived at this figure of $9 billion?
There is something mentioned of a two billion, of entertainment expenses, and so forth.

But I wonder if you have any estimates of how much the curtailment of tax shelters is going to net you, and the various other burdens.

SECRETARY BLUMENTHAL: The best thing that I can do is refer you in your voluminous package to the table 2, entitled the effect of tax proposals on calendar year tax liability, and where we have sought to set out in detail, item by item, each of these elements.

Now you have it, which one were you interested in?

Q. I have the table now, and I can see it.

SECRETARY BLUMENTHAL: This gentleman here.

Q. Sir, is it safe to conclude from this table 10, which compares the income tax relief with Social Security tax increase, that any one earning $30,000.00 or more will pay an increased tax in 1979 and beyond as the Social Security taxes increase?

SECRETARY BLUMENTHAL: The calculation, of course, is needed for different types of tax filers. It's a little different for a single individual than it is for, in this case, a four person, one-earner family, for a six person, one-earner family.

But generally speaking, the break, taking into account the increase in Social Security, and the reduction in income taxes, is about at that level. In other words I would not say that anyone would, but generally speaking that's about where the break occurs.

Q. Roughly what proportion of the taxpayers earn under 30, and what proportion earn over 30?

SECRETARY BLUMENTHAL: The vast majority are under 30. I don't have a breakdown of taxpayers -- and there is a chart, I believe, which gives that. Let me see if I can find it.

Actually from the numbers that I mentioned here -- table 3, go to table 3, which is the one -- yes, which is the one after the one you just looked at. You will see that out of 8 7 million returns, 94 or 95 percent are -- in other words all but 4.4 -- all but 4.6 million out of the 87 are at 30,000 or less.

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SECRETARY BLUMENTHAL: So, in fact, most of the income tax cuts go into that group. It also means that anyone at that level, or below, will have a net reduction.

Q. Mr. Secretary, the chart that shows --

SECRETARY BLUMENTHAL: Which chart?

Q. Unnumbered, it shows the incidence of federal income tax with personal income, shows the incidence beginning to rise very sharply in 1979 and into 1980. Does that suggest to you the need for additional tax relief as we move out toward 1980?

SECRETARY BLUMENTHAL: It clearly means that if we wish to maintain the historical percentage of individual income taxes as the percent of personal income, then in looking out toward 1981, we would get, even with the present reduction at the end -- at the upper range, that option would have to be seriously considered.

But I clearly can't stand here today and tell you whether that in fact will be done, or how great the need will be. I think it depends on the circumstances of the economy at the time.

It does mean that with this reduction we are now well within the traditional range of about 10 to 11 percent, actually about 10.5 percent, I believe.

But if nothing else happens we would be pushing the 12 percent level, which would be higher than we have in the past.

Q . Mr. Secretary, in shifting from the $750.00 personal deduction to the $240.00 tax credit, can you tell me in what income level this shift becomes disadvantageous to the taxpayer?

SECRETARY BLUMENTHAL: I think it depends very much on how many dependents you have. The more dependents you have and the higher your tax bracket, the more the benefit under the present exemption. I believe that is correct, yes.

So, it depends on the number of dependents that you are claiming, and also what the income tax level is. I believe the break generally is about $22,000.00 of taxable income.

For almost anyone who files less than $22,000.00 of income, this is a benefit. And, again, from the previous chart that we've just discussed, that means a large proportion of all American taxpayers.

Q. Mr. Secretary, I would like to get your response to two criticisms made by Chairman Ullman yesterday. There was that the proposal expense accounts, especially business meals would create unemployment in the restaurant and hotel and resort industries, and therefore it was objectionable and bad policy.

We also argue that any deferral on unrepatriated foreign earnings would invite other governments to increase their corporate taxes, and not let the United States realize those revenues. How do you find those?

SECRETARY BLUMENTHAL: On the first part, we calculate that there will be no unemployment created as a result of the president's proposal. The main reason being that there is traditionally quite a bit of turnover in the restaurant industry.

The best estimate that we have is that there may possibly be a reduction in the level of employment, and I underline possibly in that industry as a whole of about one percent .

The turnover level is quite a bit above that. Secondly, it clearly means that this particular form which will be fairer, leads to a better allocation of resources and gives us money to put into the pockets of the average American, particularly in the lower and middle income people where that money would be spent, and would create demands for the parts of the American economy.

So you would have a truer allocation of resources, in my judgment, and possibly an increase in total employment. And since in the restaurant industry there is a fairly heavy turnover any way, we don't really anticipate that there would be any unemployment.

On the second point, I think this is a matter which has to be looked at country by country. In many instances there are tax treaties and the ability of a country to raise taxes discriminately to discriminate against an American corporation located there, is severely circumscribed.

In the second instance, this particular proposal was not put forward by the president particularly because it is intended to raise a great deal of additional revenue. It is put forward because it is considered equitable, it is considered unwarranted a tax benefit to American corporations operating abroad, because it is believed that it would lead to a better allocation of resources by American corporations and to increasing investments in this country.

And therefore, even if it were true, and in some countries in some instances, no doubt, Chairman Ullman is right that it may well be true, that it would lead to added tax collection in those countries.

It would still be considered by us to be a beneficial reform.

Q. Your capital gains revision here is quite modest, compared to the kind of plans that were being talked about early last year. Has total revision of capital gains been dropped completely in the administration plan, or is it possible that they might resurface in some other form in future plans by the administration?

SECRETARY BLUMENTHAL: Well, as you know, we looked, over the course of 1977, at virtually every aspect of the tax code, with the viewpoint of examining possibilities of reform, and in the end the president made a judgment as to the kinds of reforms that he would decide to propose to the Congress, bearing in mind that there were opportunities for substantial reform, and at the same time bearing in mind the need to get action on a tax package which could be packaged in one year.

A number of important opportunities for reform were eliminated. These do include capital gains, they also included the possibility of eliminating the double taxation on dividends, for example. They eliminated the possibility of eliminating the distinction between earned and unearned income.

And many other reforms. The president's decision was that these were not -- this was not the right time for him to go forward with the set of reforms that were so comprehensive as to require a great deal of detailed and lengthy study by the Congress.

And therefore the decision was made in this way.

Q. Mr. Secretary, what would be the right time for having a comprehensive tax reform?

SECRETARY BLUMENTHAL: That is simply for the president to judge. No doubt he will be looking at it in the subsequent years. I suspect there will be further tax reductions while President Carter is in office, over the next several years, and I'm sure he will want to re-examine that when the opportunity arises.

Q. Mr. Secretary, when will Donald Lubick be appointed for assistant secretary for tax policy?

SECRETARY BLUMENTHAL: The question, as I understand it, is when will Mr. Lubick be formally appointed and will there be a reorganization?

No doubt you belong to the Don Lubick for assistant secretary booster club, and I assure you there are a good many people in the Treasury who are members of that club.

I cannot tell you that, that's a decision the president will have to make. We have been so busy and Mr. Lubick, who has done a fantastic job taking over from Larry Woodworth, in leading the tax policy group in the Treasury and helping to put all this together, I think you can see from the document that it is a good job.

He has been so busy, and so has the president, that we really haven't focused on this, but I'm sure we will.

And as to reorganization, I know of no plan to reorganize.

Q. Chairman Ullman also criticizes a $25 billion net tax cut as inflationary and said he would prefer something in the range of 10 to 15 billion dollars. What's your reaction to his reaction? Would you accept something in that range?

SECRETARY BLUMENTHAL: We carefully reviewed the various possible levels of tax cuts. The president is very concerned about inflation, and we have made a very serious effort, through the anti-inflation program, to deal with this matter, and we certainly did not want to propose an inflationary level of cuts.

But bearing in mind increases in Social Security taxes that have been discussed here, and the general level of inflation, which is still at 6 1/2 percent, the president decided that 25 billion dollars would be non inflationary, and would allow us in an uninflationary way to continue the economy on its upward path, of 4 1/2 to 5 percent a year. And we'll be testifying to that effect before Chairman Ullman's committee, and we hope that we could convince him that that is a correct estimate.

Q. Mr. Secretary, I would like to refer to dk8

table 10 again, which deals with the Social Security and income tax cut.

SECRETARY BLUMENTHAL: Just a minute, let me get to table 10 first.

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SECRETARY BLUMENTHAL: Okay, go ahead.

QUESTION: My question is, Do the Social Security taxes referred there seem to be misleading? Because they go from a wage base of $18,900 instead of $17,700, which is the actual change, so that those figures -- I wonder if you would agree with that?

Why was the $18,900 base used instead of $17,700, which is the actual?

SECRETARY BLUMENTHAL: Well, as I understand it, and those who made up the table can correct me if I am wrong, this was an attempt, and there is a footnote that clearly indicates this, to calculate the additional payroll taxes that will have to be paid by individuals in these various classes as a result of the Social Security law that was just passed last month.

I have given it to you -- and I think that's right; isn't it? Okay, and it does include the rate increase from 5.85 to 6.13 percent. I guess that is also listed in the footnote.

I have given you the additional amount in global terms. I don't have it broken down by each group, wage income group.

If you include the increases that were previously enacted and that went into effect in January of this year on a global basis, that is another $3.9 billion.

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I don't have it broken down.

QUESTION: May I ask, that same table, the Treasury normally uses 17 percent as figuring the deduction was 17 percent of income. Now they are using 23 to 20 -- is there some technical reason for the change to higher deductibility?

SECRETARY BLUMENTHAL: I cannot answer that question. I will have to ask staff.

MR. SUNLEY: Maybe I can respond to both the last two questions. Taking the 23 percent figure first, for those taxpayers who itemize their personal deductions currently, the average taxpayer itemizes 23 percent of his deductions -- his deductions are equal to 23 percent of adjusted gross income.

And it is estimated that under our proposal, after removing some of the itemized deductions, that the average taxpayer who itemizes will then be able to deduct 20 percent of adjusted gross income.

So I think that's why we switched to 23 and 20. It reflects the average change in the itemized deductions for those taxpayers who itemize.

With respect to the Social Security question, it seemed to us that if money income, money wages increased ten percent between, let us say, 1977 and 1978, under prior law the wage base of Social Security tax would increase by ten percent.

And that worker, his Social Security tax, though rising in money terms, would not be rising in real terms. It would remain 5.85 percent of the Social Security base.

So it would be appropriate in measuring the increase that Congress provided last year and in between 1977 and 1979 only to account for the increase in the base over what the base would have been, given the inflation adjustment in prior law.

So it is estimated that the base would be 18.9 in 1979.

QUESTION: Mr. Secretary, Chairman Ullman has indicated that he would like the Congress to look at Social Security tax increases again because of their size. There are a great many arguments that can be made about that tax, about the changes that were made, the changes that the Administration had recommended.

Would you encourage him and encourage the Congress to look again at Social Security, and might the Administration, for instance, finally decide that it politically could support financing Medicare out of general revenues?

SECRETARY BLUMENTHAL: As I read the Chairman's comments, he was talking about the possibility of taking another look at that in 1979.

We are now at the beginning of 1979 and Chairman Ullman will be working closely with us on the President's proposal.

I would want to consult with him very carefully to see what he has in mind, and, certainly, we will consider whether further reviews or further changes in 1979 might be proposed or might be desirable, including the question of taking, again, another look to see whether and to what extent general financing makes sense under certain circumstances.

But that's not a question that we have faced with him. He has just made that suggestion, and we will have all of '78 to review that with him.

QUESTION: Mr. Secretary, what effect would the proposed --

SECRETARY BLUMENTHAL: I cannot hear you.

QUESTION: The personal tax credit that is now being proposed or worked out on the Hill, what effect would it have on the President's tax package?

SECRETARY BLUMENTHAL: Well, that's difficult to say, because it really depends on what kind of proposal amongst the various ones that I have heard discussed would be taken.

You can talk about a tuition tax credit for primary and secondary school children. You can include college students. You can give it to everybody. You can phase it out above a certain level.

There are various proposals at the table. I think they have one thing in common. They are all very expensive, but some are more expensive than others. They all involve several billion dollars of revenue of expenditure revenue losses to the Treasury.

And, clearly, since the President considered $25 billion to be about the right amount, there would be a serious question about where that revenue would have to come from.

QUESTION: Mr. Secretary, I'll tell you why we are all hung up on Table 10. It was said it was to offset Social Security, and grants that are already built into the system.

Now this table doesn't go to the key point. What we would like is a very precise explanation of at what point are you going to get actual tax increases under the combination of Social Security and payroll taxes offsetting your across-the-board taxes?

That's a very key figure there.

SECRETARY BLUMENTHAL: I understand the concern. I don't know whether I can shed total light on this issue, but let me try.

In the first place, I think you have

to distinguish between the impact on individuals on the individual taxpayer of, on the one hand, the reduction in income taxes, and, on the other hand, increases in Social Security, those that just took effect, those that are mandated for the future, to take effect in 1979.

And the impact of inflation and of increases in the real level of activity in the economy, real earnings. You have to distinguish between that and, on the other hand, in macro-economic terms, you can take a look at the total impact of this tax program as it is offset by other tax programs, and what kind of a drag or stimulant those factors have on the overall trend of the economy.

In the first instance of looking at individuals, what I try to do is, although I can't do it by income class, I don't have the data here, is to point out to you that the cut, minus the deduction, minus the increases now in effect, minus the mandated increases in Social Security taxes still leave you will $11 billion of additional cuts distributed among individuals.

When you take inflation into account for one year, '78, it is still a plus. We haven't broken it down, and we can't give it to you by different income classes. When you then go to the economy as a whole, there, as I think Mr. Schultz indicated to you yesterday, if you take '78 over '79 there is still a net stimulant of about --

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$5 billion.

But if you take '77 to '79 there is a minus of a few billion, but then you have -- about three or four-- but then you have to take into account also that you can't just look at the tax element macroeconomically, you have to look at the spending program and at the overall budget.

QUESTION: I'm not really getting into that issue. What we have precisely got to tell people in various income brackets what to anticipate from this, and how are they going to make an informed opinion if we don't have these basic facts broken out?

And that's what they are, basic information.

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SECRETARY BLUMENTHAL: You have, I think, a large amount of basic data broken out, including the increases in Social Security taxes that were just passed, including the increase in the rate of from 5.85 to 6.05 percent by class.

And that is what we can give you at the moment.

Q. But just breaking it down, this tables takes the narrowest of views. It takes one year, is that correct, it takes one year on the Social Security increase and compares it with one year '79. This is just the effect in '79 of two laws, correct. Your proposed tax reduction

SECRETARY BLUMENTHAL: From '77 to '79.

Q. And a Social Security tax increase. You don't really know what effect on individuals there will be from other factors as inflation. The energy program, obviously you don't know.

And other tax increases that are built in.

SECRETARY BLUMENTHAL: The energy program, we are not including in these calculations because it is the president's intention to have that neutral to return through a credit or a rebate, all of the taxes that would be assessed as a result of the energy program, back to the average taxpayer.

And until we have an energy bill, we

really can't give you those data. And I think there is reference in the president's message to the fact that if it turns out that Congress does not act accordingly, then he would have to come in with a supplemental proposal.

We have an inflation figure, verbally, but what we have not done is to impute, we've not been able to do it to impute,project inflation impact by wage class or by income class. And I guess that's what you are asking for.

Q. Mr.Secretary.

SECRETARY BLUMENTHAL: I think there are a few people who have not had a chance yet.

Q. Could we have one more table showing 1977 combined individual tax, plus Social Security taxes, 1978 combined under the proposed Carter amendment, and the new Social Security law, and the same thing for 1979. That would be the most basic one.

SECRETARY BLUMENTHAL: We could do that.

Q. And if we could add to that, assuming individual's wage rates in '78 and '79 rise at the rate of inflation, what kind of impact that would have.

SECRETARY BLUMENTHAL: We'll try to prepare that.

Q. Could we have that for two wage earner families? We'll try to prepare it in the most informative way possible.

You know, there are any number of combinations of tables that we could prepare.

Q. Mr. Secretary, do you think there will be an aggregate tax on home mortage money availability,and thus a depressing effect on housing construction market because of your change?

SECRETARY BLUMENTHAL: We don't really think so. We think that the S&L will continue to have a considerable benefit with their reserves, reduced to 30 percent, and the savings rate have been good and we don't think it will have a significant impact.

Q . Mr. Secretary, what happens to the provision that there will be a 50 percent limit on all income dividends and interest, now as well as earned income. And since you spoke why didn't you insist that this would be in this package?

SECRETARY BLUMENTHAL: Well, I indicated earlier that we looked at virtually every aspect of the tax code, including that one. That was carefully examined, and when the decision was made of what combination of reduction and reform was most advisable, in the light of all of the circumstances, the president made his decision.

Q. But your prestige was at stake.

Q. Mr. Secretary, on the reform aspect of this package, we have $9 billion and 9.4 in so called reforms. Seven billion about for individuals, and of that seven billion, about five billion looks to be for like simplification than it does actual reform. By simplification I mean elimination of gasoline tax deduction, sales tax deduction, medical, and you're talking about $2 billion in tax reform affecting so called wealthy, non tax paying, leeching Americans.

There's $2 billion. Is that important, is that an important reform?

SECRETARY BLUMENTHAL: Well, I think in the first place, when the president talks of reform, he certainly has simplification in mind. We've always made it clear that reforms for President Carter means greater simplicity and greater equity.

So these reforms try to cover both of the points, and achieve both of these goals. Secondly, even elimination of the deductibility of various miscellaneous taxes tends to be of greater benefit to the high income groups than it does in the lower income group.

So it also serves the dual purpose of simplifying as well as making it more equitable.

Sir, I don't really believe that you can look only at the additional revenues that are generated by a particular reform. They may be in global terms, and not amount to many hundreds of millions of dollars, but they may be of very particular benefit to a small number of very high income earners, and therefore simply from the point of view of equity, they would be the right thing to do.

And I think the sub-total of reforms, and there are a good many, are that they include many of that nature.

Q Q. It cannot be reflected in $1.00 a month then.

SECRETARY BLUMENTHAL: You can't take a dollar amount and measure whether or not the reform is significant or not. That's my point.

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QUESTION: Mr. Secretary, how do you reconcile the Administration's decision to eliminate --

SECRETARY BLUMENTHAL: We looked very carefully at the question and it is simply a matter of judging whether or not this particular provision was affected, and cost-effectively would raise exports.

Our best calculation indicates that for a cost to the Treasury of $1.2 billion the added exports that are generated by that $1.2 billion in expenditure, lots are arranged somewhere between one and $3 billion, and even that is a very chancy calculation.

It was our judgment that we could use that $1.2 billion much more cost-effectively, much more effectively, to help American industry be competitive on an overall basis in the world market, and to benefit all of American industry and to promote investments in this country.

And in that way to stimulate more exports, possibly, than we do through this.

STAFF: Thank you very much, Mr. Secretary. Copies of the transcript will be available in Mr. Arnold's office some time before noon.

(Whereupon, at 4:19 p.m. o'clock, the Press Conference was concluded).

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Department of the TREASURY NEWS
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FOR IMMEDIATE RELEASE

January 20, 1978

TREASURY ACTS ON ANTIDUMPING CASES INVOLVING IMPORTS OF VISCOSE RAYON STAPLE FIBER FROM BELGIUM AND AUSTRIA

The Treasury Department said today that it has tentatively determined that viscose rayon staple fiber from Belgium is being sold at less than fair value and issued a withholding of appraisement.

In another action, the Treasury Department announced that it is discontinuing its antidumping investigation of viscose rayon staple fiber from Austria.

In the Belgian case, the Treasury will determine by April 23, 1978, whether the product is being sold at less than fair value within the meaning of the Antidumping Act.

In the Austrian case, the Treasury had withheld appraisement in October 1977 after it had tentatively determined that "sales at less than fair value" were taking place. Since the time of that determination, all differentials between the price of viscose rayon staple fiber sold for export to the U.S. and the price of viscose rayon staple fiber sold in the home market have been eliminated, and assurances have been filed that no future "sales at less than fair value" will be made. Given these factors, a discontinuance has been granted.

Under the Antidumping Act, the Secretary of the Treasury is required to withhold appraisement whenever he has reasonable cause to believe or suspect that "sales at less than fair value" are taking place. Sales at less than fair value generally occur when the price of merchandise sold for exportation to the United States is less than the price of such or similar merchandise sold in the home market or to third countries.

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Withholding of appraisement means that the valuation for customs duty purposes of goods imported after the date of the tentative determination is suspended for up to six months, thus allowing any dumping duties that are ultimately imposed to be levied on those imports.

Notice of these actions will appear in the Federal Register of January 23, 1978.

Imports of viscose rayon staple fiber from Belgium were valued at approximately $2 million in the first nine months of 1977.

Imports of viscose rayon staple fiber from Austria were valued at approximately $15.2 million in 1976.

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January 20, 1978

FOR IMMEDIATE RELEASE

TREASURY DEPARTMENT EXTENDS PERIOD OF INVESTIGATION ON MOTORCYCLES FROM JAPAN

The Treasury Department said today that it will extend its antidumping investigation involving imported motorcycles from Japan for an additional period not to exceed ninety days. The decision was made because more time was needed to analyze the data provided.

Under the Antidumping Act,"sales at less than fair value" generally occur when the price of merchandise sold for exportation to the United States is less than the price of such or similar merchandise sold in the home market or to third countries. If Treasury determines that "sales at less than fair value" occur, the case is referred to the U.S. International Trade Commission for an injury determination. An affirmative ITC decision would require dumping duties.

Notice of this action will appear in the Federal Register of January 20, 1978.

Imports of motorcycles from Japan were valued at approximately $380 million during calendar year 1976.

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NEWS

Contact: Alvin Hattal
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January 20, 1978

FOR IMMEDIATE RELEASE

TREASURY DEPARTMENT STARTS FOUR ANTIDUMPING INVESTIGATIONS ON CARBON STEEL PRODUCTS FROM THE UNITED KINGDOM

The Treasury Department said today that it will begin four antidumping investigations on certain carbon steel products from the United Kingdom: hot rolled bars, certain structural shapes, strip, and plates.

The announcement follows a summary investigation by the U.S. Customs Service after receipt of a petition filed by Armco Steel Corporation alleging that these products are being dumped in the United States. The petition was received before establishment of the "trigger-price" system for steel products.

Information contained in the petition indicates that imports of the four steel products from the United Kingdom are priced under the same products sold in the home market. The petition also includes information that the U.S. industry is being injured by the alleged "less than fair value" imports. However, with respect to two of the product groups under investigation, bars and strip, Treasury concluded that it has substantial doubt that an industry is being injured as a result of the alleged sales.

Under the Antidumping Act, if Treasury has substantial doubt that an industry is being injured as a result of the alleged sales, the case is referred to the U.S. International Trade Commission (ITC) for a preliminary injury determination. Should the ITC find, within 30 days, that there is no reasonable indication of injury or likelihood of injury, the investigations with respect to bars and strip will be terminated; otherwise, Treasury will continue its investigations of these two products.

If sales at less than fair value are determined by Treasury, the ITC will subsequently decide the injury question. Both "sales at less than fair value" and injury must be found before a finding of dumping can be reached.

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Imports of the steel products covered by these investigations amounted to approximately $67.7 million during the period January-September 1977.

Notices of the actions will appear in the Federal Register of January 23, 1978.

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FOR IMMEDIATE RELEASE January 18, 1978

TREASURY SECRETARY BLUMENTHAL APPOINTS JOSEPH B. COLLINSON AS NEW SAVINGS BONDS CHAIRMAN FOR RHODE ISLAND

Secretary of the Treasury W. Michael Blumenthal has appointed Joseph B. Collinson, President, Textron Inc., as Volunteer State Chairman for the Savings Bonds Program in Rhode Island. The appointment is effective immediately.

Mr. Collinson will head a committee of business, banking, labor, government and media leaders who, in cooperation with the U. S. Savings Bonds Division, will assist in promoting bond sales throughout the state.

Mr. Collinson joined Textron in August 1959 as Vice President and Treasurer. He was made Executive Vice President in 1963, and in April 1974, he assumed his present position as President and Chief Operating Officer.

Prior to joining Textron, Mr. Collinson spent most of his business career with the accounting firm of Arthur Young & Company.

Mr. Collinson is a graduate of Ohio State University. He is a member of the American Institute of CPA's and is a director of the Old Stone Bank, Business Development Corporation of R. I. and Fry, Inc.

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