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U.S. Department of the Treasury

PRESS RELEASES

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

Text as Prepared for Delivery
For Immediate Release
October 1, 1993

REMARKS BY TREASURY SECRETARY LLOYD BENTSEN
THE CONFERENCE TO SUPPORT MIDDLE EAST PEACE
WASHINGTON, D.C.

Our world has been transformed in the past four years. At each change, the world community has offered its assistance. Now, we are called to make an investment in peace, and an investment in the future prosperity of the West Bank and Gaza.

We have moved with record speed. Our meeting today demonstrates that. It also demonstrates that more and more nations are willing to share the responsibility for protecting peace by assuming the responsibility for financing it.

I am encouraged by the broad-based cooperation we are seeing. It is more than just rhetoric, it is concrete commitments and action. I want to compliment the World Bank for its invaluable contribution in assessing the needs of the Palestinians. In a few moments Mr. Preston will explain his staff's estimates of overall assistance requirements.

While we can be encouraged by the level of cooperation demonstrated here today, no one must underestimate the challenges which lie ahead for the Palestinian people. They must simultaneously pursue self-government and economic development. Both are essential to long-lasting peace.

Let me review briefly the kinds of assistance I believe we should provide. First, we must immediately finance relief and rehabilitation of a damaged and inadequate infrastructure. And we must also move quickly to finance the administration of the West Bank and Gaza until the Palestinians can begin raising revenues themselves.

Over the longer-term, it is essential that we support the public and private investment that will lay the foundation for sustained economic growth in these areas. Incentives for private investment will be a key element in the success of this effort.

In addition, both our immediate and ongoing efforts must be directed at building the capacity of the Palestinian people to organize and manage their own political and economic affairs.

In light of these needs, we must get assistance flowing immediately, but we also must have a multi-year plan to meet the continuing needs of the West Bank and Gaza. As the Vice President announced, the United States plans to make $500 million available over five years. We will shortly hear the multi-year commitments of others willing to help over an extended period.

Because many of us face budget constraints, it is critical that we target and spend our resources efficiently. Our assistance must be carefully designed and implemented, and there must be regular coordination to avoid duplication and wasting resources.

The investment in peace we make today can pay dividends for generations.

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TREASURY NEWS

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FOR IMMEDIATE RELEASE
October 1, 1993

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TREASURY ANNOUNCES PENALTY AGAINST NATIONAL CHECK CASHERS CORPORATION

The Department of the Treasury announced on Friday that the National Check Cashers Corporation has paid a civil money penalty of $100,000 for failing to file currency transaction reports as required by the Bank Secrecy Act (BSA).

The violations occurred from 1987-91 at the corporation's Oklahoma City and Tulsa, Okla. locations and were identified and reported to Treasury by Internal Revenue Service (IRS) examiners. Treasury determined the amount of the penalty after considering improvements to National's BSA compliance program as noted in a recent IRS examination.

Ronald Noble, Assistant Secretary for Enforcement, said this penalty is part of Treasury's continuing effort to enforce and ensure BSA compliance by non-bank financial institutions. "Compliance with the BSA is a key element in our efforts to detect money laundering," he said.

Noble acknowledged the assistance of U.S. Attorney John Green and Assistant U.S. Attorney James Robinson. He also commended the efforts of District Director K.J. Sawyer and Donald Shoemake, both of the IRS Oklahoma City district office.

The BSA requires banks and other non-bank financial institutions to keep certain records, to file currency transaction reports with the Treasury on cash transactions in excess of $10,000 and to file reports on the international transportation of currency, traveler's checks and other monetary instruments in bearer form. The purpose of these records and reports is to assist the government's efforts in civil, criminal, tax and regulatory investigations and proceedings.

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REMARKS OF TREASURY SECRETARY LLOYD BENTSEN CONFERENCE TO SUPPORT THE MIDDLE EAST PEACE WRAPUP

Today we are making an investment in peace. About 50 nations and international organizations have come together as we assemble a tangible show of support for the Middle East Peace.

As you know, there are some very immediate and pressing needs in the West Bank and Gaza that we must attend to quickly. I am gratified that there are pledges of over $600 million for the critical first year. Over two years, it will reach $1 billion.

Commitments made today approach $2 billion over five years. With the continuation of support from donors who have pledged today, I'm confident that we will exceed the $2.4 billion World Bank estimate of needs over five years.

You'll find some of the fine points of what we've agreed to do in the longer statement we're handing out, but I want to point out the broad role of the multilateral institutions in this effort. We are calling on the World Bank to play an important role, as well as the United Nations Relief and Works Agency, the U.N. Development Programme and the IMF.

As donor nations, we agreed that we should support urgent relief efforts and start rehabilitating the existing infrastructure. That in itself is a challenge, but we also agreed we must do more.

We must help the Palestinians as they work to organize and manage their own political, economic and social affairs. The donors have agreed to start an extensive program of technical assistance to build the institutions of government and train personnel. The close cooperation of the Palestinians and the Israelis will be essential in every area of institution building. One of the critical needs will be creating a revenue sharing system and a local revenue collection system.

Over the long term, we agreed that promoting both public and private investment will launch the West Bank and Gaza on a path of growth. We have a five-year program to make investments in physical and social infrastructure, as well as in the area's productive capacity.

The representatives of both the Palestinian community and Israel, and the private donors, stressed the part the private sector will play in this. The Palestinians acknowledged how very important it is to have an environment that encourages private investment. And donors will encourage private investment through incentive programs.

Conference participants also stressed the need to address the development of the West Bank and Gaza in its regional context. And there was agreement that freer trade is needed throughout the region.

And finally, we have a shared concern that the assistance we are pledging be managed as efficiently as possible, so there will be close cooperation among major donors and the World Bank to meet that goal.

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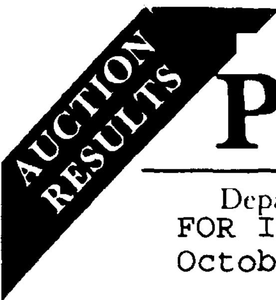

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
October 4, 1993

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $11,899 million of 13-week bills to be issued October 7, 1993 and to mature January 6, 1994 were accepted today (CUSIP: 912794H31).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	2.92%	2.98%	99.262
High	2.96%	3.02%	99.252
Average	2.96%	3.02%	99.252

Tenders at the high discount rate were allotted 43%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	35,872	35,872
New York	45,767,234	10,575,890
Philadelphia	6,721	6,721
Cleveland	32,627	32,627
Richmond	29,901	29,901
Atlanta	17,279	14,139
Chicago	2,164,542	217,732
St. Louis	15,046	15,046
Minneapolis	3,387	3,387
Kansas City	19,692	19,692
Dallas	18,030	18,030
San Francisco	559,513	68,163
Treasury	862,026	862,026
TOTALS	$49,531,870	$11,899,226
Type		
Competitive	$44,159,267	$6,526,623
Noncompetitive	1,349,273	1,349,273
Subtotal, Public	$45,508,540	$7,875,896
Federal Reserve	2,947,330	2,947,330
Foreign Official Institutions	1,076,000	1,076,000
TOTALS	$49,531,870	$11,899,226

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AUCTION RESULTS

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
October 4, 1993

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $11,837 million of 26-week bills to be issued October 7, 1993 and to mature April 7, 1994 were accepted today (CUSIP: 912794J88).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.07%	3.16%	98.448
High	3.08%	3.17%	98.443
Average	3.08%	3.17%	98.443

$540,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 57%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	37,138	37,138
New York	39,442,417	10,721,340
Philadelphia	4,292	4,292
Cleveland	21,362	21,362
Richmond	30,325	30,325
Atlanta	19,707	19,277
Chicago	1,492,084	231,264
St. Louis	9,863	9,863
Minneapolis	5,313	5,313
Kansas City	23,399	23,399
Dallas	14,085	14,085
San Francisco	650,858	66,638
Treasury	653,019	653,019
TOTALS	$42,403,862	$11,837,315
Type		
Competitive	$38,086,956	$7,520,409
Noncompetitive	1,021,006	1,021,006
Subtotal, Public	$39,107,962	$8,541,415
Federal Reserve	2,700,000	2,700,000
Foreign Official Institutions	595,900	595,900
TOTALS	$42,403,862	$11,837,315

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TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

TESTIMONY OF

THE HONORABLE FRANK N. NEWMAN

UNDER SECRETARY OF THE TREASURY

Before the

SUBCOMMITTEE ON FINANCIAL INSTITUTIONS SUPERVISION,

REGULATION AND DEPOSIT INSURANCE

of the

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

U.S. HOUSE OF REPRESENTATIVES

October 5, 1993

Mr. Chairman and members of the Subcommittee, I appreciate this opportunity to discuss with you the Administration's views on reducing regulatory costs and on H.R. 962, the Economic Growth and Financial Institutions Regulatory Paperwork Reduction Act of 1993. Reducing the regulatory burden on the nation's insured depository institutions, as this legislation seeks to do, is an important objective of this Administration.

I would like to commend Chairman Neal for holding a hearing on this issue. I would also like to acknowledge the contributions of Representatives Bacchus and Bereuter, as the primary sponsors of H.R. 962. Their thoughtful and constructive approach to tackling the problem of regulatory burden is helpful to all of us who share this concern.

Although Congress and the Administration have focused extensively and quite properly on the role of regulatory burden in exacerbating the so-called credit crunch, we must be careful not to overlook the benefits of bank regulation. These include maintaining the safety and soundness of the banking system, serving the credit needs of the American public, and protecting the interests of consumers. Of course, the benefits of bank regulation have to be balanced with the costs imposed on banks and their customers. The Administration is well aware of the problems posed by unnecessary regulatory burden and impediments to sound bank lending and is committed to eliminating these costs. At the same time, however, we are strongly committed to maintaining the benefits of our regulatory system. Taxpayers cannot afford a reduction in safety and soundness; consumers cannot afford to lose vital protections; and distressed communities cannot afford the loss of needed financial services.

I. Administration Actions to Address Regulatory Burden

H.R. 962, introduced in February by Representatives Bacchus and Bereuter, identifies quite accurately many unnecessary burdens that increase the cost of credit in the economy. The Administration supports many of the H.R. 962 provisions addressing these burdens and has already implemented them in many cases. Given this overlap and our shared goal of eliminating needless regulatory costs, I would like to start by highlighting

the steps we have taken administratively. They fall into the following three areas: (1) the President's Credit Availability Program; (2) the President's Community Reinvestment Act Directive; and (3) the Treasury Department's examination of the Bank Secrecy Act regulations.

A. The Credit Availability Program

The Administration's first effort to strike the proper balance between the costs and benefits of bank regulation was its Credit Availability Program. On March 10, President Clinton announced the program of regulatory and administrative changes to improve the availability of credit, particularly to small- and medium-sized businesses, farms, and to borrowers in low-income communities. The program focused on: (1) reducing impediments to lending to small- and medium-sized businesses; (2) reducing the burden of real estate regulations, including appraisals; (3) improving the fairness and effectiveness of the regulatory appeals processes; and (4) eliminating duplicative examination processes and procedures. (Appendix A provides a status report on the Credit Availability Program.)

While most of the work under the President's program has been completed, some of the changes represent ongoing efforts. As the attached list indicates, these longer-term items include a comprehensive review of paperwork, corporate applications, and

documentation requirements. In addition, the Office of the Comptroller of the Currency (OCC) is currently rewriting and reorganizing its regulations to make them more clear and accessible. We believe that these administrative improvements will reduce the cost of lending, particularly to smaller firms, and thereby increase the availability of credit to them.

B. The Community Reinvestment Act Directive

In addition to the Credit Availability Program, the Administration is committed to a thorough review of the regulations promulgated under Community Reinvestment Act (CRA). In July, President Clinton directed the four Federal banking agencies to reform the CRA by: (1) developing new regulations and procedures (by January 1, 1994) that replace paperwork and uncertainty with greater performance, clarity, and objectivity; (2) training a corps of examiners that specialize in CRA examinations; (3) implementing more effective sanctions against banks with consistently poor CRA performance; and (4) developing more objective, performance-based CRA assessment standards to minimize the compliance burden on banks while stimulating improved CRA performance.

Recently, the Federal banking agencies held hearings throughout the nation to gain more insight into these issues. Comptroller Ludwig, who will testify immediately after me, has

chaired many of these meetings and can provide you with a status report. The Administration believes that these administrative improvements will yield increased investment in distressed communities and a significant reduction in the paperwork burden on insured depository institutions.

C. Bank Secrecy Act

One area of the Administration's efforts that focuses on the Treasury Department directly is the Bank Secrecy Act. The Bank Secrecy Act and the currency transaction reports required under it are important tools in combatting money laundering and other crimes. Despite these benefits, we realize that complying with the regulations can sometimes be burdensome. The Treasury is therefore currently conducting a comprehensive review of Bank Secrecy Act reporting and record-keeping requirements in an effort to identify changes in statutes, regulations, and implementing forms that could reduce burdens on financial institutions without impairing the objectives of the Act. Because our review is in its initial stages, I cannot provide more specific information at this time. Nevertheless, we will aim to reduce regulatory costs while increasing our ability to fight financial crimes.

II. Legislative Proposals to Reduce Regulatory Burden

In addressing the burdens imposed by the current bank regulatory environment, our strategy has been to focus on administrative changes which could be implemented quickly, recognizing that carefully considered legislation would take longer. We have also sought to remove direct impediments to lending first, before attempting to reduce the cost of regulation. Throughout its efforts, the Administration has kept three goals in mind: (1) maintaining the safety and soundness of the banking system; (2) ensuring that vital consumer protections are not sacrificed; and (3) promoting bank involvement and investments in the local communities they serve. As we turn our attention now from administrative to legislative improvements, these goals become even more important, given the relative difficulty of fine-tuning legislative changes. Therefore, my discussion of H.R. 962 will be organized around these three important goals. (Appendix B more specifically delineates the Administration's position on selected provisions of the bill.)

A. Maintaining Safety and Soundness

Long run economic stability and growth require a banking system that is safe and sound. After the savings and loan crisis, we must be cautious and prudent in our regulatory policy efforts, including efforts to minimize the cost of regulation.

We must not lose sight of the many benefits of safety and soundness regulation. Further, we believe that legislative efforts to reduce regulatory burden must not hamstring regulators, who often need flexibility to deal with problems early on, or case by case. From the text of H.R. 962, I can see that Representatives Bacchus and Bereuter share these goals.

In the area of safety and soundness regulation, H.R. 962 would: modify bank accounting and capital requirements; reduce mandatory examination requirements; expedite bank holding company approval procedures; and work to reduce unnecessary paperwork. I will address each of these areas briefly.

1. Capital and Accounting Rules

In general, we believe that accounting principles and the details of capital standards should be established administratively, by the Federal banking agencies and the Financial Accounting Standards Board, rather than by statute. These rules rest on very complex technical considerations that are not well suited to structuring within the constraints of the legislative process. Moreover, they must be able to evolve along with the business of banking.

Under the bill, the Federal banking agencies must reduce the capital required to be required against loans sold with recourse.

Currently, insured depository institutions that sell loans and retain liability for credit losses must hold capital equal to the amount required before the sale. We believe that the recourse provision in H.R. 962 is a constructive impetus to revise current recourse rules, which we agree are excessively stringent. However, the Federal banking agencies are already in the process of writing new regulatory accounting rules to cover asset sales with recourse. These new rules will more appropriately measure the risk of assets sold with recourse to the capital of insured depository institutions.

H.R. 962 would also delay the implementation of the interest-rate risk provisions of the risk-based capital standards until other countries devise and adopt international standards. The Federal banking agencies have already published proposed regulations on interest rate risk. These regulations will help banks and thrifts better manage the risks posed by changes in interest rates. We believe they are cost-effective, and will impose no significant burden on the industry. Moreover, we believe they will have a positive effect on credit availability by creating an incentive for banks to lend rather than to hold securities. Consequently, we would like the regulatory process to continue on schedule.

2. Examination Procedures

Examinations represent one of the most important tools in maintaining the safety and soundness of our nation's banking system. Therefore, the Administration believes that annual examinations are a vital protection against bank failures. However, as a former officer of a large bank holding company, I am acutely aware of the costs frequent or uncoordinated examinations can impose. Under the current regulatory structure, it is possible for an institution to be examined by three of the four Federal banking agencies at different times.

H.R. 962 finds this situation as intolerable as we do. Section 302 of the bill would require the Federal banking agencies to coordinate their examinations to minimize the burden on insured depository institutions. I am happy to report that we have rectified much of this situation and implemented steps to achieve most of the goals of section 302. As part of the President's Credit Availability Program, the agencies have developed a program for coordinating examinations of insured depository institutions and inspections of their holding companies. This program will minimize the costs that the examination process imposes on banks. We also note that the FDIC recently clarified its back-up enforcement authority to restrict the opportunity for duplicative examinations to troubled institutions, except in extreme circumstances.

H.R. 962 would also modify current examination requirements to lessen the burden on smaller institutions within a holding company. We agree with the thrust of these provisions. However, the Administration is concerned that they might be overly broad as they exempt too many institutions. We would be happy to work with the Committee to develop appropriate language.

In addition to reducing the costs of bank examinations, H.R. 962 would require the Federal banking agencies to create an independent appeals process for the supervisory decisions of the Federal banking agencies. As with examination coordination, the Administration has implemented this provision of H.R. 962 as well. We understand that during the course of an examination, legitimate disagreements between the institution and its examiners are bound to arise. To ensure that banks have an impartial and expeditious review of these disagreements, the Federal banking agencies have established independent appeals processes. The OCC has even created the position of Ombudsman to address appeals from bankers. The Ombudsman has discretion to supersede any agency decision or action on appealable matters with the prior consent of the Comptroller.

3. Paperwork Burdens

While examination and supervisory policies are an important part of bank safety and soundness, some of the paperwork burdens

that banks face are truly unnecessary. A number of provisions of H.R. 962 require the Federal banking agencies to study specific regulatory areas and propose reforms. The Administration supports these provisions. To improve their effectiveness, however, we recommend that these studies be incorporated into one comprehensive request to the Federal banking agencies. This request could require the agencies to review their regulations and policies to: eliminate unnecessary regulations and written policies; standardize regulations among the agencies; and eliminate duplicative requests for information. We feel that it would take the agencies at least a year to perform a top to bottom review of their rules.

B. Maintaining Consumer Protections

The Administration believes strongly that consumer protection laws help create and maintain a fair and accessible financial services marketplace. They provide consumers with the confidence that they will not be misled or defrauded. Moreover, customers have come to appreciate the benefits of information that enhances their ability to make comparisons. In addition, I would be remiss if I failed to point out that consumer protection laws also help banks by protecting them from unscrupulous competitors. As a citizen and consumer, I appreciate these protections and believe they must not be sacrificed under the guise of regulatory burden reduction. We must be careful not to

dismantle the trust built up between bankers and their customers. We are certain many of the Representatives who cosponsored H.R. 962 share this view.

In the area of consumer protection, H.R. 962 would require a study of the home mortgage, small-business and consumer lending processes. In addition, the bill would modify provisions of the following Acts: the Truth in Lending Act; the Truth in Savings Act; the Real Estate Settlement Procedures Act; the Expedited Funds Availability Act; and the Electronic Funds Transfer Act.

We agree with the cosponsors of H.R. 962 that the current lending process has become overly burdensome for lenders and borrowers. While this burden is expected to decline as lenders develop better information systems technology, the Administration believes that existing law can be thoughtfully revised to limit burden. We see merit in requiring the OCC, the Federal Reserve Board, and the Department of Housing and Urban Development to study the lending process and develop ways to streamline it.

The Administration is concerned, however, about limiting the protections of the Truth-in-Lending Act based on the income of the borrower. We are also reluctant to reduce the protections of the right of rescission and the benefits of expedited funds. Banks have already expended the fixed costs to implement these

protections. Weakening these laws could, however, lead to abuses.

C. Promoting Community Reinvestment

As witnessed by the Community Development Banking and Financial Institutions Act, the Administration is committed to providing distressed communities with much needed capital. The Administration is also committed to ensuring that creditworthy borrowers are not denied credit under illegal discriminatory practices. Since taking office, we have worked actively with the Federal banking agencies to improve their ability to detect lending discrimination and to strengthen fair lending enforcement. A number of interagency efforts are under way to improve fair lending enforcement. These include fair lending training for examiners and industry executives, and alternative discrimination detection methods.

H.R. 962 seeks to reduce the compliance burdens of the Home Mortgage Disclosure Act (HMDA) and the Community Reinvestment Act (CRA). We acknowledge that the costs involved with complying with the recordkeeping requirements of the Fair Housing Act and the HMDA can be significant. To limit these costs, the OCC has published a proposed rule that would reduce the duplicative paperwork requirements of HMDA and the Fair Housing Home Loan Data System. This approach allows us to minimize the costs of

these laws without removing the tools that the agencies need to fight lending discrimination.

As I mentioned earlier, we are involved in a comprehensive review of the CRA regulations. The Administration believes that it would be prudent to await the results of this review prior to legislating changes to CRA. Under the current regulatory and enforcement system, the CRA provisions of H.R. 962 could reduce incentives for community reinvestment.

III. Conclusion

The President, the Vice President, and Secretary Bentsen take seriously their responsibility for maintaining and enhancing the banking system's role in the economy as a major credit provider. Recognizing our mutual goals, we commend Chairman Neal and Representatives Bacchus and Bereuter for focusing attention on the legislative aspects of this issue. As you can note from my testimony, many of the Administration's efforts mirror specific provisions of H.R. 962.

There is much more the Administration can do within existing law to reduce the burden on insured depository institutions. At the same time, certain problems can only be resolved through legislative action. I look forward to working with the members of this Committee on this important issue.

I will be pleased to respond to any questions the Committee may have.

Appendix A: Status of the Administration's Credit Availability Program

Completed Regulatory Changes	Type of Action	Agencies Involved	Status
Announcement of the Credit Availability Program: On March 10, President Clinton announced the program.	Interagency Policy Statement	OCC, OTS, FDIC, FRB	Completed 3/10/93
Documentation of Loans: This action eliminates unnecessary documentation requirements for small- and medium-sized business and farm loans.	Interagency Policy Statement	OCC, OTS, FDIC, FRB	Completed 3/30/93
Documentation of Loans: The OCC has extended the preceding action from 1- and 2-CAMEL-rated banks to 3-rated national banks.	Policy Statement	OCC	8/12/93
Special Mention Assets: The agencies have clarified their examination procedures to ensure that special mention assets are not improperly placed in the classified asset category.	Interagency Policy Statement	OCC, OTS, FDIC, FRB	Completed 6/10/93
Real Estate Appraisals: The action would increase to $250,000 the threshold level at or below which appraisals are not required.	Proposed Rule	OCC, OTS, FDIC, FRB	Published in the Federal Register 6/4/93
Other Real Estate Owned (OREO): The initiative will: (1) increase and expand the options that a national bank may use to dispose of OREO, (2) standardize the legal and accounting treatment of OREO, and (3) provide flexibility in the financing of OREO.	Final Rule	OCC	Published in the Federal Register 9/2/93
Commercial Real Estate Loans: The statement reaffirms guidelines issued in November 1991 to provide clear and comprehensive guidance to ensure examiners review commercial real estate loans in a consistent manner.	Interagency Policy Statement	OCC, OTS, FDIC, FRB	Completed 6/10/93
In-Substance Foreclosures: The agencies have offered additional guidance with respect to reporting of in-substance foreclosures.	Interagency Policy Statement	OCC, OTS, FDIC, FRB	Completed 6/10/93
Returning Nonaccrual Loans to Accrual Status: The agencies have revised the accounting for partially charged-off loans consistent with generally accepted accounting principles (GAAP).	Interagency Policy Statement	OCC, OTS, FDIC, FRB	Completed 6/10/93

Completed Regulatory Changes	Type of Action	Agencies Involved	Status
Appeals Process: The agencies have taken steps to ensure that their appeals processes are fair and effective.	Agency Program	OCC, OTS, FDIC, FRB	The OCC Ombudsman will begin work on 9/15/93
Fair Lending Initiatives: The agencies will strengthen their enforcement of fair lending laws by revising discrimination detection methods and revising their consumer complaint systems. In addition to revised examination procedures, the OCC will develop a pilot program to use minority and non-minority "testers" to identify discrimination in the way banks treat potential borrowers.	Interagency Policy Statement	OCC, OTS, FDIC, FRB	Completed 6/10/93
Examination Coordination: The agencies are working to eliminate duplicative examination processes and procedures. The agencies have announced an agreement to better coordinate examinations and to streamline the examination of multibank holding companies.	Interagency Agreement	OCC, OTS, FDIC, FRB	Completed 6/10/93
Refinancing and Renegotiating Loans: The OCC has clarified its policy on refinancing and renegotiating loans when market interest rates have declined, including loans secured by real estate collateral that has declined in value.	Banking Bulletin	OCC	9/3/93
Continuous Review			
Excess Paperwork Burden: Each agency is individually performing a study of its paperwork, corporate application, and documentation requirements.	Agency Program	OCC, OTS, FDIC, FRB	Ongoing
Regulatory Review: The OCC has committed to rewrite and reorganize its regulations to make them clear and accessible.	Agency Program	OCC	Ongoing
Effectiveness Measurement: The OCC is devising methods to measure the effectiveness of the Credit Availability Program. For example, it plans to document whether banks are taking advantage of the provisions of the Interagency Policy Statement on Documentation for Loans.	Agency Program	OCC	Ongoing

Appendix B: Comments on Selected Provisions of H.R. 962

Section 102 -- Real Estate Appraisal Amendment

This section directs the Appraisal Subcommittee of the Federal Financial Institutions Examination Council to encourage States to develop reciprocity agreements allowing appraisers certified or licensed in one State to perform appraisals in another State. It also prohibits States from imposing excessive fees or burdensome requirements on out-of-State appraisers temporarily practicing in the State. We support the section.

Section 103 -- Public Deposits

Section 13(e) of the Federal Deposit Insurance Act requires agreements that tend to "defeat or diminish" the FDIC's interest in property to meet certain standards (e.g., be in writing). As drafted, this section exempts from section 13(e) any agreement "permitting or affecting" the deposit custody or collateralization of public funds -- even if the agreement affects such deposits only to the same extent as it affects other deposits. Thus the section is drafted more broadly than necessary to effectuate its stated purpose of alleviating technical problems involving public deposits.

We share that objective, and favor a modified version of this section, under which section 13(e) would not invalidate an agreement providing for the lawful collateralization of government deposits solely because of changes in the collateral made in accordance with the agreement.

Section 111 -- Audit Costs

Current law permits an institution to satisfy certain auditing, reporting, and other requirements at the holding company level, so long as the institution has less than $9 billion in assets. We favor removing the $9 billion limitation. Having a single committee of the holding company's board of directors review any problems discovered at subsidiary institutions would be less costly and more efficient than requiring separate committees at each institution. In many holding companies, senior management of the holding company establishes many policies and procedures that apply throughout the organization, and such policies and procedures are best reviewed company-wide. Moreover, members

of the holding company's board of directors (and audit committee) may be better able to command the attention of senior management when problems need to be addressed, and can bring to bear the perspective borne of a broad range of experiences across many of the banking operations.

Section 112 – Recourse Agreements

This section eliminates the Federal banking agencies' authority to prescribe capital and accounting principles for recourse that are more conservative than generally accepted accounting principles (GAAP). Capital requirements seek to protect insured depository institutions and the FDIC against unanticipated future losses. It would be inappropriate for depository institutions to report capital levels that would not reflect the true risks associated with recourse transactions. More fundamentally, we believe accounting principles and capital regulations are best established administratively, rather than by statute.

The Federal banking agencies are in the process of writing new regulatory accounting rules to cover asset sales with recourse. These new rules are intended to link capital-to-asset ratios more closely to the risk of assets sold with recourse. Therefore we do not believe legislation on this matter is necessary or appropriate at this time.

Section 114 – Report on Capital Standards

This section requires the Treasury Department, in consultation with the Federal banking agencies, to report on the effects of risk-based capital standards. We support the section, with a one-year deadline on submission of the report.

Section 115 – Minimize Potential Impact of Capital Standards on Credit Availability

The FDIC Improvement Act of 1991 required each Federal banking agency to revise its risk-based capital standards to ensure that those standards take adequate account of interest-rate risk, concentration of credit risk, and the risks of nontraditional activities.

This section prohibits any Federal banking agency from incorporating an interest-rate-risk component into its risk-based capital standards until other

countries have devised and implemented international standards. We oppose such a moratorium because we believe an interest-rate-risk component represents a cost-effective means of protecting against the very real risk that changes in interest rates will cause losses to insured depository institutions. As we believe that such a safeguard will yield net benefits to depository institutions, we believe it worth implementing even in the absence of any international agreement.

Section 121 -- Due Process Protections

We support applying the due process requirements of rule 65 of the Federal Rules of Civil Procedure to administrative and judicial enforcement proceedings by the Federal banking agencies, so long as the agencies need not show immediate irreparable injury. The House of Representatives has already passed such a provision as part of H.R. 1340, the Resolution Trust Corporation Completion Act of 1993.

Section 122 -- Culpability Standards for Outside Directors

Current law defines an "institution-affiliated party" to include any director, officer, employee, or controlling shareholder of an insured depository institution, and authorizes the Federal banking agencies to take enforcement action against such persons (e.g., through a cease-and-desist order or civil money penalty) for misconduct or breach of duty. This section would exclude an outside director from the definition of "institution-affiliated party" -- and thus exempt such a director from the agencies' enforcement authority -- unless the director acted knowingly or recklessly. In so doing, the section could create perverse incentives for a director to avoid learning about, or following up on, facts that could give rise to liability. We believe the knowing-or-reckless standard proposed here is better suited to independent contractors (e.g., outside lawyers, accountants, and appraisers) than to directors. Accordingly, although we are concerned about disincentives to service as a director, we must oppose this section.

Section 131 -- Regulatory Appeals Process

We support requiring each Federal banking agency and the National Credit Union Administration Board to establish an independent appellate process. Indeed, as part of the President's Credit Availability Program, the banking agencies have already established such a process. Any statute should

specify that the process does not impair agencies' litigation or enforcement authority.

Section 132 – Aggregate Limits on Insider Lending

Current law generally limits an insured depository institution's aggregate insider lending (i.e., extensions of credit to its officers, directors, and principal shareholders) to 100 percent of the institution's capital. The Federal Reserve Board may set a higher limit -- not exceeding 200 percent of capital -- for an institution with less than $100 million in deposits if the higher limit is important to maintain credit availability in small communities or attract directors. Congress enacted the aggregate limit to help protect against such excessive concentrations of insider lending as contributed to the 1991 failure of Madison National Bank, Washington, D.C.

This section would eliminate any need for an institution with less than $100 million in deposits to show that lending more than 100 percent of its capital to its insiders is important to attract directors or to maintain credit availability in small communities. Moreover, under this section the Federal Reserve Board could permit any institution with between $100 million and $250 million in deposits to lend up to 200 percent of its capital to insiders if the Board determined that the higher limit were important to maintain credit availability in small communities or attract directors.

Section 955 of the Housing and Community Development Act of 1992 allowed the Federal Reserve Board to exempt from the aggregate limit on insider lending transactions that pose only minimal risk. Pursuant to this authority, the Board has proposed to exempt such transactions as loans secured by insured deposits or U.S. Government securities. The Board has also proposed to limit the "tangible economic benefit" test, under which the regulators may treat a loan to a third party as a loan to an insider. These measures will render the aggregate limit on insider lending appreciably less restrictive than it was when first enacted.

We do not believe the record indicates that existing law is overly stringent.

The Federal Reserve Board currently permits an institution with less than $100 million in deposits to exceed the 100 percent aggregate limit on insider lending by taking a few simple steps: the institution's board of directors must

adopt a resolution finding that a higher limit (not exceeding 200 percent) is consistent with safe and sound banking practices in light of the bank's experience in lending to its insiders and is necessary to maintain credit availability or attract directors; and the institution must send the resolution to its primary Federal regulator, with a copy to the Board.

Yet, of the approximately 8,788 banks and 1,041 thrifts with less than $100 million in deposits, only some 44 institutions -- less than 0.5 percent of those eligible -- have submitted resolutions increasing their aggregate lending limits. Among these institutions, moreover, less than half have reported aggregate insider loans exceeding 100 percent of capital.

Section 134 – Credit Card Accounts Receivable Sales

We support this provision, which facilitates the sale of credit card accounts receivable by undercapitalized depository institutions.

Section 135 – Changes to the Federal Home Loan Bank Act to Promote Credit Availability

Under current law, the Federal Home Loan Banks (FHLBanks) make advances to member institutions to support housing finance, including residential construction lending. Because FHLBank capital cannot readily bear credit risk (as it can be withdrawn on demand), the FHLBanks avoid credit risk by requiring advances to be overcollateralized. This section would significantly increase the risk exposure to the taxpayer by allowing the FHLBanks, for the first time, to bear the credit risk associated with direct lending, and in particular, risky construction lending. Recent data from SAIF-insured private-sector thrifts show that loss rates on single-family construction loans are more than four times as great as single-family mortgages.

This section would also eliminate the requirements that real estate-related collateral have a readily ascertainable value and that the FHLBank's interest in the collateral can be perfected. Since the FHLBanks do not have the capacity to evaluate the underwriting standards for all of their members, this provision would allow members to use riskier, less liquid collateral for advances. This would increase the FHLBank's risk exposure if the borrower defaulted.

We oppose piecemeal changes in the FHLBank System, believing instead that changes should be made pursuant to a carefully prepared plan for

comprehensive reform. Section 1393 established an orderly process for considering the System's future. As part of that process, the Federal Housing Finance Board and the Congressional Budget Office have submitted reports on reforming the System, and the General Accounting Office and the Department of Housing and Urban Development will submit reports. The Treasury, the Office of Federal Housing Enterprise Oversight, the Federal Home Loan Mortgage Corporation, and the Federal National Mortgage Association will then comment on the reports. In this context, the Administration is conducting a thorough review of the FHLBank System and will recommend legislation for its reform.

Section 202 -- Paperwork Reduction Review

We strongly favor eliminating needless paperwork, as the Federal banking agencies are already seeking to do pursuant to the President's Credit Availability Program and the Interagency Policy Statement on Credit Availability. We support requiring the agencies to review their regulations and written policies, streamline those regulations and policies to improve efficiency, reduce unnecessary costs, and eliminate unwarranted constraints on credit availability, and to remove regulatory inconsistencies, outmoded requirements, and duplicative regulatory and filing requirements. We also support requiring the agencies to work toward standardizing regulations and guidelines that implement common statutory and supervisory policies. We will be happy to work with the Committee on framing these requirements.

Section 203 -- Rules on Deposit Taking

Current law prohibits an undercapitalized institution from accepting brokered deposits, and permits an institution that is adequately capitalized (but not well-capitalized) to do so only with a waiver from the FDIC. Similar restrictions apply to soliciting high-cost deposits directly (e.g., through a "money desk" offering a toll-free telephone number). The FDIC has defined high-cost deposits as those with interest rates more than 75 basis points above the prevailing rates. This section would permit an institution that is adequately capitalized (but not well capitalized) to solicit high-cost deposits without an FDIC waiver.

Brokered deposits and money desks are close substitutes for each other, and hold similar potential for abuse. We believe that they should be governed

by similar rules, and that the record does not demonstrate the need for the proposed change.

Section 204 -- Adequate Transition Period for New Regulations

We support a requirement that the Federal banking agencies, in determining the effective date of new regulations that impose additional reporting, disclosure, and other requirements on insured depository institutions, consider the costs and benefits of the regulations. We believe a balanced, flexible approach is better than rigid minimum time restrictions.

Section 301 -- Annual Examinations

Current law generally requires a Federal banking agency to conduct an annual on-site examination of each insured depository institution for which the agency is the primary Federal regulator. However, an institution must be examined only every 18 months if it: (1) has total assets of less than $100 million; (2) is well capitalized; (3) received a composite CAMEL rating of 1 (and was found to be well-managed) when last examined; and (4) has not undergone a change in control during the past year. State examinations may satisfy the annual examination requirement every other year.

This section would extend the 18-month cycle for small institutions to 24 months, raise the asset threshold to $250 million, let institutions qualify with a CAMEL rating of 2 (i.e., satisfactory) rather than 1 (outstanding), and eliminate any requirement for Federal examinations of State institutions.

We support extending the 18-month examination cycle to depository institutions with up to $250 million in assets (which account for 86 percent of all FDIC-insured institutions.) However, we believe current law properly limits the longer cycle to institutions with a CAMEL rating of 1, and properly requires a Federal examination at least during alternate examination cycles (i.e., every 24 or 36 months).

Section 302 -- Coordinated Examinations

We support this section's requirement that the Federal banking agencies coordinate examinations to minimize disruption of depository institutions' operations. Under the President's Credit Availability Program, the agencies are already working to achieve such coordination.

Section 303 -- Differences in Accounting Principles

Current law requires the Federal banking agencies to adopt uniform accounting principles generally consistent with GAAP. It also requires the Federal banking agencies to review accounting principles and work to harmonize GAAP and regulatory accounting principles. As an example of this effort, the OCC recently published proposed rules on other real estate owned and deferred tax assets. Current law also permits the Federal banking agencies to adopt accounting principles more conservative than GAAP if necessary to facilitate effective supervision and prompt corrective action to protect the deposit insurance funds. We believe current law strikes a proper balance between the desirability of general consistency with GAAP and the need to ensure that insured institutions do not exploit the flexibility of GAAP to undercut capital standards and effective supervision and disclosure.

Section 304 -- Reduction of Call Report Burdens

We support requiring the Federal banking agencies to develop a single form for core call-report information, simplify and index call-report instructions, review any schedules supplementing the core information, and eliminate unwarranted requirements from those schedules.

Section 305 -- Regulatory Review of Capital Compliance Burden

This section requires a review of the compliance requirements associated with risk-based capital standards. We believe that other measures we have endorsed already deal adequately with this issue. Section 114 requires a study of risk-based capital standards. Section 202 requires a comprehensive review of regulations. Section 304 requires a review of call reports. If a separate review under this section is required, it should consider the benefits, as well as the costs, of risk-based capital standards.

Section 307 -- Bank Secrecy Act Amendments

To curtail money laundering, tax evasion, and other unlawful activities, the Bank Secrecy Act imposes recordkeeping and reporting requirements on financial institutions. The Treasury Department is currently conducting a comprehensive review of those requirements in an effort to identify changes in statutes, regulations, and implementing forms that could reduce burdens on financial institutions without impairing the objectives of the Bank Secrecy Act. Pending the outcome of that review, the Administration opposes piecemeal changes in the Bank Secrecy Act. We would, however, have no objection to requiring the Treasury to publish all written rulings interpreting the Act as well as an annual staff commentary on regulations under the Act.

Section 309 -- Limiting Potential Liability on Foreign Accounts

We support this section, which would limit the liability of U.S. banks for deposits in their foreign branches. As national banks hold nearly two-thirds of all such deposits, we believe this section should require the Federal Reserve Board to work closely with the OCC in developing implementing regulations.

Section 310 -- Repeal Out-Dated Statutory Provision

We support this section, which would repeal outdated statutory rules for calculating bad debt -- rules long since superseded by regulatory requirements for loan-loss allowances and loan classification.

Section 321 -- Expedited Procedures for Forming a Bank Holding Company

We support allowing a freestanding bank to form a one-bank holding company after giving the Federal Reserve Board 30 days prior notice.

Section 322 -- Exemption of Certain Holding Company Formations from Registration Under the Securities Act of 1933

We support this section, which would exempt from securities registration requirements the offer or sale of equity securities in connection with reorganizing a bank into a one-bank holding company.

Section 324 -- Reduction of Post Approval Waiting Period for Bank Holding Company Acquisitions

We support this section, which would permit the Federal Reserve Board, with the Attorney General's concurrence, to reduce the post-approval waiting period for bank holding company acquisitions from 30 days to five days.

Section 325 -- Reduction of Post Approval Waiting Period for Bank Mergers

We support this section, which would permit the Federal banking agencies, with the Attorney General's concurrence, to reduce the post-approval waiting period for bank mergers from 30 days to five days.

Section 401 -- Streamlined Lending Process for Consumer Benefit

The OCC's comprehensive review of its regulations, which forms part of the President's Credit Availability Program, will also help streamline the lending process. Other Federal banking agencies have similar efforts under way. If the Committee believes the study required by this section is necessary, the Administration believes the OCC (as well as the Federal Reserve Board and the Department of Housing and Urban Development) should participate.

Section 501 -- Community Reinvestment Act Amendments

On July 15, 1993, the President announced the Administration's initiative to reform the Community Reinvestment Act (CRA) and requested the Federal banking agencies to reform CRA enforcement by January 1, 1994; train a corps of CRA examiners; implement more effective sanctions against banks and thrifts with poor CRA performance; and develop more objective, performance-based CRA assessment standards. This effort -- aimed at achieving the most fundamental and serious reform in the history of the CRA -- should be allowed to proceed before any statutory changes are pursued.

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

Text as Prepared for Delivery
For Immediate Release
October 5, 1993

REMARKS OF TREASURY SECRETARY LLOYD BENTSEN
U.S.-RUSSIA BUSINESS COUNCIL

Before I get into my remarks, I want to say just a word about what has been going on in Russia. First, I want to reiterate our strong support for President Yeltsin. He showed extraordinary patience before acting to counter the forces who precipitated the violence in Moscow.

We must remember that President Yeltsin, and those in Russia who support the reform process, are engaged in rebuilding a nation, in creating a democracy. We have no doubt about Mr. Yeltsin's commitment to let Russians speak about their future in the elections he has promised in December. We hope that the election process contributes to healing and national reconciliation in Russia.

We tend to get wrapped up in day-to-day events, but we must not lose sight of the long-term goal. What we seek, and what we see evolving, is a democratic Russia, with a market-based economy, that someday will take its rightful place in the international economy. There will be zigs and zags, but the direction continues to be forward toward economic and political change. We support that, and we are encouraged by it.

It's a good sign to me to see so many Americans gathered to talk about doing business in Russia. And it's very encouraging to see so many of you from Russia here to talk about doing business with us. This could be the start of a beautiful friendship, as they say.

I would like to use the time I have with you today to look at the Russian situation in the context of the economic challenges we face in the United States, and the broader economic challenges we face globally.

First, our programs here in the United States are intended to preserve and improve upon the economic security to which Americans are entitled. We're doing that through deficit reduction, through reforming our health care system, and by pushing hard on the international front for expanded trading opportunities.

We recognize that what we do does not happen in a vacuum. As much as we are affected by events away from our shores, our actions affect lives elsewhere also. This is particularly true when we act in concert with other industrial nations.

It is against this backdrop of the new global economic reality that we look at an era of profound political and economic transformation around the world. The change will not happen by itself. It will take an investment of time, effort, and resources. Our success will be measured by how well we meet three key challenges.

We must restore global growth and start creating jobs again. We must maintain the momentum of global economic integration. And we must, as we are helping do in Russia, rebuild economies that have undergone crises.

At the G-7 level, we now have a program that I believe will restore global growth. It includes deficit reduction and interest rate reductions in the United States and Europe, along with stimulative actions, structural changes and tax reforms in Japan. We are now beginning to see results, particularly in the United States.

Our interest rates are at historically low levels. Interest rates are down significantly in Europe, although there still is some room for improvement. Japan has now announced a third stimulus package and a tax reform plan.

Our economy is growing again. We are creating jobs. We expect growth in the range of about 3 percent for the final half of this year. The World Bank outlook for the industrial world this year was just 1.1 percent. What that tells me is that we cannot by ourselves bring the world economy along. Every economy must do all it can to restore growth.

Encouraging trade is something we can all do to bring growth to a wider segment of the global economy. That's why in the United States we are pushing hard for the North American Free Trade Agreement. That is also why we are determined to reach a successful conclusion of the Uruguay round by December 15th.

I would note that last week President Clinton announced that many of the export restrictions of high technology products like computers will be removed. That will give Russia and other countries better access to things that can help in the transformation process. It's a welcome development.

In addition, I would point out that last week at the World Bank and IMF meetings I urged Western nations to do everything possible to ensure that their markets are open to Russia's goods.

As businessmen and government officials, you understand that government cannot do it all -- not in the United States, and not in Russia.

Two things are necessary to unleash the enormous potential of Russia's economic power. First, the economic policies that support a market economy must be put in place. That is government's role. The official community -- the nations and international financial institutions who are helping -- have limited resources. That is why it is also key that the private sector become involved as early and as deeply as possible.

I would urge those of you from the public sector in Russia, to press on in creating the legal framework that makes private investors feel comfortable about doing business in Russia. I was in business for a number of years, and I've been in government for a few more. I know how critical it is that the rules of the game be transparent, fair, and immune from constant change.

Part of the transformation must include resolution of questions on property rights and contract law. Tax rules must be spelled out clearly, enforced fairly, and held relatively constant. And market-based pricing is a must if the private sector is to make investments in Russia.

To those in the business community, I would say that Russia can become an excellent place to invest, if it will create the climate in which you can do so.

If Russia is successfully integrated into the world economy, we will have virtually limitless business opportunities. And, we will have created an engine of growth for the next generation.

It has been fascinating watching the transformation of Russia take place. And it has been gratifying to see how the world community has joined together to support this effort. We all recognize the importance of getting this right.

While there is a certain altruism to our position, we must also recognize that assisting in this transformation is in our security interests also. A prosperous and democratic Russia enhances world security. It allows both of us to choose butter over guns. It allows us to devote our attention to improving the economic security of our citizens.

We have taken several major steps in recent days to assist in the transformation process. And I would note that we are taking these steps even though we face serious budget pressures of our own.

First, Congress has approved $2.5 billion in assistance for Russia and the other republics of the former Soviet Union.

Secondly, last week in my office, Boris Fedorov and I signed an agreement to reschedule $1.1 billion in Russian debt payments to the United States. By the way, I can tell you that it is quite clear that Mr. Fedorov knows where Russia's economy needs to go, and that he is doing his best to get it there.

Finally, I want to tell you that about 10 days ago I had an opportunity to talk with Mr. Fedorov when he came to visit with us at our G-7 Finance Ministers meeting. He told us of President Yeltsin's solid commitment to democracy and market reform. We told him that we remain committed to assist Russia.

We in the United States, and indeed throughout the international community, have made substantial commitment to Russia. We want Russia to succeed. But neither we nor the international community nor the private sector alone can make this work.

The primary responsibility lies with Russia. Despite the day-to-day headlines, I think we are making progress.

I was in Moscow in June to meet with President Yeltsin and a number of other Russian leaders. I was impressed then by the significant progress that had been made in the area of privatization. Today, some 70,000 small shops have been privatized. One-fifth of the industrial work force is in medium and large firms which have gone private. Small private firms are springing up all over. The market system is taking hold, and I believe this change is irreversible.

When I was in Moscow, I remember leaving my meeting with President Yeltsin and walking through the Kremlin grounds. We went out the Spasky gate into a delightful spring day. The sky was clear, St. Basil's was sparkling. The tourists were lining up on Red Square for the Kremlin tour. I was struck by just how different the economy of Russia of today is from the Russia I visited three years ago. It's like night and day. There's food in the stores, and kiosks are springing up all over. I think it's going to work out. Moscow's skies may have been dark the past few days, but I believe clearer skies lay ahead.

Thank you.

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// TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

FOR RELEASE AT 2:30 P.M.
October 5, 1993

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $25,600 million, to be issued October 14, 1993. This offering will provide about $1,875 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $23,713 million.

Federal Reserve Banks hold $5,561 million of the maturing bills for their own accounts, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold $2,045 million as agents for foreign and international monetary authorities, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills.

Tenders for the bills will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356, published as a final rule on January 5, 1993, and effective March 1, 1993) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about each of the new securities are given in the attached offering highlights.

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Attachment

LB-414

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED OCTOBER 14, 1993

October 5, 1993

Offering Amount	$12,800 million	$12,800 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 H4 9	912794 J9 6
Auction date	October 12, 1993	October 12, 1993
Issue date	October 14, 1993	October 14, 1993
Maturity date	January 13, 1994	April 14, 1994
Original issue date	January 14, 1993	October 14, 1993
Currently outstanding	$27,380 million	---
Minimum bid amount	$10,000	$10,000
Multiples	$ 1,000	$ 1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

Noncompetitive bids . . . . Accepted in full up to $1,000,000 at the average discount rate of accepted competitive bids

Competitive bids . . . .
(1) Must be expressed as a discount rate with two decimals, e.g., 7.10%.
(2) Net long position for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is $2 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid at a Single Yield . . . . 35% of public offering

Maximum Award . . . . 35% of public offering

Receipt of Tenders:

Noncompetitive tenders . . . . . . Prior to 12:00 noon Eastern Daylight Saving time on auction day

Competitive tenders . . . . Prior to 1:00 p.m. Eastern Daylight Saving time on auction day

Payment Terms . . . . Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

Text as Prepared for Delivery
For Immediate Release
October 6, 1993

REMARKS OF TREASURY SECRETARY LLOYD BENTSEN
WHITE HOUSE PRESS CORPS

It's a simple message today: long term, the health of this economy depends on health care reform.

Let me just say a few things. We have the most wasteful system in the world. You've heard the numbers. We spend 14 percent of our total incomes on health. Our major competitors spend 6 to 9 percent. And we're no healthier.

And not only do the other countries pay less, they cover everybody. We're the only industrialized nation without universal coverage. 37 million Americans have no insurance -- and the number keeps heading up.

But don't kid yourself. You're paying for everyone of those uninsured. When CBS, NBC, ABC, CNN, or any business that pays insurance gets the bill at the end of the month, they're picking up the tab for the uninsured parent who takes the kid to the emergency room.

In Texas, I know a hospital that last year had $42 million in uncompensated care. They'll recover it, by charging the insured through the nose for beds, and surgery, and services.

One other point: we're hurting wages. If health care had remained the same share of employee compensation from 1975 to 1993, the average American worker could get an annual $1,000 pay raise in after-tax income, without any extra costs to the employer. If current trends continue without reform, real wages may be further reduced by over $600 per year by the end of the decade.

So we have to fix this. We have to stop this cost shifting, we have to cut this waste, we have to restructure the system so that resources are used more efficiently, and we have to bring some competition into health care.

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TREASURY NEWS

Department of the Treasury   Washington, D.C.   Telephone 202-622-2960

Text as Prepared for Delivery
For Immediate Release
October 6, 1993

REMARKS OF TREASURY SECRETARY LLOYD BENTSEN
ECONOMIC CLUB OF CHICAGO
CHICAGO, ILLINOIS

They warned me that it's been a long time since you've had a Democrat at one of these, so let me just say it's a real honor to be here.

This month is unusual for me. I started out, the first of October, doing something I never thought I'd ever do. I participated in a conference to support economic development in the West Bank and Gaza.

I'm going to end the month also doing something I never dreamed I'd do. Maybe some of you recall back in '88 when I ran for a national office I said if I could write $200 billion in hot checks every 12 months, I could make this country feel good, too. Well, I'm about to write my $200 billionth -- and it'll be just after nine months into office. Not 12. Nine. Now I understand why Jim Baker, when he was Treasury Secretary, liked to say: "At Treasury we earn money the old-fashioned way: We print it!"

Let me start with a little history. In 1932, Franklin Roosevelt accepted the nomination for President here in Chicago, and he outlined the New Deal.

"What do the people of America want more than anything else?" he asked. "To my mind they want two things: work, with all the moral and spiritual values that go with it; and with work a reasonable measure of security -- security for themselves and for their wives and children."

Now, you would have thought Bill Clinton said that, wouldn't you?

Around the world, America is the symbol of security -- economically and militarily. Russia is having problems now. But yesterday Bob Strauss had me meeting with Russian businessmen, talking about how to privatize, not how to aim missiles. The Middle East will have problems. But I sit with Palestinians and Israelis to talk roads and safe water, not weapons.

We've won the peace -- yet in this country we still need to win some peace of mind. Especially when it comes to jobs. That's what I want to talk about.

So, I'm going to talk NAFTA. Because the people who oppose this are playing to the insecurities of Americans. They are out there --- with wrong facts about U.S. jobs -- trying to scare people.

It is laughable to think that if NAFTA passes we are in danger of being inundated by Mexico -- a country with an economy 5 percent the size of ours.

They say if this passes, jobs will head south because of the low wages. Baloney. Jobs can go south now. BMW and Mercedes would be building their new plants in Mexico rather than the U.S. if all they were concerned about were wages.

If we used that logic, Bangladesh would be our biggest competitor. Look who our biggest competitor is -- Japan, where wages are 30 percent higher.

The NAFTA debate should not be about what country will lose jobs. It should be about which will get the 200,000 jobs to be created -- America, Japan, or Europe?

If we don't sign up, others would be more than interested in finding a market with 90 million people growing twice as fast as ours.

The Japanese are always on the lookout for lucrative markets. They found one in the United States in the '70s. Now they see Asia as a great opportunity, and they've pursued that block much more aggressively than we have.

But Mexico is where we have the leg up. It's our neighbor. And Mexicans like American products. We export $40 billion a year there, versus Europe's $6 billion, and Japan's $4 billion.

Seventy percent of the imports they buy are American goods. Last year, each Mexican, on average, purchased more U.S.-made products than the average Japanese, German, or Canadian.

I was born on that border. On the Mexican side, I haven't always seen a willingness to be partners. I've watched Mexican politicians campaign against us as the colossus of the north, the gringos.

They've changed. For the last six years, they've opened their markets and bought our products, and that has already created 400,000 jobs in this country. We've gone from a $6 billion trade deficit with them, to a $5 billion surplus. And they didn't open those markets because we held a gun to their heads -- they did it in good faith.

But right now, in spite of liberalization, the average product entering Mexico from the U.S. is slapped with a 10 percent tariff. Mexican products entering the U.S. get, on average, a 4 percent tariff.

So, tariffs there are two-and-a-half times higher than what they are here. I don't see fairness, and we're on the bad end of that deal.

When this passes, half of our goods headed to Mexico will be eligible for zero tariffs. Within five years, two-thirds will be. And these zero tariffs will apply only for our goods and Canada's goods. Not Japan's. Not the EC's.

There's a small company here in Chicago -- Finkl & Sons. It's a unionized forging shop that has started doing business in Mexico. Keep in mind, 95 percent of its competition comes from outside this country.

I visited there last month. When I talked about NAFTA, many employees were skeptical. They had heard the warnings: if NAFTA passes, jobs move south.

So I asked the owner flat out: "Are you planning to move jobs out of Chicago and into Mexico?" The answer was no. The workers were not convinced. Fear is playing on them.

When I said, "If you don't take advantage of doing more business in Mexico, your Japanese and European competitors would be glad to," they heard me better.

Let me tell you what will happen if NAFTA fails. Our market will stay open, but Mexico will be able to jack trade barriers right back up. They could raise them up to 50 percent, and still be in compliance with GATT.

We'd hurt our chances to open Latin America, which after Asia, is the fastest growing market around -- and already our exports there are rising substantially faster than they are to Europe.

If this fails, how can we say to Europe or Japan or anybody else: Why don't you pass the GATT agreement?

We won't address environmental concerns on the border. In the Senate of the United States, I talked about millions of gallons of raw sewage headed to the Rio Grande, and babies born with brain damage on the border. And nobody listened. Finally, we have something that will help clean up the environment, and it's not good enough?

And if this fails, we'll still be importing immigrants from Mexico. There's an awful lot of truth to the statement that if Mexicans don't have jobs, Americans will have Mexicans.

I can't remember a political debate like this. Forty-one of 50 governors support it. And they know about jobs, because they get elected only if they create jobs.

The opposition is led by one businessman. One. I give him credit for speaking his mind.

I hope you respond. I'm glad to announce that I just received a letter from the Chicago Board of Trade endorsing NAFTA, and I appreciate it. All of you are the opinion makers in this country, and we need you out there influencing opinion.

Now, let me talk a little about health care reform -- because we're running into the same problem. We have the American people riddled with insecurity on this.

I'll tell you what I'm afraid of. I'm afraid what will happen if we don't do health care reform.

Now health care costs are rising three times inflation. Health care consumes 14 percent of GDP, while in the other industrialized countries it consumes 9 percent. And we're headed for 20 percent by the end of the decade. That's not sustainable.

I don't know another major nation without universal health care coverage. We have 37 million Americans without coverage, but everyone who has coverage is already paying for them.

If a kid gets sick, and his uninsured parents take him to the emergency room -- who pays for it? You do.

There's a hospital in Texas that has $42 million a year in uncompensated care, and they make up for it by charging more for beds and surgery and services.

We must be able to put competition back into the system. We must become more competitive. We're seeing some of that now, with mergers and affiliations, and we have to do more.

You know, all these insecurities, all this pessimism that the anti-NAFTA group brings -- I think masks what has really happened in this country, especially in the manufacturing sector. We've become competitive.

I know what some of you've been through. Foreign competition caught you off guard. You got fat. You had to get through a recession. You probably had some dumb policies out of Washington to cope with. Your stockholders, boards of directors, and the environmentalists became more demanding.

But look how you've changed. You've squeezed the fat. You've restructured your balance sheets. Capital investments are up. Labor and management have worked together -- to increase efficiency, to change the work rules, to improve quality. Labor rules in this country are not frozen like in Europe.

American workers are the most productive in the world, and productivity is rising -- rapidly. Factory work weeks haven't been this high since 1965.

"Made in America" means something again. U.S. exports have doubled since the mid-'80s.

A few years ago, I remember reading stories about foreigners calling American workers lazy and stupid. And how many Americans would you hear say: "We won't buy it unless it's an import."

Yesterday, I visited with some of the heads of the Big Three and some huge auto suppliers. The Big Three's market share is up about four points in the last two years.

Let me wind down with this. I recall being at a meeting in France three years ago. A European got up and said: "Look at the great changes in the world. The end of the Cold War. Europe and Asia emerging as the world leaders. And America on the decline."

It's a little ironic that three years later much of Europe is in a recession, Japan is in a recession, and America is not just a military leader -- we remain the world's economic leader -- the engine of growth in the world.

I was just at a meeting with my G-7 counterparts, and many are struggling. If longevity of finance ministers is any indication, eight months ago when I met them for the first time, I was the freshman in the class. Now, I'm the second most senior guy.

They all look to America. They see that we have cut our deficit, and they're impressed. They see the market's response, and they're impressed: the lowest long-term interest rates in two decades, the highest stock market, employment up by more than a million since January, and we're growing faster than all of them.

The only thing missing, I think, is impressing the most skeptical people around -- Americans. We'll keep working on that one.

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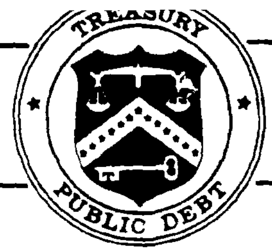
PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239



FOR RELEASE AT 3:00 PM
October 6, 1993

Contact: Peter Hollenbach
(202) 219-3302

PUBLIC DEBT ANNOUNCES ACTIVITY FOR SECURITIES IN THE STRIPS PROGRAM FOR SEPTEMBER 1993

Treasury's Bureau of the Public Debt announced activity figures for the month of September 1993, of securities within the Separate Trading of Registered Interest and Principal of Securities program (STRIPS).

Dollar Amounts in Thousands

Principal Outstanding (Eligible Securities)	$724,745,311
Held in Unstripped Form	$525,117,560
Held in Stripped Form	$199,627,751
Reconstituted in September	$26,383,810

The accompanying table gives a breakdown of STRIPS activity by individual loan description. The balances in this table are subject to audit and subsequent revision. These monthly figures are included in Table VI of the Monthly Statement of the Public Debt, entitled "Holdings of Treasury Securities in Stripped Form."

Information about "Holdings of Treasury Securities in Stripped Form" is now available on the Department of Commerce's Economic Bulletin Board (EBB). The EBB, which can be accessed using personal computers, is an inexpensive service provided by the Department of Commerce. For more information concerning this service call 202-482-1986.

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PA-131

TABLE VI—HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, SEPT[illegible]
(In thousands)

Loan Description	Maturity Date	Principal Amount Outstanding			Reconstituted This Month[1]
		Total	Portion Held in Unstripped Form	Portion Held in Stripped Form	
11-5/8% Note C-1994	11/15/94	$6,658,554	$5,135,354	$1,523,200	$171,200
11-1/4% Note A-1995	2/15/95	6,933,861	5,562,501	1,371,360	193,120
11-1/4% Note B-1995	5/15/95	7,127,086	4,232,206	2,894,880	22,400
10-1/2% Note C-1995	8/15/95	7,955,901	4,984,301	2,971,600	55,200
9-1/2% Note D-1995	11/15/95	7,318,550	3,915,750	3,402,800	26,000
8-7/8% Note A-1996	2/15/96	8,444,720	7,636,720	808,000	1,600
7-3/8% Note C-1996	5/15/96	20,085,643	19,344,843	740,800	283,200
7-1/4% Note D-1996	11/15/96	20,258,810	18,076,410	2,182,400	40,000
8-1/2% Note A-1997	5/15/97	9,921,237	8,583,237	1,338,000	60,000
8-5/8% Note B-1997	8/15/97	9,362,836	7,950,036	1,412,800	11,200
8-7/8% Note C-1997	11/15/97	9,808,329	7,425,929	2,382,400	89,600
8-1/8% Note A-1998	2/15/98	9,159,068	8,511,708	647,360	43,520
9% Note B-1998	5/15/98	9,165,387	6,718,587	2,446,800	60,000
9-1/4% Note C-1998	8/15/98	11,342,646	9,575,446	1,767,200	110,400
8-7/8% Note D-1998	11/15/98	9,902,875	7,418,075	2,484,800	19,200
8-7/8% Note A-1999	2/15/99	9,719,623	8,962,823	756,800	30,400
9-1/8% Note B-1999	5/15/99	10,047,103	7,445,503	2,601,600	49,600
8% Note C-1999	8/15/99	10,163,644	8,915,019	1,248,625	49,500
7-7/8% Note D-1999	11/15/99	10,773,960	9,178,760	1,595,200	9,600
8-1/2% Note A-2000	2/15/00	10,673,033	9,809,033	864,000	66,000
8-7/8% Note B-2000	5/15/00	10,496,230	7,395,430	3,100,800	259,200
8-3/4% Note C-2000	8/15/00	11,080,646	8,729,926	2,350,720	121,440
8-1/2% Note D-2000	11/15/00	11,519,682	9,547,282	1,972,400	112,000
7-3/4% Note A-2001	2/15/01	11,312,802	10,393,602	919,200	7,200
8% Note B-2001	5/15/01	12,398,083	10,787,358	1,610,725	21,000
7-7/8% Note C-2001	8/15/01	12,339,185	11,495,985	843,200	4,800
7-1/2% Note D-2001	11/15/01	24,226,102	23,949,622	276,480	37,120
7-1/2% Note A-2002	5/15/02	11,714,397	11,205,917	508,480	-0-
6-3/8% Note B-2002	8/15/02	23,859,015	23,678,215	180,800	-0-
6-1/4% Note A-2003	2/15/03	23,562,691	23,560,675	2,016	-0-
5-3/4% Note B-2003	8/15/03	12,932,637	12,932,637	-0-	-0-
11-5/8% Bond 2004	11/15/04	8,301,806	6,037,806	2,264,000	1,323,200
12% Bond 2005	5/15/05	4,260,758	3,378,308	882,450	740,000
10-3/4% Bond 2005	8/15/05	9,269,713	8,510,513	759,200	362,400
9-3/8% Bond 2006	2/15/06	4,755,916	4,755,276	640	-0-
11-3/4% Bond 2009-14	11/15/14	6,005,584	4,034,384	1,971,200	1,099,200
11-1/4% Bond 2015	2/15/15	12,667,799	6,909,879	5,757,920	2,490,240
10-5/8% Bond 2015	8/15/15	7,149,916	2,573,276	4,576,640	333,440
9-7/8% Bond 2015	11/15/15	6,899,859	2,787,859	4,112,000	2,577,600
9-1/4% Bond 2016	2/15/16	7,266,854	5,560,454	1,706,400	1,058,400
7-1/4% Bond 2016	5/15/16	18,823,551	18,343,551	480,000	242,400
7-1/2% Bond 2016	11/15/16	18,864,448	17,734,608	1,129,840	25,040
8-3/4% Bond 2017	5/15/17	18,194,169	3,919,289	14,274,880	228,320
8-7/8% Bond 2017	8/15/17	14,016,858	5,442,458	8,574,400	1,451,200
9-1/8% Bond 2018	5/15/18	8,708,639	2,001,439	6,707,200	937,600
9% Bond 2018	11/15/18	9,032,870	969,270	8,063,600	692,000
8-7/8% Bond 2019	2/15/19	19,250,798	3,313,198	15,937,600	200,000
8-1/8% Bond 2019	8/15/19	20,213,832	13,815,752	6,398,080	379,840
8-1/2% Bond 2020	2/15/20	10,228,868	3,774,468	6,454,400	1,287,200
8-3/4% Bond 2020	5/15/20	10,158,883	2,039,683	8,119,200	701,760
8-3/4% Bond 2020	8/15/20	21,418,606	3,441,006	17,977,600	193,280
7-7/8% Bond 2021	2/15/21	11,113,373	9,674,973	1,438,400	492,800
8-1/8% Bond 2021	5/15/21	11,958,888	4,123,048	7,835,840	188,800
8-1/8% Bond 2021	8/15/21	12,163,482	6,852,442	5,311,040	1,157,440
8% Bond 2021	11/15/21	32,798,394	13,566,219	19,232,175	4,599,950
7-1/4% Bond 2022	8/15/22	10,352,790	9,072,790	1,280,000	164,800
7-5/8% Bond 2022	11/15/22	10,699,626	9,533,226	1,166,400	468,800
7-1/8% Bond 2023	2/15/23	18,374,361	18,363,161	11,200	1,033,600
6-1/4% Bond 2023	8/15/23	11,530,334	11,530,334	-0-	-0-
Total		724,745,311	525,117,560	199,627,751	26,383,810

[1] Effective May 1, 1987, securities held in stripped form were eligible for reconstitution to their unstripped form.

Note: On the 4th workday of each month Table VI will be available after 3:00 pm eastern time on the Commerce Department's Economic Bulletin Board (EBB). The telephone number for more information about EBB is (202) 482-1986. The balances in this table are subject to audit and subsequent adjustments.

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

FOR RELEASE UPON DELIVERY
EXPECTED AT 2 P.M. EST

STATEMENT OF THE HONORABLE JEFFREY SHAFER
ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS
U.S. TREASURY DEPARTMENT
BEFORE THE
HOUSE BANKING SUBCOMMITTEE ON
INTERNATIONAL DEVELOPMENT, FINANCE, TRADE AND MONETARY POLICY
THURSDAY, OCTOBER 7, 1993

Sub-Saharan Africa: The Debt Dimension

I welcome this opportunity to discuss the international debt problems of the poorest countries, particularly in Sub-Saharan Africa. There has been considerable discussion within the international community during the past few years about the nature of their debt problems, and what should be done to help resolve them. I would like to share some of my own thoughts on this issue with you, and look forward to hearing the views of the other members of this panel, as well.

Sub-Saharan Africa has benefitted in recent years from an unprecedented level of external support. Despite debt burdens, net transfers of resources as a percentage of the region's gross national product were 7.5 percent in 1991 -- well above that of other developing countries (just over 1 percent for all those reporting to the World Bank). Yet economic stagnation and poverty continue to prevail. Clearly much must change before the region can achieve economic recovery; debt burdens are only a part of the story.

For most of the 1980s, the middle income countries of Latin America were the major focus of debt concern. As the Latin American debt crisis has moved toward resolution, due to both strong reform efforts and commercial bank debt reduction packages, the spotlight has properly focussed on the debt problems of the poorest countries, particularly Sub-Saharan Africa. This region has accumulated external debt since 1980 at an even more rapid pace than Latin America -- more than tripling as compared with a doubling in Latin America. Moreover, Sub-

Saharan debt has continued to grow, despite major debt reduction programs by creditor governments, while it began to decline after 1987 in Latin America.

The nature of the debt problems and creditor profiles in the two regions are very different, and underscore the need for different approaches to a resolution:

-- In Latin America, more than half of the total debt was owed to commercial banks, subject to variable interest rates: agreements with the banks to reduce the stock of debt or reduce and fix interest rates were therefore a vital component of any solution.

-- In Sub-Saharan Africa, commercial banks hold only a small share of the debt. Governments account for about half of the region's debt and have been the primary source of relief. International institutions (primarily the IMF, World Bank, and African Development Bank) hold about 30 percent of the debt; new concessional loans help to maintain a positive transfer of resources to the region from these institutions. While more than half of the region's debt to official creditors is on concessional terms, and frequent rescheduling of bilateral debt has provided substantial debt service relief, the problem has continued to snowball. The Paris Club of creditor governments has therefore focussed increasingly on additional measures to reduce the burden of the region's non-concessional debt.

-- The U.S. share of Sub-Saharan Africa's debt is small -- only 15 percent of the region's debt to governments, and 3 percent of its total debt. Thus, U.S. action to help these countries will have the most impact if coordinated with other governments through the Paris Club. Our voice in favor of debt relief may be more important than the relief that we provide directly. But we have to take part in order to be heard.

The poorest countries in Sub-Saharan Africa now have total long-term debt in excess of $90 billion. Total long-term debt for the region is over $150 billion. Debt ratios for this region are higher than that of any other region in the world. To place them in perspective:

-- If all of the region's export earnings went to pay for outstanding debt, and none for imports of goods and services, it would still take the region 3 years to pay off its debt.

-- Annual scheduled debt payments, if they could be met, would absorb 40 percent of annual export earnings. By contrast, the region has demonstrated an ability to pay less than half of this amount annually.

High and rising debt ratios over an extended period are an indication of problems that are not going to go away by themselves: they are solvency problems, not mere liquidity problems that could be solved by providing new credits for a limited period to tide them over. Regional aggregates, however, mask a wide range of individual country debt profiles. Botswana and Mauritius do not have debt problems. On the other hand, Mozambique would have to dedicate all of its export earnings for 11 years to pay off its outstanding stock of debt. And Zambia's debt is nearly twice its annual national income.

Effects of Debt Burdens

What do these types of debt burdens mean for the poorest nations? For many of these countries there is no hope for a return to a sustainable course without debt reduction on a large scale. Trying to meet scheduled debt service payments means onerous budgetary and external transfer burdens, and a constant drain on the country's future growth potential. Not making scheduled payments means that, unless unpaid amounts are forgiven, unpaid interest is added to the stock of debt, which continues to grow like a snowball from year to year.

Major unresolved debt problems, especially a build-up of arrears, also can have a chilling effect on new financial flows, as lenders or investors shy away from a perceived high risk environment. Why would an investor choose to place his funds in a country where he would have to stand behind creditor governments already lined up for limited payments? It is therefore no surprise that total private capital flows to Sub-Saharan Africa in 1991, including net direct foreign investment, totaled only about $2 billion, compared to a level of about $30 billion each in Asia and Latin America. And these funds were concentrated in a few countries with oil or other mineral resources.

Africa's debt problems not only inhibit capital inflows, they encourage those with capital in the country to move it out. Africans and former investors have been taking funds out of Africa at a rapid rate. According to the World Bank, flight capital from Sub-Saharan Africa had cumulated to 95% of aggregate GDP at the end of 1991, higher than for any other region except the Middle East. Debt is certainly not the only reason for capital outflows. Political actions and unsound economic policies have all too often driven money out of African countries.

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Major unresolved debt problems, especially a build-up of arrears, also can have a chilling effect on new financial flows, as lenders or investors shy away from a perceived high risk environment. Why would an investor choose to place his funds in a country where he would have to stand behind creditor governments already lined up for limited payments? It is therefore no surprise that total private capital flows to Sub-Saharan Africa in 1991, including net direct foreign investment, totaled only about $2 billion, compared to a level of about $30 billion each in Asia and Latin America. And these funds were concentrated in a few countries with oil or other mineral resources.

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Measures Taken thus Far to Address Debt Burdens

What would help to keep this capital at home, and to attract other investors as a source of new financing? The same measures that have worked in many Latin American countries: fundamental economic reforms aimed at creating a more favorable and stable business climate (including basic safeguards for investments), combined with international support to help bring the burden of external payments into better balance with the ability of the debtor nation to service its debt over time.

The required policies include both macroeconomic stabilization and microeconomic reforms to improve economic potential. Debt relief in the absence of good economic policies cannot stimulate growth or restore access to capital markets. Countries do not get on, and remain on, the required course without good governance -- transparency, accountability, rule of law, and public participation. Given these, the international community can help countries make difficult adjustments.

The IMF and the World Bank have been working closely with Sub-Saharan African countries to support their reform efforts through expanded concessional assistance. Indeed, 45 - 50 percent of the World Bank's concessional loans are now targeted for Sub-Saharan Africa. The IMF has also supported macroeconomic stabilization efforts through the Enhanced Structural Adjustment Facility (ESAF), and is currently discussing a successor facility.

Government creditors have long been willing to reschedule debts of countries that could not meet their payments in the so-called Paris Club. This became a routine and recurring practice in the 1980s. Despite repeated reschedulings, only two of the thirty low-income rescheduling countries have subsequently graduated from the Paris Club.

In 1988, the creditor governments of the Paris Club recognized that many of the poorest countries would never be able to service fully their external debt, even with heroic economic reforms. Most of these countries are in Sub-Saharan Africa. For severely-indebted low-income countries which were undertaking serious efforts to improve their economic policies, therefore, creditor governments introduced debt and debt service reduction for non-concessional debt. These options were designed to reduce debt payments coming due by roughly one-third. A third option offered long-term rescheduling, and was chosen by the United States since we did not have Congressional authorization or appropriations to reduce debt. These new terms were labelled "Toronto Terms" since the impetus for moving to debt reduction came from the 1988 G-7 Economic Summit held in Toronto.

The debt relief offered by Toronto Terms proved insufficient to restore viability to many of the low-income countries. In December of 1991, therefore, the Paris Club members agreed to deepen the relief provided. The new agreement was reflected in "Enhanced Toronto Terms," which included options to increase the effective debt reduction on payments coming due to 50 percent. The Paris Club also agreed to consider reducing the stock of debt, rather than simply payments coming due, after a period of three to four years. Once again the United States chose to reschedule debts rather than to provide debt reduction.

Since the introduction of debt reduction options in the Paris Club in 1988, creditors have reduced payments coming due on non-concessional debt from the poorest countries by about $3 billion. In addition, the United States and several other creditors have forgiven concessional debt bilaterally. The United States has forgiven $1.1 billion of concessional debt owed by Sub-Saharan Africa.

The Clinton Administration has made a priority of seeking Congressional authorization and appropriations to enable the United States to join other Paris Club creditors in providing 50% reduction of non-concessional debt for the poorest countries under Enhanced Toronto Terms. Thanks in part to the actions of this subcommittee, we now are able do this in Fiscal Year 1994.

Future Considerations

We recognize the interest of this subcommittee in moving to even deeper debt reduction for the poorest countries, as reflected in the sense of Congress resolution included in the final FY 1994 appropriations legislation. We share this interest. We will consider how much we can do and how we can

provide debt relief most effectively as we prepare the Administration's FY 1995 Budget request.

Debt relief is not free, although our budgetary process recognizes that reducing by one dollar the debt of a country that is unable to make payments is not the same thing as spending a dollar. This is because the debt may be worth only a few cents on the dollar, reflecting the prospect of repayment. The budget scorers are supposed to base their charges on estimates of what the debt is actually worth: that is, on what we expect to receive in payments over time. For this reason, debt reduction can be a cost-effective way of helping countries in financial difficulty. We recognize that debt reduction's immediate economic benefits may be limited, when compared to a dollar of aid that can be used to buy imports. However, not only immediate benefits, but also future growth prospects are important. If debt reduction is sufficiently deep, it can provide the longer-term benefit of restoring external viability.

With limited budgetary resources, we must consider carefully our options for new flows, debt service relief, and debt stock relief in crafting our assistance. If deeper debt reduction reduces our bilateral assistance and support for multilateral assistance through IDA and the African Development Bank and Fund, due to budget constraints, we have to consider the relative impact of alternative uses of our budget resources. Clearly, without debt relief there can be little hope for the future. We must have both debt relief and new assistance in our strategy. We must also ensure that resources for both debt reduction and new flows are used effectively. This means concentrating them on countries where policy conditions are favorable. To grant sufficient debt relief to a country that is committed to a sound economic policy course so that its future debt service is manageable is the key to fostering new economic success stories among the poor countries in Africa to go with those that we now see among the once problematic middle-income countries of Latin America.

As called for in the Tokyo Summit communique, we will be examining the question of stock of debt reduction in the Paris Club. Until now the Paris Club has only reduced debt on payments coming due during a specific time period. We will study the appropriate timing of stock reduction and the policy conditions that are needed to offer good prospects that the result will be an exit from the cycle of repeated rescheduling. It will be important to ensure that any stock of debt reduction be large enough to make a fundamental change in a country's debt situation, and that the resulting payments profile be manageable when sound economic policies continue to be followed.

Conclusion

In summing up I would like to stress the following points:

-- Debt relief is absolutely critical, but not sufficient, to get the poorest countries on a development track.

-- Sound economic policies are also essential, as are non-debt resource flows.

-- The United States can best "leverage" its debt reduction efforts by joining with other creditors in debt relief.

-- A dollar of debt reduction is less costly for the United States in budgetary terms than a dollar of new grant assistance.

-- The Administration will be moving with the Paris Club in FY 94 to provide debt reduction for the poorest countries. As we develop our budget request for FY 95, we will be examining how best to structure debt relief so that it will have the best hope of moving countries across the threshold to sustainable debt levels.

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

REMARKS BY
LAWRENCE H. SUMMERS
UNDER SECRETARY FOR INTERNATIONAL AFFAIRS
DEPARTMENT OF THE TREASURY
AT A
SYMPOSIUM ON PRIVATIZATION
DEPARTMENT OF STATE
OCTOBER 7, 1993

"PRIVATIZATION, THE MARKET, AND FREEDOM"

I am delighted to have this opportunity to address the crucial topic of privatization. Of the many economic ideas that have gained currency in recent years -- monetarism, rational expectations, supply-side economics -- privatization, I think, will have the most enduring importance for prosperity worldwide. Economists and others once believed that governments could and should operate industries. But today, around the world, the state is retreating from productive sectors of the economy, and the private sector is rushing in.

States on the retreat

- In Mexico, the number of state owned enterprises has been reduced from 1,155 to 200, and the government has raised more than $15 billion in the process.
- During the 1980s, Britain sold 30 major enterprises employing 800,000 people for some £27 billion.
- During the first 18 months of its privatization program, Russia sold 70,000 shops and distributed shares in 4,000 large enterprises that employ almost five million workers.
- A private company now collects tariffs for the public water company in Venezuela.

- Thailand, Hungary and Mexico are allowing private firms to build toll roads. Argentina has privatized 10,000 kilometers of country roads so far, and has plans to privatize another 16,000 kilometers.

- And Argentina, Colombia and Pakistan are leasing railroad lines to the private sector.

Why the rush to privatize? To save money, for one.

- According to the *Financial Times*, IRI, the gigantic Italian state-owned firm that does everything from baking to banking, telephones to television, lost about $4 billion last year, and manages to lose money almost every year. So much money that its total debt is now equivalent to 5% of Italy's GDP. This is just one loss-making company!

Another reason is to clarify sometimes conflicting roles in a "mixed" -- or mixed-up -- economy.

- Per Westerberg, Minister of Industry and Commerce of Sweden, a country once admired as a successful welfare state, explains that his country must abandon the "confusion economics" of the past for the market. As he puts it, "... there will no longer be any doubt about what is and what is not the role of the state in the economy".

Still another is that governments, influenced by political factors, have made some shockingly bad investment decisions:

- Over nearly two decades, Nigeria has poured $3 billion into its "integrated" steel industry, a facility that is divided into three parts, one for each of that country's main ethnic groups. My staff calculated that the money invested in this still-unfinished mill has cost each Nigerian man, woman and child about $34 so far. That's no trivial amount in a country where per capita income was $340 in 1992.

Finally, it's become obvious that relying on markets works as a strategy for economic growth.

- Look at China. Non-state industry now employs about 100 million people and produces more than half of industrial output. Despite the Tiannamen massacre and Beijing's adherence to a communist political system, market reforms have enabled the country's southeastern provinces to achieve the highest sustained rates of growth ever achieved in the history of the world.

No matter what their political complexion, governments throughout the world have changed their minds about markets. They have discovered that markets may fail, but governments fail more often. The result: governments seem to have permanently discarded failed notions about what the state can and should do.

So why not privatize?

The world-wide privatization boom reflects a profound redefinition of the state's role in the economy. Yet, despite all the privatization that has taken place, the process so far is really just the tip of the iceberg.

- In Chile, a country that has privatized 95% of its state firms and perhaps more than any other as a share of its economy, public enterprises still accounted for some 16% of GDP in 1989.
- According to one estimate, the value of assets that countries around the world are expected to privatize by the year 2000 could be double the $328 billion in assets that have privatized since 1985.
- With the possible exception of the telecoms industry, most market economies, rich or poor, have done little to privatize their public infrastructure such as roads, power supply and railways. Many countries operate a state-owned banking system. Most have left their major extractive industries under state ownership. And these are the market economies. In the ex-socialist countries, they've hardly scratched the surface.

So why aren't some governments more enthusiastic? If the benefits are great -- and I believe they are -- why the reluctance, even among the enthusiasts, to go further? I've heard various reasons.

1. For example, that **macroeconomic stability is a prerequisite to privatization**. Of course, private enterprises -- or state enterprises -- will work best in a stable macroeconomic environment. But, as Argentina learned over many years, the wait for macroeconomic stability before privatization can be extremely long. In fact -- this is the critical point -- privatization is often a prerequisite to sustained macroeconomic stability.

- The inflation in Russia today, the inflation in Brazil, or the inflation in Argentina several years ago, can be traced, in large part, to the subsidies and soft credits given to money-losing state enterprises. Severing those enterprises from the state, stopping the hemorrhage, can make a crucial contribution to closing government deficits and, therefore, to eliminating inflation.

2. A second suggestion is that **enterprises should be restructured before they are privatized**. This is an odd view. Why, if governments cannot operate enterprises effectively, would we suppose that governments can carry out the more difficult task of fundamental restructuring?

- In thinking about privatization, I find it helpful to think about the process of selling a house. It may make sense to do a new paint job in some rooms where the paint is chipped. But you'd be nuts to start constructing bathrooms where you thought potential new buyers might want them. It's the same with privatization: the sensible way is to put the asset up for sale, and let the new owner, who has to live with the consequences, decide what investments are necessary, how best to restructure to suit the new owner's plans.

Those who worry that **enterprises should not be sold on the cheap** should remember what can happen in "enterprise limbo".

- A Lithuanian government official gave his version of an ancient Chinese curse: "May you live 100 years in a transition period".

Expecting to be kicked out by the new owners, managers have every incentive not to restructure but to live for today, not to transfer revenues to the government but to raise wages, not to invest in the future but to strip assets.

3. A third concern is that **privatization brings job losses**. It does in some cases -- but not always, and certainly not forever.

- The Mexican Government found that many of the firms that it had privatized up to 1988, having become more profitable, increased employment. The most striking examples were found in the auto parts industry, where privatized firms employed 30% more workers after privatization.

There is also the broader point: because privatization lifts economic performance, it improves the economic environment in general. The result is more jobs for people who don't even know that the source of their benefit is privatization. The fact that the employment gains occur only after privatization, and are not obviously attributable to the process, leads to the political resistance which Mary Shirley of the World Bank rightly described. Though a difficult political sell, privatization probably is a "pro-jobs" economic policy.

4. A fourth argument against privatization is that it **"will just help the rich."** But it doesn't help the rich or anyone else for the economy to function badly, for governments to pay large subsidies to inefficient companies. Both the rich and the poor in Britain are better off with British Telecom in private hands, as anyone who makes telephone calls in that country could tell you. The same is true of British Airways and Aero Mexicano, both of which are now contributing to government coffers -- not draining from them.

But, there is a more fundamental point. Privatization, operated properly, can be a major tool to promote economic democracy. Mrs. Thatcher's Government saw it this way. Now the Czechs and the Russians are pursuing the same strategy. Both have designed voucher schemes to distribute ownership to all adults, so that everyone has a stake in economic and political well-being.

5. Finally, there is the suggestion that **an appropriate regulatory environment must be put in place before privatization can go forward.** Of course, it is necessary to establish some regulatory framework. But it is important also not to let the best be the enemy of the good. Those governments least capable of effective regulation are surely also those governments least capable of effective management of state enterprises.

The choice is not a choice between ideal regulation and ideal public ownership. A judgment must be made on the basis of the comparative ability to regulate privatized enterprises and to operate public enterprises. I suspect there will be relatively few cases in which public ownership is, in fact, the right way forward.

Privatization seen through American eyes

This message is getting through. It's getting through abroad and in the United States.

The Clinton Administration has recently completed a six-month National Performance Review, which laid out the steps to achieve the President's goal of reinventing government. Privatization and using the dynamism of the market are among them, including:

- eliminating monopolies of the Government Printing Office and the Government Services Administration, and forcing both to compete for business with private companies and other government agencies;

- restructuring the U.S. air traffic control system and introducing private sector management;

- allowing private inspection companies to certify compliance with workplace safety and health requirements;

Another important step forward was made by raising grazing fees on Federally-owned lands in the West.

States and local governments are also getting in on the act. Fifteen states have recently passed laws which authorize private operation of roads and railways. Cities and towns have moved to privatize everything from garbage collection to the enforcement of parking tickets.

The United States is also doing its part to promote privatization abroad. We're doing it because it's in our economic interest for other nations to grow. And we're doing it because assisting in privatization is not a trivial export industry for the United States. The U.S. is the largest exporter of services. We are the world's leading repository of private sector know-how. American lawyers, accountants, bankers, and other business people have much to contribute to the transition process itself.

Here are some of the things the Administration is doing:

- Bilaterally, we operate enterprise funds in Eastern Europe that make investments in and lend money to privatized firms.
    - Starting with just a few employees, a motorcycle factory financed by one enterprise fund now employs more than 100 Slovak workers and sells its products at home and abroad.
    - A loss-making Polish bank has been turned around after 1991, when the Polish-American Enterprise Fund provided it with new capital and helped to install a new Western management team.
    - Extending the enterprise fund concept, the Clinton Administration has proposed creating the Russian-American Enterprise Fund to target small and medium-sized private firms in that country.
- To give further support to the world's largest privatization program, the Administration has led the G-7 and the international financial institutions to create a Special Privatization and Restructuring Program for large enterprises in Russia. With the urging of the Russian Government, our commitment of $375 million leveraged sponsorship for a $3 billion program. By bringing equity to privatized and privatizing enterprises, the Program will help the Government of Russia press ahead with mass privatization.
    - Of the U.S. contribution, $100 million will go to creating an equity fund for enterprises in Russia's most progressive regions. $25 million will be used to provide technical assistance to help restructure these firms. The remaining $250 million will be loans targeted to these same enterprises. We expect to incorporate investment guarantees from OPIC to increase the amount of equity.
    - The Administration's strategy is designed to prompt reforms on the Russian side. The assistance will only be available to regions that implement market reforms and support privatization. Individual companies will also have to be committed to privatization.

- Another device we use to promote privatization are OPIC's insurance and guaranty programs, which may be used by US firms when financing investments.

  -- Last month, OPIC provided $200 million in political risk insurance for US investors to acquire two privatized power sector projects in Argentina.

- The US is also using its voice at the international financial institutions to push for privatization:

  -- At the World Bank and the Inter-American Development Bank, we have encouraged more private sector development operations. These institutions have responded to our call with lending strategies that support privatization through the design of privatization strategies and their implementation, financing transactions, promoting financial sector reform, and adopting policies conducive to private investment.

  -- The US also successfully convinced the international community to insert into the EBRD's charter a provision requiring 60% of that institution's lending to be directed to the private sector.

  -- Working through the IMF, the US promotes the macroeconomic stability of countries needed for a private sector to flourish.

<u>Privatization and freedom</u>

I have spoken today about privatization because it is the subject of this conference, and because there are enormous gains worldwide to be realized by promoting privatization.

But let there be no mistake that advocacy of privatization does not in any way deny a critical role for government. There is the old joke: "How many Reaganite economists does it take to screw in a light bulb?" The answer (that says a lot): "None. They all sit in the dark to wait for 'the invisible hand'."

The invisible hand can't do everything. The visible hand of government has an essential role if societies are to defend themselves, if transactions are to be enforced, if children are to be educated, if decent health care is to be assured. States must do what only states can do.

Progressives have always believed in freedom of conscience, freedom of expression, freedom of the press. This progressive Administration also believes in freedom of exchange, freedom of ownership, free control over the means of production. All of these freedoms are needed in a free and civilized society, and we are working to promote them around the world.

TREASURY NEWS

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STATEMENT OF LAWRENCE H. SUMMERS
UNDER SECRETARY FOR INTERNATIONAL AFFAIRS
DEPARTMENT OF THE TREASURY
AT CAHNER'S OUTLOOK '94 IN NEW YORK
OCTOBER 7, 1993

I'm pleased to join you here today to make the case for NAFTA -- that it should pass, and that it will pass. There is no more important economic policy or foreign policy decision facing the U.S. this year.

In his NAFTA kick-off speech, President Clinton stressed that the world is becoming a smaller place and concluded that: ".. when you live in a time of change the only way to recover your security and to broaden your horizons is to adapt to the change, to embrace, to move forward."

This is what the NAFTA debate is all about: hope vs. fear. And hope will win out.

People have a lot to worry about. Indeed, President Clinton was elected to fix the things NAFTA's opponents worry about. They worry about jobs lost to Mexico, about low Mexican wages, about investment leaving the United States, about lost American competitiveness, the border environment... These are all valid concerns. But one thing is certain. Without NAFTA, nothing will happen to solve any of these problems. NAFTA offers the prospect of real progress.

NAFTA WILL CREATE U.S. JOBS

Right now the central fact obscured by those who oppose NAFTA is that there are few barriers stopping firms in Mexico from selling in the U.S. But there are plenty of barriers stopping firms in the U.S. from selling in Mexico. Mexico's average tariff is two and a half times as high as that of the U.S., though they have fallen a long way on the road to NAFTA.

That is why U.S. exports to Mexico have risen 228% since 1986 to $40.6 billion in 1992 and U.S. jobs supported by these exports rose from 274,000 to 700,000. That's why the U.S. bilateral trade balance with Mexico moved from a deficit of $5.7 billion to one of our largest surpluses, $5.6 billion.

A group of almost 300 renowned economists, including twelve Nobel Laureates, wrote to President Clinton recently, advocating NAFTA. They pointed out: "while we may not agree on the precise employment impact of NAFTA we do concur that the agreement will be a net positive for the United States, both in terms of employment creation and overall economic growth. Specifically, the assertions that NAFTA will spur an exodus of U.S. jobs is without basis. Mexican trade has resulted in net job creation in the U.S. in the past, and there is no evidence that this trend will not continue when NAFTA is enacted."

Indeed, careful syntheses of the available evidence reveal that NAFTA will increase exports by $10 billion over the next three years and create some 200,000 jobs.

I've looked carefully at the study most often cited by NAFTA's opponents that says that jobs are going to be lost in the U.S. as a result of NAFTA. But what was that study based on? The fact that there are going to be fewer illegal immigrants working in the United States. Even that study, cited by NAFTA opponents, does not say that there will be any loss of jobs for Americans.

What would happen if NAFTA failed? Surely the pace at which Mexican trade barriers are reduced would slow. Mexico would be free under the GATT to raise its tariffs to 50%. Investment in Mexico would dry up. During the first two years of the Mexican debt crisis, U.S. exports to Mexico dropped by almost half. If the failure of NAFTA caused a problem even half as large, that would mean the loss of almost 200,000 jobs.

NAFTA WILL REDUCE COMPETITION FROM LOW WAGE LABOR

As I have already said, right now the United States competes with low wage Mexican labor. We don't have tariffs that keep Mexican products out. Our average tariff rate is only 4%: less than the sales tax in most states.

The best way to protect against low wage Mexican labor is to see that Mexican wages rise. That has already happened in the run up to NAFTA. Mexican wages, measured in dollar terms, have more than doubled in the last six years and that process is continuing, as strong capital inflows into Mexico support a strong peso.

With NAFTA, with more investment in Mexico, with a shot in the arm to Mexican reform, that process of capital inflow, that process of productivity growth enhancement, will continue to mean higher wages in Mexico and mean less competition for lower wage American workers.

There's another point to be made as well. President Salinas has vowed to ensure that Mexican wages rise in line with Mexican productivity. If wages move in line with productivity, do we want a more productive Mexico or a less productive Mexico? NAFTA will mean a more productive Mexico.

Greater prosperity in Mexico is also the most effective means of enabling Mexico to deal with its pressing social problems like the need for adequate labor standards. Earlier in this century, the United States was undergoing a similar transformation. Wages were low, conditions were hazardous, and children worked long hours. A glimpse of their potential is what caused people to eventually band together to improve the quality of their lives.

And there's a final point about low wage labor. The low wage labor that hurts American workers most is the low wage labor that lives in the United States, and draws on American resources for public education, for public health care, and for welfare, is low wage immigration. A more prosperous Mexico means a more prosperous America as Mexican workers find opportunity in Mexico.

NAFTA WILL INCREASE AMERICAN INVESTMENT AND COMPETITIVENESS

I've already given one main reason why that's true. NAFTA creates export opportunities for American firms. That's where the jobs are going to come from. There are other reasons as well.

NAFTA will bring home investments that have been made to get under Mexican protection. For example, automobile companies have had to move to Mexico to get around domestic content requirements, and because, pre-NAFTA, Mexico permitted the import of only 1000 American cars per year. With NAFTA, we may be able to produce as many as one million cars a year in the U.S. for sale in Mexico. They have been discussing bringing some of those operations back. Already, our embassy has also been informed that some textile companies are thinking of moving. With NAFTA, computer companies will not have to move to Mexico to escape a 20% duty on PC exports.

It's a big world out there, much bigger than North America. Mexico is not the big threat we face. Dwarfing any effect of a U.S. firm moving to Mexico is the competitive advantage that North America will get from coming together. Look at what Japan has done in Eastern Asia. Japanese firms invest in assembly operations in lower wage regions. Components are shipped from Japan and incorporated into products bound for the rest of the world. While Japan maintains its trade surplus vis-a-vis its lower wage partner, both gain from increased production and exports.

Indeed, some Asian economists have expressed concerns that NAFTA will divert investment from their shores toward North America. Their concerns seem to be well founded. As a major leather products manufacturer noted: "NAFTA...will be a necessary tool in returning some of the manufacturing jobs currently held in Asia to North America. The Agreement will lower the cost of the finished product by saving manufacturers both transportation and inventory costs."

And there's another important point about international competition. NAFTA makes it much harder for foreign firms to gain a North American beachhead in Mexico. Tough rules of origin mean that products assembled in Mexico with American components will benefit from NAFTA's liberalization, but that products assembled with foreign components will not.

NAFTA WILL IMPROVE THE ENVIRONMENT

Fundamentally, American workers have a choice. They can wall off Mexico while Japan embraces the rest of Asia, and Europe embraces Eastern Europe, or they can work together with Mexico to compete globally. The protection strategy is based on fear. The global strategy is based on hope. Mexico and the United States have struck the greenest trade agreement in history. Along with its side agreements, NAFTA will:

- ensure that the Mexicans enforce environmental regulations;
- provide money for border clean-up;
- disperse economic activity in Mexico rather than forcing it all to operate in maquiladora regions along the border; and
- most importantly, lay the basis for the prosperity that can underpin real environmental improvement. Experience around the world shows that prospering economies are more likely to undertake environmental regulation than those with stagnating economies.

NAFTA is not a panacea for America's problems. We're talking about a trade agreement with a country whose dollar GNP is roughly equal to that of the Los Angeles metropolitan area.

So why expend all this energy on a trade agreement whose economic benefits are moderate? Because our economy needs all the help it can get, and because NAFTA is not only an economic policy but also a foreign policy initiative. Mexico wants NAFTA, and the U.S. needs a pro-American Mexico. With a 2000 mile border, and major immigration, drug, and environmental issues, the U.S. and Mexico cannot afford to miss out on win-win trade opportunities.

Imagine the signal the United States would send to the rest of the world if we did not pass NAFTA. If we're not prepared to make a trade agreement to which two presidents have been committed, with a country with which we share a 2,000 mile border and who has undertaken a major set of economic reforms, it will very difficult for us to promote our exports anywhere in the world.

The American political process took a long time asking, "Who lost China?" Let them not have to debate, "Who lost Latin America?"

The case for NAFTA is clear. It has been proven by the arguments. Now it must be won. The President is calling Congressmen every day and is doing a NAFTA public event every week. Many thought the vote on NAFTA would be moved back. It's been moved up. We in the Administration are doing all we can. I'm encouraged that we're going to win. On vote day minus fifty, the Panama Canal was a dead duck and if the history of the United States says anything it is that, in the end, we do the right thing. We're a country built on hope, not fear.

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Wednesday, October 6, 1993
USIA Foreign Press Center Briefing: New World Bank and IMF Policies

USIA FOREIGN PRESS CENTER BRIEFING

TOPIC: NEW POLICIES AT THE WORLD BANK AND IMF

ATTRIBUTED TO: SR. ADMINISTRATION OFFICIAL

WEDNESDAY, OCTOBER 6, 1993

MODERATOR: Sr. Administration Official will make a few ntroductory remarks and then we'll go to your questions.

SR. ADMIN. OFFICIAL: Thanks very much.

This is a good time to take stock of the progress in the nternational economic policy area coming just after the Bank/Fund eetings took place. Let me comment briefly on the three great tasks acing the world economy: promoting growth, promoting integration, nd promoting reconstruction.

As far as growth is concerned, we had a successful G-7 meeting. t wasn't a meeting that pulled any rabbit out of any hat, but it was meeting that took stock of progress that I think would have been early inconceivable nine months ago. Reductions of interest of 175 asis points in each of the G-7 countries, a very substantial fiscal timulus in Japan, a very large deficit reduction in the United States as produced the greatest bond market rally in recent years. But the act that the IMF forecast still implies that employment will decline nd unemployment will increase in the industrialized countries points o the fact that there's much more to be done. The United States is oing its part, following on deficit reduction with major health care eform. We'll be looking for others to do their part in terms of roviding stimulus.

The second great task is the promotion of international economic ntegration. Let me say that I am now optimistic that NAFTA will ass. I think the fortunes are turning. The president is heavily ngaged. He is calling a number of members of Congress each day. ctive discussions on a host of more specific issues are underway with ne Congress. And I believe the realization is coming through that AFTA is about the triumph of hope over fear, that those things that orry people, whether it's low wages in Mexico, whether it's usinesses moving to Mexico, whether it's environmental problems in exico, are all things that for sure will not get better if NAFTA goes own and that NAFTA offers the prospect of productivity growth that ill raise wages, of an end to Mexican protection that forces American irms to relocate to Mexico and offers the potential of real money to nvest in cleaning up the border area.

At the same time, we are working very hard to finish the Uruguay ound. The United States is determined to make real progress and to nish that Uruguay Round agreement by December 15th. But that

equires building on, not revisiting, the agreements that have already een reached, and that is our objective as we go back to the next ound of negotiations in Geneva.

Our dialogue with Japan in the context of the framework continues o progress, and we look forward to real and clear results in the reas of government procurement, in the area of insurance, in the area f automobiles and automobile parts prior to the meeting that resident Clinton is likely to have with Prime Minister Hosokawa ometime early next year.

Finally, one of the major themes of the Bank/Fund meetings was conomic reconstruction. Whether it's Russia, whether it's Romania, hether it's Haiti, whether it's South Africa, yes, even whether it's ietnam, reconstructing economies that have gone through wrenching ransformations of one kind or other is an important priority if we re to preserve the peace.

nd it's one that the United States is actively engaged in.

It would be premature to try to judge the impact of recent olitical developments in Russia on the near-term evolution of conomic reform. What is not in doubt is that the American commitment o provide core support, to support democratization, to support mprovements in the environment, to support the creation of nstitutions tht underlie civil society -- that commitment is not in oubt. Nor is the commitment that we've maintained since the April G- ministerial meeting to provide direct financial support measured ith the progress of reform in any doubt. And our hope is that conomic reform can now proceed more rapidly in Russia than it has in he last several months and that that will make possible the full obilization of the large package of financial support that was agreed n Tokyo last April.

In that regard, Russia is far from the only reconstruction task e face, and I'm particularly pleased by the cooperation in the ontext of the conference that we hosted last Friday that raised over 600 million for economic reconstruction in the West Bank, in the Gaza trip next year, and holds out the promise of as much as $2.5 billion r more over five years, to bring some prosperity that can underwrite he peace in what has been a very troubled area of the world.

Let me stop there.

MODERATOR: ***** has limited time, so please make your questions rief and to the point. We'll start right here.

Q Jose Lopez of NOTIMEX, Mexico. Can you give us any details bout the status of the negotiations with Mexico about the border lean-up fund? And on the second question, how are you planning to et the money, the $8 billion that Secretary Bentsen said will be unneled to the border clean-up issue?

SR. ADMIN. OFFICIAL: I'm not -- those negotiations are underway

nd I'm not in a position to make any public comment on the progress hat they have made, other than the reports I get from the negotiators ndicate that good progress is being made towards a resolution that ill be a source of satisfaction on both sides of the Rio Grande.

As for the funding mechanism, I'm confident that we'll be able to ind it within the existing budgetary allotments. Of course the ature of mechanisms based on guarantees and (callable ?) capital is hat the budgetary allocation that's required is much less than the ltimate amount of investment that can be supported. And so the udgetary amounts that are necessary I think will prove to be within each.

Q Parasuram, Press Trust of India. One of the major themes n the annual meeting of the Bank and the Fund was the fact that the eveloping countries are now the locomotives for the world economy. nd I was wondering how the U.S. views, for instance, the reforms in ndia and the progress of East Asia. And also, in East Asia it has een pointed out that the government should -- (inaudible) -- the free arket did not occur and, in fact, the government played a major role n many of the -- (inaudible). I wonder whether you will comment on his.

SR. ADMIN. OFFICIAL: Well, you've really asked two different uestions; one involves India. And I would say there that we're ncouraged by the wave of new thinking that has come to India in ecent years, encouraged by the sharp withdrawal of exchange estrictions, by the relaxation of controls on the financial sector, y the reduction in budget deficits, by the greater degree of comity etween India and the international financial institutions, while at he same time recognizing that particularly as regards to large, still normous public enterprise sector India has a long way to go in mproving efficiency and creating institutions for market discipline.

here is enormous potential for the Indian economy. Within India lies n upper-middle-class economy the size of France, and the challenge is o unlock that potential and spread that prosperity. We are ncouraged by the progress that India has made, but there's a great eal more that needs to be done.

On the question of East Asia, I think it is important to read the ecent World Bank study on that topic very carefully. And what that tudy demonstrates is that the most important source of success in conomic growth in Asia is what one might call the puritan virtues, a trong system that protects property rights, macroeconomic stability, focus on an outward orientation for exports, a strong educational ystem and a high level of investment. And it is those virtues, arket puritan virtues, that account for much more of East Asia's conomic success than any particular government policy directed at argeting or channeling economic activity in particular directions. nd countries would be much better studying the enduring virtues of a orea or a Japan in terms of high savings, strong education, outward rientation than they would be trying to mimic those institutions in erms of industrial planning and government channeling of credit that

orea and Japan are moving away -- are themselves actually moving away rom.

MODERATOR: Microphone over here, please.

Q Sugita, Jiji Press. If NAFTA fails to pass in Congress, is here any negative impact to the U.S. economy?

SR. ADMIN. OFFICIAL: NAFTA's a job-creator. NAFTA's a rosperity-ensurer, because NAFTA ensures the trade surplus -- (drops icrophone) -- NAFTA ensures the trade surplus that we're able to run ith Mexico. No question that it would be a blow to the American conomy and an even larger blow to the Mexican economy if NAFTA were o go down. But I don't think it will.

Q Just could you comment as to whether the United States is ow completely satisfied with the measures taken in the last couple of onths by the World Bank with respect to public disclosure of nformation, with respect to the panel that can investigate? And lso, can you tell us -- my understanding is that the money that was armarked for GATT for fiscal '93 has been reprogrammed for AID. Can ou tell us why they didn't get the money and whether under the egislation that was signed on Friday -- or Thursday by the president ou expect that they will get the 30 million in '94?

SR. ADMIN. OFFICIAL: We're very pleased with the steps that the orld Bank has taken to make itself a more open and a more accountable nstitution. These are very important first steps, and we look orward to further progress building on those steps to ensure that articipation is maximized in development projects and to ensure that here is the highest degree of scrutiny, particularly where issues elating to environmental protection or to the relocation of people re involved. No more (narmadas ?) has to be a watchword of policy.

I'm not able to speak because I don't have the details clearly in ind to the precise set of reasons why the $30 million to the GEF was ot certified. Essentially, it involves the inadequate steps to move owards public participation and the free disclosure of information.

I'm encouraged by the discussions we've had in connection with he GEF that those problems will be remedied in the next year. And so t will be possible to make the $30 million available to the GEF.

MODERATOR: Go here, and then back there.

Q Hi. I'm Susan Klenro (sp) with Reuters. I have a sore hroat. I wanted to ask you to elaborate on your comments about ussia. You said that you saw reforms speeding up there. I think hat's what you said. And I wondered if you could say -- pinpoint hat it is that you see that, you know, makes you think it's speeding p. Is it just the issuing of more decrees in recent days? You know, o you see some more concrete steps at this point that have taken lace or are going to take place that you can point to in economic eform? The other question, I wondered why you were so optimistic

bout NAFTA.

SR. ADMIN. OFFICIAL: I think what I said was that I saw the ossibility, the real possibility of reforms accelerating because the arliament had previously been such an obstacle to reforms that the resident wanted to carry out, and because I was encouraged by my iscussions with Russian economic officials in the course of the ank/Fund meetings that some of the officials had a clear nderstanding of what needed to be done, and we're encouraged that in he current political environment they might well get the support ecessary to carry it out.

ut, clearly, we'll have to wait and see what progress has been made t what is a crucial juncture.

Why am I so optimistic about NAFTA? Because ultimately I think he right thing tends to happen. Because I know and have studied the istory of the Panama Canal Treaty where at vote day minus 45, which s about where we are now, the situation looked far bleaker than it ooks with respect to NAFTA today. Because I think we saw in the ourse of the budget discussions the impact the kind of presidential nvolvement that we expect soon can have. Because we've looked at the low of votes and announcements, and, without going into great detail, hat presents a more encouraging picture this week than it did a week r two ago.

Q Kerry O'Reilly (sp), with German Economic News. During the MF annual meetings, you seemed reluctant to agree with haracterizations that the economies in Japan and Germany have turned he corner and are -- when do you anticipate this to have an -- the ecessions to be over? And have these countries done enough in terms f restoring -- you outlined earlier what they've done in an effort to estore, but is it enough?

SR. ADMIN. OFFICIAL: I don't think it is enough. I think when ou have the kinds of forecasts which point to rising unemployment in oth Europe and Japan over the next 18 months, that that tells you hat not enough is being done, and we'll look for further progress in aking growth-enhancing measures in those economies.

Q Louise Escobar (sp), from Knight-Ridder Financial News. On onday, President Clinton in speaking from San Francisco somewhat riticized the IMF policies toward Russia as being too strict. Is his the administration's view? And also, you mentioned the pace of eforms in Russia. When do you see the second IMF tranche? By the nd of the year?

SR. ADMIN. OFFICIAL: The administration's position is that the ace of support has to be measured with the progress of reform because nly in that way can reform be encouraged and because only in that way an we assure that money provided is well spent. The timing of the econd tranche, that will depend upon the progress of reform in ussia.

Q Okay. I have a second question, a completely different ;ubject. The Competitiveness Policy Council today said that it was :oncerned about the rise of the dollar against certain European :urrencies and urged the administration to pay attention to that. hat is your response?

SR. ADMIN. OFFICIAL: I haven't had a chance to study that 'eport, but our exchange rate policy has been articulated many times y the secretary of the treasury.

e believe that exchange rates have to reflect market fundamentals, hat it's inappropriate to seek to manipulate exchange rates apart rom fundamentals, that excess volatility can be counterproductive for rowth, and that we're prepared to cooperate with others in foreign xchange markets. (Laughter.)

nd if there was any deviation between what I just said and what I ave said on countless previous occasions, it is only because of a erbal slip. (Laughter.) Because it was my firmest desire to say othing interesting in answer to that question. (Laughter.)

Q Sankaran, Economic Times, India. Sir, regional trade rrangement seems to be the fashion of the day. Is this trend ompatible with the Uruguay Round multilateral discussions? And, losely related, what happens to countries like India, which are left ut of these regional arrangements?

SR. ADMIN. OFFICIAL: I don't think there's any question that hese are complements. I think the kind of environmental agreements, he kind of labor agreement, the kind of agreements on foreign nvestment, the kind of agreements on services that you're seeing in AFTA are harbingers of things that will come in the multilateral rade agreements of the future. I think the imperative is to bring own trade barriers everywhere and that NAFTA is an important step in hat direction. I think what one has to be careful of is not regional rading arrangements, but regional fortress arrangements, where arriers come down within a region and they go up to those outside. ut NAFTA and the discussion of NAFTA has coincided with Mexico's ntry into the GATT, Mexico's binding of its tariffs within the GATT. nd for that reason I think that it is entirely supportive of the ultilateral trading system. And, indeed, my fear is that, were NAFTA n the table, a good part of a political energy that has gone into AFTA might well instead have gone into seeking protection.

Q (Inaudible) -- Kyodo News. With regard to the opening of ne Japanese rice market, even though it is ostensibly a one-time nergency import, I was wondering if you could tell me how much you nink of an impetus that will be to the market access agreement and a inal sort of solution to the GATT by the deadline.

SR. ADMIN. OFFICIAL: It can't hurt. But beyond that I'll have leave that one to USTR.

Q I've got a second chance. (Inaudible) -- of Kyodo News.

)oes Secretary Bentsen have plans to go to China? If that's the case, ,hat is the purpose of making a trip at this time?

SR. ADMIN. OFFICIAL: To where?

Q China.

SR. ADMIN. OFFICIAL: The presidenthas asked Secretary Bentsen o explore the idea of having an As'an finance ministers' dialogue as part of the APEC process. And in that context, Secretary Bentsen aintains a very active interest in Asian issues, and we in Treasury ill very much want to be involved in the Asian region. And I would ot be surprised if Secretary Bentsen takes a trip to China at some tage, but no trip has been formally scheduled as yet.

Q N.C. Menon, Hindustan Times, India. We were told at the und/Bank meeting this time, as we have been told every year, that one f the primary tasks of the Fund and the Bank is poverty alleviation.

ow I realize that growth, integration and reconstruction will lleviate poverty, but has poverty alleviation as a theme been reduced n the world?

SR. ADMIN. OFFICIAL: I don't think so. I think under Lew reston's leadership the Bank has rededicated itself to the verarching goal of reducing poverty. And that's certainly the irection in which the United States is pushing; towards more emphasis n education, more emphasis on health, less emphasis on new power lants. I wrote some time ago -- and I think it says a lot -- that he cost of equalizing education worldwide for girls and boys could be et if the rate of new power plant construction in the less-developed orld was reduced by one-fortieth. And I think that says a good deal bout the direction in which policy should go and the perspective that he United States is taking within the multilateral development banks.

Q Ev Bauman, El Universal, Caracas. While the reports of the ultinational organizations were favorable regarding Latin America, here was a World Bank report that showed that the social progress was ery inadequate. Your knowledge of Latin America is considerable. On ne whole, would you say that the prospects are favorable or nfavorable for the future of Latin America?

SR. ADMIN. OFFICIAL: I think the prospects are favorable. The 980s were a decade that was heavily about getting government out of nings in Latin America that it shouldn't be in: printing money, uilding large public companies that didn't work, controlling prices, locking imports. And I think we've seen real progress on that genda. You look at a country like Mexico, where only 2 percent of ne population has ever been on an airplane and subsidies to the state irline cost more than it would cost to pave all the roads, all the npaved roads, and privatization stopped all of that. That's going to e a continuing process. So the 1980s were the decade of getting overnment out of the things that it had to be out of.

I think the 1990s is going to be a decade where government has to get in and do a better job of meeting its fundamental responsibilities. That means more education and more health care, not education and health care for the elite, but education and health care outside of the capital city. It means primary health care, it means primary education, it means developing a basic infrastructure, it means working much harder to protect the environment.

So I think as you see governments that now have an opportunity to focus their efforts in Latin America, doing more of what only governments can do, and fighting poverty is the principal thing in that regard, that you're going to see more success not just in promoting economic growth but also in reducing inequality in Latin America over the next few years. So I'm encouraged. I'm sure there will be bumps on the road, but I think Latin America, after an agonizingly difficult decade during the 1980s, is on the way back.

MODERATOR: We're going to stop on that high note *****, thank you for coming today. We covered a lot of ground and I appreciate your answers. Remind people, we heard a senior administration official and that we will have a briefing here tomorrow on health care reform.

END

E-156/93nln
October 5, 1993

INTER-AMERICAN COMMISSION ON HUMAN RIGHTS OPENS ITS 84TH REGULAR MEETING

The President of the Inter-American Commission on Human Rights (IACHR), Oscar Luján Fappiano, opened today in Washington the 84th Regular Meeting of that body and indicated that "the promotion and observance of human rights in OAS member states involves complying with a very practical task, that is one that is addressed to very specific cases and problems or to the functioning of the government's or state's structure."

Luján told the Commission, which will meet until October 15, that "IACHR is continuing efforts aimed at strengthening and perfecting its mechanisms for cooperation with the member states of the Organization as a new contribution to the strengthening of the system for the promotion and protection of human rights in the hemisphere."

Also speaking in that ceremony were the Chairman of the Permanent Council of the OAS, Ambassador Roberto Andino, of El Salvador, and the Secretary General of the OAS, Ambassador Joao Clemente Baena Soares, who underscored the importance of the work being done by the Commission that, during the ten days of sessions here will evaluate the results of visits it made to Peru, Haiti and Guatemala.

Dr. Fappiano warned that "experience demonstrates that the effective exercise of representative democracy is the best guarantee for full observance of human rights" and pointed out that "it has been said, on the basis of that assertion, that human rights constitute the basis for democracy."

"As one talks about human rights it is important to bear in mind that the close relationship between civil and political rights and economic and social rights is not only a moral and ethical imperative, but also a condition for peace and social stability," the President of IACHR pointed out.

Dr. Fappiano also said that "those in charge of economic policy-making must have sensibility to perceive the problems that, under the premise of 'social cost' of the so-called adjustment programs, are on many occasions serving as a cover-up of immense suffering of peoples."

"Democracy, of course, can be improved and its endurance depends on the consolidation of reforms and on the determination to extend its benefits to all segments of society," Dr. Fappiano told the opening session of IACHR's meeting.

(more)

Luján pointed out in concluding his remarks that "a new attitude is required to construct an economic model that is fair and equitable. We must realize that the dangers being faced by the democratic system stem from social conditions in our countries and we must recognize that these social problems are constitute the underlying source of the threats to institutional stability."

The Chairman of the Permanent Council, Ambassador Roberto Andino, told those attending the ceremony that this IACHR session "serves as a cornerstone within the process of collective reflection on the problems and responsibilities stemming from present conditions and the progressive development of the inter-American system for the protection of human rights."

He underscored the fact that the "Commission has a major role to play in not only defending the principles inherent to the human rights doctrine, but also in extending its action to reach new horizons in defense of human rights, a task in which it will have to face new obstacles, limitations and mistrust."

Ambassador Andino reaffirmed the support of the Permanent Council for IACHR and especially for "the invaluable work it is carrying out in defense of human dignity" and said the Commission can count "on the support of all of us and on our spirit of dialogue for the advance of cooperation and understanding between our peoples."

Ambassador Joao Clemente Baena Soares, the Secretary General of the OAS, also conveyed his support for the Commission and underscored the importance of achieving that all member states of the Organization become parties to the American Convention of Human Rights.

He also called on OAS members to demonstrate their support for the Commission by assigning to it the resources it urgently needs. "It is necessary that this support be translated into the provision of resources because otherwise we would only have the utterance of sentences without any practical consequence or effectiveness."

Ambassador Baena Soares underscored the importance of promoting human rights. "An essential issue in this promotion effort is that each individual, each one of the citizens of our countries, be aware of his rights and of the limitations to those rights, as well as of the laws and international treaties approved by their countries to create a legal framework for the observance of human rights in our hemisphere," he said.

"We will so have in each member of our societies a defender of those rights and of democratic processes," the Secretary General declared. He concluded his remarks with a reaffirmation of the importance of the observance of economic, social and cultural rights and said that "in the absence of such observance, and without a strong economic base and the lack of an answer to the social demands of our peoples, we can't have a strong, stable and enduring democratic process."

In addition to Dr. Fappiano, the following are members of IACHR: Oliver Jackman (Barbados), Alvaro Tirado Mejía (Colombia), Michael Reisman (United States), Leo Valladares Lanza (Honduras), Patrick Lipton Robinson (Jamaica), and Marco Tulio Bruni Celli (Venezuela).

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TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

Text as Prepared for Delivery
For Immediate Release
October 8, 1993

REMARKS OF TREASURY SECRETARY LLOYD BENTSEN
RHODE ISLAND LOAN PAYBACK CEREMONY
PROVIDENCE, RHODE ISLAND

Being from Texas, I'm used to big -- but not this big! The smallest state in the nation definitely writes the largest checks.

In the past when the government has helped some of our proud companies that fell on bad times, they came out with a slogan when they returned the money. I think I can change some words and apply it here. Rhode Island borrows money the old-fashioned way: they pay it back!

This puts an end to an unfortunate chapter in banking history here in Rhode Island. In the past decade, there have been several such unfortunate chapters around the country.

But these days financial institutions are healthier than they've been in a long time. We're doing our part in government by making sure banks are operating prudently and safely. But the big reason the banking industry is doing so well is the low interest rates brought on by deficit reduction.

In Washington, we became serious about reducing the deficit. In August, Congress passed a budget that cuts the deficit by $500 billion over the next five years.

The market's response has been the lowest long-term interest rates that we've seen in two decades. Not only do low interest rates help the financial industry, they help a lot of homeowners. They help people buying cars. They help students taking out college loans. And they help businesses large and small.

We're getting the economy moving again and a strong financial industry is contributing to our recovery.

So, thank you, and I'm looking forward to getting this back to Washington and cashing it.

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LB-421

TREASURY NEWS

Department of the Treasury   Washington, D.C.   Telephone 202-622-2960

FOR RELEASE AT 2:30 P.M.
October 8, 1993

CONTACT: Office of Financing
202/219-3350

TREASURY'S 52-WEEK BILL OFFERING

The Treasury will auction approximately $15,750 million of 52-week Treasury bills to be issued October 21, 1993. This offering will provide about $1,475 million of new cash for the Treasury, as the maturing 52-week bill is currently outstanding in the amount of $14,279 million. In addition to the maturing 52-week bills, there are $23,162 million of maturing 13-week and 26-week bills.

Federal Reserve Banks hold $9,182 million of bills for their own accounts in the three maturing issues. These may be refunded at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold $2,347 million of the three maturing issues as agents for foreign and international monetary authorities. These may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills. For purposes of determining such additional amounts, foreign and international monetary authorities are considered to hold $465 million of the maturing 52-week issue.

Tenders for the bills will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356, published as a final rule on January 5, 1993, and effective March 1, 1993) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about the new security are given in the attached offering highlights.

oOo

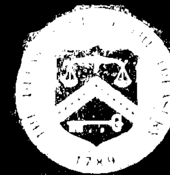
Attachment

HIGHLIGHTS OF TREASURY OFFERING OF 52-WEEK BILLS TO BE ISSUED OCTOBER 21, 1993

October 8, 1993

Offering Amount	$15,750 million
Description of Offering:	
Term and type of security .	364-day bill
CUSIP number	912794 L8 5
Auction date	October 14, 1993
Issue date	October 21, 1993
Maturity date	October 20, 1994
Original issue date	October 21, 1993
Maturing amount.	$14,279 million
Minimum bid amount	$10,000
Multiples	$1,000
Submission of Bids:	
Noncompetitive bids	Accepted in full up to $1,000,000 at the average discount rate of accepted competitive bids.
Competitive bids . . .	(1) Must be expressed as a discount rate with two decimals, e.g., 7.10%. (2) Net long position for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position are $2 billion or greater. (3) Net long position must be reported one half-hour prior to the closing time for receipt of competitive bids.
Maximum Recognized Bid at a Single Yield . . .	35% of public offering
Maximum Award	35% of public offering
Receipt of Tenders:	
Noncompetitive tenders . .	Prior to 12:00 noon Eastern Daylight Saving time on auction day.
Competitive tenders	Prior to 1:00 p.m. Eastern Daylight Saving time on auction day.
Payment Terms	Full payment with tender or by charge to a funds account at a Federal Reserve bank on issue date.

TREASURY NEWS



Department of the Treasury Washington, D.C. Telephone 202-622-2960

October 10, 1993

FOR IMMEDIATE RELEASE

BENTSEN, ON BET'S "LEAD STORY," SAYS NAFTA MEANS JOBS

Secretary of the Treasury Lloyd Bentsen said in an interview on Black Entertainment Television (BET) broadcast Sunday that the North American Free Trade Agreement will mean more jobs for U.S. workers.

"If low wages is the main reason for placing plants abroad," Bentsen asked, "why are BMW and Mercedes planning plants in the U.S. and not Mexico? The reason is the American worker is the most productive in the world. It costs $410 more to build a car in Mexico than in the U.S."

Bentsen, in an interview on BET's "Lead Story," said that NAFTA would help expand this important market for many minority businesses.

"Small, medium and large businesses would all benefit from the lowering of Mexican tariffs under NAFTA," Bentsen said. He added that those tariffs are now higher than U.S. tariffs and could legally go even higher.

The Secretary noted that because Mexico is so close to the U.S., smaller and family-run businesses interested in exporting would have an unusually good opportunity under NAFTA.

He said that Mexicans spend approximately $450 per capita on American imports compared to $44 on Japanese imports.

"Mexicans love American products," Bentsen said. "They now get 70 percent of their imports from the U.S."

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LB-423

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

STATEMENT BY LAWRENCE SUMMERS
UNDER SECRETARY OF THE TREASURY FOR INTERNATIONAL AFFAIRS
AT THE WORLD ECONOMIC LAB MEETING
SEPTEMBER 27, 1993

I am delighted to have the opportunity to speak to this distinguished gathering -- and I am particularly happy to be here because Rudi Dornbusch threatened to take away my PhD and vote Republican if I didn't show up.

Exchanges like this of ideas and information on international economics are extremely important in a world that is becoming smaller and smaller. And I am delighted to participate in this forum.

Everywhere today - in rich and poor countries alike - the crucial imperative is to promote economic development: to put more of our people to work, to realize our full productive potential, and to ensure rising standards of living.

Promoting prosperity in our country and abroad is the guiding principle of U.S. international economic policy. Indeed, it is the guiding principal of U.S. foreign policy, for prosperity underwrites peace.

I want to highlight three aspects of the challenge of creating prosperity this afternoon.

. First, to restore job-creating growth in the industrial countries;

. second to open markets, expand trade, promote integration around the world; and

. third, to finance the reconstruction and revitalization of economies that are going through wrenching transformations.

GROWTH

Look first at the industrialized countries, which still produce most of the world's output. We are now in a terrible recession; and one that, unlike the two OPEC recessions of the mid '70s and early '80s, is without obvious external cause. Its cause will be a subject for future economic historians to debate; but its consequences are beyond dispute. Twenty four million people are now unemployed in the G-7 countries alone. And output in the G-7 is 340 billion dollars less than current productive potential. That works out to 2,000 dollars a year for every family of four.

We in the United States have done our part to get the world economy moving. President Clinton's bold program of deficit reduction has been associated with a decline in U.S. long term interest rates of 1.5 percentage points. For the first time in years, we can look forward to the day when the ratio of America's debt to its income will be declining, not increasing.

And, to get our nation ready for the challenges of the 21st century, we embark this week on the critical journey towards the enormous task of reforming our health care system. That system surely needs reform. It now absorbs one dollar out of every seven that we produce -- yet a child born in New York City is more likely to die before the age of five than a child born in Shanghai, China.

We have made a substantial contribution to fostering growth through deficit reduction, and we are cooperating with others in the process of restoring job-creating growth in the rest of the G-7 nations. Indeed, the meetings of that Secretary Bentsen held this past weekend with his finance ministry colleagues were the fourth such meetings in the 8 months the Clinton Administration has been in office.

People look for rabbits out of hats at such meetings, and some are disappointed when they do not materialize. But suppose we had said last January that in the next 9 months we would see:

- 500 billion dollars in US deficit reduction;
- 180 billion dollars in additional Japanese fiscal stimulus; and
- a reduction in official interest rates of 150 basis points in Japan and 175 basis points in Germany.

I think people would have been very skeptical. If there is ever a case for watching what we <u>do</u>, not what we <u>say</u>, it is G-7 macroeconomic cooperation.

All of this is welcome, but it is not enough. Again and again, the IMF has revised its forecasts for industrial country growth downward, and it is now forecasting only 1.3 percent for 1993 and 2.3 percent for 1994. We must do better. We must at least raise the rate of growth to the level where the number of people without jobs is falling, not rising.

Creating jobs requires restoring demand, because businesses need to sell more products if they are to employ more workers. But, as we saw at the last economic peak in the late 1980's, in the United States and especially in Europe, too many people are without work even when times are good, even when there is enough demand in the economy so that the threat of inflation looms. That is why structural changes are so important -- to train people, to match them with better jobs, and to provide necessary flexibility in the labor market.

TRADE

There is another crucial area for cooperation -- the promotion of trade. This is especially important for the United States. With our budget deficit coming down, its 1980s twin, the trade deficit, needs to come down as well. This could happen through a weak economy reducing imports. But that is surely not what we want. The right way for it to happen is through growing exports. That's why growth in foreign markets is so important to us. And that's why promoting an open world trading system is important to us as well.

Trade barriers are a world-wide economic curse. They cost the developing world more money than is spent on foreign aid each year. And trade barriers are a problem for the United States as well, because we need exports.

These are the reasons why the United States sees completion of the Uruguay Round as so critical. It is important for reducing trade barriers. It is important because it will, for the first time, bring the new areas of services, investment, and intellectual property under the discipline of the GATT; and it is important because it's a sign that the nations of the world can cooperate and growth together -- rather than each going their own way, erecting trade barriers against the products of others.

How can we in the industrialized world ask others to bring down their trade barriers if we are not willing to keep our markets open? The stakes are high. Over the past five years, U.S. exports to emerging markets have doubled to nearly 180 billion dollars. And they now support almost four million jobs.

To evoke President' Clinton's phrase, the Uruguay Round is for those who are willing to "compete, not retreat".

The U.S. is now engaged in another great trade policy debate over the fate of NAFTA - the North American Free Trade Agreement. It is a debate that comes down to a choice between hope and fear. NAFTA's critics are concerned about business moving to Mexico, about environmental problems on the border, and about competition from low wage workers. But, one thing is certain: rejecting NAFTA would preclude the possibility of progress on any of these issues.

NAFTA offers the hope of progress on all of them. It will mean that:

. automobile companies will no longer have to migrate to Mexico to get in under Mexico's protective trade laws;

. that billions of dollars will be made available to support the cleanup of the US/Mexico border;

and that Mexico will prosper, allowing its wage rates to rise with productivity - as its government has promised.

NAFTA is a beginning. It is a harbinger of what could come -- trade agreements that respect workers rights, that address environmental problems, that support democratic transitions. Its failure would be a harbinger as well -- an America that does not live up to its commitments; that looks backward, not forward; and that retreats behind the false promise of protection.

FINANCING RECONSTRUCTION

So far I have talked about economics. I have talked about the steps that are necessary to create jobs. These steps are a top priority for our electorate. But there is an even higher challenge, a challenge that has been the defining aspect of our foreign policy since World War: maintaining the peace.

I would leave the strategic dimension of this challenge to statesmen and diplomats. But I think we can agree that fostering the reconstruction, rehabilitation and re-integration of those economies that have been the victims of wars -- civil and international, hot and cold -- is essential if we are to secure peace today. In the former Soviet Union and Eastern Europe, in Haiti and the Middle East, in Cambodia and, yes, in Vietnam, we face the critical challenge of supporting economic transitions that can support peaceful political transitions and build the foundation for peace.

Let me talk for a moment about the biggest of these challenges: Russia. As the old Russian proverb has it, "You don't want to be in the woods with a wounded bear". The ultimate responsibility for building a sound economy in Russia belongs to the Russians, but the United States is doing what it can unilaterally and multilaterally to support reform. We've always known that the process of reform in Russia - as in any transforming economy - would have fits and starts; and there have certainly been some fits in recent months. But Russia today looks very different than it did a year ago:

- 25% of the industrial labor force now works in privatized firms;
- 70,000 small shops & restaurants are now owned by their proprietors;
- output has stabilized;
- and exports are soaring.

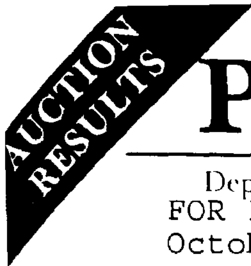
There is much more that needs to be done, and our support will have to be measured with the progress of reform to make sure it is well utilized. Boris Yeltsin's bold actions offer the promise of a Russian government united behind its principles. To paraphrase Churchill, we are not at the end, or the beginning of the end, of Russia's reform effort, but just now, with the election of a new parliament, we just may be coming to the end of the beginning.

Russia is just the biggest example of the challenges we face in restoring prosperity. The historic handshake that took place on the White House lawn just two weeks ago creates a new challenge. And I'm pleased that this week we will have the opportunity to participate in a conference on the Middle East -- not to plan negotiations, not to talk about weapons, but to talk about financing schools, roads, and safe water in an area of the world that has seen so very much suffering.

Conclusion

I've spoken briefly about restoring growth, expanding trade around the world, and reconstructing those economies that have suffered wrenching change. All of this is the stuff of economic development. It's an economic imperative because we have to provide rising living standards for our people. It is a moral imperative in a world where one billion people live on a dollar a day or less; and it is a strategic imperative because prosperity is the best guarantor of peace. We must not fail.

-30-



PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
October 12, 1993

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $12,878 million of 13-week bills to be issued October 14, 1993 and to mature January 13, 1994 were accepted today (CUSIP: 912794H49).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.02%	3.08%	99.237
High	3.04%	3.10%	99.232
Average	3.04%	3.10%	99.232

Tenders at the high discount rate were allotted 83%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

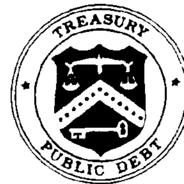
Location	Received	Accepted
Boston	38,792	38,792
New York	39,804,612	11,476,320
Philadelphia	10,485	10,485
Cleveland	44,009	44,009
Richmond	27,142	27,142
Atlanta	21,169	20,829
Chicago	2,616,213	268,443
St. Louis	9,425	9,425
Minneapolis	9,875	9,875
Kansas City	22,302	22,302
Dallas	13,100	13,100
San Francisco	582,376	194,266
Treasury	742,963	742,963
TOTALS	$43,942,463	$12,877,951
Type		
Competitive	$38,719,351	$7,654,839
Noncompetitive	1,325,525	1,325,525
Subtotal, Public	$40,044,876	$8,980,364
Federal Reserve	2,711,420	2,711,420
Foreign Official Institutions	1,186,167	1,186,167
TOTALS	$43,942,463	$12,877,951

An additional $243,733 thousand of bills will be issued to foreign official institutions for new cash.

LB-424

AUCTION RESULTS

PUBLIC DEBT NEWS



Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
October 12, 1993

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $12,833 million of 26-week bills to be issued October 14, 1993 and to mature April 14, 1994 were accepted today (CUSIP: 912794J96).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.10%	3.19%	98.433
High	3.12%	3.21%	98.423
Average	3.12%	3.21%	98.423

Tenders at the high discount rate were allotted 73%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	35,091	35,091
New York	33,514,057	11,619,557
Philadelphia	4,785	4,785
Cleveland	27,300	27,300
Richmond	23,298	23,298
Atlanta	39,313	39,313
Chicago	2,456,811	302,861
St. Louis	8,725	8,725
Minneapolis	8,255	8,255
Kansas City	19,809	19,809
Dallas	7,170	7,170
San Francisco	448,328	158,228
Treasury	578,961	578,961
TOTALS	$37,171,903	$12,833,353
Type		
Competitive	$32,668,441	$8,329,891
Noncompetitive	951,429	951,429
Subtotal, Public	$33,619,870	$9,281,320
Federal Reserve	2,850,000	2,850,000
Foreign Official Institutions	702,033	702,033
TOTALS	$37,171,903	$12,833,353

An additional $144,267 thousand of bills will be issued to foreign official institutions for new cash.

LB-425

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

FOR RELEASE AT 2:30 P.M.
October 12, 1993

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $25,600 million, to be issued October 21, 1993. This offering will provide about $2,450 million of new cash for the Treasury, as the maturing 13-week and 26-week bills are outstanding in the amount of $23,162 million. In addition to the maturing 13-week and 26-week bills, there are $14,279 million of maturing 52-week bills. The disposition of this latter amount was announced last week.

Federal Reserve Banks hold $9,182 million of bills for their own accounts in the three maturing issues. These may be refunded at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold $2,343 million of the three maturing issues as agents for foreign and international monetary authorities. These may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills. For purposes of determining such additional amounts, foreign and international monetary authorities are considered to hold $1,878 million of the original 13-week and 26-week issues.

Tenders for the bills will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356, published as a final rule on January 5, 1993, and effective March 1, 1993) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about each of the new securities are given in the attached offering highlights.

oOo

Attachment

LB-426

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED OCTOBER 21, 1993

October 12, 1993

Offering Amount	$12,800 million	$12,800 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 H5 6	912794 K2 9
Auction date	October 18, 1993	October 18, 1993
Issue date	October 21, 1993	October 21, 1993
Maturity date	January 20, 1994	April 21, 1994
Original issue date	July 22, 1993	October 21, 1993
Currently outstanding	$12,584 million	---
Minimum bid amount	$10,000	$10,000
Multiples	$ 1,000	$ 1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

Noncompetitive bids . . . . Accepted in full up to $1,000,000 at the average discount rate of accepted competitive bids.

Competitive bids . . . .
(1) Must be expressed as a discount rate with two decimals, e.g., 7.10%.
(2) Net long position for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is $2 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid at a Single Yield . . . . 35% of public offering

Maximum Award . . . . 35% of public offering

Receipt of Tenders:

Noncompetitive tenders . . . . . . Prior to 12:00 noon Eastern Daylight Saving time on auction day

Competitive tenders . . . . Prior to 1:00 p.m. Eastern Daylight Saving time on auction day

Payment Terms . . . . Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

STATEMENT OF R. RICHARD NEWCOMB
DIRECTOR, OFFICE OF FOREIGN ASSETS CONTROL
DEPARTMENT OF THE TREASURY
BEFORE THE
HOUSE COMMITTEE ON FOREIGN AFFAIRS
OCTOBER 13, 1993

Chairman Hamilton and members of the Committee:

Good morning. I am R. Richard Newcomb, the Director of the Office of Foreign Assets Control (FAC) at the United States Department of the Treasury. I am happy to appear before the Committee today to discuss the Administration's proposed Iraq Claims Act of 1993.

The Administration's proposed Iraq Claims Act of 1993 was developed to provide a fair and orderly system for satisfying the claims of U.S. nationals and the United States against Iraq. The Iraq Claims Act follows the standard procedure utilized in the U.S. in the past to address compensation of U.S. nationals in similar circumstances. The bill incorporates the best approach to compensation issues, one that will permit available compensation to be allocated equitably among similarly-situated claimants. The bill authorizes adjudication of U.S. nationals' claims in a single forum, and permits the President to compensate claimants by vesting blocked Iraqi assets in the United States. We believe this approach far preferable to the piecemeal approach represented by legislation unfairly compensating only a small segment of the business community, such as the proposed Secured Payment Act (S. 1119) and a similar amendment to the State Department Authorization Bill pending in the Senate.

The Iraq Claims Act complements the U.N. compensation program, which was set up to handle claims resulting from Iraq's invasion and occupation of Kuwait. Like the U.N. program, it establishes a priority for non-commercial individual claims. In the Iraq Claims Act, priority is established for the non-commercial claims of Desert Shield and Desert Storm veterans and other individuals arising out of Iraq's invasion and occupation of Kuwait. No other priorities are created by the Iraq Claims Act. All other similarly-situated claimants are treated equally.

The equal treatment of similarly situated claimants stands in stark contrast to the preferential treatment that would be granted a small group of businesses under the Secured Payment Act (SPA) and a similarly-worded amendment to the State Department

Authorization Bill. These counterproposals would authorize payment of U.S. beneficiaries from funds on deposit in U.S. banks in accounts of foreign banks that issued or confirmed letters of credit, but are in conflict with settled principles of law. The SPA would affect many current sanctions programs under the International Emergency Economic Powers Act -- Libya and Yugoslavia, for example -- as well as future programs. It could have unpredictable effects and undermine the effectiveness of these programs, as well as permanently changing traditionally accepted trade finance principles and practice. It creates an unfair preference for one group of unsecured creditors, that is, businesses holding advised letters of credit, at the expense of other unsecured creditors such as veterans and individuals, insurance companies, banks, and businesses without letters of credit.

The SPA provides beneficiaries of foreign-issued or foreign-confirmed letters of credit rights that they do not now have under letter of credit law. Letter of credit law creates a fundamental difference in the obligations of banks that confirm, as opposed to advising, letters of credit. If a U.S. bank confirms a foreign letter of credit, it becomes legally obligated to pay the beneficiary if the credit's terms are met. In contrast, where a beneficiary has a U.S.-advised foreign letter of credit, no U.S. bank is obligated to pay that beneficiary and the foreign letter of credit does not entitle the beneficiary to any funds held in the U.S., as a matter of well-established law. Nevertheless, the SPA gives U.S. beneficiaries of advised letters of credit, who deserve no greater priority than any other unsecured creditor, priority rights against blocked funds not granted by letter of credit law. (The SPA grants a right to payment based on performance of the trade contract, not compliance with the letter of credit terms; and a right to payment from any funds of the foreign bank, not from an account of the foreign bank specified in the letter of credit.)

As noted, the Iraq Claims Act does follow standard procedures utilized in the U.S. in the past. While some have questioned why we should proceed differently with respect to Iraq than with respect to Iran, it is important to recall that in the case of Iran it was known at the outset that Iran had far greater assets blocked in the U.S. to satisfy claims. In contrast, Iraq is essentially bankrupt, with hundreds of billions of dollars in global claims, nearly $100 billion of which is pre-war debt to banks throughout the world. The U.S. Government has the responsibility to safeguard the interests of all U.S. nationals' claims. Otherwise, some may receive full compensation while other equally deserving claimants receive little or nothing.

There is no reason that one class of unsecured creditors, those holding certain letters of credit, should rate more highly than individuals with death, injury or expropriation claims. However, the Secured Payment Act and similar proposals would give these unsecured business creditors higher priority than veterans and other individuals with equally valid and compelling claims for death or injury. The Secured

Payment Act would compensate the letter of credit holders 100% at the expense of veterans and individuals, whose recoveries would be reduced or even eliminated so that a small group of businesses could receive full compensation.

We hope that the members of the Committee and the Congress will join us in supporting the inclusive and equitable approach taken in the Iraq Claims Act of 1993.

It was a pleasure appearing before the Committee this morning. I will be pleased to respond to any questions.

TREASURY NEWS

Department of the Treasury   Washington, D.C.   Telephone 202-622-2960

FOR IMMEDIATE RELEASE
October 13, 1993

Contact: Scott Dykema
(202) 622-2960

U.S., NETHERLANDS SIGN INCOME TAX ACCORD

The United States and the Netherlands signed a protocol Wednesday modifying their proposed income tax treaty.

Both governments also exchanged notes containing common interpretations of several provisions in the treaty and protocol.

The key feature of the protocol, signed in Washington, aims to stop a tax avoidance scheme used by some Dutch investors. The scheme involves Dutch corporations investing in the United States through branches in tax-haven countries. The combination of treaty provisions and Dutch law would allow investors to pay little tax in any country on income from those investments.

The protocol says that in such cases the United States may impose a withholding tax equal to 15 percent of the interest or royalty income derived by the branch from its U.S. investments.

A provision in the proposed tax treaty required both governments to agree to a protocol if the Dutch government didn't enact legislation preventing this type of transaction prior to U.S. Senate hearings on the new treaty. Since the Dutch government hasn't enacted the legislation and U.S. Senate hearings are expected in late October, both nations had to sign a protocol to permit Senate consideration of the proposed treaty.

Both nations are seeking early ratification of the protocol and treaty so both can take effect in 1994. The proposed treaty was signed last December.

Copies of the new protocol and accompanying notes may be obtained by writing the Office of Public Affairs, Room 2315, Department of the Treasury, Washington, D.C., 20220, or calling telephone (202) 622-2960.

-30-

CONVENTION BETWEEN THE UNITED STATES OF AMERICA AND THE KINGDOM OF THE NETHERLANDS OF AMERICA FOR THE AVOIDANCE OF DOUBLE TAXATION AND THE PREVENTION OF FISCAL EVASION WITH RESPECT TO TAXES ON INCOME

The Government of the United States of America and the Government of the Kingdom of the Netherlands, desiring to replace by a new convention the Convention between the United States of America and the Kingdom of the Netherlands with respect to taxes on income and certain other taxes signed at Washington on April 29, 1948, as modified and supplemented by the Supplementary Convention signed at Washington on December 30, 1965,

Have agreed as follows:

CHAPTER I

SCOPE OF THE CONVENTION

Article 1

GENERAL SCOPE

1. This Convention shall apply to persons who are residents of one or both of the States, except as otherwise provided in the Convention.

2. The Convention shall not restrict in any manner any exclusion, exemption, deduction, credit, or other allowance now or hereafter accorded:

a) by the laws of either State, except, as regards the Netherlands, with respect to Article 25 (Methods of Elimination of Double Taxation); or

b) by any other agreement between the States.

Article 2

TAXES COVERED

1. The existing taxes to which this Convention shall apply are in particular:

a) in the Netherlands:

- de inkomstenbelasting (income tax),
- de loonbelasting (wages tax),
- de vennootschapsbelasting (company tax), including the government share in the net profits of the exploitation of natural resources levied

pursuant to the Mining Act 1810 (Mijnwet 1810) with respect to concessions issued from 1967, or pursuant to the Netherlands Continental Shelf Mining Act of 1965 (Mijnwet Continentaal Plat 1965) hereinafter referred to as "profit share",

de dividendbelasting (dividend tax),

(hereinafter referred to as "Netherlands tax");

b) in the United States: the Federal income taxes imposed by the Internal Revenue Code (but excluding social security taxes), and the excise taxes imposed on insurance premiums paid to foreign insurers and with respect to private foundations (hereinafter referred to as "United States tax").

The Convention shall, however, apply to the excise taxes imposed on insurance premiums paid to foreign insurers only to the extent that the risks covered by such premiums are not reinsured with a person not entitled to the benefits of this or any other convention which provides exemption from these taxes.

2. The Convention shall apply also to any identical or substantially similar taxes which are imposed after the date of signature of the Convention in addition to, or in place of, the existing taxes. The competent authorities of the States shall notify each other of any substantial changes which have been made in their respective taxation laws.

CHAPTER II

DEFINITIONS

Article 3

GENERAL DEFINITIONS

1. For the purposes of this Convention, unless the context otherwise requires:

a) the term "State" means the Netherlands or the United States, as the context requires; the term "States" means the Netherlands and the United States;

b) the term "the Netherlands" comprises the part of the Kingdom of the Netherlands that is situated in Europe and the part of the sea bed and its sub-soil under the North Sea, over which the Kingdom of the Netherlands has sovereign rights in accordance with international law for the purpose of exploration for and exploitation of the natural resources of such areas, but only to the extent that the person, property, or activity to which this Convention is being applied is connected with such exploration or exploitation;

c) i) the term "United States" means the United States of America, but does not include Puerto Rico, the Virgin Islands, Guam, or any other United States possession or territory;

ii) when used in a geographical sense, the term "United States" means the states thereof and the District of Columbia. Such term also includes (A) the territorial sea thereof and (B) the sea bed and sub-soil of the submarine areas adjacent to that territorial sea, over which the United States exercises sovereign rights in accordance with international law for the purpose of exploration for and exploitation of the natural resources of such areas, but only to the extent that the person, property, or activity to which this Convention is being applied is connected with such exploration or exploitation;

d) the term "person" includes an individual, an estate, a trust, a company and any other body of persons;

e) the term "company" means any body corporate or any entity which is treated as a body corporate for tax purposes;

f) the terms "enterprise of one of the States" and "enterprise of the other State" mean respectively an enterprise carried on by a resident of one of the

States and an enterprise carried on by a resident of the other State;

g) the term "nationals" means:

i) all individuals possessing the nationality or citizenship of one of the States;

ii) all legal persons, partnerships and associations deriving their status as such from the laws in force in one of the States;

h) the term "international traffic" means any transport by a ship or aircraft operated by an enterprise of one of the States, except when the ship or aircraft is operated solely between places within the other State;

i) the term "competent authority" means:

i) in the Netherlands: the Minister of Finance or his duly authorized representative; and

ii) in the United States: the Secretary of the Treasury or his delegate.

2. As regards the application of the Convention by one of the States any term not defined therein shall, unless the context otherwise requires or the competent authorities agree to a common meaning pursuant to the provisions of Article 29 (Mutual Agreement Procedure), have the meaning

which it has under the law of that State concerning the taxes to which the Convention applies.

Article 4

RESIDENT

1. For the purposes of this Convention, the term "resident of one of the States" means any person who, under the laws of that State, is liable to tax therein by reason of his domicile, residence, place of management, place of incorporation, or any other criterion of a similar nature, or that is an exempt pension trust, as dealt with in Article 35 (Exempt Pension Trust) and that is a resident of that State according to the laws of that State, or an exempt organization, as dealt with in Article 36 (Exempt Organizations) and that is a resident of that State according to the laws of that State. If, under the laws of the two States, an individual is a resident of both States, his residence for purposes of the Convention shall be determined under the rules of paragraph 2. An individual who is a resident of one of the States under the law of that State, or who is a citizen of the United States, and who is not a resident of the other State under its law, will, for the purposes of this paragraph, be treated as a resident of the State of which he is a resident or citizen only if (i) he would be a resident of that State and not a third State,

under the principles of subparagraphs (a) and (b) of paragraph 2 of this Article, if that third State is one with which the first-mentioned State does not have a comprehensive income tax Convention, or (ii) he is a resident of that State and not a third State, if that third State is one with which the first-mentioned State does have a comprehensive income tax Convention, under the provisions of that Convention. However,

a) the term "resident of one of the States" does not include any person who is liable to tax in that State in respect only of income from sources in that State; and

b) in the case of income derived or paid by an estate or trust, the term "resident of one of the States" applies only to the extent that the income derived by such estate or trust (other than an exempt pension trust or an exempt organization organized in the form of a trust, described above in this paragraph), is subject to tax in that State as the income of a resident, either in its hands or in the hands of its beneficiaries.

2. Where by reason of the provisions of paragraph 1, an individual is a resident of both States, then his status shall be determined as follows:

a) he shall be deemed to be a resident of the State in which he has a permanent home available to him; if he has a permanent home available to him in both States, he shall be deemed to be a resident of the State with which his personal and economic relations are closer (centre of vital interests);

b) if the State in which he has his centre of vital interests cannot be determined, or if he has not a permanent home available to him in either State, he shall be deemed to be a resident of the State in which he has an habitual abode;

c) if he has an habitual abode in both States or in neither of them, he shall be deemed to be a resident of the State of which he is a national;

d) if he is a national of both States or of neither of them, the competent authorities of the States shall settle the question by mutual agreement.

3. Where by reason of the provisions of paragraph 1, a person other than an individual or a company is a resident of both States, the competent authorities of the States shall settle the question by mutual agreement and determine the mode of application of the Convention to such person.

4. Where by reason of the provisions of paragraph 1, a company is a resident of both States, the competent authorities of the States shall endeavour to settle the

question by mutual agreement, having regard to the company's place of effective management, the place where it is incorporated or otherwise constituted and any other relevant factors. In the absence of such agreement, such company shall not be entitled to claim any benefits under this Convention, except that such company may claim the benefits of paragraph 4 of Article 25 (Methods of Elimination of Double Taxation) and of Articles 28 (Non-discrimination), 29 (Mutual Agreement Procedure) and 37 (Entry into Force).

Article 5

PERMANENT ESTABLISHMENT

1. For the purposes of this Convention, the term "permanent establishment" means a fixed place of business through which the business of an enterprise is wholly or partly carried on.

2. The term "permanent establishment" includes especially:

a) a place of management;

b) a branch;

c) an office;

d) a factory;

e) a workshop; and

f) a mine, an oil or gas well, a quarry or any other place of extraction of natural resources.

3. A building site or construction or installation project constitutes a permanent establishment only if it lasts more than twelve months.

4. Notwithstanding the preceding provisions of this Article, the term "permanent establishment" shall be deemed not to include:

a) the use of facilities solely for the purpose of storage, display or delivery of goods or merchandise belonging to the enterprise;

b) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of storage, display or delivery;

c) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of processing by another enterprise;

d) the maintenance of a fixed place of business solely for the purpose of purchasing goods or merchandise, or of collecting information, for the enterprise;

e) the maintenance of a fixed place of business solely for the purpose of carrying on, for the enterprise, any other activity of a preparatory or auxiliary character;

f) the maintenance of a fixed place of business solely for any combination of the activities mentioned

in subparagraphs (a) to (e), provided that the overall activity of the fixed place of business resulting from this combination is of a preparatory or auxiliary character.

5. Notwithstanding the provisions of paragraphs 1 and 2, where a person - other than an agent of an independent status to whom paragraph 6 applies - is acting on behalf of an enterprise and has, and habitually exercises, in one of the States an authority to conclude contracts in the name of the enterprise, that enterprise shall be deemed to have a permanent establishment in that State in respect of any activities which that person undertakes for the enterprise, unless the activities of such person are limited to those mentioned in paragraph 4 which, if exercised through a fixed place of business, would not make this fixed place of business a permanent establishment under the provisions of that paragraph.

6. An enterprise shall not be deemed to have a permanent establishment in one of the States merely because it carries on business in that State through a broker, general commission agent or any other agent of an independent status, provided that such persons are acting in the ordinary course of their business.

7. The fact that a company which is a resident of one of the States controls or is controlled by a company which

is a resident of the other State, or which carries on business in that other State (whether through a permanent establishment or otherwise), shall not of itself constitute either company a permanent establishment of the other.

CHAPTER III

TAXATION OF INCOME

Article 6

INCOME FROM REAL PROPERTY

1. Income derived by a resident of one of the States from real property (including income from agriculture or forestry) situated in the other State may be taxed in that other State.

2. The term "real property" shall have the meaning which it has under the law of the State in which the property in question is situated. The term shall in any case include property accessory to real property, livestock and equipment used in agriculture and forestry, rights to which the provisions of general law respecting landed property apply, usufruct of real property and rights to variable or fixed payments as consideration for the working of, or the right to work, mineral deposits, sources and other natural resources; ships and aircraft shall not be regarded as real property.

3. The provisions of paragraph 1 shall apply to income derived from the direct use, letting, or use in any other form of real property.

4. The provisions of paragraphs 1 and 3 shall also apply to the income from real property of an enterprise and to income from real property used for the performance of independent personal services.

5. A resident of one of the States who is liable to tax in the other State on income from real property situated in the other State may elect for any taxable year to compute the tax on such income on a net basis as if such income were attributable to a permanent establishment in such other State. Any such election shall be binding for the taxable year of the election and all subsequent taxable years unless the competent authorities of the States, pursuant to a request by the taxpayer made to the competent authority of the State of which the taxpayer is a resident, agree to terminate the election.

6. Exploration and exploitation rights of the sea bed, its sub-soil, and natural resources found therein (including rights to interests in, or to benefits of, assets to be produced by such exploration or exploitation) shall be regarded as real property situated in the State in which such sea bed, sub-soil, and natural resources are located. Such rights shall be considered to pertain to the property

of a permanent establishment in that State to the same extent that any item of real property located in that State would be considered to pertain to a permanent establishment in that State.

Article 7

BUSINESS PROFITS

1. The profits of an enterprise of one of the States shall be taxable only in that State unless the enterprise carries on business in the other State through a permanent establishment situated therein. If the enterprise carries on business as aforesaid, the profits of the enterprise may be taxed in the other State but only so much of them as is attributable to that permanent establishment.

2. Subject to the provisions of paragraph 3, where an enterprise of one of the States carries on business in the other State through a permanent establishment situated therein, there shall in each State be attributed to that permanent establishment the profits which it might be expected to make if it were a distinct and separate enterprise engaged in the same or similar activities under the same or similar conditions and dealing wholly independently with the enterprise of which it is a permanent establishment.

3. In determining the profits of a permanent establishment, there shall be allowed as deductions expenses which are incurred for the purposes of the permanent establishment, including executive and general administrative expenses, research and development expenses, interest, and other expenses incurred for the purposes of the enterprise as a whole (or the part thereof which includes the permanent establishment), whether incurred in the State in which the permanent establishment is situated or elsewhere.

4. No profits shall be attributed to a permanent establishment by reason of the mere purchase by that permanent establishment of goods or merchandise for the enterprise.

5. For the purposes of the preceding paragraphs the profits to be attributed to the permanent establishment shall include only the profits derived from the assets or activities of the permanent establishment and shall be determined by the same method year by year unless there is good and sufficient reason to the contrary.

6. Where profits include items of income which are dealt with separately in other Articles of the Convention, then the provisions of those Articles shall not be affected by the provisions of this Article.

7. The United States tax on insurance premiums paid to foreign insurers, to the extent that it is a covered tax

under paragraph 1 (b) of Article 2 (Taxes Covered), shall not be imposed on insurance or reinsurance premiums which are the receipts of a business of insurance carried on by an enterprise of the Netherlands whether or not that business is carried on through a permanent establishment in the United States.

Article 8

SHIPPING AND AIR TRANSPORT

1. Profits derived by an enterprise of one of the States from the operation of ships or aircraft in international traffic shall be taxable only in that State.

2. For the purposes of this Article, profits from the operation of ships or aircraft in international traffic include profits derived from the rental of ships or aircraft if such rental profits are incidental to profits described in paragraph 1.

3. The provisions of paragraph 1 shall also apply to the proportionate share of profits derived from the participation in a pool, a joint business or an international operating agency. The proportionate share shall be treated as derived directly from the operation of ships or aircraft in international traffic.

Article 9

ASSOCIATED ENTERPRISES

1. Where

a) an enterprise of one of the States participates directly or indirectly in the management, control or capital of an enterprise of the other State; or

b) the same persons participate directly or indirectly in the management, control, or capital of an enterprise of one of the States and an enterprise of the other State,

and in either case conditions are made or imposed between the two enterprises in their commercial or financial relations which differ from those which would be made between independent enterprises, then any income, deductions, receipts, allowances or outgoings which would, but for those conditions, have accrued to one of the enterprises, but, by reason of those conditions, have not so accrued, may be included in the profits of that enterprise and taxed accordingly.

It is understood, however, that the fact that associated enterprises have concluded arrangements, such as cost sharing arrangements or general services agreements, for or based on the allocation of executive, general administrative, technical and commercial expenses, research

and development expenses and other similar expenses, is not in itself a condition as meant in the preceding sentence.

2. Where one of the States includes in the profits of an enterprise of that State - and taxes accordingly profits on which an enterprise of the other State has been charged to tax in that other State, and the profits so included are profits which would have accrued to the enterprise of the first-mentioned State if the conditions made between the two enterprises had been those which would have been made between independent enterprises, then that other State shall make an appropriate adjustment to the amount of the tax charged therein on those profits. In determining such adjustment, due regard shall be had to the other provisions of this Convention and the competent authorities of the States shall if necessary consult each other.

Article 10

DIVIDENDS

1. Dividends paid by a company which is a resident of one of the States to a resident of the other State may be taxed in that other State.

2. However, such dividends may also be taxed in the State of which the company paying the dividends is a resident and according to the laws of that State, but if the

beneficial owner of the dividends is a resident of the other State, the tax so charged shall not exceed:

a) 5 percent of the gross amount of the dividends if the beneficial owner is a company which holds directly at least 10 percent of the voting power of the company paying the dividends;

b) 15 percent of the gross amount of the dividends in all other cases.

The provisions of subparagraph (b) instead of the provisions of subparagraph (a) shall apply in the case of dividends paid by a United States person which is a Regulated Investment Company or Real Estate Investment Trust or in the case of dividends paid by a Dutch company, which is a "beleggingsinstelling" in the sense of Article 28 of the Netherlands Corporation Tax Act (Wet op de vennootschapsbelasting 1969) (hereinafter referred to as "beleggingsinstelling").

However, neither the provisions of subparagraph (a) nor (b) shall apply in the case of:

i) a dividend paid by a United States person which is a Real Estate Investment Trust, if such dividend is beneficially owned by a resident of the Netherlands, other than a Dutch company which is a "beleggingsinstelling" or other than an individual

holding a less than 25 percent interest in the Real Estate Investment Trust; such dividends shall instead be taxable at the rate provided in the domestic law of the United States;

ii) a dividend paid by a Dutch company, which is a "beleggingsinstelling", and which invests in real estate to the same extent as is required of a Real Estate Investment Trust, if the dividend is beneficially owned by a resident of the United States, other than an individual holding a less than 25 percent interest in the Dutch company, or other than a Regulated Investment Company or Real Estate Investment Trust; such dividends shall instead be taxable at the rate provided in the domestic law of the Netherlands.

3. The provisions of paragraph 2 shall not affect the taxation of the company in respect of the profits out of which the dividends are paid.

4. The term "dividends" as used in this Convention means income from shares or other rights participating in profits, as well as income from other corporate rights which is subjected to the same taxation treatment as income from

shares by the laws of the State of which the company making the distribution is a resident. For the purposes of this paragraph, the term "dividends" also includes, in the case of the Netherlands, income from profit sharing bonds ("winstdelende obligaties") and, in the case of the United States, income from debt obligations carrying the right to participate in profits.

5. The provisions of paragraphs 1 and 2 shall not apply if the beneficial owner of the dividends, being a resident of one of the States, carries on business in the other State of which the company paying the dividends is a resident, through a permanent establishment situated therein, or performs in that other State independent personal services from a fixed base situated therein, and the holding in respect of which the dividends are paid forms part of the business property of such permanent establishment or pertains to such fixed base. In such case the provisions of Article 7 (Business Profits) or Article 15 (Independent Personal Services), as the case may be, shall apply.

6. Where a company which is a resident of one of the States derives profits or income from the other State, that other State may not impose any tax on the dividends paid by the company, except insofar as such dividends are paid to a resident of that other State or insofar as the holding in

respect of which the dividends are paid forms part of the business property of a permanent establishment or pertains to a fixed base situated in that other State, nor, except as provided in Article 11 (Branch Tax), subject the company's undistributed profits to a tax on the company's undistributed profits, even if the dividends paid or the undistributed profits consist wholly or partly of profits or income arising in such other State.

Article 11

BRANCH TAX

1. A corporation which is a resident of one of the States and which has a permanent establishment in the other State or which is subject to tax on a net basis in that other State under Article 6 (Income from Real Property) or under paragraph 1 of Article 14 (Capital Gains), may be subject in that other State to a tax in addition to the tax allowable under the other provisions of this Convention. Such tax, however, may be imposed only on that portion of the business profits of the corporation attributable to the permanent establishment under this Convention or the income subject to tax on a net basis under Article 6 (Income from Real Property) or under paragraph 1 of Article 14 (Capital Gains) and reduced for all taxes chargeable in that State on such profits and income, other than the additional tax

3. The provisions of paragraph 1 shall not apply if the beneficial owner of the interest, being a resident of one of the States, carries on business in the other State, in which the interest arises, through a permanent establishment situated therein, or performs in that other State independent personal services from a fixed base situated therein, and the interest paid is attributable to such permanent establishment or fixed base. In such case the provisions of Article 7 (Business Profits) or Article 15 (Independent Personal Services), as the case may be, shall apply.

4. Interest shall be deemed to arise in one of the States when the payer is that State itself, or a political subdivision, a local authority, or a resident of that State. Where, however, the person paying the interest, whether he is a resident of one of the States or not, has in one of the States a permanent establishment or a fixed base in connection with which the indebtedness on which the interest is paid was incurred, or has income otherwise subject to the tax described in Article 11 (Branch Tax), and such interest is borne by such permanent establishment or fixed base or is allocable to the income subject to the tax described in Article 11 (Branch Tax), then such interest shall be deemed to arise in the State in which the permanent establishment

or fixed base is situated or in which the income is subject to the tax described in Article 11 (Branch Tax).

5. Where, by reason of a special relationship between the payer and the beneficial owner or between both of them and some other person, the amount of the interest, having regard to the debt-claim for which it is paid, exceeds the amount which would have been agreed upon by the payer and the beneficial owner in the absence of such relationship, the provisions of this Article shall apply only to the last-mentioned amount. In such case the excess part of the payments shall remain taxable according to the laws of each State, due regard being had to the other provisions of this Convention.

6. A State may not impose any tax on interest paid by a resident of the other State, except insofar as

a) the interest is paid to a resident of the first-mentioned State;

b) the interest is attributable to a permanent establishment or a fixed base situated in the first-mentioned State; or

c) the interest arises in the first-mentioned State and is not paid to a resident of the other State.

Where the payer of the interest is a resident of one of the States and has a permanent establishment in the other State or has income otherwise subject to the tax described in

Article 11 (Branch Tax), then to the extent the amount of the interest arising in such other State by reason of the permanent establishment or by reason of income subject to the tax described in Article 11 (Branch Tax) exceeds the total amount of interest paid by such permanent establishment or in connection with income otherwise subject to the tax described in Article 11 (Branch Tax), such excess amount shall be treated as interest derived and beneficially owned by a resident of the other State.

7. The provisions of paragraph 1 shall not apply to an excess inclusion with respect to a residual interest in a real estate mortgage investment conduit.

Article 13

ROYALTIES

1. Royalties arising in one of the States and beneficially owned by a resident of the other State shall be taxable only in that other State.

2. The term "royalties" as used in this Convention means payments of any kind received as a consideration for the use of, or the right to use, any copyright of literary, artistic, or scientific work (but not including motion pictures or works on film, tape or other means of reproduction used for radio or television broadcasting), any patent, trademark, trade name, brand name, design or model,

plan, secret formula or process, or for information concerning industrial, commercial or scientific experience. The term "royalties" also includes gains derived from the alienation of any such right or property which are contingent on the productivity, use, or disposition thereof.

3. The provisions of paragraph 1 shall not apply if the beneficial owner of the royalties, being a resident of one of the States, carries on business in the other State, in which the royalties arise, through a permanent establishment situated therein, or performs in that other State independent personal services from a fixed base situated therein, and the royalties are attributable to such permanent establishment or fixed base. In such case the provisions of Article 7 (Business Profits) or Article 15 (Independent Personal Services), as the case may be, shall apply.

4. Where, by reason of a special relationship between the payer and the beneficial owner or between both of them and some other person, the amount of the royalties, having regard to the use, right, or information for which they are paid, exceeds the amount which would have been agreed upon by the payer and the beneficial owner in the absence of such relationship, the provisions of this Article shall apply only to the last-mentioned amount. In such case the excess part of the payments shall remain taxable according to the

laws of each State, due regard being had to the other provisions of this Convention.

5. A State may not impose any tax on royalties paid by a resident of the other State, except insofar as

a) the royalties are paid to a resident of the first-mentioned State;

b) the royalties are attributable to a permanent establishment or a fixed base situated in the first-mentioned State;

c) the contract under which the royalties are paid was concluded in connection with a permanent establishment or a fixed base which the payer has in the first-mentioned State, and such royalties are borne by such permanent establishment or fixed base and are not paid to a resident of the other State; or

d) royalties are paid in respect of intangible property used in the first-mentioned State and not paid to a resident of the other State, but only where the payer has also received a royalty paid by a resident of the first-mentioned State, or borne by a permanent establishment or fixed base situated in that State, in respect of the use of that property in the first-mentioned State and provided that the use of the intangible property in question is not a component part of nor directly related to the active conduct of a

trade or business in which the payer is engaged as meant in paragraph 2 of Article 26 (Limitation on Benefits).

Article 14

CAPITAL GAINS

1. Gains derived by a resident of one of the States from the disposition of real property situated in the other State may be taxed in the other State. For the purposes of this paragraph the term "real property situated in the other State" shall include:

a) real property referred to in Article 6 (Income from Real Property); and

b) shares or other comparable corporate rights in a company that is a resident of that other State, the assets of which company consist, directly or indirectly, for the greater part of real property situated in that other State, and an interest in a partnership, trust, or estate, to the extent that it is attributable to real property situated in that other State.

In the United States, the term includes a "United States real property interest" as defined in the Internal Revenue Code on the date of signature of this Convention, and as

amended from time to time without changing the general principles described in this paragraph.

2. a) Where after the date this Convention enters into force a person who has been a resident of one of the States continuously since June 18, 1980, alienates real property situated in the other State, the alienation of which could not be taxed by the other State under the provisions of the prior Convention as defined in paragraph 2 of Article 37 (Entry into Force), and either:

i) the resident owned the alienated property continuously from June 18, 1980 until the date of alienation; or

ii) each of the following conditions is satisfied:

A) the resident acquired the alienated property in a transaction that qualified for non-recognition (determined without regard to section 897 of the Internal Revenue Code) for purposes of taxation in the other State, and the resident has owned the property continuously since such acquisition; and

B) the resident's initial basis in the alienated property was equal to either

the basis of the property that the resident exchanged for the alienated property, or the basis of the alienated property in the hands of the person transferring the property to the resident immediately prior to the transfer; then

the gain liable to tax in the other State under this Article shall be reduced by the portion of the gain attributable proportionately, on a monthly basis, to the period ending on December 31, 1984, or such greater portion as is shown to the satisfaction of the competent authority of that other State to be attributable to that period.

b) The provisions of this paragraph shall not apply unless, during the period from January 1, 1992, through the date of alienation, the resident, and any other person who owned the property during such period, was entitled to the benefits of this Article under Article 26 (Limitation on Benefits), or would have been so entitled if the Convention had been in effect throughout such period. In addition, during the period from June 18, 1980, through December 31, 1991, each person who owned the property must have been a resident of one of the States under the prior Convention as

defined in paragraph 2 of Article 37 (Entry into Force).

c) The provisions of this paragraph shall not apply to the alienation of property that:

i) formed part of the property of a permanent establishment, or pertained to a fixed base, situated in the other State at any time on or after June 18, 1980;

ii) was acquired directly or indirectly by any person on or after June 18, 1980, in a transaction that did not qualify for non-recognition (determined without regard to section 897 of the Internal Revenue Code), or in a transaction in which it was acquired in exchange for an asset that was acquired in a transaction that did not qualify for non-recognition (determined without regard to section 897 of the Internal Revenue Code); or

iii) was acquired, directly or indirectly, by any person on or after June 18, 1980, in exchange for property described in clause (i) or (ii) of this subparagraph, or property the alienation of which could have been taxed by the other State under the

provisions of the prior Convention as defined in paragraph 2 of Article 37 (Entry into Force).

3. Gains from the alienation of personal property forming part of the business property of a permanent establishment which an enterprise of one of the States has in the other State or of personal property pertaining to a fixed base available to a resident of one of the States in the other State for the purpose of performing independent personal services, including such gains from the alienation of such permanent establishment (alone or with the whole enterprise) or of such fixed base, may be taxed in that other State.

4. Notwithstanding the provisions of paragraph 3, gains from the deemed alienation of tangible depreciable personal property forming part of the business property of a permanent establishment which an enterprise of one of the States has in the other State under paragraph 3 of Article 27 (Offshore Activities) or of tangible depreciable personal property pertaining to a fixed base available to a resident of one of the States in the other State under paragraph 5 of Article 27 (Offshore Activities) for the purpose of performing independent personal services, shall be taxable only in the State of residence of the enterprise if the period during which the tangible depreciable personal property

forms part of the business property of such permanent establishment or pertains to such fixed base is less than 3 months and provided that the actual alienation of the tangible depreciable personal property does not take place within 1 year after the date of its deemed alienation. If the gain from the deemed alienation of the tangible depreciable personal property is taxable only in the State of residence of the enterprise, in determining the profits of the permanent establishment or the fixed base in the other State the depreciation with respect to such tangible depreciable personal property will be based on the lower of book value or market value, measured when such property became part of the business property of the permanent establishment or such property first pertained to the fixed base.

5. Notwithstanding the provisions of paragraph 3, gains derived by an enterprise of one of the States from the alienation of ships and aircraft operated in international traffic, and of personal property pertaining to the operation of such ships and aircraft shall be taxable only in that State.

6. Gains described in Article 13 (Royalties) shall be taxable in accordance with the provisions of Article 13.

7. Gains from the alienation of any property other than property referred to in paragraphs 1 through 5 shall be

taxable only in the State of which the alienator is a resident.

8. Where a resident of one of the States alienates property in the course of a corporate organization, reorganization, amalgamation, division or similar transaction and profit, gain or income with respect to such alienation is not recognized or is deferred for the purpose of taxation in that State, then any tax that would otherwise be imposed by the other State with respect to such alienation will also be deferred to the extent and time as such tax would have been deferred if the alienator had been a resident of the other State, but no longer and in no greater amount than in the first-mentioned State provided that such tax can be collected upon a later alienation and the collection of the amount of tax in question upon the later alienation is secured to the satisfaction of the competent authority of both of the States. The competent authorities of the States shall develop procedures for implementing this paragraph.

9. The provisions of paragraph 7 shall not affect the right of each of the States to levy according to its own law a tax on gains from the alienation of shares or other corporate rights participating in profits in a company, the capital of which is wholly or partly divided into shares and which, under the laws of that State is a resident thereof,

derived by an individual who is a resident of the other State and who:

a) has, at any time during the five-year period preceding the alienation, been a resident of the first-mentioned State, and

b) at the time of the alienation owns, either alone or together with related individuals, at least 25 percent of any class of shares of such company.

For purposes of this paragraph the term "related individuals" means the alienator's spouse and his relatives (by blood or marriage) in the direct line (ancestors and lineal descendents) and his relatives (by whole or half blood or by marriage) in the second degree in the collateral line (siblings or their spouses).

Article 15

INDEPENDENT PERSONAL SERVICES

1. Income derived by an individual who is a resident of one of the States from the performance of personal services in an independent capacity shall be taxable only in that State, unless such services are not performed in that State and the income derived therefrom is attributable to a fixed base regularly available to the individual in the other State for the purpose of performing his activities.

2. The term "personal services in an independent capacity" includes especially independent scientific, literary, artistic, educational or teaching activities as well as the independent activities of physicians, lawyers, engineers, architects, dentists and accountants.

Article 16

DEPENDENT PERSONAL SERVICES

1. Subject to the provisions of Articles 17 (Directors' Fees), 19 (Pensions, Annuities, Alimony), 20 (Government Service), and 21 (Professors and Teachers), salaries, wages, and other similar remuneration derived by a resident of one of the States in respect of an employment shall be taxable only in that State unless the employment is exercised in the other State. If the employment is so exercised, such remuneration as is derived therefrom may be taxed in that other State.

2. Notwithstanding the provisions of paragraph 1, remuneration derived by a resident of one of the States in respect of an employment exercised in the other State shall be taxable only in the first-mentioned State if

a) the recipient is present in the other State for a period or periods not exceeding in the aggregate 183 days in the taxable year concerned;

b) the remuneration is paid by, or on behalf of, an employer who is not a resident of the other State; and

c) the remuneration is not borne by a permanent establishment or a fixed base which the employer has in the other State.

3. Notwithstanding the preceding provisions of this Article, remuneration derived by a resident of one of the States in respect of an employment as a member of the regular complement of a ship or aircraft operated in international traffic, shall be taxable only in that State.

Article 17

DIRECTORS' FEES

Directors' fees or other remuneration derived by a resident of one of the States in his capacity as a member of the board of directors, a "bestuurder" or a "commissaris" of a company which is a resident of the other State may be taxed in that other State. However such remuneration shall be taxable only in the first-mentioned State to the extent to which such remuneration is derived from services rendered in that State.

Article 18

ARTISTES AND ATHLETES

1. Notwithstanding the provisions of Articles 15 (Independent Personal Services) and 16 (Dependent Personal Services), income derived by a resident of one of the States as an entertainer, such as a theatre, motion picture, radio, or television artiste, or a musician, or as an athlete, from his personal activities as such exercised in the other State, may be taxed in that other State except where the amount of the gross receipts derived by such entertainer or athlete for the taxable year concerned, including expenses reimbursed to him or borne on his behalf, from such activities does not exceed 10,000 United States dollars or its equivalent in Netherlands guilders on January 1 of the taxable year concerned. In the latter case the exemption can be applied by means of a refund of tax which may have been levied at the source. An application for such refund has to be lodged after the end of the taxable year concerned and within three years after that year.

2. Where income in respect of activities exercised by an entertainer or an athlete in his capacity as such accrues not to the entertainer or athlete but to another person, that income of that other person may, notwithstanding the provisions of Articles 7 (Business Profits) and 15 (Independent Personal Services), be taxed in the State in

which the activities of the entertainer or athlete are exercised, unless it is established that neither the entertainer or athlete nor persons related thereto participate directly or indirectly in the profits of that other person in any manner, including the receipts of deferred remuneration, bonuses, fees, dividends, partnership distributions, or other distributions.

Article 19

PENSIONS, ANNUITIES, ALIMONY

1. Subject to the provisions of paragraph 2 of Article 20 (Government Service), pensions and other similar remuneration derived and beneficially owned by a resident of one of the States in consideration of past employment and any annuity shall be taxable only in that State.

2. If, however, an individual deriving remuneration referred to in paragraph 1 was a resident of the other State at any time during the five-year period preceding the date of payment, the remuneration may be taxed in the other State if the remuneration is paid in consideration of employment exercised in the other State and the remuneration is not paid in the form of periodic payments, or a lump sum is paid in lieu of the right to receive an annuity.

3. The provisions of paragraph 2 shall not apply to the portion of the remuneration or lump sum referred to in

paragraph 2 that is contributed to a pension plan or retirement account under such circumstances that, if the remuneration or lump sum had been received from a payer in the State of the recipient's residence, the imposition of tax on the payment by the State of the recipient's residence would be deferred until the amount of the payment was withdrawn from the pension plan or retirement account to which it was contributed.

4. Subject to the provisions of paragraph 2 of Article 20 (Government Service), pensions and other payments made under the provisions of a public social security system and other public pensions paid by one of the States to a resident of the other State or a citizen of the United States shall be taxable only in the first-mentioned State.

5. The term "annuity" as used in this Article means a stated sum payable periodically at stated times during life or during a specified or ascertainable period of time under an obligation to make the payments in return for adequate and full consideration in money or money's worth.

6. Alimony paid to a resident of one of the States shall be taxable only in that State. The term "alimony" as used in this paragraph means periodic payments made pursuant to a written separation agreement or a decree of divorce, separate maintenance, or compulsory support, as well as lump sum payments in lieu thereof, which payments are taxable to

the recipient under the laws of the State of which he is a resident.

Article 20

GOVERNMENT SERVICE

1. a) Remuneration, other than a pension, paid by one of the States or a political subdivision or a local authority thereof to an individual in respect of services rendered to that State or subdivision or authority shall be taxable only in that State.

b) However, such remuneration shall be taxable only in the other State if the services are rendered in that State and the individual is a resident of that State who:

i) is a national of that State; or

ii) did not become a resident of that State solely for the purpose of rendering the services.

2. a) Any pension paid by, or out of funds created by, one of the States or a political subdivision or a local authority thereof to an individual in respect of services rendered to that State or subdivision or authority shall be taxable only in that State.

b) However, such pension shall be taxable only in the other State if the individual is a resident of, and a national of, that State.

3. The provisions of Articles 16 (Dependent Personal Services), 17 (Directors' Fees) and 19 (Pensions, Annuities, Alimony) shall apply to remuneration and pensions in respect of services rendered in connection with a business carried on by one of the States or a political subdivision or a local authority thereof.

Article 21

PROFESSORS AND TEACHERS

1. An individual who visits one of the States for a period not exceeding two years for the purpose of teaching or engaging in research at a university, college or other recognized educational institution in that State, and who was immediately before that visit a resident of the other State shall be taxable only in that other State on any remuneration for such teaching or research for a period not exceeding two years from the date he first visits the first-mentioned State for such purpose. If the visit exceeds two years, the first-mentioned State may tax the individual under its national law for the entire period of the visit, unless in a particular case the competent authorities of the States agree otherwise.

2. This Article shall not apply to income from research if such research is undertaken not in the public interest but primarily for the private benefit of a specific person or persons.

Article 22

STUDENTS AND TRAINEES

1. An individual who immediately before visiting one of the States is a resident of the other State and is temporarily present in the first-mentioned State for the primary purpose of:

a) full-time study at a recognized university, college or school in that first-mentioned State; or

b) securing training as a business apprentice,

shall be exempt from tax in the first-mentioned State in respect of:

i) all remittances from abroad for the purpose of his maintenance, education or training, and

ii) any remuneration for personal services performed in the first-mentioned State for any taxable year in an amount that does not exceed 2,000 United States dollars or its equivalent in Netherlands guilders on January 1 of that taxable year.

The benefits under this paragraph shall only extend for such period of time as may be reasonable or customarily required to effectuate the purpose of the visit.

2. An individual who immediately before visiting one of the States is a resident of the other State and is temporarily present in the first-mentioned State for a period not exceeding three years for the purpose of study, research or training solely as a recipient of a grant, allowance or award from a scientific, educational, religious or charitable organization or under a technical assistance program entered into by one of the States, a political subdivision or a local authority thereof shall be exempt from tax in the first-mentioned State on:

a) the amount of such grant, allowance or award; and

b) any remuneration for personal services performed in the first-mentioned State for any taxable year provided such services are in connection with his study, research or training or are incidental thereto, in an amount that does not exceed 2,000 United States dollars or its equivalent in Netherlands guilders on January 1 of that taxable year.

3. An individual may not claim the benefits of this Article or Article 21 (Professors and Teachers) if, during

the immediately preceding period, the individual claimed the benefits of such other Article.

Article 23

OTHER INCOME

1. Items of income of a resident of one of the States, wherever arising, not dealt with in the foregoing Articles of this Convention shall be taxable only in that State.

2. The provisions of paragraph 1 shall not apply to income, other than income from real property as defined in paragraph 2 of Article 6 (Income from Real Property), if the beneficial owner of the income, being a resident of one of the States, carries on business in the other State through a permanent establishment situated therein, or performs in that other State independent personal services from a fixed base situated therein, and the income is attributable to such permanent establishment or fixed base. In such case the provisions of Article 7 (Business Profits) or Article 15 (Independent Personal Services), as the case may be, shall apply.

CHAPTER IV

ELIMINATION OF DOUBLE TAXATION

Article 24

BASIS OF TAXATION

1. Notwithstanding any provision of the Convention except paragraph 2, each of the States may tax its residents and nationals as if the Convention had not come into effect. For this purpose, as regards the United States, the term national shall include a former citizen, not being a national of the Netherlands, whose loss of United States citizenship has as one of its principal purposes the avoidance of income tax, but only for a period of 10 years following such loss.

2. The provisions of paragraph 1 shall not affect

a) the benefits conferred by one of the States under paragraph 2 of Article 9 (Associated Enterprises), under paragraph 4 of Article 19 (Pensions, Annuities, Alimony), and under Articles 25 (Methods of Elimination of Double Taxation), 28 (Non-Discrimination), and 29 (Mutual Agreement Procedure); and

b) the benefits conferred by one of the States under Articles 20 (Government Service), 21 (Professors and Teachers), 22 (Students and Trainees), and 33 (Diplomatic Agents and Consular Officers), upon

individuals who are neither citizens of that State, nor, in the case of the United States, lawful permanent residents of the United States.

3. For the implementation of paragraphs 1 and 2 of Article 7 (Business Profits), paragraph 5 of Article 10 (Dividends), paragraph 3 of Article 12 (Interest), paragraph 3 of Article 13 (Royalties), paragraph 3 of Article 14 (Capital Gains), paragraph 1 of Article 15 (Independent Personal Services), and paragraph 2 of Article 23 (Other Income), any income, gain or expense attributable to a permanent establishment or fixed base during its existence is taxable or deductible in the State where such permanent establishment or fixed base is situated even if the payments are deferred until such permanent establishment or fixed base has ceased to exist. Nothing in the preceding sentence shall affect the application to such deferred payments of rules regarding the accrual of income and expenses according to the domestic law of each of the States.

Gains from the alienation of personal property that at any time formed part of the business property of a permanent establishment or fixed base that a resident of one of the States has or had in the other State may be taxed by that other State only to the extent that the gain is attributable to the period in which the personal property in question formed part of the afore-mentioned business property. Such

tax may be imposed on such gains at the time when realized and recognized under the laws of that other State, if that date is within 3 years of the date on which the property ceases to be part of the business property of the permanent establishment or fixed base.

4. If, immediately prior to the date of a hearing before the United States Senate Foreign Relations Committee regarding consent to ratification of this Convention, the Netherlands law does not contain provisions which prevent tax avoidance or evasion with respect to taxes on income in the situation where:

a) an enterprise of the Netherlands derives interest or royalties from another state, which interest or royalties are attributable to a permanent establishment of that enterprise in a third jurisdiction;

b) the income of such permanent establishment is subject to special or low taxation because of a "tax haven" regime (including, but not necessarily limited to, regimes intended to encourage the use of the third jurisdiction for tax avoidance purposes with respect to investment income); and

c) the income of such permanent establishment is exempt from tax in the Netherlands,

then a provision aimed at the prevention of tax avoidance or evasion with respect to taxes on such interest or royalty income derived by an enterprise of the Netherlands from the United States will be agreed upon between both States and will be laid down in a separate Protocol to this Convention.

Article 25

METHODS OF ELIMINATION OF

DOUBLE TAXATION

1. Notwithstanding the provisions of paragraph 2 of Article 24 (Basis of Taxation), the Netherlands may include in the basis of taxation the items of income which under paragraph 4 of Article 19 (Pensions, Annuities, Alimony) and Article 20 (Government Service) are taxable only in the United States.

2. Where a resident or national of the Netherlands derives items of income which according to Article 6 (Income from Real Property), Article 7 (Business Profits), paragraph 5 of Article 10 (Dividends), paragraph 3 of Article 12 (Interest), paragraph 3 of Article 13 (Royalties), paragraphs 1 and 3 of Article 14 (Capital Gains), Article 15 (Independent Personal Services) insofar as such income is subject to United States tax, paragraph 1 of Article 16 (Dependent Personal Services), paragraph 4 of Article 19 (Pensions, Annuities, Alimony), Article 20 (Government

Service), and paragraph 2 of Article 23 (Other Income) of this Convention are taxable in the United States and are included in the basis of the taxation, the Netherlands shall exempt such items by allowing a reduction of its tax. This reduction shall be computed in conformity with the provisions of Netherlands law for the avoidance of double taxation. For that purpose the said items of income shall be deemed to be included in the total amount of the items of income which are exempt from Netherlands tax under those provisions.

3. Further, the Netherlands shall allow a deduction from the Netherlands tax for the items of income which according to paragraph 2 of Article 10 (Dividends), Article 17 (Directors' Fees), and Article 18 (Artistes and Athletes) of the Convention may be taxed in the United States to the extent that these items are included in the basis of the taxation. The amount of this deduction shall be equal to

a) in the case of dividends which may be taxed in the United States according to paragraph 2, subparagraph (a) of Article 10 (Dividends), 5 percent of such dividends;

b) in the case of dividends which may be taxed in the United States according to paragraph 2, subparagraph (b) of Article 10 (Dividends), 15 percent of such dividends;

c) in the case of other dividends, which may be taxed in the United States according to paragraph 2(i) of Article 10 (Dividends), 15 percent of such dividends; and,

d) in the case of other items of income mentioned in this paragraph, the tax paid in the United States on such other items of income,

but shall in no case exceed the amount of the reduction which would be allowed if the items of income so included were the sole items of income which are exempt from Netherlands tax under the provisions of Netherlands law for the avoidance of double taxation.

4. In accordance with the provisions and subject to the limitations of the law of the United States (as it may be amended from time to time without changing the general principle hereof), the United States shall allow to a resident or national of the United States as a credit against the United States tax on income:

a) the appropriate amount of income tax paid or accrued to the Netherlands by or on behalf of such resident or national, except the income tax paid to the Netherlands in the cases referred to in paragraph 9 of Article 14 (Capital Gains) or in paragraph 2 of Article 19 (Pensions, Annuities, Alimony); and

b) in the case of a United States company owning at least 10 percent of the voting stock of a company which is a resident of the Netherlands and from which the United States company receives dividends, the appropriate amount of income tax paid or accrued to the Netherlands by or on behalf of the distributing company with respect to the profits out of which the dividends are paid.

Such appropriate amount shall be based upon the amount of income tax paid or accrued to the Netherlands, but the credit shall not exceed the limitations (for the purpose of limiting the credit to the United States tax on income from sources outside the United States) provided by United States law for the taxable year.

For the purposes of this paragraph, the taxes referred to in paragraphs 1(a) and 2 of Article 2 (Taxes Covered) shall be considered income taxes.

5. Notwithstanding the provisions of paragraph 4 of this Article, the United States shall allow to a resident or a national of the United States, as a credit against the United States tax on income, the appropriate amount of profit share paid by or on behalf of such resident or national to the Netherlands. The appropriate amount shall be the product of (i) the creditable profit share income base and (ii) the maximum statutory United States tax rate

applicable to such resident or national for such taxable year. For purposes of determining the appropriate amount, the following terms shall have the following meanings:

a) The creditable profit share income base is the excess of the income subject to the company income tax (excluding the income not subject to the profit share) that is derived from sources within the Netherlands (before deduction of the profit share due) over the creditable company income tax base.

b) The creditable company income tax base is the effective company income tax rate divided by the maximum statutory United States tax rate applicable to such resident or national for such taxable year, multiplied by the income subject to the company income tax (excluding the income not subject to the profit share) that is derived from sources within the Netherlands (before deduction of the profit share due).

c) The effective company income tax rate is the company income tax paid on the income subject to the company income tax (excluding the income not subject to the profit share) divided by the income subject to the company income tax, excluding the income not subject to the profit share and before deduction of the profit share due.

The appropriate amount is also subject to any other limitations imposed by the law of the United States, as it may be amended from time to time, which apply to taxes creditable under sections 901 or 903 of the Internal Revenue Code for persons claiming benefits under this Convention. In applying such limitations to the company tax, the creditable company income tax base (as defined in (b), above) must be used for purposes of those limitations. Any profit share paid in excess of the appropriate amount only may be used as a credit in another taxable year, and only against United States tax on the creditable profit share income base (as defined in (a), above). If a credit is claimed in respect of the profit share, the taxpayer may not claim a deduction for United States taxable income purposes with respect to any foreign taxes for which a credit against United States tax on income may be claimed under sections 901 or 903 of the Internal Revenue Code, or profit share, paid or accrued in such year. No credit shall be allowed under paragraph 4 of this Article for any Netherlands tax for which a credit is claimed under the provisions of this paragraph.

6. Where a United States citizen is a resident of the Netherlands:

a) with respect to items of income not exempt from Netherlands tax under paragraph 2, nor dealt with in paragraph 7 of this Article, that under the provisions

of this Convention are exempt from United States tax or that are subject to a reduced rate of United States tax when derived by a resident of the Netherlands who is not a United States citizen, the Netherlands shall allow as a credit against Netherlands tax, subject to the provisions of Netherlands tax law regarding credit for foreign tax, only the tax paid, if any, that the United States may impose under the provisions of this Convention, other than taxes that may be imposed solely by reason of citizenship under paragraph 1 of Article 24 (Basis of Taxation);

b) for purposes of computing United States tax under subparagraph (a), the United States shall allow as a credit against United States tax the income tax paid to the Netherlands after the credit referred to in subparagraph (a); the credit so allowed shall not reduce the portion of the United States tax that is creditable against the Netherlands tax in accordance with subparagraph (a); and

c) for the exclusive purpose of relieving double taxation in the United States under subparagraph (b) items of income referred to in subparagraph (a) shall be deemed to arise in the Netherlands to the extent necessary to avoid double taxation of such income under subparagraph (b).

7. Where a resident of one of the States derives gains or a remuneration or a lump sum which may be taxed in the other State in accordance with paragraph 9 of Article 14 (Capital Gains), or with paragraph 2 of Article 19 (Pensions, Annuities, Alimony), that other State shall allow a deduction from its tax on such gains, remuneration or lump sum. The amount of this deduction shall be equal to the tax levied in the first-mentioned State on the said gains, remuneration or lump sum, but shall in no case exceed that part of the income tax, as computed before the deduction is given, which is attributable to the said gains, remuneration or lump sum. For the exclusive purpose of relieving double taxation in the United States under this paragraph, items of income referred to in this paragraph shall be deemed to arise in the Netherlands to the extent necessary to avoid double taxation of such income under this paragraph.

CHAPTER V

SPECIAL PROVISIONS

Article 26

LIMITATION ON BENEFITS

1. A person that is a resident of one of the States and derives income from the other State shall be entitled, in that other State, to all the benefits of this Convention only if such person is:

a) an individual;

b) a State, or a political subdivision or local authority thereof;

c) a company meeting any of the following tests:

i) the principal class of its shares is listed on a recognized stock exchange located in either of the States and is substantially and regularly traded on one or more recognized stock exchanges;

ii) A) more than 50 percent of the aggregate vote and value of all of its shares is owned, directly or indirectly, by five or fewer companies which are resident of either State, the principal classes of the shares of which are listed and traded as described in subparagraph (c)(i), and

B) the company is not a conduit company, as defined in subparagraph 8(m); or

iii) in the case of a company resident in the Netherlands,

A) at least 30 percent of the aggregate vote and value of all of its shares is owned, directly or indirectly, by five or fewer companies resident in the Netherlands, the principal classes of the

shares of which are listed and traded as described in subparagraph (c)(i);

B) at least 70 percent of the aggregate vote and value of all of its shares is owned, directly or indirectly, by five or fewer companies that are residents of the United States or of member states of the European Communities, the principal classes of shares of which are substantially and regularly traded on one or more recognized stock exchanges; and

C) the company is not a conduit company, as defined in subparagraph 8(m); or

iv) in the case of a conduit company (as defined in paragraph 8(m)) that satisfies the requirements of subparagraph (c)(ii)(A) or (c)(iii)(A) and (B), such company satisfies the conduit base reduction test set forth in paragraph 5(d).

d) a person:

i) more than 50 percent of the beneficial interest in which (or, in the case of a company, more than 50 percent of the aggregate vote and value of all of its shares, and more than 50 percent of the

shares of any "disproportionate class of shares") is owned, directly or indirectly, by qualified persons; and

ii) which meets the base reduction test described in paragraph 5; or

e) a not-for-profit organization that, by virtue of that status, is generally exempt from income taxation in its State of residence, provided that more than half of the beneficiaries, members, or participants, if any, in such organization are qualified persons.

2. a) A person resident in one of the States shall also be entitled to the benefits of this Convention with respect to income derived from the other State if such person is engaged in the active conduct of a trade or business in the first-mentioned State (other than the business of making or managing investments, unless these activities are banking or insurance activities carried on by a bank or insurance company), and

i) the income derived in the other State is derived in connection with that trade or business in the first-mentioned State and the trade or business of the income recipient is substantial in relation to the income producing activity, or

ii) the income derived in the other State is incidental to that trade or business in the first-mentioned State.

b) Income is derived in connection with a trade or business if the income-producing activity in the other State is a line of business which forms a part of or is complementary to the trade or business conducted in the first-mentioned State by the income recipient.

c) Whether the trade or business of the income recipient is substantial will generally be determined by reference to its proportionate share of the trade or business in the other State, the nature of the activities performed and the relative contributions made to the conduct of the trade or business in both States. In any case, however, the trade or business of the income recipient will be deemed to be substantial if, for the preceding taxable year, the average of the ratios for the following three factors exceeds 10 percent (or in the case of a person electing to apply subparagraph (h), 60 percent) and each of the ratios exceeds 7.5 percent (or in the case of a person electing to apply subparagraph (h), 50 percent), provided that for any separate factor that does not meet the 7.5 percent test (or in the case of a person electing to apply subparagraph (h), the 50 percent

test) in the first preceding taxable year the average of the ratios for that factor in the three preceding taxable years may be substituted:

i) the ratio of the value of assets used or held for use in the active conduct of the trade or business by the income recipient in the first-mentioned State (without regard to any assets attributed from a third state under subparagraph (h), except in the case of a person electing to apply subparagraph (h)) to all, or, as the case may be, the proportionate share of the value of such assets so used or held for use by the trade or business producing the income in the other State;

ii) the ratio of gross income derived from the active conduct of the trade or business by the income recipient in the first-mentioned State (without regard to any gross income attributed from a third state under subparagraph (h), except in the case of a person electing to apply subparagraph (h)) to all, or, as the case may be, the proportionate share of the gross income so

derived by the trade or business producing the income in the other State; and

iii) the ratio of the payroll expense of the trade or business for services performed within the first-mentioned State (without regard to any services attributed from a third state under subparagraph (h), except in the case of a person electing to apply subparagraph (h)) to all, or, as the case may be, the proportionate share of the payroll expense of the trade or business for services performed in the other State.

d) Income derived from a State is incidental to a trade or business conducted in the other State if the income is not described in subparagraph (b) and the production of such income facilitates the conduct of the trade or business in the other State (for example, the investment of the working capital of such trade or business). In the case of a person electing to apply subparagraph (h), the income that is considered incidental to the trade or business shall not be greater than four times the amount of income that would have been considered incidental to the trade or business actually conducted in the Netherlands.

e) A person that is a resident of one of the States is considered to be engaged in the active conduct of a trade or business in that State (and is considered to carry on all, or, as the case may be, the proportionate share of such trades or businesses) if such person:

i) is directly so engaged;

ii) is a partner in a partnership that is so engaged;

iii) is a person in which a controlling beneficial interest is held by a single person which is engaged in the active conduct of a trade or business in that State;

iv) is a person in which a controlling beneficial interest is held by a group of five or fewer persons each member of which is engaged in activity in that State which is a component part of or directly related to the trade or business in that State;

v) is a company that is a member of a group of companies that form or could form a consolidated group for tax purposes according to the law of that State (as applied without regard to the residence of

such companies), and the group is engaged in the active conduct of a trade or business in that State;

vi) owns, either alone or as a member of a group of five or fewer persons that are qualified persons, residents of a member state of the European Communities, or residents of an identified state, a controlling beneficial interest in a person that is engaged in the active conduct of a trade or business in the State in which such owner is resident; or

vii) is, together with another person that is so engaged, under the common control of a person (or a group of five or fewer persons) which (or, in the case of a group, each member of which) is a qualified person, a resident of a member state of the European Communities or a resident of an identified state.

For purposes of subparagraphs (e) (vi) and (e) (vii), an "identified State" includes any third country, identified by agreement of the competent authorities, which has effective provisions for the exchange of information with the State in

which the person being tested under this paragraph is a resident.

f) For purposes of subparagraph (e), a person (or group) shall be deemed to own a "controlling beneficial interest" in another person if it holds directly or indirectly a beneficial interest which represents more than 50 percent of the value and voting power in such other person, provided that:

i) an interest consisting of 50 percent or less of the value and voting power of any third person shall not be considered for purposes of determining the percentage of indirect ownership held in such other person; and

ii) no person shall be considered to be part of a group owning a controlling beneficial interest in an entity unless such person holds directly a beneficial interest which represents at least 10 percent of the value and voting power in such entity.

g) For purposes of subparagraph (e), a person (or group) shall be deemed to have "common control" of two persons if it holds a controlling beneficial interest in each such person.

h) For purposes of applying the rules of this paragraph, where a person that is a resident of the Netherlands is engaged in the active conduct of a trade or business in the Netherlands (or considered to be so engaged under the rules of subparagraph (e)), and activity that is a component part of, or directly related to that trade or business, consistent with the rules of subparagraph (e), is also conducted in other member states of the European Communities, that person may elect to treat all, or, as the case may be, the proportionate share of such activity as if it were conducted solely in the Netherlands, provided that each of the following three ratios exceeds 15 percent:

i) the ratio of the value of assets used or held for use in the active conduct of the trade or business within the Netherlands (without regard to any assets attributed from a third state under this subparagraph) to all, or, as the case may be, the proportionate share of the value of such assets so used or held for use within all such member states;

ii) the ratio of gross income derived from the active conduct of the trade or business within the Netherlands (without regard to

any gross income attributed from a third state under this subparagraph) to all, or, as the case may be, the proportionate share of the gross income so derived within all such member states; and

iii) the ratio of the payroll expense of the trade or business for services performed within the Netherlands (without regard to any services attributed from a third state under this subparagraph) to all, or, as the case may be, the proportionate share of the payroll expense of the trade or business for services performed within all such member states.

3. A person that is a resident of one of the States shall also be entitled to all the benefits of this Convention if that person functions as a headquarter company for a multinational corporate group. A person shall be considered a headquarter company for this purpose only if:

a) it provides a substantial portion of the overall supervision and administration of the group, which may include, but cannot be principally, group financing;

b) the corporate group consists of corporations resident in, and engaged in an active business in, at

least five countries, and the business activities carried on in each of the five countries (or five groupings of countries) generate at least 10 percent of the gross income of the group;

c) the business activities carried on in any one country other than the State of residence of the headquarter company generate less than 50 percent of the gross income of the group;

d) no more than 25 percent of its gross income is derived from the other State;

e) it has, and exercises, independent discretionary authority to carry out the functions referred to in subparagraph (a);

f) it is subject to the same income taxation rules in its country of residence as persons described in paragraph 2; and

g) the income derived in the other State either is derived in connection with, or is incidental to, the active business referred to in subparagraph (b).

If the gross income requirements of subparagraphs (b), (c) or (d) of this paragraph are not fulfilled, they will be deemed to be fulfilled if the required ratios are met when averaging the gross income of the preceding four years.

4. a) A company resident in the Netherlands shall also be entitled to the benefits of Article 10

(Dividends), 11 (Branch Tax), 12 (Interest), or 13 (Royalties) if:

i) more than 30 percent of the aggregate vote and value of all of its shares (and more than 30 percent of the shares of any "disproportionate class of shares") is owned, directly or indirectly, by qualified persons resident in the Netherlands;

ii) more than 70 percent of all such shares is owned, directly or indirectly, by qualified persons and persons that are residents of member states of the European Communities; and

iii) such company meets the base reduction test described in paragraph 5.

b) In determining whether, pursuant to subparagraph (a) (ii), a company's shares are owned by residents of member states of the European Communities, only those shares shall be considered which are held by persons that are residents of states with a comprehensive income tax Convention with the United States, as long as the particular dividend, profit or income subject to the branch tax, interest, or royalty payment in respect of which treaty benefits are claimed would be subject to a rate of tax under that Convention

that is no less favorable than the rate of tax applicable to such company under Articles 10 (Dividends), 11 (Branch Tax), 12 (Interest) or 13 (Royalties) of this Convention.

5. a) A person meets the base reduction test described in this paragraph if:

i) less than 50 percent of such person's gross income is used, directly or indirectly, to make deductible payments in the current taxable year to persons that are not qualified persons; or

ii) in the case of a person resident in the Netherlands,

A) less than 70 percent of such gross income is used, directly or indirectly, to make deductible payments to persons that are not qualified persons; and

B) less than 30 percent of such gross income is used, directly or indirectly, to make deductible payments to persons that are neither qualified persons nor residents of member states of the European Communities.

b) For purposes of this paragraph, the term "gross income" means gross income for the first taxable year

preceding the current taxable year; provided that the amount of gross income for the first taxable year preceding the current taxable year will be deemed to be no less than the average of the annual amounts of gross income for the four taxable years preceding the current taxable year.

c) For purposes of this paragraph, the term "deductible payments" includes payments for interest or royalties, but does not include payments at arm's length for the purchase or use of or the right to use tangible property in the ordinary course of business or remuneration at arm's length for services performed in the country of residence of the person making such payments. Types of payments may be added to or eliminated from the exceptions mentioned in the preceding definition of "deductible payments" by mutual agreement of the competent authorities.

d) For purposes of paragraph 1(c), the conduit base reduction test means the base reduction test described in this paragraph, except that the term "deductible payments" for this purpose means only those payments described in subparagraph (c):

i) that are made to an associated enterprise (as described in Article 9 (Associated Enterprises), except that whether two

enterprises are associated will be determined for this purpose without regard to the residence of either enterprise; and

ii) that are subject to an aggregate rate of tax (including withholding tax) in the hands of the recipient that is less than 50 percent of the rate that would be applicable had the payment been received in the State of residence of the payer, and subject to the normal taxing regime in that State.

6. A person, resident of one of the States, which derives from the other State income mentioned in Article 8 (Shipping and Air Transport) and which is not entitled to the benefits of this Convention because of the foregoing paragraphs, shall nevertheless be entitled to the benefits of this Convention with respect to such income if:

a) more than 50 percent of the beneficial interest in such person (or in the case of a company, more than 50 percent of the value of the stock of such company) is owned, directly or indirectly, by qualified persons or individuals who are residents of a third state; or

b) in the case of a company, the stock of such company is primarily and regularly traded on an established securities market in a third state,

provided that such third state grants an exemption under similar terms for profits as mentioned in Article 8 of this Convention to citizens and corporations of the other State either under its national law or in common agreement with that other State or under a Convention between that third state and the other State.

7. A person resident of one of the States, who is not entitled to benefits of this Convention because of the foregoing paragraphs, may, nevertheless, be granted benefits of this Convention if the competent authority of the State in which the income in question arises so determines. In making such determination, the competent authority shall take into account as its guideline whether the establishment, acquisition, or maintenance of such person or the conduct of its operations has or had as one of its principal purposes the obtaining of benefits under this Convention. The competent authority of the State in which the income arises will consult with the competent authority of the other State before denying the benefits of the Convention under this paragraph.

8. The following provisions apply for purposes of this Article:

a) The term "principal class of shares" is generally the ordinary or common shares of the company, provided that such class of shares represents the

majority of the voting power and value of the company. When no single class of shares represents the majority of the voting power and value of the company, the "principal class of shares" is generally those classes that in the aggregate possess more than 50 percent of the voting power and value of the company. In determining voting power, any shares or class of shares that are authorized but not issued shall not be counted and in mutual agreement between the competent authorities appropriate weight shall be given to any restrictions or limitations on voting rights of issued shares. The "principal class of shares" also includes any "disproportionate class of shares". Notwithstanding the preceding rules, the "principal class of shares" may be identified by mutual agreement between the competent authorities of the States.

b) The term "shares" shall include depository receipts thereof or trust certificates thereof.

c) The term "disproportionate class of shares" means any class of shares of a company resident in one of the States that entitles the shareholder to disproportionately higher participation, through dividends, redemption payments or otherwise, in the earnings generated in the other State by particular assets or activities of the company.

d) The term "recognized stock exchange" means:

i) any stock exchange registered with the Securities and Exchange Commission as a national securities exchange for purposes of the Securities Exchange Act of 1934;

ii) the Amsterdam Stock Exchange;

iii) the NASDAQ System owned by the National Association of Securities Dealers, Inc. or the parallel market of the Amsterdam Stock Exchange; and

iv) any other stock exchange agreed upon by the competent authorities of both States, including, for this purpose, any stock exchanges listed in an exchange of notes signed at the later of the dates on which the respective governments have notified each other in writing that the formalities constitutionally required for the entry into force of the Convention as meant in Article 37 (Entry into Force) in their respective States have been complied with.

However, with respect to closely held companies, the term "recognized stock exchange" shall not include the stock exchanges mentioned under subparagraph (iii), or if so

indicated in mutual agreement between the competent authorities, under subparagraph (iv).

e) The term "closely held company" means a company of which 50% or more of the principal class of shares is owned by persons, other than qualified persons or residents of a member state of the European Communities, each of whom beneficially owns, directly or indirectly, alone or together with related persons more than 5% of such shares for more than 30 days during a taxable year.

f) The shares in a class of shares are considered to be substa ntially and regularly traded on one or more recognized stock exchanges in a taxable year if:

i) trades in such class are effected on one or more of such stock exchanges other than in de minimis quantities during every month; and

ii) the aggregate number of shares of that class traded on such stock exchange or exchanges during the previous taxable year is at least 6 percent of the average number of shares outstanding in that class during that taxable year.

For purposes of this subparagraph, any pattern of trades conducted in order to meet the "substantial and regular trading" tests will be disregarded.

g) The term "qualified person" means:

i) a person that is entitled to benefits of this Convention pursuant to the provisions of paragraph 1; and

ii) a citizen of the United States.

h) The term "member state of the European Communities" means, unless the context requires otherwise:

i) the Netherlands; and

ii) any other member state of the European Communities with which both States have in effect a comprehensive income tax Convention.

i) The term "resident of a member state of the European Communities" means a person that would be considered a resident of any such member state under the principles of Article 4 (Resident) and would be entitled to the benefits of this Convention under the principles of paragraph 1, applied as if such member state were the Netherlands, and that is otherwise entitled to the benefits of the Convention between that person's state of residence and the United States.

j) The not-for-profit organizations referred to in subparagraph 1 (e) of this Article include, but are not limited to, pension funds, pension trusts, private foundations, trade unions, trade associations, and similar organizations, provided, however, that in all events, a pension fund, pension trust, or similar entity organized for purposes of providing retirement, disability, or other employment benefits that is organized under the laws of a State shall be entitled to the benefits of the Convention if the organization sponsoring such fund, trust, or entity is entitled to the benefits of the Convention under this Article.

k) The reference in subparagraph (c)(ii) and clauses (A) and (B) of subparagraph (c)(iii) of paragraph 1 to shares that are owned, directly or indirectly, shall mean that all companies in the chain of ownership that are used to satisfy the ownership requirements of the respective clause or subparagraph, must meet the residence requirements that are described in such clause or subparagraph.

l) For the purpose of paragraphs 2, 3 and 5, the competent authorities may by mutual agreement, notwithstanding the provisions of these paragraphs, determine transition rules for newly-established business operations, newly-established corporate groups or newly-established headquarter companies.

m) For purposes of subparagraph (1)(c)(ii)(B) and (1)(c)(iii)(C), the term "conduit company" means a company that makes payments of interest, royalties and any other payments included in the definition of deductible payments (as defined in subparagraph (5)(c)) in a taxable year in an amount equal to or greater than 90 percent of its aggregate receipts of such items during the same taxable year. Notwithstanding the previous sentence, a bank or insurance company shall not be considered to be a conduit company if it (i) is engaged in the active conduct of a banking or insurance business and (ii) is managed and controlled by associated enterprises (within the meaning of Article 9 (Associated Enterprises), except that whether two enterprises are associated will be determined for this purpose without regard to the residence of either enterprise) that are qualified persons.

Article 27

OFFSHORE ACTIVITIES

1. The provisions of this Article shall apply notwithstanding any other provision of this Convention. However, this Article shall not apply where offshore activities of a person constitute for that person a permanent establishment under the provisions of Article 5

(Permanent Establishment) or a fixed base under the provisions of Article 15 (Independent Personal Services).

2. In this Article the term "offshore activities" means activities which are carried on offshore in connection with the exploration or exploitation of the sea bed and its sub-soil and their natural resources, situated in one of the States.

3. An enterprise of one of the States which carries on offshore activities in the other State shall, subject to paragraph 4, be deemed to be carrying on, in respect of those activities, business in that other State through a permanent establishment situated therein, unless the offshore activities in question are carried on in the other State for a period or periods not exceeding in the aggregate 30 days in a calendar year.

For the purposes of this paragraph:

a) where an enterprise carrying on offshore activities in the other State is associated with another enterprise and that other enterprise continues, as part of the same project, the same offshore activities that are or were being carried on by the first-mentioned enterprise, and the afore-mentioned activities carried on by both enterprises - when added together - exceed a period of 30 days, then each enterprise shall be deemed to be carrying on its

activities for a period exceeding 30 days in a calendar year;

b) an enterprise shall be regarded as associated with another enterprise if one holds directly or indirectly at least one third of the capital of the other enterprise or if a person holds directly or indirectly at least one third of the capital of both enterprises.

4. However, for the purposes of paragraph 3, the term "offshore activities" shall be deemed not to include:

a) one or any combination of the activities mentioned in paragraph 4 of Article 5 (Permanent Establishment);

b) towing or anchor handling by ships primarily designed for that purpose and any other activities performed by such ships; or

c) the transport of supplies or personnel by ships or aircraft in international traffic.

5. A resident of one of the States who carries on offshore activities in the other State, which consist of professional services or other activities of an independent character, shall be deemed to be performing those activities from a fixed base in the other State if the offshore activities in question last for a continuous period of 30 days or more.

6. Salaries, wages and other similar remuneration derived by a resident of one of the States in respect of an employment connected with offshore activities carried on through a permanent establishment in the other State may, to the extent that the employment is exercised offshore in that other State, be taxed in that other State.

7. Where documentary evidence is produced that tax has been paid in the United States on the items of income that may be taxed in the United States according to Article 7 (Business Profits) or Article 15 (Independent Personal Services) in connection with respectively paragraph 3 or paragraph 5 of this Article, and according to paragraph 6 of this Article, the Netherlands shall allow a reduction of its tax, which shall be computed in conformity with the rules laid down in paragraph 2 of Article 25 (Methods of Elimination of Double Taxation).

Article 28

NON-DISCRIMINATION

1. Nationals of one of the States shall not be subjected in the other State to any taxation or any requirement connected therewith, which is other or more burdensome than the taxation and connected requirements to which nationals of that other State in the same circumstances are or may be subjected. This provision shall, notwithstanding the provisions of Article 1 (General Scope), also apply to

persons who are not residents of one or both of the States. However, for the purposes of United States tax, a United States national who is not a resident of the United States and a Netherlands national who is not a resident of the United States are not in the same circumstances.

2. The taxation on a permanent establishment which an enterprise of one of the States has in the other State shall not be less favourably levied in that other State than the taxation levied on enterprises of that other State carrying on the same activities. This provision shall not be construed as obliging one of the States to grant to residents of the other State any personal allowances, reliefs, and reductions for taxation purposes on account of civil status or family responsibilities which it grants to its own residents.

3. Except where the provisions of paragraph 1 of Article 9 (Associated Enterprises), paragraph 5 of Article 12 (Interest), or paragraph 4 of Article 13 (Royalties) apply, interest, royalties and other disbursements paid by a resident of one of the States to a resident of the other State shall, for the purposes of determining the taxable profits of the first-mentioned resident, be deductible under the same conditions as if they had been paid to a resident of the first-mentioned State.

4. Enterprises of one of the States, the capital of which is wholly or partly owned or controlled, directly or

indirectly, by one or more residents of the other State, shall not be subjected in the first-mentioned State to any taxation or any requirement connected therewith which is other or more burdensome than the taxation and connected requirements to which other similar enterprises of the first-mentioned State are or may be subjected.

5. Contributions paid by, or on behalf of, an individual who exercises an employment and who is a resident of one of the States or who is temporarily present in that State, to a pension plan that is recognized for tax purposes in the other State will, in determining the income derived from his employment, be treated in the same way for tax purposes in the first-mentioned State as a contribution paid to a pension plan that is recognized for tax purposes in that first-mentioned State, provided that

a) such individual is not a national of the first-mentioned State; and

b) such individual was contributing to such pension plan before he became a resident of the first-mentioned State or before he became temporarily present in that State; and

c) the competent authority of the first-mentioned State agrees that the pension plan corresponds to a pension plan recognized for tax purposes by that State.

6. Nothing in this Article shall be construed to prevent or limit the application by either State of its tax on branch profits described in Article 11 (Branch Tax).

7. The provisions of this Article shall, notwithstanding the provisions of Article 2 (Taxes Covered), apply to taxes of every kind and description imposed by one of the States or a political subdivision or local authority thereof.

Article 29

MUTUAL AGREEMENT PROCEDURE

1. Where a person considers that the actions of one or both of the States result or will result for him in taxation not in accordance with the provisions of this Convention, he may, irrespective of the remedies provided by the domestic law of those States, present his case to the competent authority of the State of which he is a resident or national.

2. The competent authority shall endeavour, if the objection appears to it to be justified and if it is not itself able to arrive at a satisfactory solution, to resolve the case by mutual agreement with the competent authority of the other State, with a view to the avoidance of taxation which is not in accordance with the Convention. Any agreement reached shall be implemented notwithstanding any time limits or other procedural limitations in the domestic

law of the States, provided that the competent authority of the other State has received notification that such a case exists within six years from the end of the taxable year to which the case relates.

3. The competent authorities of the States shall endeavour to resolve by mutual agreement any difficulties or doubts arising as to the interpretation or application of the Convention. In particular the competent authorities of the States may agree:

a) to the same attribution of income, deductions, credits, or allowances of an enterprise of one of the States to its permanent establishment situated in the other State;

b) to the same allocation of income, deductions, credits, or allowances between persons;

c) to the same characterization of particular items of income;

d) to the same application of source rules with respect to particular items of income;

e) to a common meaning of a term;

f) to increases in any specific amounts referred to in the Convention to reflect economic or monetary developments; and

g) to the application of the provisions of domestic law regarding penalties, fines, and interest

in a manner consistent with the purposes of the Convention.

They may also consult together for the elimination of double taxation in cases not provided for in the Convention.

4. The competent authorities of the States may communicate with each other directly for the purpose of reaching an agreement in the sense of the preceding paragraphs.

5. If any difficulty or doubt arising as to the interpretation or application of this Convention cannot be resolved by the competent authorities in a mutual agreement procedure pursuant to the previous paragraphs of this Article, the case may, if both competent authorities and the taxpayer(s) agree, be submitted for arbitration, provided the taxpayer agrees in writing to be bound by the decision of the arbitration board. The decision of the arbitration board in a particular case shall be binding on both States with respect to that case. The provisions of this paragraph shall have effect after the States have so agreed through the exchange of diplomatic notes.

6. If the competent authority of one of the States becomes aware that the law of one of the States is or may be applied in a manner that may impede the full implementation of this Convention, that competent authority shall inform the competent authority of the other State in a timely

manner. At the request of one of the States, the competent authorities shall consult with each other with a view to establishing a basis for the full implementation of this Convention. The consultations described in this paragraph should begin within six months of the date on which the competent authority of the first-mentioned State informed the competent authority of the other State.

Article 30

EXCHANGE OF INFORMATION AND ADMINISTRATIVE ASSISTANCE

1. The competent authorities of the States shall exchange such information as is necessary for carrying out the provisions of this Convention or of the domestic laws of the States concerning taxes covered by the Convention insofar as the taxation thereunder is not contrary to the Convention, including for the assessment, collection, administration, enforcement, prosecution before an administrative authority or initiation of prosecution before a judicial body, or determination of appeals with respect to the taxes covered by the Convention. The exchange of information is not restricted by Article 1 (General Scope). Any information received by one of the States shall be treated as secret in the same manner as information obtained under the domestic laws of that State and shall be disclosed only to persons or authorities (including courts and

administrative bodies) involved in the above functions in relation to taxes covered by the Convention. Such persons or authorities shall use the information only for such purposes. They may disclose the information in public court proceedings or in judicial decisions. A State may use information obtained under this Convention as evidence before a criminal court only if prior authorization has been given by the competent authority which has supplied the information. However, the competent authorities may mutually agree to waive the condition of prior authorization.

2. If information is requested by one of the States in accordance with this Article, the other State shall obtain the information to which the request relates in the same manner and to the same extent as if the tax of the first-mentioned State were the tax of that other State and were being imposed by the other State. If specifically requested by the competent authority of a State, the competent authority of the other State shall endeavor to provide information under this Article in the form of depositions of witnesses and authenticated copies of unedited original documents (including books, papers, statements, records, accounts, and writings), to the same extent such depositions and documents can be obtained under the laws and administrative practices of that other State with respect to its own taxes.

3. The States may release to the arbitration board, established under the provisions of paragraph 5 of Article 29 (Mutual Agreement Procedure), such information as is necessary for carrying out the arbitration procedure. Such release of information shall be subject to the provisions of Article 32 (Limitation of Articles 30 and 31) and to paragraph 2 of this Article. The members of the arbitration board shall be subject to the limitations on disclosure described in paragraph 1 of this Article with respect to any information so released.

Article 31

ASSISTANCE AND SUPPORT

IN COLLECTION

1. The States undertake to lend assistance and support to each other in the collection of the taxes which are the subject of the present Convention, together with interest, costs, and additions to the taxes and fines not being of a penal character.

2. In the case of applications for enforcement of taxes, revenue claims of each of the States which have been finally determined may be accepted for enforcement by the other State and collected in that State in accordance with the laws applicable to the enforcement and collection of its own taxes. The State to which application is made shall not

be required to enforce executory measures for which there is no provision in the law of the State making the application.

3. Any application shall be accompanied by documents establishing that under the laws of the State making the application the taxes have been finally determined.

4. The assistance provided for in this Article shall not be accorded with respect to the citizens, corporations, or other entities of the State to which application is made, except in cases where the exemption or reduced rate of tax granted under the Convention to such citizens, corporations or other entities has, according to mutual agreement between the competent authorities of the States, been enjoyed by persons not entitled to such benefits.

Article 32

LIMITATION OF ARTICLES 30 AND 31

In no case shall the provisions of Articles 30 (Exchange of Information and Administrative Assistance) and 31 (Assistance and Support in Collection) be construed so as to impose on one of the States the obligation:

a) to carry out administrative measures at variance with the laws and administrative practice of that or of the other State;

b) to supply information which is not obtainable under the laws or in the normal course of the administration of that or of the other State;

c) to supply information which would disclose any trade, business, industrial, commercial, or professional secret or trade process, or information, the disclosure of which would be contrary to public policy.

Article 33

DIPLOMATIC AGENTS AND CONSULAR OFFICERS

1. Nothing in this Convention shall affect the fiscal privileges of diplomatic agents or consular officers under the general rules of international law or under the provisions of special agreements.

2. For the purposes of the Convention an individual, who is a member of a diplomatic or consular mission of one of the States in the other State or in a third state and who is a national of the sending State, shall be deemed to be a resident of the sending State, but only if he is subjected therein to the same obligations in respect of taxes on income as are residents of that State.

3. The Convention shall not apply to international organizations, to organs or officials thereof and to individuals who are members of a diplomatic or consular mission of a third State, being present in one of the States and who are not subjected in either State to the same obligations in respect of taxes on income as are residents of that State.

Article 34

REGULATIONS

1. The competent authorities of the States may by mutual agreement settle the mode of application of Articles 10 (Dividends), 11 (Branch Tax), 12 (Interest), 13 (Royalties) and 26 (Limitation on Benefits).

2. With respect to the provisions of this Convention relating to exchange of information and mutual assistance in the collection of taxes, the competent authorities may, by common agreement, prescribe rules concerning matters of procedure, forms of application and replies thereto, conversion of currency, disposition of amounts collected, minimum amounts subject to collection, and related matters.

3. The competent authorities of each of the States, in accordance with the practices of that State, may prescribe regulations necessary to carry out the other provisions of this Convention.

4. Where tax has been levied at source in excess of the amount of tax chargeable under the provisions of Articles 10 (Dividends), 12 (Interest) or 13 (Royalties), applications for the refund of the excess amount of tax must be lodged with the competent authority of the State having levied the tax, within a period of three years after the expiration of the calendar year in which the tax has been levied.

Article 35

EXEMPT PENSION TRUSTS

1. Subject to the provisions of paragraph 2, income referred to in Articles 10 (Dividends) and 12 (Interest) derived by a trust, company or other organization constituted and operated exclusively to administer or provide benefits under one or more funds or plans established to provide pension, retirement or other employee benefits shall be exempt from tax in one of the States if it is a resident of the other State according to the laws of that other State and its income is generally exempt from tax in that other State.

2. The provisions of paragraph 1 shall not apply with respect to the income of a trust, company or other organization from carrying on a trade or business or from a related person other than a person referred to in paragraph 1.

Article 36

EXEMPT ORGANIZATIONS

1. A trust, company or other organization that is a resident of one of the States according to the laws of that State and that is operated exclusively for religious, charitable, scientific, educational, or public purposes shall be exempt from tax by the other State in respect of items of income, if and to the extent that

a) such trust, company or other organization is exempt from tax in the first-mentioned State, and

b) such trust, company or other organization would be exempt from tax in the other State in respect of such items of income if it were organized, and carried on all its activities, in that other State.

2. The provisions of paragraph 1 shall not apply with respect to the income of a trust, company or other organization from carrying on a trade or business or from a related person other than a person referred to in paragraph 1.

3. The competent authorities of the States shall in mutual agreement develop procedures for implementing this Article.

CHAPTER VI

FINAL PROVISIONS

Article 37

ENTRY INTO FORCE

1. This Convention shall enter into force on the thirtieth day after the later of the dates on which the respective Governments have notified each other in writing that the formalities constitutionally required in their respective States have been complied with, and its provisions shall have effect for taxable years and periods beginning, or in the case of taxes payable at source,

payments made, on or after the first day of January in the year following the date of entry into force.

2. Notwithstanding paragraph 1, where any greater relief from tax would have been afforded to a person entitled to the benefits of the Convention signed at Washington on April 29, 1948, between the Kingdom of the Netherlands and the United States of America with respect to taxes on income and certain other taxes, modified as set forth in the Protocol of Exchange of Instruments of Ratification signed at Washington on December 1, 1948, and subsequently modified and supplemented by the Supplementary Convention signed at Washington on December 30, 1965 ("prior Convention"), under that Convention than under this Convention, the prior Convention shall, at the election of such person, continue to have effect in its entirety for a twelve-month period from the date on which the provisions of this Convention would otherwise have effect under paragraph 1.

3. Subject to the provisions of paragraph 4, the prior Convention shall cease to have effect when the provisions of this Convention take effect in accordance with paragraphs 1 and 2.

4. This Convention shall not affect any Agreement in force extending the Convention signed at Washington on April 29, 1948, in accordance with Article XXVII thereof.

Article 38

TERMINATION

This Convention shall remain in force until terminated by one of the States. Either State may terminate the Convention, through diplomatic channels, by giving notice of termination at least six months before the end of any calendar year after the expiration of a period of five years from the date of its entry into force. In such event the Convention shall cease to have effect for taxable years and periods beginning, or in the case of taxes payable at source, payments made, after the end of the calendar year in which the notice of termination has been given.

IN WITNESS whereof the undersigned, duly authorized thereto, have signed this Convention.

DONE at......................this..........day of..............., in duplicate, in the English and Netherlands languages, the two texts being equally authentic.

FOR THE GOVERNMENT OF THE UNITED STATES OF AMERICA:

FOR THE GOVERNMENT OF THE KINGDOM OF THE NETHERLANDS:

Understanding regarding the Convention between the United States of America and the Kingdom of the Netherlands for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income, signed on ......

I. **In reference to paragraph 1 of Article 4 (Resident).** It is understood that for purposes of the Convention, the Government of one of the States, its political subdivisions or local authorities are to be considered as residents of that State.

II. **In reference to paragraph 4 of Article 4 (Resident).** It is understood that, if a company is a resident of the Netherlands under paragraph 1 of Article 4 (Resident) and, because of the application of Section 269B of the Internal Revenue Code, such company is also a resident of the United States under paragraph 1 of Article 4 (Resident), the question of its residency for the purposes of the application of this Convention shall be subject to a mutual agreement procedure as laid down in paragraph 4 of Article 4 (Resident).

III. **In reference to Article 7 (Business Profits).**

It is understood that with respect to paragraphs 1 and 2 of Article 7 (Business Profits), where an enterprise of one of the States carries on business in the other State through a permanent establishment situated therein, the profits of that permanent establishment shall not be determined on the basis of the total income of the enterprise, but shall be determined only on the basis of that portion of the income of the enterprise that is attributable to the actual activity of the permanent establishment in respect of such business. Specifically, in the case of contracts for the survey, supply, installation or construction of industrial, commercial or scientific equipment or premises, or of public works, when the enterprise has a permanent establishment, the profits attributable to such permanent establishment shall not be determined on the basis of the total amount of the contract, but shall be determined on the basis only of that part of the contract that is effectively carried out by the permanent establishment. The profits related to that part of the contract that is carried out by the head office of the enterprise shall not be taxable in the State in which the permanent establishment is situated.

IV. In reference to Article 9 (Associated Enterprises), Article 12 (Interest) and Article 29 (Mutual Agreement Procedure).

Nothing in paragraph 1 of Article 9 (Associated Enterprises) or paragraph 5 of Article 12 (Interest) shall prevent either State from determining the appropriate amount of interest deduction of an enterprise not only by reference to the amount of interest with respect to any particular debt-claim but also by reference to the overall amount of debt capital of the enterprise. In the context of a mutual agreement procedure under Article 29 (Mutual Agreement Procedure), the amount of the interest deduction shall be determined in a manner consistent with the principles of paragraph 1 of Article 9, by reference to conditions in commercial or financial relations which prevail between independent enterprises dealing at arm's length. Those principles are more fully examined and explained in OECD publications regarding "thin capitalization".

V. In reference to Article 9 (Associated Enterprises) and Article 29 (Mutual Agreement Procedure)

In accordance with paragraph [illegible] of Article 29 (Mutual Agreement Procedure) the competent authorities shall endeavor to resolve by mutual agreement any case of double taxation arising by reason of an allocation of income deductions,

credits or allowances caused by the application of internal law regarding thin capitalization, earnings stripping, or transfer pricing, or other provisions potentially giving rise to double taxation. In this mutual agreement procedure, the proper allocation of income, deductions, credits or allowances under the Convention will be determined in a manner consistent with the principles of paragraph 1 of Article 9 (Associated Enterprises) by reference to conditions in commercial or financial relations that prevail between independent enterprises dealing at arm's length. Consistent with the mutual agreement procedures of other income tax conventions, including those entered by both States, a procedure under Article 29 (Mutual Agreement Procedure) concerning an adjustment in the allocation of income, deductions, credits or allowances by one of the States might result either in a correlative adjustment by the other State or in a full or partial readjustment by the first-mentioned State of its original adjustment.

VI. **In reference to subparagraph 2(a) and paragraph 4 of Article 10 (Dividends).**

It is understood that a beneficial owner of the dividends, who holds depository receipts or trust certificates evidencing beneficial ownership of the shares in lieu of the shares themselves in the company in question, may also claim the

treaty benefits of subparagraph 2(a) of Article 10 (Dividends). In addition, it is understood that where a person loans shares (or other rights the income from which is subject to the same taxation treatment as income from shares) and receives from the borrower an obligation to pay an amount equivalent to any dividend distribution made with respect to the shares or other rights loaned during the term of such loan, such person shall be treated as the beneficial owner of the dividend paid with respect to such shares or other rights for purposes of the application of Article 10 (Dividends) to any such equivalent amount.

VII. **In reference to paragraph 1 of Article 14 (Capital Gains).**

In determining for purposes of paragraph 1 of Article 14 (Capital Gains) whether the assets of a corporation resident in the United States consist, directly or indirectly, for the greater part of real property situated in the United States and whether the stock of such corporation is a "United States real property interest", the United States confirms that it will take into account the fair market value of all of the assets of the corporation, including intangible business assets such as goodwill, whether or not appearing as an asset on the balance sheet for tax purposes, going concern value and intellectual property.

VIII. **In reference to paragraph 8 of Article 14 (Capital Gains).**

It is understood that paragraph 8 of Article 14 shall not apply to an alienation of property by a resident of one of the States if the tax that would otherwise be imposed on such alienation by the other State cannot reasonably be imposed or collected at a later time. For example, under the domestic law of the United States, a foreign corporation that qualifies as a "United States real property holding corporation" is taxed in some circumstances if it transfers its assets to a United States corporation in a reorganization. In such a case, only if the shareholders of such foreign corporation agree to reduce basis (if and only to the extent available) by "closing agreement" can the tax that otherwise would be imposed on such alienation be reasonably imposed or collected at a later time.

IX. **In reference to paragraph 4 of Article 19 (Pensions, Annuities, Alimony).**

It is understood that the term "other public pensions" as used in paragraph 4 of Article 19 (Pensions, Annuities, Alimony) is intended to refer to United States tier 1 Railroad Retirement benefits.

X. **In reference to Article 26 (Limitation on Benefits).**

It is understood that a taxpayer claiming benefits under the Convention must be able to provide upon request sufficient proof to establish the taxpayer's entitlement to such benefits. It is further understood, however, that the need to provide proof that a taxpayer fulfills the requirements of Article 26 (Limitation on Benefits) can impose a severe administrative burden on the taxpayer.

It is understood, therefore, that the competent authorities will endeavor to develop by mutual agreement reasonable procedures for the periodic reporting of the facts necessary to support entitlement to benefits. In developing such procedures, the competent authorities will strive to minimize the frequency of reporting. For example, once an entitlement to benefits has been documented and in the absence of relevant changes in the facts and circumstances, a taxpayer should not be required annually to provide proof that he is entitled to the benefits of the Convention, provided he reports relevant changes in facts and circumstances.

XI. **In reference to paragraphs 1(d) and 4 of Article 26 (Limitation on Benefits).**

It is understood that the proof a Dutch resident investment organization (a "beleggingsinstelling" in the sense of Article 28 of the "Wet op de vennootschapsbelasting 1969")

has of the number of its Dutch resident individual and corporate shareholders as a result of the procedure used by such Dutch resident investment organization when claiming a reimbursement of tax withheld on its foreign dividend and interest income under paragraph 1(b) of Article 28 of the "Wet op de vennootschapsbelasting 1969", can be used by such Dutch investment organization to show that it fulfills the requirements of paragraph 1(d), respectively paragraph 4 of Article 26 (Limitation on Benefits).

XII. In reference to paragraph 2 of Article 26 (Limitation on Benefits).

As illustrated by the following examples, it is understood that in applying the rules of paragraph 2 of Article 26 (Limitation on Benefits), the proportionate share of activities of a resident of one of the States that are a component part of or directly related to a trade or business conducted by another resident of that State who claims treaty benefits may be attributed to the latter resident under subparagraph 2(e) for purposes of applying the substantial trade or business test under subparagraph 2(c). In addition, for purposes of subparagraph 2(c), the proportionate share of activities of a resident of one of the States attributable to a trade or business conducted in the other State will be used for purposes of the test under subparagraph 2(c).

Example 1

NLCo, a Netherlands corporation, owns 100 percent of the stock of USCo, a U.S. corporation, and 50 percent of the stock of NLSub, a Netherlands corporation. FCo, a French corporation, holds the remaining 50 percent of the stock of NLSub. NLCo and FCo do not directly conduct an active trade or business. USCo and NLSub are engaged in the same active trade or business. For each of the four most recently concluded taxable years, the asset values, gross income and payroll expenses of these corporations that are attributable to the trade or business were as follows:

	USCo	NLSub
Assets	$300	$50
Income	50	10
Payroll	60	10

NLCo receives payments of interest and dividends from USCo. In order for these payments to be entitled to treaty benefits under paragraph 2 of Article 26, NLCo must be considered to be engaged in the active conduct of a substantial trade or business in the Netherlands. Under subparagraph 2(c), the ratios of the assets, income and payroll attributable to NLCo to the assets, income and payroll attributable to USCo must be at least 10 percent.

NLCo has no assets, income or payroll that are attributable to the trade or business. The assets, income and payroll of NLSub that are related to the trade or business may be attributed to NLCo, however, under subparagraph 2(e)(vi), since NLCo and FCo together have a controlling beneficial interest in NLSub and FCo is a resident of a member state of the European Communities. In accordance with subparagraph 2(e), therefore, 50 percent of NLSub's assets, income and payroll are attributed to NLCo for purposes of paragraph 2(c). The amounts attributed to NLCo and the percentage of USCo's corresponding amounts are as follows:

	NLCo	NLCo as a Percentage of USCo
Assets	$25	8.3
Income	5	10.0
Payroll	5	8.3

Since none of these percentages is greater than 10 percent, NLCo is not entitled to benefits under Article 26 under the general test of paragraph 2(c). Moreover, application of the three-year average rule under that paragraph does not change the result, since the relevant amounts for the three preceding years (and the resulting ratios) are equal to those for the first preceding taxable year.

Example 2

The facts are the same as in Example 1, except that NLCo owns only 80 percent of the stock of USCo. For purposes of subparagraph 2(c), the measures of USCo's assets, gross income and payroll expense must be multiplied by NLCo's percentage ownership interest in the stock of USCo. Consequently, the values attributable to USCo and NLSub after taking into account NLCo's percentage ownership interest in the stock of these companies, and the ratio of the amounts attributed from NLSub to NLCo to the amounts attributable to USCo are as follows:

	USCo	NLSub	NLCo as a Percentage of USCo
Assets	$240	$25	10.4
Income	40	5	12.5
Payroll	48	5	10.4

Since all of these percentages exceed 10 percent, NLCo would be entitled to treaty benefits with respect to the payments received from USCo under paragraph 2.

XIII. **In reference to subparagraph (a) of paragraph 2 and subparagraph (m) of paragraph 8 of Article 26 (Limitation on Benefits)**

It is understood that for purposes of subparagraph (a) of paragraph 2 and subparagraph (m) of paragraph 8 of Article

26 (Limitation on Benefits), a bank only will be considered to be engaged in the active conduct of a banking business if it regularly accepts deposits from the public or makes loans to the public, and an insurance company only will be considered to be engaged in the active conduct of an insurance business if its gross income consists primarily of insurance or reinsurance premiums, and investment income attributable to such premiums.

XIV. **In reference to paragraph (1) of Article 9 (Associated Enterprises) and subparagraph (d)(i) of paragraph 5 of Article 26 (Limitation on Benefits)**

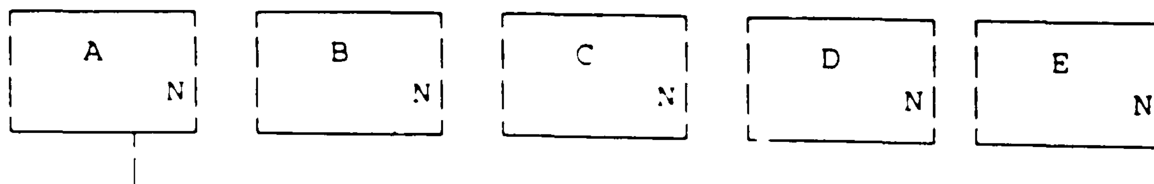
It is understood that for purposes of paragraph 1 of Article 9 (Associated Enterprises), in determining whether an enterprise participates directly or indirectly in the management, control or capital of another enterprise, an enterprise may be considered an associated enterprise with respect to an enterprise in which its only interest is represented by evidences of indebtedness where such indebtedness provides the holder of the indebtedness with the right to participate in the management, control or capital of the enterprise that issued the indebtedness, or such holder in practice participates in such management, control or capital.

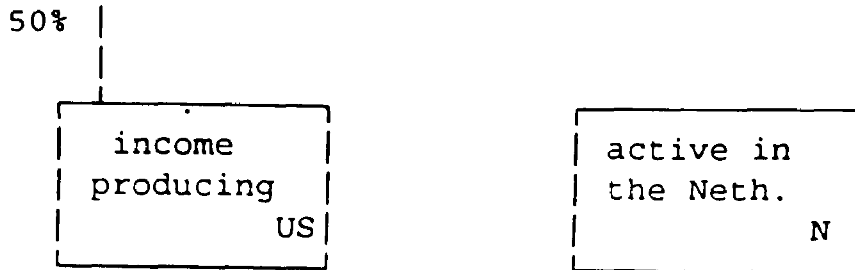
XV. **In reference to paragraphs 2(a)(i) and 2(c) of Article 26 (Limitation on Benefits).**

It is understood that in applying the measurement of "substantiality" as referred to in subparagraph 2(a)(i) of Article 26, the factors referred to in subparagraph 2(c) of Article 26 as used in a specific case will take into account the fact that there might be a less than 100% participation in the income-producing activity.

For example, if a Dutch resident corporation has a 10% interest in a US corporation, in applying the substantiality test to - for instance - dividends received from the US corporation, each of the US corporations' factors as referred to in subparagraph 2(c) of Article 26 must be multiplied by the Dutch resident's percentage share in the US corporation.

The above also applies to subparagraph 2(e)(vi) of Article 26 (Limitation on Benefits). For example, take the case where both the income-producing corporation, resident of the US, and the corporation which is engaged in an active trade or business in the Netherlands are controlled by five Netherlands investment companies.





One of the investors (A) owns a 50 percent interest in the income-producing corporation; the other four investors (B, C, D and E) each own a 12.5 percent interest in the income-producing corporation. The Dutch investor (E) owns a 50 percent interest in the corporation engaged in an active trade or business; the other four investors (A, B, C, and D) each own a 12.5 percent interest in the corporation engaged in an active trade or business.

The corporation engaged in an active trade or business in the Netherlands has assets valued at $ 1 million, and the assets of the U.S. corporation are valued at $6 million. The Netherlands corporation has gross income of $ 10 million, and gross income of the U.S. corporation is $40 million. The payroll of the Netherlands corporation is $1 million, and the U.S. corporation's payroll is $5 million.

In applying the substantiality test to the dividends paid by the US corporation and received by the five Dutch investors, each of the factors must be multiplied by the investor's percentage share in the corporation engaged in an active

trade or business in the Netherlands, respectively by the investor's percentage share in the US corporation. The dividends paid to the Netherlands investors (B, C and D) and the dividends paid to the 50 percent owner of the corporation engaged in active trade or business in the Netherlands (E) would pass the substantiality test. The three ratios described in the preceding paragraph as applied to the three Netherlands investors (B, C and D) would remain 16.7 percent, 25 percent, and 20 percent, respectively. The three ratios described in the preceding paragraph as applied to the Dutch investor (E) are 66.7 percent, 100 percent, and 80 percent.

The dividends paid to the Netherlands investor (A) will not pass the substantiality test; since in this case the three ratios are 4.2 percent, 6.25 percent, and 5 percent.

XVI. In reference to paragraph 2(e) of Article 26 (Limitation on Benefits).

For the purpose of subparagraphs 2(e)(vi) and 2(e)(vii) of Article 26 the following states are regarded as an "identified State" having effective provisions for the exchange of information at the date of signature of the Convention with the United States:

Australia	Honduras
Austria	Iceland
Barbados	Ireland
Belgium	Jamaica
Bermuda	Korea
Canada	Malta
Costa Rica	Marshall Islands
Cyprus	Mexico
Denmark	Morocco
Dominica	New Zealand
Dominican Republic	Norway
Egypt	Pakistan
Finland	Philippines
France	St. Lucia
Germany	Sweden
Grenada	Trinidad & Tobago

and with the Netherlands:

Aruba	Malaysia
Australia	Malta
Austria	Morocco
Belgium	Netherlands Antilles
Brazil	New Zealand
Bulgaria	Norway
Canada	Pakistan
China	Philippines
Czechoslovakia	Poland
Denmark	Romania
Finland	Singapore
France	South Africa
Germany	Spain
Greece	Sri Lanka
Hungary	Surinam
India	Sweden
Ireland	Thailand
Indonesia	Turkey
Israel	United Kingdom
Italy	Zambia
Korea	Zimbabwe
Luxembourg	

It is understood that states may be added to or eliminated from the preceding lists by agreement between the competent authorities of both States.

XVII. **In reference to paragraph 2(h) of Article 26 (Limitation on Benefits).**

It is understood that in treating an activity conducted in another member state of the European Communities as conducted in the Netherlands under subparagraph 2(h) of Article 26 (Limitation on Benefits and subject to the restrictions therein), the activity in such other state may be conducted by any person which, if it conducted such activity in the Netherlands, would have its proportionate share of such

activity attributed to the resident of the Netherlands considered to conduct such activity under subparagraph 2(e) of Article 26 (Limitation on Benefits).

XVIII. **In reference to paragraph 3(a) of Article 26 (Limitation on Benefits).**

It is understood that for purposes of paragraph 3(a) of Article 26 (Limitation on Benefits) a person will be considered to be engaged in "supervision and administration" activities, only if it engages in a number of the kinds of activities listed below. For example, a person will be considered a headquarters company if it performs a significant number of the following functions for the group: group financing (which cannot be its principal function), pricing, marketing, internal auditing, internal communications and management. A simple comparison of the amount of gross income that the headquarters company derives from its different activities cannot be used alone to determine whether group financing is, or is not, the company's principal function. The above-mentioned functions are intended to be suggestive of the types of activities in which a headquarters company will be expected to engage; it is not intended to be exhaustive.

Furthermore, it is understood that in determining if a substantial portion of the overall supervision and

administration of the group is provided by the headquarters company, the activities it performs as a headquarters company for the group it supervises must be substantial in comparison to the same activities for the same group performed within the multinational.

For example, a Japanese corporation establishes a subsidiary in the Netherlands to function as a headquarters company for its European and North American operations. The Japanese corporation also has two other subsidiaries functioning as headquarter companies; one for the African operations and one for the Asian operations. The Dutch headquarters company is the parent company for the subsidiaries through which the European and North American operations are carried on. The Dutch headquarters company supervises the bulk of the pricing, marketing, internal auditing, internal communications and management for its group. Although the Japanese overall parent sets the guidelines for all of its subsidiaries in defining the world-wide group policies with respect to each of these activities, and assures that these guidelines are carried out within each of the regional groups, it is the Dutch headquarters company that monitors and controls the way in which these policies are carried out within the group of companies that it supervises. The capital and payroll devoted by the Japanese parent to these activities relating to the group of companies the Dutch

headquarter company supervises is small, relative to the capital and payroll devoted to these activities by the Dutch headquarters company. Moreover, neither the other two headquarter companies, nor any other related company besides the Japanese parent company, perform any of the above-mentioned headquarter activities with respect to the group of companies that the Dutch headquarter company supervises. In the above case the Dutch headquarters company will be considered to provide a substantial portion of the overall supervision and administration of the group it supervises.

XIX. In reference to paragraph 7 of Article 26 (Limitation on Benefits).

For purposes of paragraph 7 of Article 26 (Limitation on Benefits), in determining whether the establishment, acquisition, or maintenance of a corporation resident of one of the States has or had as one of its principal purposes the obtaining of benefits under this Convention, the competent authority of the State in which the income in question arises may consider the following factors (among others):

(1) The date of incorporation of the corporation in relation to the date that this Convention entered into force;

(2) the continuity of the historical business and ownership of the corporation;

(3) the business reasons for the corporation residing in its State of residence;

(4) the extent to which the corporation is claiming special tax benefits in its country of residence;

(5) the extent to which the corporation's business activity in the other State is dependent on the capital, assets, or personnel of the corporation in its State of residence; and

(6) the extent to which the corporation would be entitled to treaty benefits comparable to those afforded by this Convention if it had been incorporated in the country of residence of the majority of its shareholders.

XX. **In reference to paragraph 7 of Article 26 (Limitation on Benefits).**

It is understood that a company resident of one of the States will be granted the treaty benefits under paragraph 7 of Article 26 (Limitation on Benefits) with respect to the income it derives from the other State, if such company:

(1) holds stocks and securities the income from which is not predominantly from sources in the other State;

(2) has widely dispersed ownership; and

result in a denial of benefits. Such changed circumstances may include a change in the state of residence of a major shareholder of a company, the sale of part of the stock of a Netherlands company to a person resident in another member state of the European Communities, or an expansion of a company's activities in other member states of the European Communities, all under ordinary business conditions. The competent authority will consider these changed circumstances (in addition to other relevant factors normally considered under paragraph 7 of Article 26) in determining whether such a company will remain qualified for treaty benefits with respect to income received from United States sources. If these changed circumstances are not attributable to tax avoidance motives, this also will be considered by the competent authority to be a factor weighing in favor of continued qualification under paragraph 7 of Article 26.

XXII. **In reference to paragraph 8(d)(iv) of Article 26 (Limitation on Benefits).**

For purposes of subparagraph 8(d)(iv) of Article 26 (Limitation on Benefits), the stock exchanges of Frankfurt, London and Paris will in any case be listed.

The comp_tent authorities of both Stat s may agree to add or remove stock exchanges from the list.

(3) employs in its state of residence a substantial staff actively engaged in trades of stocks and securities owned by the company.

It is further understood that paragraph 7 of Article 26 (Limitation on Benefits) will not apply if any of the above-mentioned factors is absent.

XXI. **In reference to paragraph 7 of Article 26 (Limitation on Benefits).**

It is understood that in applying paragraph 7 of Article 26 (Limitation on Benefits), the legal requirements for the facilitation of the free flow of capital and persons within the European Communities, together with the differing internal income tax systems, tax incentive regimes, and existing tax treaty policies among member states of the European Communities, will be considered. Under such paragraph, the competent authority is instructed to consider as its guideline whether the establishment, acquisition or maintenance of a company or the conduct of its operations has or had as one of its principal purposes the obtaining of benefits under this Convention. The competent authority may, therefore, determine under a given set of facts, that a change in circumstances that would cause a company to cease to qualify for treaty benefits under paragraphs 1 and 2 of Article 26 (Limitation on Benefits) need not necessarily

XXIII. In reference to paragraph 8(e) of Article 26 (Limitation on Benefits)

It is understood that the term "related persons" as used in subparagraph 8(e) of Article 26 (Limitation on Benefits) means associated enterprises under Article 9 (Associated Enterprises) and their owners.

XXIV. In reference to paragraph 8(f) of Article 26 (Limitation on Benefits).

In order to meet the "substantial and regular trading" tests under subparagraph 8(f) of Article 26 (Limitation on Benefits), a person claiming benefits under the Convention need not prove that it has not engaged in, but may need to rebut evidence that it has engaged in, a pattern of trades on a recognized stock exchange in order to meet these tests.

XXV. In reference to paragraph 8(k) of Article 26 (Limitation Benefits).

When a corporation resident in one of the States that is entitled to benefits under Article 26 (Limitation on Benefits) acquires a controlling interest in a corporation resident in a third state that in turn owns a controlling interest in a second corporation resident in the first-mentioned State, that second corporation may not be entitled to the benefits of the Convention due to the provisions of

subparagraph 8(k) of Article 26 with respect to income derived from sources within the other State. It is understood that in these circumstances the competent authority of the other State, in considering a request for benefits under the Convention under paragraph 7 of Article 26 (Limitation on Benefits), will consider favorably a plan of reorganization submitted by the second corporation resident in the first-mentioned State, if such plan would result in the second corporation being entitled to the benefits of the Convention within a reasonable transition period (determined without regard to paragraph 7 of Article 26 (Limitation on Benefits)).

XXVI. **In reference to Article 27 (Offshore Activities).**

It is understood that transport of supplies or personnel between one of the States and a location where activities are carried on offshore in that State or between such locations is to be considered as transport between places in that State.

XXVII. **In reference to paragraph 5 of Article 29 (Mutual Agreement Procedure).**

A. It is understood that the States will in any case exchange diplomatic notes as provided in paragraph 5 of Article 29 (Mutual Agreement Procedure), when the experience

within the European Communities with regard to the application of the Convention on the elimination of double taxation in connection with the adjustment of profits of associated enterprises, signed on 23 July 1990, or the application of paragraph 5 of Article 25 of the tax convention between the United States of America and the Federal Republic of Germany for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and capital and to certain other taxes, signed on 29 August 1989, has proven to be satisfactory to the competent authorities of both States. After a period of three years after the entry into force of the Convention, the competent authorities shall consult in order to determine whether the conditions for the exchange of diplomatic notes have been fulfilled.

B. If the competent authorities of both States agree to submit a disagreement regarding the interpretation or application of this Convention in a specific case to arbitration according to paragraph 5 of Article 29, the following procedures will apply:

1. If, in applying paragraphs 1 to 4 of Article 29, the competent authorities fail to reach an agreement within two years of the date on which the case was submitted to one of the competent authorities, they may agree to invoke arbitration in a specific case, but only after fully exhausting the procedures available under paragraphs 1 to 4 of Article 29

The competent authorities will not generally accede to arbitration with respect to matters concerning the tax policy or domestic law of either State.

2. The competent authorities shall establish an arbitration board for each specific case in the following manner:

(a) An arbitration board shall consist of not fewer than three members. Each competent authority shall appoint the same number of members, and these members shall agree on the appointment of the other member(s).

(b) The other member(s) of the arbitration board shall be from either State or from another OECD member country. The competent authorities may issue further instructions regarding the criteria for selecting the other member(s) of the arbitration board.

(c) Arbitration board member(s) (and their staffs) upon their appointment must agree in writing to abide by and be subject to the applicable confidentiality and disclosure provisions of both States and the Convention. In case those provisions conflict, the most restrictive condition will apply.

3. The competent authorities may agree on and instruct the arbitration board regarding specific rules of procedure, such as appointment of a chairman, procedures for reaching a decision, establishment of time limits, etc. Otherwise, the

arbitration board shall establish its own rules of procedure consistent with generally accepted principles of equity.

4. Taxpayers and/or their representatives shall be afforded the opportunity to present their views to the arbitration board.

5. The arbitration board shall decide each specific case on the basis of the Convention, giving due consideration to the domestic laws of the States and the principles of international law. The arbitration board will provide to the competent authorities an explanation of its decision. The decision of the arbitration board shall be binding on both States and the taxpayer(s) with respect to that case. While the decision of the arbitration board shall not have precedential effect, it is expected that such decisions ordinarily will be taken into account in subsequent competent authority cases involving the same taxpayer(s), the same issue(s), and substantially similar facts, and may also be taken into account in other cases where appropriate.

6. Costs for the arbitration procedure will be borne in the following manner:

(a) Each State shall bear the cost of remuneration for the member(s) appointed by it, as well as for its representation in the proceedings before the arbitration board;

(b) the cost of remuneration for the other member(s) and all other costs of the arbitration board shall be shared equally between the States; and

(c) the arbitration board may decide on a different allocation of costs.

However, if it deems appropriate in a specific case, in view of the nature of the case and the roles of the parties, the competent authority of one of the States may require the taxpayer(s) to agree to bear that State's share of the costs as a prerequisite for arbitration.

7. The competent authorities may agree to modify or supplement these procedures; however, they shall continue to be bound by the general principles established herein.

XXVIII. **In reference to Article 30 (Exchange of Information and Administrative Assistance).**

If a United States "reporting corporation" (as defined for purposes of section 6038A of the United States Internal Revenue Code) that is a United States resident, or a United States permanent establishment of a United States "reporting corporation" that is not a United States resident, has neither possession of nor access to records that may be relevant to the United States income tax treatment of any transaction between it and a foreign "related party" (as defined in section 6038A of the United States Internal

Revenue Code), and such records are under the control of a Netherlands resident and are maintained outside the United States, then the United States shall request such records from the Netherlands through an exchange of information under Article 30 (Exchange of Information and Administrative Assistance) before issuing a summons for such records to the United States "reporting corporation", provided that under all the circumstances presented, the records will be obtainable through the request on a timely and efficient basis. For purposes of this paragraph, records will be considered to be available on a timely and efficient basis if they can be obtained within 180 days of the request or such other period agreed upon in mutual agreement between the competent authorities, except where the statute of limitations may expire in a shorter period. Similar principles shall apply with respect to the application of section 6038C.

It is understood that for purposes of applying the conduit base reduction test set forth in subparagraph (d) of paragraph 5 of Article 26 (Limitation on Benefits), the competent authority of one of the States will, as an initial matter, confine its requests for information with respect to a resident of the other State to the information necessary to determine whether such resident is a conduit company, as defined in subparagraph (m) of paragraph 8 of Article 26.

Such competent authority will request additional information needed to determine whether the conduit base reduction test has been satisfied only after determining that a company is a conduit company.

XXIX. **In reference to paragraph 1 of Article 30 (Exchange of Information and Administrative Assistance).**

It is understood that persons concerned with the "administration" of taxes, as that term is used in paragraph 1 of Article 30 (Exchange of Information and Administrative Assistance) include, in the United States, the "tax-writing committees of Congress" and the "General Accounting Office". Information exchanged under the Convention that is otherwise confidential under the Convention may be received under the same requirement of confidentiality by these bodies and may be used only in the performance of their role of overseeing the administration of United States tax laws.
Congress's and the "General Accounting Office's" role in overseeing the administration of United States tax law is understood to be limited to ensuring that the administration of the tax law by the executive branch is honest, efficient, and consistent with legislative intent.

XXX. In reference to Article 31 (Assistance and Support in Collection).

It is understood that in applying Article 31 (Assistance and Support in Collection) the following shall be taken into account:

1. The requested State shall not be obliged to accede to the request of the applicant State:

(a) if the applicant State has not pursued all appropriate collection action in its own jurisdiction;

(b) in those cases where the administrative burden for the requested State is disproportionate to the benefit to be derived by the applicant State.

2. The request for administrative assistance in the recovery of a tax claim shall be accompanied by:

(a) an official copy of the instrument permitting enforcement in the applicant State;

(b) where appropriate, certified copies of any other document required for recovery;

(c) a certification by the competent authority of the applicant State that, under the laws of that State, the revenue claim has been finally determined.

For the purposes of this Article, a revenue claim is finally determined when the applicant State has the right under its internal law to collect the revenue claim and all adminis-

trative and judicial rights of the taxpayer to restrain collection in the applicant State have lapsed or been exhausted.

3. A revenue claim of the applicant State that has been finally determined may be accepted for collection by the competent authority of the requested State and, subject to the provisions of paragraph 7, if accepted shall be collected by the requested State as though such revenue claim were the requested State's own revenue claim finally determined in accordance with the laws applicable to the collection of the requested State's own taxes.

4. Where an application for collection of a revenue claim in respect of a taxpayer is accepted:

(a) by the United States, the revenue claim shall be treated by the United States as an assessment under United States laws against the taxpayer as of the time the application is received; and

(b) by the Netherlands, the revenue claim shall be treated by the Netherlands as an amount payable under appropriate Netherlands law, the collection of which is not subject to any restriction.

5. Nothing in this Article shall be construed as creating or providing any rights of administrative or judicial review of the applicant State's finally determined revenue claim by the requested State, based on any such rights that

may be available under the laws of either State. If, at any time pending execution of a request for assistance under this Article, the applicant State loses the right under its internal law to collect the revenue claim, the competent authority of the applicant State shall promptly withdraw the request for assistance in collection.

6. Subject to this paragraph, amounts collected by the requested State pursuant to this Article shall be forwarded to the competent authority of the applicant State. Unless the competent authorities of the States otherwise agree, the ordinary costs incurred in providing collection assistance shall be borne by the requested State and any extraordinary costs so incurred shall be borne by the applicant State.

7. The requested State may allow deferral of payment or payment by installments, if its laws or administrative practice permit it to do so in similar circumstances, but it shall first inform the applicant State. Any interest received by the requested State as a result of the allowance of a deferral of payment or payment by installments will be transferred to the competent authority of the applicant State.

8. A revenue claim of an applicant State accepted for collection shall not have in the requested State any priority accorded to the revenue claims of the requested State.

9. The competent authorities may under this Article grant assistance in collecting any tax deferred by operation of paragraph 8 of Article 14 (Capital Gains).

10. The competent authorities of the States shall agree upon the mode of application of this Article. The competent authorities of the States may further agree to modify or supplement these procedures, however, they shall continue to be bound by the general principles established herein.

TREASURY NEWS

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REMARKS OF DEPUTY TREASURY SECRETARY ROGER ALTMAN
LOS ANGELES AREA CHAMBER OF COMMERCE
LOS ANGELES, CALIFORNIA

I'd like to speak with you about President Clinton's economic program. The recent legislative struggle over the budget was so intense that it may have obscured our overall strategy. Let me try to dispel some of the fog.

The new budget is just one element in an integrated economic strategy whose main goal is to raise investment in this country. Increasing investment will raise our productivity, increase real incomes and restore and improve Americans' standard of living.

We're doing this through deficit reduction. We're doing it through investing in our work force. We're doing it by making government smaller and more efficient. We're doing it by controlling health care costs to improve business margins. And we're doing it through trade policy.

Now, before I get into some of the fine points of what we're doing, let me make it clear here at the top that the Clinton Administration is doing everything it can to get the California economy turned around. We know you've been hammered economically. The unemployment rate is 9.4 percent, well above the national average and far, far too high. I am aware that the Base Closing Commission will add another 31,000 civilian and military personnel whose jobs will be lost in California -- and that is only the direct loss.

But we know that one cannot focus on the U.S. economy without paying attention to California. One job in every nine is here in California. That's why so much of what we are doing is aimed at this state. The president has been here six times and I'm sure he'll be back many more times. Commerce Secretary Ron Brown, who was here just yesterday, is in charge of the president's California Task Force. And let me add, that task force is doing some critical work getting projects through the pipeline, working to turn Fort Ord into a job retraining center. They even helped us out at Treasury working on the research and development tax credit that's important to high-tech states such as California.

The reason we're devoting so much attention to California is because we know that when we see the California economy beginning to respond, we'll know our policies have taken hold sufficiently to turn the national economy to what it should be doing -- growing and creating new jobs.

The Task Force is getting down into the more state-specific things the administration is doing, but it is important to look at the specifics of what we are doing for the economy as a whole. The chief goal of the president's economic plan is to raise the level of investment in our work force, in business and in our economy.

Many Americans are not fully aware of the poor trend in U.S. investment, but the United States' private business investment significantly lags our G-7 competitors. The Japanese and Germans invest 14 and 10% respectively of GDP while the U.S. averages only 7.6% for gross business investment. Measured another way - net private investment - we hit a forty year low last year.

This underinvestment has impacted virtually every American. There is an iron linkage between investment, productivity and real incomes. The biggest reason that so many of our citizens have seen stagnant or even falling incomes has been the chain reaction effect of the investment deficit on their standards of living.

It's why they are finding it harder and harder to own a home or send a child to college and why their economic anxiety is so high.

It will take some time to reverse the stagnation in standards of living. Years of underinvestment cannot be cured overnight or in four years. But, the president felt an obligation to take up this challenge, and he did so immediately upon taking office.

The first step to cure this, of course, was our budget. Every one of the president's original budget principles, set forth in the State of the Union address, was embodied in the final legislation. But, the key goal was to get the deficit down, way down.

The new budget cuts the deficit by $500 billion over five years. There are no gimmicks and no rosy scenarios. The latest estimate we have suggests that the deficit for the fiscal year that ended last month will be well below $260 billion, or about 4 percent of GDP. That is down from the $285 billion we anticipated when we made our mid-session review. With the new budget, it will fall to $180 billion a year over the 1996-1998 period, or 2.2% of GDP by 1998. In other words, relative to its impact on the economy, the deficit will be cut by nearly half.

Many ask, of course, if the projected amount of deficit reduction will really occur. After all, there were similar promises made in the 1990 budget agreement, but large deficits persisted. That earlier agreement suffered from two flaws, however, which we have avoided here. In 1990, the economic growth projections in that agreement were much more optimistic than the consensus private forecast of the time. Sure enough the rosy official forecast didn't materialize and neither did the government revenues associated with it. Its other weakness was a failure to take on entitlements which soared above the 1990 projections. Not only did this administration achieve $64 billion in Medicare and Medicaid reductions in the new budget, but our health care proposal quadruples that, $240 billion.

Furthermore, Vice President Gore just unveiled the reinventing government initiative. Coming from Democrats, these changes have a real chance of being realized. And, we have projected another $58 billion of spending cuts over five years, particularly from personnel reductions of more than 250,000 people and changes in the procurement policies.

The second plank of the Clinton economic strategy is selected public investment. The president believes we have seriously underinvested in a few areas which vitally affect our work force. Our economic plan made some changes on that front too. The two most profound were expansion in the Earned Income Tax Credit (EITC) and the National Service Plan. The former says, in effect, that families headed by full time workers will no longer live below the poverty line. This promotes work over welfare. The EITC will assist almost 20 million American families and low-income workers to continue to work. After all, remaining in the work force, even at a lower wage, is the best known way to escape poverty. The National Service Plan allows young Americans to make a contribution to their country in return for help with the cost of a college education.

In addition, we have committed substantial resources for defense conversion, which is critical for California. What we're doing is paying attention to the kinds of investment that will make the U.S. more productive, competitive and create new jobs. I think that's the right approach.

We're also taking other steps that will help our economy become more productive and competitive. For instance, you'll find that this administration wants to build partnerships with the business community that will help commercialize the clean car initiative, where the national government teamed up with Ford, GM and Chrysler to develop more efficient automobiles.

And look at our program for information highways, which is another of the president's initiatives. With that, we want to create the regulatory climate that will encourage the private sector to develop the national information infrastructure we need.

Now that we have laid the groundwork with deficit reduction and investments, much of our focus is on the other two elements of our economic strategy -- health care and trade. Three weeks ago, the President made a historic speech on health care, laying out the social reasons to change our health care system, including universal coverage, and the economic ones. Let's talk here about the economic side.

Last year, health care expenditures represented 14% of gross domestic product. By the year 2000, based on common trends, the figure will be 19%. No other industrialized nation is seeing health care consume such a high share of personal incomes and employer payrolls. The share of GDP for Canada is 11% and the other G-7 countries are in the 8-9% range. Per capita spending in the United States on health care was about $3,400 last year. Germany and Japan spend half as much. And our health is no better than theirs. This means a grossly inefficient allocation of U.S. economic resources.

The inflation in private and public health care spending is also completely out of line relative to the rest of our economy. On the private side, it is three times the national average, and on the public side, four times. There, we're seeing explosive growth in Medicare and Medicaid. The Medicare program today costs $130 billion annually. Over the next five years it is projected to soar, reaching $213 billion a year. Medicaid is growing even faster. It doubled in the eight Reagan years and then doubled again in the four Bush years. Beyond 1997, if we do nothing, these two entitlements alone will push the federal deficit back up -- despite everything we've done already to get it down.

We're going to rein in our costs by applying two old fashioned principles - competition and consumerism. Right now, there's too little competition. Insurers and providers have most of the leverage. All but the largest businesses are at a disadvantage in negotiating premiums. And, there's too little consumerism. Too few consumers pay a meaningful share of their health care bills, and so they don't shop around among providers.

To get competition going, each state will form one or more non-profit regional alliances, covering all employees and non-workers. These will negotiate for coverage with providers for the most affordable quality coverage. The purchasing power inherent in this approach, like the German system, will tilt the playing field in favor of the buyer. Moreover, insurers will no longer be permitted to jack up prices based on age or existing health conditions. And, workers won't be locked into jobs because of health coverage.

The result will be enormous private and public savings. Most businesses which provide coverage today will see their margins improve.

The average share of payroll which they devote to health care will go down from more than 10 percent to a cap of only 7.9 percent. This will improve the climate for business investment and business hiring. And the destructive shifting of uncompensated care costs to the private sector will end.

We know that there is concern among smaller firms which now will be required to provide insurance. But, most smaller businesses already provide coverage and pay 35% more for it than large businesses. And, for those which don't provide it now, there will be a lower cap on the percentage of payroll which they must devote to health care.

The final component of the administration's economic strategy involves expanding trade. As our work force and businesses become more competitive, we must ensure we have open international markets for our goods. The better the prospects for exports, the more export-related investment will result. Such investment improves job security and creates jobs that, on average, pay 17 percent more than other domestic jobs.

Presently, the Administration is actively pursuing three major international trade agreements; the Uruguay round, U.S.-Japan framework, and NAFTA. With these agreements we will have more access to the markets of our three largest trading partners as well as the world as a whole.

To complement to our strategy of expanding U.S. exports, the president two weeks ago announced an export strategy that should significantly impact California. We are relaxing our export controls on the computer and telecommunications industries. Over at the Commerce Department Ron Brown told me that 40 percent of all export license requests come from California businesses. We're also proposing four one-stop shops -- including one in here in Los Angeles to consolidate all federal export promotion efforts into a one place. Further, we are planning to create a $150 million fund within the Export-Import Bank to counter the tied-aid practices of some of our competitors. There are estimates that we lose as much as $800 million in export sales each year because of such practices. Tied aid will now link U.S. aid dollars to more U.S. exports and jobs back home.

In looking at the trade agreements that can create employment opportunities for Americans, our immediate focus is on NAFTA -- although we are devoting considerable energies to the Japan framework talks also.

We have a tough fight ahead, and what we must do first is to correct the disinformation that exists concerning NAFTA. To listen to the opponents, you'd think that the agreement was going to devastate American labor. But, from the Congressional Budget Office, to the General Accounting Office there have been 19 studies of the impact. Eighteen of them - yes, 18 - have concluded that it will create jobs. The Administration estimates that it will create 200,000 jobs in the early going.

Someone showed me a story from the Orange County Register the other day that quoted an economist from Cal-State-Fullerton as saying Orange County could pick up a net of 800 jobs from NAFTA in the first year, and 10,000 jobs by 1999. With NAFTA, Mexico will be eliminating computer and auto duties as high as 20 percent. Opponents must remember that here in California there are nearly 90,000 jobs that depend on trade with Mexico, and nearly half of them have been created in the past five years alone.

To listen to the opponents you'd think we had a large and worsening trade deficit with Mexico. But, the United States runs a $5 billion trade surplus today and it's growing. Nearly 16 percent of all the trade we do with Mexico comes out of California, and that's up by $4.3 billion in the past five years. And this despite their tariffs averaging 2.5 times higher than ours. As both countries' tariffs move to zero, and Mexico eliminates its local content requirements, the U.S. trade surplus will grow further.

This is why 48 of 50 states have seen increased trade with Mexico over the past five years. Why 41 of 50 Governors support it. And, Governors know more than most about creating jobs at home.

In the most basic sense, we must ask ourselves whether increased exports have ever led to fewer jobs? Of course not. Has increased trade ever led to less prosperity? Never.

Recently, the President characterized NAFTA as a choice between embracing change and creating the jobs of the future, or clinging unsuccessfully to the jobs of the past. Americans are optimists. We have always adapted to change and looked to the future. And we have prospered by doing so.

I would also point out that if we decide not to take advantage of the Mexican market through NAFTA, the Japanese and Europeans would be delighted to get that business.

Our goals, of course, are to complete the Uruguay Round and NAFTA, and to use the new Japanese framework agreement to accomplish fairer trade there. Achieving all three will give us the best trade record of any administration in many years.

In closing, let me point out that the Clinton economic strategy is already working.

You all know about the breathtaking fall in interest rates which has occurred in recent months. Yes, there are several explanations, including the favorable inflation outlook and weak credit demand. But, a central reason as so many press accounts and commentators have said, is $500 billion in real deficit reduction.

The interest rate change has enabled credit-sensitive industries -- like autos and housing -- to pick up. But the best reflection of the effect of low interest rates is business investment. Businesses have increased their purchases of durable equipment by more than 15 percent in the first half of this year over 1992.

All of this has been gradually improving the employment outlook. For the first eight months of this administration, in the private sector alone, we have been creating new jobs at more than six times the rate (6.33) of the Bush administration -- 133,000 per month on average in the private sector against 21,000 per month on average across the Bush administration.

Overall, I hope you will leave here today recognizing that this administration is breaking from the past. In recent years, every thinking person knew that the deficit was corroding our country. But, it wasn't brought under control. We are doing that.

Most Americans agree that our health care system is broken, and President Clinton we will finally see comprehensive reform.

And, the Clinton administration will produce three crucial trade agreements. Except for the Canadian treaty, we haven't entered into a major trade agreement in 14 years.

We're not just talking about change, we're implementing it. In the process, we're fulfilling the mandate of last year's election, where nearly two thirds of the voters called for a change in national direction. Our agenda may be a crowded one, but the American people will ultimately judge us on deeds. And, when the dust settles, they'll be satisfied.

Thank you.

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TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

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REMARKS OF TREASURY SECRETARY LLOYD BENTSEN
TEXAS INSTRUMENTS
DALLAS, TEXAS

They warned me that on this trip home I'd have to be giving a few pep talks, because not everybody in Dallas is sold on NAFTA yet.

But after what Jerry Junkins just said -- 2,000 jobs for Texas Instruments if this passes -- you sure don't need any pep talk from me, do you?

The next time anybody tells you that NAFTA means jobs heading south, I'm heading them north on Central Expressway to TI. I want them to see what I see. A billion dollar plant going up in Dallas -- owned by Americans, using American know-how, and American workers, who want nothing better than to take on the world.

The future of the American electronics industry is in America -- not Mexico, not Canada, not Japan, not Europe. America. We can still cut it in this country, especially when we have workers like those at Texas Instruments who win Baldridge Quality Awards.

People who are against this treaty are sincere -- wrong -- but sincere. They would have you believe that the only factor companies use to locate a plant is wages. So they say if this passes, jobs will head south because of the low wages.

Now, if we used that logic, Bangladesh would be our biggest competitor, wouldn't it? Yet look who our biggest competitor is -- Japan, where wages are 30 percent higher.

I understand Texas was not a shoo-in to get this plant. You don't make a billion-dollar investment, until you check out all your options, and I know the one option you checked out pretty seriously was locating this in Japan.

But you came to Texas for a lot of reasons. The cost of capital, the infrastructure, the closeness to existing facilities, the great universities around here. And in the end, it will be the people who work at this place who will make it successful. It always is.

I know Texas Instruments is all over the world. Some of the other companies represented here today are all over the world, too. You need to be to get the best talent, the best resources, and, most of all, you need their markets.

With all this talk about wages we're forgetting to focus on what Mexico offers us: a market with 90 million people that is growing twice as fast as the U.S. market.

The Japanese are always on the lookout for lucrative markets. They found one in the United States in the '70s. Now they see Asia as a great opportunity, and they've pursued that much more aggressively than we have.

But Mexico is where we have the advantage. It's our neighbor. And Mexicans like American products. We export $40 billion a year there, almost half of which comes from Texas. Seventy percent of the imports they buy are American goods. Last year, each Mexican, on average, purchased more U.S.-made products than the average Japanese, German, or Canadian.

I was born and reared on that border. On the Mexican side, I haven't always seen a willingness to be partners. I've watched Mexican politicians campaign against us as the colossus of the north, the gringos.

They've changed. For the last six years, they've opened their markets and bought our products, and that has already created 400,000 more jobs in this country. Half of all Texas jobs supported by Mexican exports have been created in the last five years. We've gone from a $6 billion trade deficit with them, to a $5 billion surplus.

But right now, in spite of liberalization, the average product entering Mexico from the U.S. is slapped with a 10 percent tariff. It's that way with electronic goods. But Mexican products entering the U.S. get, on average, a 4 percent tariff. And some products, like semiconductors, have no tariff. So their tariffs are two-and-a-half times ours. That's not a good deal, and we're on the bad end of that deal.

When this passes, half of our goods headed to Mexico will be eligible for zero tariffs. Within five years, two-thirds will be. And these zero tariffs will apply only for our goods and Canada's goods. Not Japan's. Not the EC's.

Last month, I went to a unionized forging shop in Chicago. It's a small company, maybe 450 employees. They just started selling products in Mexico. When I talked about NAFTA, many employees were skeptical. They had heard the warnings: if NAFTA passes, jobs move south.

So I asked the owner flat out: "Are you planning to move jobs out of Chicago and into Mexico?" The answer was no, but the workers were still not convinced. When I said, "If you don't take advantage of doing more business in Mexico, your Japanese and European competitors would be glad to," then they heard me better.

If we don't sign up, Mexico will look to Japan and Europe to sign trade agreements. President Salinas said so last weekend. I bet they'd sign up in five minutes.

Japan is always looking for lucrative markets. They found one here in the '70s. They are pursuing Asia more aggressively than us. So the 200,000 new jobs that could be created because of increased Mexican business will be created, but in Europe or Japan -- not America.

If this fails, our market will stay open, but Mexico will be able to jack trade barriers right back up.

We'd hurt our chances to open Latin America, which after Asia, is the fastest growing market around -- and already our exports there are rising substantially faster than they are to Europe.

If this fails, it would have a negative effect on out GATT trade negotiations.

We won't address environmental concerns on the border. In the Senate of the United States, I talked about millions of gallons of raw sewage headed to the Rio Grande, and babies born with brain damage on the border. And nobody listened. Finally, we have a green treaty that will help clean up the environment.

And if this fails, we'll still be importing illegal immigrants from Mexico. There's an awful lot of truth to the statement that if Mexicans don't have jobs, Americans will have Mexicans.

I can't remember a political debate like this. President Clinton and all former Presidents support it. It is a bi-partisan trade bill. Forty-one of 50 governors support it, including our Governor. And they know about jobs, because they get elected only if they create jobs.

There's still some Congressmen in Texas who haven't made up their minds how to vote yet. With your help, I hope we can convince people that this thing is good. If it wasn't good for Dallas, for Texas, for America -- I wouldn't be out here supporting it.

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// TREASURY NEWS

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REMARKS OF TREASURY SECRETARY LLOYD BENTSEN CHILDREN'S MEDICAL CENTER OF DALLAS DALLAS, TEXAS

Tonight I want to say thanks, but not just for this award. I want to thank all of you for what you do every day for the kids of Dallas.

I'm a lucky man. I have my health. I have a loving family. I don't have money worries. I was honored to serve Texas for 22 years. And now I have a challenging job at Treasury, shaping economic policies.

But I want you to know something. Since January, I don't think there's a kid in all of America who's told me: "Mr. Bentsen, when I grow up, I want to be Treasury Secretary of the United States." In fact, not many adults have told me that!

But I bet at least once a week, a child looks you straight in the eyes and says with a great big smile: "I want to be a nurse. Or I want to be a doctor." And many of them will be, because you've touched their lives.

We talk a lot about health care in Washington. But we can't talk about it like you can. We look at it from the outside-in. To really understand, you have to be inside -- in hospitals every day. In a doctor's office -- living the challenges.

And those who really know it best -- they're the ones who don't have their health, and they don't have insurance. And many of them are children, who don't vote, don't hire lobbyists, don't make policies, don't have any voice in the debate on health care -- but they are our future.

So, when I became a Senator, and I could have some impact on health care, I wanted to do two things. I wanted to help the very old, and I wanted to help the very young -- the two groups that are the most vulnerable in our society.

One lesson I learned was how difficult it is to reform the system. We never could get comprehensive health care through. We had to move forward when and where we could. That meant a step at a time.

I remember the first step in 1984. We extended Medicaid to make prenatal care available to first-time pregnant mothers in low-income families. Every year or two, we'd take a new step. One year we let states have the option to expand coverage. Another year, we extended Medicaid to children up to age six. Then we got it all the way up to 18 if a child's family income was low enough.

In nine years, we helped millions of kids. And I notice that the new Census data show we're doing better at insuring kids due to these Medicaid changes -- but we're doing worse with respect to adults.

And we're not there with children yet. Not when the Children's Medical Center of Dallas has $47 million a year in uncompensated care.

Now you will see some things in health care reform that you won't like. There are things that you would do differently and maybe I would do differently. It's perhaps the most complicated issue we've ever faced in Washington.

But President Clinton has risen to the challenge. He wants universal coverage in this country. And let me just say, there should be no partisan solution to how to get it. There is no party or branch of government with all the right answers. There is only an urgent need to work together. So, I think the President deserves all of our support, and I hope you bring forward your ideas as the legislation is drafted.

There will be many good things that will come out of this. Never again will you have to see patients who don't pay. Never again will parents hesitate to bring a sick child in because they can't afford it, and so by the time you see that child his illness is way too serious. And far fewer kids will die of diseases we know how to cure.
I remember the measles outbreak in Dallas three years ago. Ten children died -- for no reason. Under the President's plan, we will emphasize insuring preventive services.

My last year or two in the Senate, I travelled the state to discuss health care. From Texarkana to El Paso. From the Panhandle to Paris. The story was the same. Businesses, large and small, couldn't afford it. It was busting them.

The small companies watched their rates shoot up 40 percent. If their businesses didn't fit the profile of a company with all young and healthy people, insurers might pass them by.

I know how the state legislature tried to reform the insurance system. It's a good start, but until we have universal coverage it will be impossible to do it right.

And when I went around the state, the large businesses told me they couldn't keep picking up the tab for all the people who weren't paying. They compete with companies in Europe and Japan -- and their competition doesn't have health care costs like U.S. companies do.

Here we're spending 14 percent of our incomes on health care. Japan and Germany are down around 8 or 9 percent. If we do nothing, we will be at almost 20 percent by the end of the decade, and no one else will be over 10 percent.

And the really troubling part is that every one of those countries paying less than us covers all of their citizens -- and we still have 15 percent of the population with no coverage. Here in Texas, that number is 26 percent.

In my job at Treasury, I attend meetings with my counterparts in Europe and Japan. Many of those countries are struggling with recessions. In fact, if longevity of finance ministers is any indication of a country's economic health, eight months ago when I met them for the first time, I was the freshman in the class. Now, I'm the second most senior guy!

They all look to America. Here we are the only remaining superpower. We have cut our deficit. We have the lowest long-term interest rates in two decades, the highest stock market, employment up by more than a million since January, and we're growing faster than the rest of the industrialized countries.

And here we are with world-class doctors, world-class medical facilities, and world-class technology. Nobody in this world has the kinds of resources we have. But we don't have world-class health care delivery.

We're not the model on this one. The other countries are. For a country as rich and as powerful as ours, we're behind. We need to become more efficient. We need to cut the waste. And most of all, we need to keep health care in the private sector and put some competition into the system.

Let me mention two other things that have an impact on children's health.

First, gun control. We have to stop the violence on the streets that ends up with kids in the emergency room in this hospital.

I have been a gun owner all my life. As any serious gun owner will tell you, it is unconscionable to allow children without the proper training or supervision to be around guns. Unconscionable. But it happens, and we have to stop it. The Brady Bill is a good first step, and that's why the President is working hard to see that pass.

Second, and finally, there is NAFTA -- the free trade agreement with Mexico and Canada. NAFTA is about jobs, and I spent today with businessmen like Jerry Junkins who told me that Texas Instruments could create 2,000 new U.S. jobs if this passes.

There's something else NAFTA will do. It will clean up the border. For years, as the Senator of this state, I tried to address environmental concerns, but nobody listened. I've seen millions of gallons of raw sewage head to Rio Grande. I've seen babies born with brain damage. With NAFTA we have a chance to clean up the environment for the kids, and so we're going to be fighting -- and fighting hard -- to see passage.

Let me end with this. Health care is an issue that tells a lot about America. One reason we've had a place like the Children's Medical Center for 80 years is that we have a tradition in this country.

A tradition that every generation always wants to make life better for our children. That has always required sacrifice. And we will keep making those sacrifices, because we're not going to turn our backs on our children. We're not going to deprive them of a healthy start in life.

This place says a lot about the kind of people we are and the kind of society we want to build.

So does universal health care coverage. What we do in Washington will mean more to Texas children than children in any other state -- because Texas has so many kids who don't have insurance.

You know, the balloon on this trophy you gave me it's headed up. So I accept this award, with deep gratitude, and with high hopes that we can all lift ourselves up higher, and higher, and higher.

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TREASURY NEWS

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REMARKS OF TREASURY SECRETARY LLOYD BENTSEN
UNIVERSITY OF TEXAS-PAN AMERICAN
S. PADRE ISLAND, TEXAS

It's always nice to come back to Texas, and to see all the changes. I was thinking how my father came to the Rio Grande Valley when the land was brush land. And people came from all over to farm it, and the county became the largest producer of vegetables and citrus in Texas.

Then oil and gas came to the Valley, then manufacturing, and now international trade. Always changing.

And I was thinking about all the changes on the other side of the border. For years, I'd watch Mexican politicians campaign against the United States as the colossus of the north, the gringos. But now President Salinas is looking to us as a trading partner -- a true one.

For the last six years, Mexico has lowered its tariffs, opened its markets, and bought our products, and that has created 400,000 more jobs in this country -- many of them here in Texas. Half of the Texas jobs dependent on Mexican exports have been created just since Mexico began lowering its tariffs.

In the Valley, people see what change has brought. They've left old jobs for new ones. They've adapted. And they've prospered. If they hadn't made those changes, they'd be left behind today.

In the Midwest, and New England, and the North change came, too. But people weren't so lucky. Mills started closing. Factories shut down. Auto and steel workers lost their jobs. And plants that made TV sets and radios went to the Far East. Today, we have fewer manufacturing jobs than we did in 1965.

People remember those closings. And they still see layoffs at the big companies. It doesn't make news when small companies around America open shop -- but pick up the paper any day, and some Fortune 500 company is downsizing, which means another couple thousand people are on the streets.

That's why labor is so sincerely opposed to NAFTA. They want to hang on to what they have. But you can't hang on -- not when the world around you is changing.

They say if this passes, jobs will head south because of the low wages. Baloney. Jobs can go south now. BMW and Mercedes would be building their new plants in Mexico rather than the U.S. if all they were concerned about were wages.

If we used that logic, Bangladesh would be our biggest competitor. Look who our biggest competitor is -- Japan, where wages are 30 percent higher. I remember when it was Japan that people feared as the low-wage country, but it has been a long time since Japan could be called a low-wage competitor.

The NAFTA debate should not be about what country will lose jobs. It should be about which will gain the 200,000 jobs to be created -- America, Japan, or Europe?

The labor unions are missing a point. Change -- which they cannot stop -- will mean more jobs will be dependent on trade between countries. Now, one in eight jobs in this country depends on trade. One in six in Canada. One in six in Mexico.

I can understand their apprehensions because of what happened in the past. What surprises me is why now -- why after they've just spent the last five or 10 years helping make their companies so competitive and so quality conscious.

There may be fewer manufacturing jobs now than in 1965, but those workers produce far more. American workers are the most productive in the world. And it's that productivity -- along with infrastructure and resources -- that will help determine where plants locate in the future, not wages.

Yesterday, I was at Texas Instruments. They're building a billion dollar semiconductor plant in Dallas. Dallas was not a shoo-in to get the plant. You don't make a billion-dollar investment, until you check out all your options, and the other option Texas Instruments checked out pretty seriously was locating the plant in Japan.

But they came to Texas for a lot of reasons. The cost of capital, the infrastructure, the closeness to existing facilities, and the great universities in Texas. And in the end, it will be the people who work at the place who will make it successful. It always is.

Jerry Junkins at TI told me that with NAFTA, he thinks they'd do enough increased business to hire another 2,000 people.

And this morning I was with the Chamber of Commerce in Dallas, where I saw 10 products on display -- products built here, and sold in Mexico. Drill bits. Fax modems. Kits for blood tests. Industrial strength cleaning fluids. Even a table-top corn dog processor. They tell me they'll sell more, when we have NAFTA.

I hear similar stories all over the country. Look at Procter & Gamble, one of the companies downsizing right now. They're reducing their staff, but things would be worse without Mexican business. Six years ago, they exported nothing to Mexico. When this thing passes, they say they'll be able to export $200 million in products. That's 1,500 to 2,000 jobs there or at their suppliers.

The auto industry, whose unions are some of the most vocal against NAFTA, says they can go from selling a few thousand units a year in Mexico to 60,000. NAFTA would lift the tremendous trade barriers they now face when selling an American-made product in Mexico.

Chrysler sold five Jeep Cherokees in Mexico all last year. Five. One every ten weeks. GM didn't sell a single Saturn. Ford didn't sell a single U.S.-built Taurus -- the best selling car in this country. They could not sell a single one in Mexico.

And you'll hear people say, yeah, but they'll move the auto plants to Mexico because of the low wages. What they don't tell you is that it costs $410 more to build a car in Mexico than in the United States because of an inadequate infrastructure in Mexico -- and transportation and communications network. Wages are only around 8 percent of the costs of building a car in this country. There's a lot more to it than wages.

But I'll tell you what will happen if we don't build the 60,000 cars and trucks here. European or Japanese automakers with excess capacity would be glad to ship 60,000 units into Mexico.

If we don't sign up, my friends in the energy industry in Houston tell me that much of the $10 billion in capital equipment for power generation Mexico will buy by 1999 will most likely be produced in Japan, Germany, or Switzerland.

If we don't sign up, Europeans or Japanese would be more than interested in finding a market with 90 million people growing twice as fast as ours. They'd sign up in a minute.

The Japanese are always on the lookout for lucrative markets. Now they see Asia as a great opportunity, and they've pursued that block much more aggressively than we have.

But Mexico is where we have the advantage. It's our neighbor. You probably spent the last day and a half hearing how Mexicans like American products. Seventy percent of the imports they buy are American goods. Last year, each Mexican, on average, purchased more U.S.-made products than the average Japanese, German, or Canadian.

We export $40 billion a year there. Of that, about $19 billion came from Texas. Texas alone sold double what Europe and Japan sold in Mexico -- combined.

But don't be fooled by the big numbers. If you look at how Europeans and Japanese have increased their exports in the last few years, you'll see they're capable of moving in aggressively.

Last month, I toured a unionized forging shop in Chicago that has started selling products to Mexico. When I first talked about NAFTA, many of the employees were skeptical. They had heard the warnings: if NAFTA passes, American businesses move south.

So I asked the owner flat out: "Are you planning to move jobs out of Chicago and into Mexico?" The answer was no. But the workers were still not convinced. But when I said "If you don't take advantage of doing more business in Mexico, your Japanese and European competitors would be glad to," then they heard me better.

Those steel workers want to compete -- but right now they're at a handicap. In spite of liberalization, the average product entering Mexico from the U.S. is slapped with a 10 percent tariff. Mexican products entering the U.S. get, on average, a 4 percent tariff.

So, tariffs there are two-and-a-half times higher than what they are here. That's not a good deal, and we're on the bad end of that deal.

When this passes, half of our goods headed to Mexico will be eligible for zero tariffs. Within five years, two-thirds will be. And these zero tariffs will apply only for our goods and Canada's goods. Not Japan's. Not the EC's.

Let me tell you what can happen if NAFTA fails. Our market will stay open, but Mexico will be able to jack trade barriers right back up. They could raise them up to 50 percent, and still be in compliance with GATT.

We'd hurt our chances to open Latin America, which after Asia, is the fastest growing market around -- and already our exports there are rising substantially faster than they are to Europe.

If this fails, it will have a negative effect on our GATT negotiations.

We won't address environmental concerns on the border. In the Senate of the United States, I talked about millions of gallons of raw sewage headed to the Rio Grande, and babies born with brain damage on the border. And nobody listened. Finally, we have a green trade agreement.

And if this fails, we'll still be importing illegal immigrants from Mexico.

I can't remember a political debate like this. President Clinton and all former presidents support it. It is a bi-partisan trade bill. Forty-one of 50 governors support it. Our Governor supports it. And governors know about jobs, because they get elected only if they create jobs.

Some people will lose their jobs because of NAFTA. But for every job lost in Texas, there will be six jobs created to replace it.

If when my family came to America the only thing we wanted to do was to hang onto the jobs we had, we'd still all be making buggy whips in this country and living on farms. Times change, and we have to change with them.

Let me wind down with this. I remember a couple summers ago I was in Denmark, where my grandfather was born. I was talking to the American Ambassador, and he said: "Lloyd, are you here visiting your ancestor's castles?" I said: "If my family had castles, they would never have left this place."

There aren't many Americans with kings or queens in our genes. We're a country of risk takers, whose ancestors came looking for a better standard of living.

NAFTA gives us a chance to improve our standards -- in America, in Mexico, and in Canada. I don't know another vote that a Congressman or Senator will make this year that can create 200,000 jobs.

The vote should come up next month in the House. It's going to be tough, because the opposition is so organized and so vocal. So let Kika de La Garza and his colleagues know where you stand, will you?

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TREASURY NEWS

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STATEMENT OF LAWRENCE H. SUMMERS
UNDER SECRETARY FOR INTERNATIONAL AFFAIRS
DEPARTMENT OF THE TREASURY
AT THE BAIRD LECTURE, MILWAUKEE
OCTOBER 14, 1993

I am delighted to be here today to discuss the "U.S. Strategy for Global Competitiveness." The President has embarked on an ambitious agenda to put our economic house in order to provide job security and health security for all Americans. He recognized in the campaign that investment in America and Americans is fundamental to restoring our nation's competitiveness.

His strategy is paying off. Growth is picking up, and we are laying the basis for a solid recovery. Employment growth is not yet where we'd like it to be, but, even so, there have been a million non-farm private sector jobs created since January. That is more than in the previous four years. But I'm here today to talk about the international complement to the President's strategy.

The Clinton Administration's guiding principle has been promoting U.S. exports and expanding world trade. This strategy has two main components: the first is expanding foreign markets through growth. History has shown that protectionism increases and the momentum for integration fades during periods of recession. The second component we have termed "export activism" or reducing barriers in foreign markets.

Why is are exports and trade so important? The last 30 years has witnessed an explosion in international trade, and it is becoming more and more important to the U.S. economy. Since the mid-1980s, over half of U.S. growth and almost all growth in manufacturing jobs has resulted from export growth. Today, one in eight American jobs depends upon trade.

G-7 Economic Growth:

The first component of the Administration's strategy is expanding foreign markets through growth. The industrialized world still produces most of the world's output. We are now in a terrible recession, and one that, unlike the two OPEC recessions, is without obvious external cause. Its consequences, however, are beyond dispute. Twenty four million people are now unemployed in the G-7 countries alone, and output in the G-7 is $340 billion less than its potential level.

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We in the United States have done our part to get the world economy moving. President Clinton's bold program of deficit reduction has been associated with a decline in U.S. long term interest rates of 1.5 percentage points. More global prosperity will be especially important to the U.S. -- increased exports can make up for part of the shortfall in demand created by budget deficit reduction.

And, to get our economy ready for the challenges of the 21st century, our nation is embarking on the critical and enormous task of reforming our health care system.

We have made a substantial contribution to fostering growth through deficit reduction, and we are cooperating with others in the process of restoring job-creating growth in the rest of the G-7 nations. In February, the G-7 reached on a consensus for a two part strategy to complement our contribution: interest rate reductions in Europe and fiscal stimulus in Japan. Since that time interest rates have fallen by roughly 200 basis points in Europe and Japan has put in over $180 billion in fiscal stimulus.

However, these actions have not yet been sufficient to turn the corner in either Europe or Japan. The outlook for growth in Japan is likely to be, at best, flat this year and only slightly positive next year. We welcome the fact that the new Japanese Administration has left open the door open for a tax reform package that would put more money in the hands of consumers and help get the economy going again.

Japan has committed, in the context of the Summit and the framework negotiations, to put in place policies that promote domestic demand-led growth and lead to "highly significant" reductions in their external surplus. As Japan has the strongest fiscal position in the G-7, it has plenty of room for more expansionary fiscal policy.

In Europe, growth prospects are even poorer. The Europeans do not have the option of jump-starting growth through a fiscal stimulus program. It is important, therefore, that they take advantage of their increased flexibility to move further on reducing interest rates. Although it works at cross purposes in the short run, they must continue their fiscal consolidation programs to set the stage for sustainable growth over the longer term.

Creating jobs requires restoring demand, because businesses need to sell more products if they are to employ more workers. But, as we saw at the last economic peak in the late 1980's, in the United States and especially in Europe, too many people are without work even when times are good, even when there is enough demand in the economy to bring forth the threat of inflation. That is why -- and the Europeans are beginning to recognize this -- structural changes to provide more flexibility in the labor market are so important.

Export Activism:

But it's not enough to make sure our export markets are growing, we must also ensure our exports can get in. The second strategy in promoting U.S. exports and expanding world trade is export activism. Trade barriers are a world-wide economic curse. They cost the developing world more money than is spent on foreign aid each year. And trade barriers are a problem for the United States as well, because we need imports.

Before I discuss what we've asked others to do, let me point our that we are also concerned with self-examination. Two weeks ago, the President launched an effort to remove the barriers we impose on our own exports, to neutralize the detrimental effects of foreign export subsidies, and to make sure government is doing everything we can to help U.S. exporters. Abolishing U.S. export controls has been cited by many exporters as "the single most important step that the federal government (can) take to boost U.S. exports in the short term."

The traditional trade policy debate has revolved around two extremes, with protectionismon on one end and laissez faire on the other. The current consensus on trade policy seems to revolve around a view that neither defies the free market nor embraces protectionism. President Clinton has stated that "we must embrace change" and "compete, not retreat." He also asserted that we must insist that foreign governments keep their markets open, just as we keep ours open.

Export activism is directed at more trade, not less. It is directed at helping America's sunrise industries, not protecting its sunset industries. And it is directed at getting other countries to expand their imports, not reduce their exports.

- Export activism recognizes that markets -- as economists model them -- do not always work and that governments are already deeply in the business of shaping economic outcomes.

- Export activism recognizes that, while the battle may be fought at the border, domestic policies, in the final analysis will determine whose producers prevail.

- Export activism recognizes that effective trade policy cannot be supine nor reactive. It is not pro-producer or pro-consumer. It is pro-American.

It should not be surprising that now, after the ending of a long, cold war, export activism has become so popular. In the process of reconstruction after World War II, Europe and Japan maintained extensive trade barriers to limit the drain on scarce foreign exchange reserves and to promote infant industries. The United States basically accepted protection abroad as the price of recovery, fostering stable governments, and containing communism.

Now that these countries have caught up to our level of prosperity, it is time they catch up to our level of openness.

Let me provide some rough indicators of how open we are in comparison to our major trading partners.

-- Japan has been able to penetrate 1.6% of our market, but only 0.9% of the EC's. Europe has been able to penetrate about 1.5% of our market, but only 0.8% of Japan's.

-- According to World Bank estimates, imports from developing countries accounted for about 4% of U.S. consumption of manufactured products in 1988 compared to 2.9% in the EC and 3.8% in Japan.

-- Even in the sectors where we protect Americans from foreign competition, we are still more open than our major competitors. The U.S. imports more apparel products per capita than the EC, Japan, or Canada. Foreign automobile makers sell to 24% of our market, as compared to 12% in the EC and only 4% in Japan. By the OECD measures, agricultural subsidies in the U.S. are substantially lower than in Europe and Japan.

We cannot maintain support in this country for keeping our markets open by simply trading minor concession for concession. The disproportionate burden assumed by the United States in the postwar period now requires that other industrialized countries, particularly those countries with chronic external surpluses, make a disproportionate contribution to open their markets.

We are not asking other countries to do what we have not already done ourselves. Export activism is the basis for our bilateral, multilateral, and regional trade initiatives.

Uruguay Round

Multilaterally, we are moving quickly to conclude the Uruguay Round by December 15. President Clinton is committed to a "prompt and successful completion of the Round." Ambassador Kantor met with Minister Brittan of the EC yesterday in an attempt to iron out the remaining issues. Although the numerous issues are still under discussion, reopening or reinterpretation of the Blair House Agreement on agriculture is an issue we will refuse to revisit.

The Uruguay Round is the critical next step in liberalizing global trade barriers. It will, for the first time, bring the new areas of subsidies, services, investment, and intellectual property under the discipline of the GATT; and it is important because it is a sign that the nations of the world can cooperate and grow together -- rather than each going their own way, erecting trade barriers against the products of others.

The Uruguay Round is also indispensable for maximizing the world's growth potential. USTR estimates that it could increase world output more than $5 trillion over the next ten years. It would integrate developing countries and emerging democracies into the world trading community and strengthen their resolve for reform. It would lock in the recent reductions of trade barriers in the developing world.

A successful Uruguay Round will provide substantial benefits to the U.S. economy, including:

-- increasing U.S. output by over $1 trillion over the next ten years, meaning an additional $17,000 for the average American family of four;

-- rules to protect the intellectual property of U.S. entrepreneurs, who lose $60 billion annually through the theft and counterfeiting of their ideas;

-- new markets for U.S. services firms, which export over $163 billion annually and generate 90% of new U.S. jobs, and new rules to discipline international services trade, including financial services, and;

-- Roll-back to barriers to trade from restrictive investment rules; such foreign investment already helps to generate $260 billion, or two-thirds of total U.S. exports in goods.

There is a long list of additional benefits, but I think my point is obvious.

Multilateral Development Banks

Totalling all country contributions and bank borrowing from private capital markets will yield a total of $45 billion for the multilateral development banks' 1994 lending activities. The U.S. contribution is below $2 billion. This may sound large, but it is a small amount for what it buys us.

Encouraging greater economic growth in developing countries helps us: developing countries as a whole now comprise the most rapidly growing market for a broad range of U.S. goods and services. In the last five years, U.S. exports to industrialized countries rose 31% in 1992 dollars. At the same time, exports to developing countries rose nearly 62%.

If you look at just Latin America and the Caribbean, U.S. exports increased from $43 billion in 1987 to nearly $75 billion in 1992. By 1992, we were exporting one and a half times more to Latin America than Japan.

The banks played a catalytic role in helping to expand this market for U.S. exports. They did this through broad-based policy lending that supported economic reform, by lending for specific projects that provided physical and social infrastructure and by relending through intermediate credit institutions that benefitted the private sector.

We gain through procurement contracts alone. Last year, the U.S. contributed $1.6 billion to the multilateral development banks. The banks, in turn, awarded U.S. companies procurement contracts amounting to more than $2.2 billion. That's a gain of 39%.

Japan Framework Talks

The President is committed to strengthening the multilateral trading system. But to do that requires special bilateral efforts with the countries who have large surpluses or those that remain exceptionally closed to foreign imports. In July, the U.S. and Japan launched a new framework discussions to govern their economic relations. The framework is designed to address the two main problems we have with the Japanese economy: its large surpluses, which deprive the rest of the world economy of needed demand; and the low level of import penetration.

The solution of the framework is macroeconomic policies to address the surplus and a comprehensive series of negotiations in specific sectors designed to get the Japanese government out of the business of managing trade. Treasury is particularly interested in improving opportunities for U.S. financial firms to participate more actively in Japanese financial markets.

Export Activism: China

Considerable effort is being expended on opening markets in China. China has a market of 1.1 billion people and, by recent IMF/World Bank purchasing power parity estimates, is the third largest economy in the world. Our exports this year have already grown 19% over a comparable time period from last year.

We are concentrating now on convincing China to accelerate its liberalizations agreed to under our recent bilateral market access agreement. In addition, we are negotiating with China's central bank to press for removal of restrictions on foreign exchange access, which in turn limits China's ability to import in certain product areas. We are also attempting to ensure that China undertakes genuine market-opening obligations when it joins the GATT, for example, dismantling its nontariff barrier system.

Export Activism: NAFTA

I'd like to conclude by discussing NAFTA. If you asked me about NAFTA two weeks ago, I might have been forced to hedge in my answer. But now I'm encouraged we're going to win. The President is calling Congressmen every day and is doing a NAFTA public event every week. He has engaged Administration officials in a full court press. Many thought the vote on NAFTA would be moved back. It's been moved up.

NAFTA's opponents worry about the loss of American jobs, about low wage competition, about investment leaving the United States, about human rights, about the environment... These are all valid concerns. **But one thing is certain. Without NAFTA, nothing will happen to solve any of these problems.** NAFTA offers the prospect of real progress.

NAFTA will create U.S. jobs and U.S. investment. There are very few barriers stopping firms in Mexico from selling in the U.S. right now. But there are plenty of barriers stopping firms in the U.S. from selling in Mexico. Mexico's average tariff is still two and a half times as high as that of the U.S., though they have fallen a long way on the road to NAFTA.

That is why U.S. exports to Mexico have risen 228% since 1986 to $40.6 billion in 1992 and U.S. jobs supported by these exports rose from 274,000 to 700,000. That's why the U.S. bilateral trade balance with Mexico moved from a deficit of $5.7 billion to one of our largest surpluses, $5.6 billion.

Let me repeat: **Mexico's liberalizations since 1987 have already generated almost half a million U.S. jobs.**

Available evidence reveals that NAFTA will increase exports by $10 billion over the next three years and create some 200,000 jobs.

Critics of NAFTA say that its trade effects don't matter, its investment effects matter. The traditional case against NAFTA emphasizes investment opportunities for U.S. firms in Mexico. But our economic future will not be determined by competition with Mexico -- our economy is twenty times larger than Mexico's and, as workers, we are many times more productive and prosperous than the average Mexican. Our economic future will be determined by our ability to compete with other affluent industrial powers. With NAFTA, Mexico joins us as a partner in that competition. Without NAFTA, our future ability to compete will be weakened.

Dwarfing any effect of a U.S. firm moving to Mexico is the competitive advantage that North America will get from economic integration. Production-sharing with Mexican operations already has, and will continue to, allow U.S. firms to maintain operations in the U.S., paying U.S. taxes, and improve their competitiveness through eased access to U.S. inputs and technology.

And there's another important point about international competition. NAFTA makes it much harder for foreign firms to gain a North American beachhead in Mexico. Right now there's nothing stopping foreign firms from using Mexico as an export platform for the U.S. With NAFTA, tough rules of origin mean that products assembled in Mexico with American components will benefit from NAFTA's liberalization, but that products assembled with foreign components will not.

NAFTA is not only an economic policy but also a foreign policy initiative. Mexico wants NAFTA, and the U.S. needs a pro-American Mexico. With a 2000 mile border, and major immigration, drug, and environmental issues, the U.S. and Mexico cannot afford to miss out on win-win trade opportunities.

Imagine the signal the United States would send to the rest of the world if we did not pass NAFTA. If we're not prepared to make a trade agreement to which two presidents have been committed, with a country with which we share a 2,000 mile border and who has undertaken a major set of economic reforms, it will very difficult for us to promote our exports anywhere in the world.

The American political process took a long time asking, "Who lost China?" Let them not have to debate, "Who lost Latin America?"

The case for NAFTA is clear. It has been proven by the arguments. Now it must be won. On vote day minus fifty, the Panama Canal was a dead duck and if the history of the United States says anything it is that, in the end, we do the right thing. We're a country built on hope, not fear.

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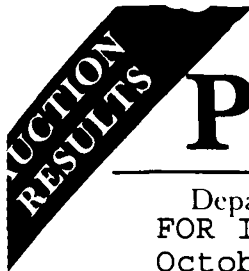

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
October 14, 1993

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 52-WEEK BILLS

Tenders for $15,870 million of 52-week bills to be issued October 21, 1993 and to mature October 20, 1994 were accepted today (CUSIP: 912794L85).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.25%	3.38%	96.714
High	3.25%	3.38%	96.714
Average	3.25%	3.38%	96.714

Tenders at the high discount rate were allotted 91%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	16,058	16,058
New York	57,235,398	15,251,351
Philadelphia	5,350	5,350
Cleveland	11,284	11,284
Richmond	73,395	8,395
Atlanta	10,900	9,810
Chicago	2,086,828	309,578
St. Louis	3,888	3,888
Minneapolis	3,820	3,820
Kansas City	10,151	10,151
Dallas	2,267	2,267
San Francisco	467,419	17,419
Treasury	220,149	220,149
TOTALS	$60,146,907	$15,869,520

Type		
Competitive	$56,111,300	$11,833,913
Noncompetitive	395,007	395,007
Subtotal, Public	$56,506,307	$12,228,920
Federal Reserve	3,550,000	3,550,000
Foreign Official Institutions	90,600	90,600
TOTALS	$60,146,907	$15,869,520

LB-434

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

FOR IMMEDIATE RELEASE
October 15, 1993

STATEMENT BY TREASURY SECRETARY LLOYD BENTSEN

I am delighted that 40 Texas business leaders today presented me with a letter endorsing the North American Free Trade Agreement. And I appreciate the efforts of Tom Luce and John Adams, Chairman of the Greater Dallas Chamber of Commerce, in gathering all the endorsements.

No one knows more about job creation than people who signed this letter. They are responsible for hundreds of thousands of jobs -- and they think they can create thousands more if the North American Free Trade Agreement is passed.

Now it's our job in Washington to pass NAFTA and to help them create jobs, for Texans and for all Americans.

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LB-435

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

TEXT AS PREPARED FOR DELIVERY

REMARKS BY
LAWRENCE H. SUMMERS
UNDER SECRETARY FOR INTERNATIONAL AFFAIRS
DEPARTMENT OF THE TREASURY
AT THE
PARTNERSHIP FOR PROGRESS: U.S.-NIS CONFERENCE
ON DEMOCRACY AND THE MARKET ECONOMY
ST. LOUIS, MISSOURI
OCTOBER 16, 1993

STRENGTHENING RUSSIAN ECONOMIC REFORM

According to an old Russian proverb: You don't want to be caught in the woods with a wounded bear. This makes clear why our support for Russian reform is critical.

With the end of the dramatic political crisis in Moscow, Russia now stands at a critical juncture. Ambassador Talbott has just talked about Russia's move toward democratization. I would like to speak to you about Russian economic reform and how the Administration aims to support concrete steps along that path.

Russian Progress toward Market Reform

Amidst Russia's problems and crises, it is all too easy to lose sight of the fact that Russia has made genuine progress toward market reform.

For nearly a year, President Yeltsin and Parliament were locked in an epic struggle over the reins of power. Hyper-inflation loomed large as the central bank pumped out massive credits to state-owned firms. Prices rose over 2,300%.

But this year, reformers at the Finance Ministry have pulled Russia back from the precipice. In the first nine months of this year, prices rose over 500%. The current underlying monthly inflation of 20% is still excessive. But efforts are underway to stem the printing of money. Russia doubled interest rates over the summer, and just raised them yesterday to 17-1/2% monthly.

Russia's privatization program is a huge success. Already, 70,000 small shops are in private hands, some 50% of all such shops. Between last December and this September, 4,000 large firms were privatized, accounting for 25% of Russia's industrial labor force. Nearly 300 thousand private farms now exist.

LB-436

In early 1992, Russia freed virtually all prices. Now, high quality goods are readily available in private stores and new kiosks which dot the Moscow landscape. The days are gone when Russians stood three hours a day in line in the hope of purchasing some basic necessity.

Despite these very real achievements, output has declined sharply in Russia -- by 19% last year and an estimated 15% this year. To be sure, the output declines are not unexpected given the Soviet Union's gross misallocation of resources to the defense sector and the waste of central planning. Unemployment in Russia is rising, though at 1.3% of the workforce it remains modest. Capital flight is a major problem, with estimates ranging from $10 to 20 billion in 1992 alone. And organized crime is on the rise.

Faster Reform, Not Slower

Some analysts have argued that Russia has reformed too quickly, perhaps causing the recent unsettling events in Moscow. In fact, Russia has not reformed fast enough and recent developments provide strong reasons why Russia should speed reform. Reform is like a bicycle. The faster you pedal, the easier it is to stay up. But if you stop pedalling, you are sure to fall.

What about the argument that reform is imposing austerity? The idea that Russia needs less reform after a year when Russia's money supply rose over 1000% is bad politics, bad economics, and a bad interpretation of the experiences of the countries in transition.

- It is bad politics because it misreads the aspirations of the Russian people. A recent poll showed that 84% of respondents saw inflation as a main problem and only 30% unemployment. During the Moscow crisis, film footage from Russia's White House pictured elderly women, presumably pensioners whose fixed incomes and savings had been eaten up by high inflation, beating police with their purses.

- It is bad economics because inflation causes citizens to lose confidence in the ruble as a store of value. It also causes capital flight which drains vitally needed foreign exchange from Russia's coffers. With the ruble losing its role as a store of value, it is no wonder people borrow as many rubles as possible and reinvest them abroad.

- It is a bad reading of the weight of economic evidence. Ukraine's ample provision of credit produced hyper-inflation. But Ukraine certainly has not been successful in maintaining output. In contrast, Poland undertook a tough "big bang" stabilization program only four years ago. It experienced the smallest output decline among Eastern European countries and is now the fastest growing country in Europe.

Russia needs to move firmly to follow sound fiscal and monetary policies and achieve stabilization. Remember this: History teaches that democracies do not go to war; but economic history teaches that democracies never survive hyper-inflations.

What about the idea that Russia's government needs to guide the economy during the transition? The Russian government has its hands simply full in trying to establish a framework for basic commercial transactions.

It is easy to see in Russia that where the government controls less, things work better -- when Russia liberalized milk prices, stocks reappeared and long queues ended. But where the government controls more, things do not work so well.

- o Russia holds vast wealth beneath its soil that could be quickly harnessed to spur growth. But oil production has plummeted over 40% since 1987. One-fifth of Russian oil wells are shut in. This collapse happened largely because oil prices, controlled at some one-quarter of world prices, are so low that oil firms cannot easily cover costs.

- o Russia's Mafia and organized crime feed off of government controls. Crime in Russia thrives today because huge profits can be made whenever goods subject to government controls can be bought cheaply and then sold domestically or abroad at higher free market prices. The best example of anti-crime policy in the United States was the ending of Prohibition.

- o With uncontrolled prices in Russia, there will be no black markets for the Mafia to divert goods to. Without export controls, there will be no further incentive to bribe customs officials. And without below market interest rates, there will be no need to pay kickbacks to bankers.

Reform, however, is more than just the destruction of the old system. It is also the government's job to construct. There is plenty to do to build the foundations of a market economy. Russia must move quickly to create a legal framework for property rights, to respect contracts, and to rationalize its tax system.

These are critical steps needed not only for Russian business. But they are also critical for encouraging foreign investment. It is the private sector that is the key to catalyzing the long term flow of resources, technology and know-how for sustained growth.

Russia's government must also strive to meet basic social needs. In the recent past, average life expectancy in Russia has dropped more than three years. That is the equivalent of what more than a doubling of cancer in the United States would do. Women, on average, have four abortions. A third of the population now falls below the poverty line. The murder rate is twice that of the United States.

What We Can Do to Help

As President Clinton reiterated this week, supporting democratization and market reform in Russia is the top foreign policy priority of his Administration. Clearly, Russia must bear the main responsibility for its economic transformation. But, there is no doubt our support can make a crucial difference.

Our core support includes a wide range of initiatives to help the people of Russia directly. We believe that this support must continue no matter how reform is proceeding, because we are convinced that it will make a difference to the people of Russia and to their political system. We are providing support for the development of a civil society, cultural and technical exchanges to allow Russians to learn from Americans, programs to clean up the environment, humanitarian assistance in the form of medical supplies and food, and housing for decommissioned military officers.

But there is also a need for large-scale external financial support. Russia imports only about 60 percent of what it did three years ago, with dire consequences for businesses and consumers. This problem is unlikely to go away quickly.

The case of Russia combines supreme geopolitical importance, a deeply divided domestic political situation as we have seen so graphically in recent weeks, and an economic transformation that presents perhaps the most staggering economic challenge of the twentieth century.

The package of support announced at the April G-7 Ministerial in Tokyo reflects these complex realities. Special efforts have been made to tailor this package to Russia's unique circumstances. The IMF's new lending facility was designed to jumpstart reforms by reinforcing the early progress of the reformers. And, the rich countries provided debt relief without insisting upon the standard conditionality.

But, we also see clearly that our financial support must be measured with the pace of reform. It must be measured to assure that our support will be used effectively in Russia, rather than ending up in Swiss bank accounts. It must be measured to reinforce Russia's reforms, step by step. It must be measured to strengthen the hand of Russia's reformers. This is the strategy that the G-7 countries and the international financial institutions are pursuing.

Now in the wake of the recent crisis in Moscow, President Yeltsin has an unprecedented opportunity to take the steps that Parliament has blocked and frustrated, and to reinvigorate the process of economic reform. The G-7 have placed on the table resources sufficient to the task. The choice is in Russia's hands.

Conclusion

Watching events unfold in Moscow over the past year, some have remarked on the "Alice in Wonderland" quality of the situation. As we follow the twists and turns of events there, let us not lose sight of another improbable story that had a happy ending.

For I am reminded of the aftermath of another revolution. Of 13 newly independent states that formed a confederation. Each had its own currency and over the years several experienced runaway inflation. The confederation could not raise its own taxes, and at least one large state withheld revenues from the confederation to pay its own debts. The legislature of another state ran a land privatization scheme in which a large parcel of land was sold to three different buyers! Speculators won and lost fortunes gambling on land values and whether their governments would honor their debts.

This was the American confederation. But that was not the end of the story. A constitution was adopted and a federation formed. The rule of law was established. The first Secretary of the Treasury, Alexander Hamilton, launched America's stabilization program. He balanced the budget and solved the wartime debt problem. Within three years output and trade began to recover. Democracy and a prosperous market economy were born.

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TREASURY NEWS

Department of the Treasury   Washington, D.C.   Telephone 202-622-2960

Text as Prepared for Delivery
For Immediate Release
October 18, 1993

REMARKS BY ASSISTANT SECRETARY (ENFORCEMENT) RONALD K. NOBLE AT THE MONEY LAUNDERING ENFORCEMENT WORKSHOP SPONSORED BY THE AMERICAN BAR ASSOCIATION AND AMERICAN BANKERS ASSOCIATION ANA WESTIN HOTEL, WASHINGTON, DC OCTOBER 18, 1993

I must admit to being somewhat in awe of the audience assembled here today. As I reviewed the anti-money laundering program put together jointly by the American Bankers Association and the American Bar Association, the quality of participants involved in the conference, and the breadth and complexity of issues being discussed, I thought I should be attending rather than speaking. This is particularly true because so much of my time over the past few months has been devoted not to the critically important issues in money laundering but to completing the Department of the Treasury's review of the events leading to the tragedy near Waco, Texas. Now that the report is concluded, I am anxious to return to other significant priorities. However, I am perhaps a little stale on some of the issues that you will be focusing on at this conference. Fortunately, the House Banking Committee has decided to continue my training in this area by scheduling a hearing for Wednesday, which will be my third appearance before them in the past six months. Such hearings are what pass in Washington for mid term exams in law school, and I look forward to them as much as my students at NYU looked forward to mine. Nevertheless, there continues to be great interest in this important area.

As I look across this room, I am made keenly aware of the exceptional expertise from so many different agencies and organizations that is being applied to the problem of money laundering. We cannot reduce our resolve in addressing this important area of criminal activity. However, we must address it intelligently, with a clear and coherent strategy. We must focus our resources, and we must ensure that what we ask legitimate businesses to do is sensible and relevant to the changing needs of law enforcement.

Today, I would like to describe the priority placed by the Clinton Administration and the Secretary of the Treasury on the problem of money laundering. Second, I will outline the problems we see with the existing approaches to addressing the problem. Third, I will describe the process we are going through to "reinvent" and "retool" the programs of the Treasury Department in this area. Finally, I will outline some changes we are contemplating.

My background is primarily that of a prosecutor and a manager of prosecutors. My respect and admiration for the men and women in law enforcement is unbounded. The difficult job they do, day in and day out, deserves the admiration of all Americans. However, they cannot deal with criminal activity without help. Nowhere is this truer than in the area of Money Laundering. Most law enforcement agents and prosecutors are not trained in how financial institutions operate or how financial markets work. Indeed they are seldom trained in how businesses function. However, most crime addressed by the federal government involves an important financial dimension. At the Department of the Treasury we have developed skills in this area because with only one or two exceptions, all criminal activity under our jurisdiction involves money or the pursuit of money. From fraud to firearms and from counterfeiting to drug dealing, greed and profit are the motivation. Therefore, we have no higher priority than enhancing our skills and abilities (as Deep Throat told Carl Bernstein) to "follow the money".

Our Administration is committed to following the money because at the end of that trail are the organizers of criminal enterprises. While the drug dealer or arms dealer can insulate himself from the product he is offering, he never strays far from his money. Effective programs in this area will allow us to be as aggressive at addressing crime in the suites as we must be at dealing with crime in the streets. Indeed, I would suggest that this must become one of the highest priorities of federal law enforcement.

As all of you in this room know better than I, the Federal government has been designing and implementing programs to address this need for nearly a quarter of a century. We are spending tens of millions of dollars at Treasury managing and enforcing these requirements and similar amounts are spent by Banks, S & Ls, casinos, retail businesses etc. We have constructed a complex system of currency reporting which simply makes no sense as we approach the 21st Century. Let me give you some observations as a relative newcomer to this area. First of all when I first heard about my new responsibilities at Treasury for the Bank Secrecy Act, I quickly discovered that what we refer to as the Bank Secrecy Act has nothing whatsoever to do with Bank Secrecy. This has become classic Washington-Speak. Other jargon abounds, CTRs and CTRCs, 8300's and NBFI's. We manage these matters with OFE's and FinCens through DCC. I would like to change it all just so I could rename it!!

Seriously, these are important efforts that have made progress over the years. But the illegal movement of currency and the camouflaging of illicit money continues to adjust to our efforts at regulation. The laws and regulations have made it more difficult to get illegal cash into legitimate financial institutions. Many if not all of you can take pride in that accomplishment. But it is time for change. It is time to ask fundamental

questions about how best to use our limited resources to address this problem. Let me recite one example. In order to better understand how the currency reporting system works, I visited a retail branch bank in San Francisco. Talking with a bright and conscientious teller, she explained, from her perspective, what she did when a customer brings in over $10,000. First she checked the exempt list, and the amounts, to determine whether the transaction required a report; discovering that it did she quickly (5 to 8 minutes) filled in the report, took the cash, counted it and placed it in the tray. She then completed another bank form. At the end of the day she took these CTR's back and carefully typed them out so they would be neat and presentable for her supervisor. They were reviewed at several levels in the bank, processed at the Banks processing center, boxed and forwarded to Detroit. In Detroit they are logged in, reviewed superficially to make sure all of the blanks are filled in and then forwarded to the Papago Indians in the Dakotas to be data entered. They are then returned to Detroit for filing and storage. Later the OCC bank examiners will come visit and determine whether any mistakes were made in the form or the decisions made by the teller. But the customer who stood there while the form was being completed, had a business relationship with the bank for ten years, and I am confident this was a waste of everyones time.

Nine million CTR's are completed every year. I would suggest that we are not using that teller's time to the best benefits of law enforcement, and we are clearly not using it well from the stand point of the bank. We must and we will change this system. We will reduce the number of CTR's to the minimum level necessary to achieve the purposes of the Act, i.e. to provide a high degree of usefulness for tax, regulatory and law enforcement purposes, and we will simplify the form. We don't need all of the data currently being required. Furthermore, we will change the system that is currently in place which permits banks to exempt certain categories of customer from the CTR reporting. The existing system is confusing and unnecessarily complicated. Indeed it is so complicated that banks are increasingly unwilling to exempt any customers. As I look through the procedures and the data the bank must maintain to manage a system of exemptions, I understand their frustration. We should have a simpler exemption process that shifts some of the burden of making judgments about properly exempted accounts from the banks to the Treasury Department. We should also identify mechanisms that would eliminate the need for a bank to monitor transactions daily for exempt accounts. In addition, there are large classes of accounts that should unilaterally be exempted by the Secretary of the Treasury. These are just two areas under review by a task force that I established last month.

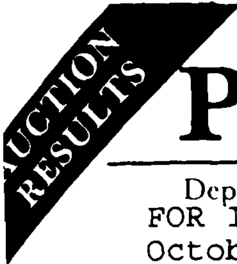
Established with the same purposes as Vice President Gore's reinvention efforts, the Treasury Department's Money Laundering Review Task Force is composed of talented and experienced individuals from all of the major Treasury Department entities involved in anti-money laundering programs. It includes agents from Customs, IRS, Secret Service and ATF; it includes agents and analysts from the Financial Crimes Enforcement Network. It also includes, as a critical component, individuals from Treasury's regulatory agencies, the OCC and OTC, and from the Office of Financial Enforcement. The Detroit Computing Center is represented as well by individuals well-versed in the actual logistics of receiving and recording BSA data. We believe that it is

crucial to bring together as wide an array of viewpoints within Treasury as possible. We now have all of the key Treasury players working in one room in order to identify what works and what does not. We have set aside the resources to truly reinvent our anti-money laundering programs. I have asked the Money Laundering Review Task Force to have recommendations to me in three areas by the end of the year. First, how can we simplify and streamline the currency reporting system; second, how can we rationalize and make more useful the reporting by banks and others of suspicious transactions or the identification of criminal activity; and third, how should we be organized to best meet the challenges of increasingly complex money laundering schemes.

Now, I know that many of you are wondering why the private sector is not playing a significant role in bringing about change in this area. Who better than bankers and their attorneys to identify not only problems but also opportunities for reinventing these important government programs. I could not agree more. We will be establishing the Bank Secrecy Act Advisory Group within the next month or so, and we hope to use it as a sounding board as well as a "reality" check for many of the ideas generated by the Task Force. I am sure that some of you here will either be on the Advisory Group or have close associates who can give us the benefit of your views. I have also directed the Task Force to talk broadly in their deliberations with many individuals from outside the government with expertise in this area. They have already been working closely with the House Banking Committee on their draft legislation, HR 3235, The Anti-Money Laundering Act of 1993. While we might not agree with everything in that bill and while we will be suggesting additions, it is an important step in addressing the issues that many in this room have identified. Understandably, the Committee and its staff have been prodding us to move faster. We are trying and our relations with Chairman Gonzalez and his staff have been excellent. We will also work closely with the Ways and Means Committee and Congressman Pickle who has a keen interest in this area. Finally, we are beginning discussions with the Senate as we consider change.

We must view these efforts as a constantly evolving process, if we are to be successful at keeping up with increasingly sophisticated criminal enterprises. However, this should not mean constantly adding new regulations and requirements on the nation's financial industry. Instead we must form a partnership. No banker in America wants to aid and abet drug dealing, terrorism, fraud or gun running. The days when Treasury and America's banks were adversaries are behind us. Everyone I have spoken with, as I have travelled around the country, has told me that banks are complaining about BSA regulations, not simply because they are burdensome, but more importantly because the requirements are often not focussing on today's problem. While the routine filing of a CTR is helpful in many cases, it is seldom sufficient. Alert and informed bank officials are the best ally available to law enforcement. In many instances a bank official is the first to sense something suspicious and contact IRS, Secret Service or Customs. They have done this even after meeting all of their obligations with respect to reporting. If there is one directive I have given those charged with reinventing money laundering it is this: Lets reduce the focus on rigid form completion and get back to the basics of a bank knowing its customers and reporting suspicious transactions.

Treasury Under Secretary Frank Newman and I have worked closely in forging this Task Force and he has promised full support. He is a former Chief Financial Officer of both Crocker Bank and Bank of America, and I intend to rely on his expertise. Frank, unlike many of us in law enforcement, knows how a bank works. Who better to help us design effective programs to deter money laundering? Indeed, this is the direction that we in Treasury are undertaking throughout our law enforcement bureaus. So much crime is sophisticated and often able to use new technologies and complex international schemes. Law enforcement agents at Treasury, will be working much more closely with experts in the private sector to help them understand, impede and ultimately arrest and convict the criminal of the 21st Century. The criminal enterprise of the future will have available to it all of the sophistication of a modern business. If we are to be successful in dealing with these criminals, law enforcement must become not only increasingly well trained but also must forge effective partnerships with legitimate businesses. The comprehensive anti-money laundering strategy that we are developing must be ready for the new criminal enterprise, and it will require the help of everyone in this room and the organizations and businesses you represent. It is an exciting and challenging time. Thank you for your interest and your past efforts. I look forward to hearing your ideas and suggestions as we proceed to bring positive change to this important problem area.



PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
October 18, 1993

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $13,031 million of 13-week bills to be issued October 21, 1993 and to mature January 20, 1994 were accepted today (CUSIP: 912794H56).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.04%	3.10%	99.232
High	3.06%-	3.12%	99.227
Average	3.06%	3.12%	99.227

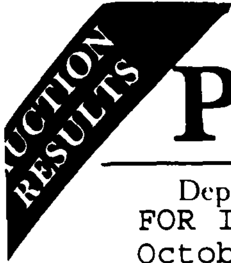
Tenders at the high discount rate were allotted 25%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	32,531	32,531
New York	45,015,788	11,374,948
Philadelphia	8,408	8,408
Cleveland	45,652	45,652
Richmond	31,687	31,687
Atlanta	20,688	20,688
Chicago	2,158,486	346,986
St. Louis	7,769	7,769
Minneapolis	10,690	10,690
Kansas City	19,318	19,318
Dallas	13,947	13,947
San Francisco	698,521	373,521
Treasury	744,968	744,968
TOTALS	$48,808,453	$13,031,113

Type	Received	Accepted
Competitive	$43,639,543	$7,862,203
Noncompetitive	1,227,350	1,227,350
Subtotal, Public	$44,866,893	$9,089,553
Federal Reserve	2,732,460	2,732,460
Foreign Official Institutions	1,209,100	1,209,100
TOTALS	$48,808,453	$13,031,113

LB-438



PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
October 18, 1993

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $12,907 million of 26-week bills to be issued October 21, 1993 and to mature April 21, 1994 were accepted today (CUSIP: 912794K29).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.13%	3.22%	98.418
High	3.14%	3.23%	98.413
Average	3.14%	3.23%	98.413

Tenders at the high discount rate were allotted 66%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	29,964	29,964
New York	47,002,748	11,808,028
Philadelphia	6,458	6,458
Cleveland	31,837	31,837
Richmond	21,759	21,759
Atlanta	18,025	17,005
Chicago	1,499,629	165,509
St. Louis	8,198	8,198
Minneapolis	5,405	5,405
Kansas City	19,692	19,692
Dallas	8,988	8,988
San Francisco	632,531	230,531
Treasury	553,506	553,506
TOTALS	$49,838,740	$12,906,880
Type		
Competitive	$45,244,100	$8,312,240
Noncompetitive	879,940	879,940
Subtotal, Public	$46,124,040	$9,192,180
Federal Reserve	2,900,000	2,900,000
Foreign Official Institutions	814,700	814,700
TOTALS	$49,838,740	$12,906,880

LB-439

TREASURY NEWS

Department of the Treasury | Washington, D.C. | Telephone 202-622-2960

Text as Prepared for Delivery
For Immediate Release
October 19, 1993

STATEMENT OF TREASURY SECRETARY LLOYD BENTSEN
SENATE COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS
WASHINGTON, D.C.

U.S.-MEXICAN AGREEMENT ON BORDER ENVIRONMENTAL CLEANUP

I am delighted to join Carol Browner and Ann Richards today to discuss our concerted efforts to address environmental concerns as part of the NAFTA package. We now have a trio of agreements offering important economic benefits for Americans, Mexicans, and Canadians alike, new protections for the environment, and a way for the United States and Mexico to coordinate and finance border environmental infrastructure projects.

This is the "greenest" trade agreement the United States has ever negotiated. It recognizes the links between trade and the environment, encourages environmentally sensitive investment, and promotes development that protects and preserves the environment.

The supplemental agreement on the environment recognizes the obligation to enforce environmental laws. It also provides for accountability and dispute settlement -- including possible trade sanctions. Administrator Browner will discuss the environmental aspects of NAFTA in more detail.

Border Environmental Cleanup

I want to focus on the border environmental cleanup agreement which we tentatively completed last week with Mexico. It is a new model for international cooperation at the grass roots level to design, finance, and build environmental projects. We have an innovative approach to a shared problem.

This is the best thing I've ever seen done for the border. I grew up on that border. I've seen millions of gallons of raw sewage heading for the Rio Grande. I've seen the babies born with birth defects. These problems predate NAFTA, and demand some resolution. The NAFTA package offers us the opportunity to assure that they will be addressed.

I know the importance of clean boundary waters, safe drinking water, and joint efforts that reflect the needs and concerns of people on both sides of the Rio Grande.

I understand the importance of involving local communities, states, and private interest groups in the decisions that affect their lives. And I also know that NAFTA is not the cause of environmental problems on the border, but it is the solution. Pass NAFTA and we clean up the environment. Fail to pass NAFTA and it's business and polluting as usual.

Our new agreements let us address these problems, and they will generate significant new financing to support cleanup efforts at minimal cost. We are creating two new institutions. The first is a U.S.-Mexican Border Environment Cooperation Commission (BECC) to help coordinate projects and put together financing packages. The second is a new U.S.-Mexican border financing facility to provide an additional source of financing to support border environmental infrastructure projects.

Border Environment Cooperation Commission

The new coordinating agency will help border states and communities arrange financing for environmental infrastructure projects, and oversee the use of the money. It will give priority initially to wastewater treatment, drinking water, and municipal waste projects. The degree of public and local participation will be unprecedented in an international agreement. This will include a broad-based board of directors with federal, state and local government and public representation, as well as a public advisory council, all drawn from the border region.

Let me emphasize that this commission has no sovereign power. It can only offer its services to state and local bodies and assist them in cooperative activities.

Let me take you through how this new entity would function. If Ciudad Juarez, Mexico, decided to build a wastewater treatment plant to prevent sewage from being dumped in the Rio Grande, it could ask the Border Environment Cooperation Commission for help in designing the project and in finding financing. The commission would offer that help, and encourage Ciudad Juarez to work with El Paso, its sister city in Texas, in proposing a project.

Once the project is ready for formal review, it will go to the Advisory Council for comment and then on to the Board of Directors for certification. Each project would have an environmental assessment, and the public would be able to comment prior to board consideration. If the directors certified the project met appropriate engineering, environmental and financial standards, the commission would try to assemble a financing package from private, public and international sources.

We want to maximize private sector financing for these projects, based on local user fees to help service debt, but we recognize that continued funding from the Mexican and U.S. governments will be necessary in many cases. We estimate that some $8 billion will be needed for border environmental infrastructure projects over the next decade. We see this coming from the following:

(1) private financing, and as needed,

(2) up to $2 billion from existing state and local programs, including state revolving funds, municipal revenue bonds, and the colonias program for projects on the U.S. side of the border;

(3) $2 billion in new funding from the World Bank and Inter-American Development Bank, offered as loans to Mexico;

(4) approximately $1.4 billion in U.S. and Mexican grants (half from the United States);

(5) some $2 billion in loans or guarantees for environmental infrastructure projects from the financing facility.

Financing Facility

Financing from the new facility will backstop any shortfall in private sector financing to make certain projects can be completed. The United States and Mexico will provide equal shares of paid-in capital for the financing facility -- $225 million each -- for a total of $450 million. We believe we can leverage that into $2 billion initially and perhaps eventually up to $3 billion in financing through loans and guarantees. The financing facility would raise financing through market borrowings, similar to what the World Bank does.

The cost to the United States for generating up to $3 billion in loans and guarantees is expected to be only $56 million annually over four years. That's what I call leveraging. While we expect loan charges and investments to defray administrative costs for the financing facility, some small additional costs -- perhaps $5 million a year for each country -- would be incurred for operating expenses for the Border Environment Cooperation Commission. To me, that's a small price to pay to help assure clean, safe water in the border area.

Conclusion

Let me close by saying that we have put considerable effort into developing an agreement with measures that address border region environmental infrastructure problems. We have consulted closely with the border states and cities, with key members of Congress, and with national and local environmental groups. We believe the agreement we have negotiated reflects their interests, and offers a new model for international cooperation at the grass roots level. It is an important complement to the NAFTA agreement.

We have a window of opportunity to help Americans in the border region and across the United States with new trade opportunities, new jobs, and joint environmental commitments. Your support for the NAFTA package is essential to turn that opportunity into reality.

Thank you.

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TREASURY NEWS

Department of the Treasury | Washington, D.C. | Telephone 202-622-2960

FOR IMMEDIATE RELEASE
October 19, 1993

CONTACT: Michelle Smith
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TREASURY ANNOUNCES CIVIL PENALTY AGAINST CORESTATES BANK

The Department of the Treasury on Tuesday announced it has negotiated a civil money penalty of $55,000 with CoreStates Bank, N.A., of Philadelphia, for failing to report currency transactions within the time required by the Bank Secrecy Act (BSA).

The violations involved the cashing of multiple checks by a customer who operated a check cashing service. The transactions each exceeded $10,000 and were not reported on currency transaction reports (CTR) at the Christiansted, St. Croix, U.S. Virgin Islands branch of the bank. These violations occurred between 1987 and 1991.

Treasury and the bank agreed upon the amount of the penalty in complete settlement of the bank's civil liability under the BSA for activities of the Christiansted branch of the bank. In determining the amount of the penalty, Treasury considered the voluntary disclosure of the violations by CoreStates, the bank's full cooperation in the government investigation and subsequent improvements to the BSA compliance program implemented by the bank's new regional management.

Treasury has no evidence that the Christiansted Branch or any of its employees or officers engaged in any criminal activity in connection with the reporting violations.

Assistant Secretary for Enforcement Ron Noble said, "The bank independently brought this matter to the attention of the Department of the Treasury and fully cooperated

with Treasury in developing the scope of it deficiencies. Penalty actions such as this emphasize the importance Treasury places on effective BSA compliance programs in all affected financial institutions," Noble said.

The BSA requires banks and other financial institutions to keep certain records, file CTRs on currency transactions in excess of $10,000 and file reports on the international transportation of currency, travelers checks and other monetary instruments in bearer form. The purpose of these records and reports is to assist the government in combatting money laundering as well as for use in civil, criminal, tax and regulatory investigations.

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TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

FOR RELEASE AT 2:30 P.M.
October 19, 1993

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $26,000 million, to be issued October 28, 1993. This offering will provide about $3,625 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $22,382 million.

Federal Reserve Banks hold $5,392 million of the maturing bills for their own accounts, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold $2,681 million as agents for foreign and international monetary authorities, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills.

Tenders for the bills will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356, published as a final rule on January 5, 1993, and effective March 1, 1993) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about each of the new securities are given in the attached offering highlights.

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Attachment

LB-442

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED OCTOBER 28, 1993

October 19, 1993

Offering Amount	$13,000 million	$13,000 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 H6 4	912794 K3 7
Auction date	October 25, 1993	October 25, 1993
Issue date	October 28, 1993	October 28, 1993
Maturity date	January 27, 1994	April 28, 1994
Original issue date	July 29, 1993	October 28, 1993
Currently outstanding	$12,277 million	- - -
Minimum bid amount	$10,000	$10,000
Multiples	$ 1,000	$ 1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

Noncompetitive bids . . . . Accepted in full up to $1,000,000 at the average discount rate of accepted competitive bids

Competitive bids . . . .
(1) Must be expressed as a discount rate with two decimals, e.g., 7.10%.
(2) Net long position for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is $2 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid at a Single Yield . . . . 35% of public offering

Maximum Award . . . . 35% of public offering

Receipt of Tenders:

Noncompetitive tenders . . . . . . Prior to 12:00 noon Eastern Daylight Saving time on auction day

Competitive tenders . . . . Prior to 1:00 p.m. Eastern Daylight Saving time on auction day

Payment Terms . . . . Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

Text as Prepared for Delivery
For Immediate Release
October 20, 1993

**STATEMENT OF THE HONORABLE RONALD K. NOBLE
ASSISTANT SECRETARY OF THE TREASURY (ENFORCEMENT)
BEFORE THE
HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,
SUBCOMMITTEE ON FINANCIAL INSTITUTUIONS
REGULATION AND DEPOSIT INSURANCE
OCTOBER 20, 1993**

Chairman Neal and Members of the Committee, the Department of the Treasury is happy to have an opportunity to testify on H.R. 3235, the Anti-Money Laundering Act of 1993, and to update the Subcommittee on Treasury's activities in the field of money laundering.

Money Laundering Review Task Force

The last few months have seen unprecedented activity at Treasury. As I promised before the full Committee last May, Treasury has established a Money Laundering Review Task Force staffed by experienced agents, analysts, and regulators from every component of Treasury with money laundering responsibilities. For the first time in twenty years, we are taking a comprehensive look at our anti-money laundering programs, especially the way we exercise our authority under the Bank Secrecy Act (BSA).

To lead this initiative, we are fortunate to have Mark Matthews, formally Deputy Chief of the Criminal Division of the U.S. Attorney's Office, Southern District of New York. Mark has extensive experience in prosecuting money laundering crimes.

H.R. 3235

As you know, H.R. 3235 was developed in close cooperation with our staff. It arises from many of the concerns that caused Treasury to establish the Money Laundering Review Task Force -- in particular that aspects of our regulatory programs have become dated, inefficient, have created undue burdens on the nation's financial institutions, and are in need of substantial revision.

Section 2 - Bank Exemptions from Currency Transaction Reporting

The bill (section 2) addresses how to reduce the data base of Currency Transaction Reports (CTRs) filed by financial institutions. This year we expect 9 million CTRs to be

filed. Banks are filing millions of reports annually on transactions for accountholders which they may exempt under Treasury regulations.

There are several causes for this phenomenon. First, the Treasury procedures for exemptions are cumbersome and difficult to understand. Often it is easier to file than to apply for and maintain exemptions. Second, as banks automate their BSA programs, it may be just as cost effective to file on all transactions. Third, banks are also concerned that if they improperly exempt transactions, they may be subject to BSA civil penalties by Treasury.

The bill sets some broad and sensible outlines for Treasury's revision of the exemption process with burdens shifting from the banks to Treasury.

The bill also requires that the Secretary reduce CTR filings by banks by at least 30% and eliminate from the CTR form information of little value to law enforcement.

These two steps -- increasing those exempt from reports, and reducing the amount of information filed -- will move us to our goal of achieving a simpler and more valuable system to address the money laundering problem.

Section 3 - Suspicious Transaction Reporting

The Task Force is also focusing on the issue of suspicious transaction reporting. An essential complement to currency reporting is the reporting of suspicious activity to law enforcement by financial institutions. While banks have been taking this responsibility to heart in recent years, the government's response has been unsatisfactory.

Treasury and this Committee have heard the complaints of financial institutions that the reporting is too complicated and that the reports are being ignored. The proposal in section 3 is an expression of the Committee's concern.

We must move toward a less burdensome and more effective means for reporting suspicious transactions. The Task Force's initial thoughts are that Treasury should develop a simple form for reporting possible money laundering or BSA violations, to be used for cash and non-cash transactions, by both banks and non-bank financial institutions (NBFIs). The reports would be filed with Treasury and shared with other law enforcement agencies and provided to financial institution supervisors.

Section 5 - Foreign Bank Drafts

Section 5 of the bill addresses an important expansion of reporting to Treasury -- cross-border transportations of "monetary instruments" in excess of $10,000. The provision expands the definition to include instruments drawn on or by foreign financial institutions abroad whether or not in bearer form.

This is a response to the problem of drug money laundering through foreign bank drafts. Drug money launderers smuggle bulk currency or transmit it through a non-bank financial institution to foreign banks. They then purchase bank drafts or checks from the foreign banks. These instruments are easily transportable back into the United States and negotiated.

Treasury believes that subjecting the instruments to cross-border reporting will contribute to deterring and detecting their use as money laundering vehicles.

Section 6 - Imposition of BSA Civil Penalties by Banking Agencies

Section 6 directs the Secretary to delegate the authority to assess BSA civil penalties to the federal banking agencies.

We agree and will consider delegation not only to the banking agencies, but to IRS for the non-bank financial institutions.

Sections 7 and 8 - Non-Bank Financial Institutions (NBFIs)

Sections 7 and 8 address the problem of money laundering through certain NBFIs. As banks have become more effective in prevention and detection of money laundering, money launderers have turned to the financial services offered by a variety of non-bank financial institutions, from casas de cambio to money transmitters and check cashers.

These institutions are subject to BSA recordkeeping and reporting, with compliance and examination authority resting with the IRS Examination Division. While IRS has bolstered resources for this function, the task is daunting. Estimates range from 50,000-150,000 of these institutions nationwide. The job cannot be done by Treasury/IRS alone. The Committee agrees.

Section 7 provides that there be uniform licensing and regulation of NBFI's including provisions under state law for penalties for failure to implement BSA compliance programs and for failure to obtain a license. The Secretary of the Treasury is to report to Congress on the progress made by the states. We think this project will be worthwhile.

In a companion measure, section 8 requires federal registration of NBFIs with Treasury. This should result in the reliable identification of all NBFIs and a foundation for identifying or eliminates illegitimate ones.

Sections 9 and 10 - Casinos

Sections 9 and 10 address two casino-related BSA issues. First, the bill specifies that Indian gaming casinos may be designated by the Secretary as financial institutions under

the BSA. Tribal casinos would logically be vulnerable to money laundering and tax evasion to the same extent as non-tribal casinos.

Section 10 would revoke the 1985 exemption granted to Nevada. The exemption was granted at the time upon the Secretary's finding that Nevada had, at that time, a regulatory system which substantially met the BSA reporting and recordkeeping requirements for casinos. Under the agreement, the casinos file the equivalent of currency transaction reports with the State. Nevada then forwards the reports to the IRS where they are processed and included in the BSA data base.

In view of differences between the Federal and Nevada system, we will be discussing the terms of the exemption with the State of Nevada. At the same time the Task Force is assessing the Nevada agreement and the regulatory burden on casinos generally. We have reservations about seeking a legislative solution to this issue while the matter is under review.

Other Legislative Measures

There are a few other legislative actions necessary for Treasury anti-money laundering programs:

For example, Treasury believes that changes are needed to the BSA summons authority to make it a more effective tool to investigate BSA violations.

A second area regards an amendment made by this Committee in 1986 which specifies that the warrantless border search authority of the Customs Service extends to searches of unreported currency or monetary instruments. As BSA compliance by banks has improved, smuggling of bulk currency and monetary instruments, such as money orders, has become rampant. However, the Postal Service has taken the position that this authority does not extend to letter class mail and packages. This creates a significant loophole.

We have been working with the U.S. Postal Service on a legislative solution. We hope to be able to provide the Committee with statutory language that will protect legitimate privacy interests in outbound mail without sacrificing law enforcement's ability to seize the illegal-source currency and monetary instruments.

Finally, there are two provisions pending with the House Ways and Means Committee introduced by Congressman Pickle earlier this year.

The first relates to the use and dissemination of reports of cash by trades or businesses, under section 6050I of the Internal Revenue Code. Currently, the tax disclosure provisions limit the use of these reports for tax enforcement purposes. Temporary authority to disseminate to federal agencies for criminal purposes expired last November.

Since that time, the analytic work of FinCEN and other investigative agencies has come to a standstill.

The second provision would give IRS the authority to be exempt from certain fiscal provisions in their conduct of large-scale undercover operations. Other investigative agencies has this authority, without which such operations are cost prohibitive.

Conclusion

We welcome the Committee's partnership with Treasury in improving the efficiency and effectiveness of our programs. Treasury and the Committee are working towards a common goal -- better balance and perspective on the roles and responsibilities of the Government and financial institutions in the fight against money laundering and better deployment of our respective skills and resources.

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

Text as Prepared for Delivery
For Immediate Release
October 20, 1993

REMARKS OF TREASURY SECRETARY LLOYD BENTSEN
NATIONAL FOREIGN POLICY CONFERENCE
WASHINGTON, D.C.

It's good to be here, and I'm very pleased to see Secretary Christopher putting on something like this.

My first year in Congress -- 1949 -- I remember former President Herbert Hoover was put in charge of a commission to re-invent the government. One thing he recommended was to have more economic expertise along side the diplomats and the military experts on things like the National Security Council. Of course, it didn't happen.

In 1975, as a Senator I co-sponsored legislation to put the Treasury Secretary on the National Security Council because I felt our country is no stronger than its economy. That too didn't happen. But little did I know that 18 years later I'd be named Treasury Secretary, and I'd be sitting with Secretaries Christopher and Aspin on the Security Council.

As the Soviet Union just reminded us -- no country has ever been a great military or political power, unless it's also a great economic power.

I want to talk about NAFTA today. It's interesting to do it here at State, because for the first time in a long time, this is not an aid package to an emerging country. We're not spending billions like we did on the Marshall plan to develop Europe.

NAFTA is a trade package. We're opening markets in an emerging country so our companies -- all of you -- can compete, and make some money, and employ Americans.

But before I get to NAFTA, let me make a few observations. Three years ago, I was at a meeting in France. A European got up and said: "Look at the great changes in the world. The end of the Cold War. Europe and Asia emerging as the world leaders. And America on the decline."

It's a little ironic that three years later much of Europe is in a recession, Japan is in a recession, and America is not just a military leader -- we remain the world's economic leader -- the engine of growth in the world.

I've met with my G-7 counterparts four times this year. And they are all struggling. Twenty-four million people are unemployed in the G-7 countries. In fact, if job security of finance ministers is any indication, eight months ago when I met them for the first time, I was the freshman. Now, I'm the second most senior!

The world is looking up to America. They see that we have cut our deficit. They see the market's response: the lowest long-term interest rates in two decades (and the cut in the prime rate by Morgan this week), the highest stock market, employment up by more than a million since January, and we're growing faster than all of them.

They're also pretty impressed with corporate America. I know what you've been through. Foreign competition caught you off guard. You had to get through a recession; probably had some dumb policies out of Washington to cope with; and stockholders, boards of directors, and the environmentalists became more demanding.

But look how you've changed. You've squeezed the fat. You've restructured your balance sheets. Capital investments are up. Labor and management have worked together -- to increase efficiency, to change the work rules, to improve quality.
Labor rules in this country are not as inflexible as in Europe.

American workers are the most productive in the world, and productivity is rising -- rapidly. The average factory is offering its workers more hours of work than at any time since 1965.

You see new factories being built in America again. I was at Texas Instruments last week. They're building a billion dollar semiconductor plant. And the site choice came down to two places -- Dallas and Japan, and they picked Dallas.

Remember a few years ago, when some people were calling American workers lazy? Now, BMW and Mercedes are building plants in America.

At our G-7 meetings we talk about how to stimulate economies. We've seen some progress this year. Germany has reduced interest rates by 200 basis points, Japan by 150, and Japan has added $180 billion in fiscal stimulus.

All of this is welcome, because lack of growth abroad is bad news. I don't think unemployed Europeans are too interested in buying American products, which only means the U.S. trade imbalance will rise -- and that's not good news -- at all. And if you don't have growing markets to sell to, profits won't go up.

So, we're working with Europe and Japan -- and we also want to work with the emerging countries, because that's where the markets will grow fastest in the coming years. The Asians. the Latin Americans. And let's not forget Mexico.

Over the past five years, U.S. exports to emerging markets have doubled to almost $180 billion. They support almost four million jobs.

There's a big irony in all this, though. Just as we've made all these strides in competing with Europe and Japan -- some people in this country are now scared to compete in some of these new markets.

My friends in the auto industry tell me the Mexican auto market will grow 7 percent between now and the year 2005, while the U.S. and Canadian markets will grow 1 percent.

In the old days, Henry Ford would head straight to the 7 percent growth market. But today some people seem more content to stick with 1 percent and hope they can hang on to what they have.

They are hearing too many false facts. They are hearing that if NAFTA passes, jobs will head south because of the low wages. Baloney. Jobs can go south now. If we used that logic, Bangladesh would be our biggest competitor. Look who our biggest competitor is -- Japan, where wages are 30 percent higher.

I was at a unionized forging shop in Chicago last month. 450 employees. They had just started selling products in Mexico. When I talked about NAFTA, they were skeptical. They had heard the warnings. So I asked the owner flat out: "Are you planning to move jobs out of Chicago and into Mexico?" The answer was no.
The workers were still not convinced. But when I said, "If you don't take advantage of doing more business in Mexico, your Japanese and European competitors would be glad to," they heard me better.

You see, the NAFTA debate should not be about what country will lose jobs. It should be about which will get the 200,000 jobs to be created -- America, Japan, or Europe?

If we don't sign up, others would be more than interested in finding a market with 90 million people growing twice as fast as ours.

The Japanese are always on the lookout for lucrative markets. They found one in the United States in the '70s. Now they see Asia as a great opportunity, and they've pursued that much more aggressively than we have.

But Mexico is where we have the advantage. It's our neighbor. And Mexicans like American products. We export $40 billion a year there. Seventy percent of the imports they buy are American goods. Last year, each Mexican, on average, purchased more U.S.-made products than the average Japanese, German, or Canadian.

I was born and reared on that border. On the Mexican side, I haven't always seen a willingness to be partners. I've watched Mexican politicians campaign against us as the colossus of the north, the gringos.

They've changed. For the last six years, they've opened their markets and bought our products, and that has already created 400,000 more jobs in this country. We've gone from a $6 billion trade deficit with them, to a $5 billion surplus.

But right now, in spite of liberalization, the average product entering Mexico from the U.S. is slapped with a 10 percent tariff. Mexican products entering the U.S. get, on average, a 4 percent tariff. So their tariffs are two-and-a-half times ours. That's not a good deal, and we're on the bad end of that deal.

When this passes, half of our goods headed to Mexico will be eligible for zero tariffs. Within five years, two-thirds will be. And these zero tariffs will apply only for our goods and Canada's goods. Not Japan's. Not the EC's.

If we don't sign up, Mexico will look to Japan and Europe to sign agreements. President Salinas has said so. I bet they'd sign up in five minutes.

If this fails, our market will stay open, but Mexico will be able to jack trade barriers right back up.

We'd hurt our chances to open Latin America, which after Asia, is the fastest growing market around -- and already our exports there are rising substantially faster than they are to Europe.

If this fails, it would have a negative effect on our GATT trade negotiations, and we'd still be importing illegal immigrants from Mexico.

And we won't address environmental concerns on the border. In the United States Senate, I talked about millions of gallons of raw sewage headed to the Rio Grande, and babies born with birth defects on the border. Nobody listened. Finally, we have a green treaty that will help clean up the environment. On Tuesday, I testified before my former colleagues with a plan -- in hand -- on how we'll clean it up.

I can't remember a political debate like this. President Clinton and all former Presidents support it. It is a bi-partisan trade bill. Forty-one of 50 governors support it. They know about jobs, because they get elected only if they create jobs.

If we could take a vote on a secret ballot this thing would pass -- overwhelmingly. It is so strongly in our interests, so strongly in the interests of our businesses, so strongly in the interests of 200,000 Americans who want to find work. I don't know another vote, where America can create 200,000 jobs.

I would not be supporting this if I didn't think it was good for American workers, believe me.

The opposition is out in force. They're organized. They have money.

We can't win this one, unless we win it with the American people. Congressmen want to know what their constituents want.

So get the message out to the people. The vote is less than a month away -- and we need to convince Americans, if we're going to convince Congress.

With your help, I think we can win it.

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TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

FOR RELEASE AT 2:30 P.M.
October 20, 1993

CONTACT: Office of Financing
202/219-3350

TREASURY TO AUCTION 2-YEAR AND 5-YEAR NOTES TOTALING $27,500 MILLION

The Treasury will auction $16,500 million of 2-year notes and $11,000 million of 5-year notes to refund $14,150 million of publicly-held securities maturing October 31, 1993, and to raise about $13,350 million new cash.

In addition to the public holdings, Federal Reserve Banks hold $1,566 million of the maturing securities for their own accounts, which may be refunded by issuing additional amounts of the new securities.

The maturing securities held by the public include $2,535 million held by Federal Reserve Banks as agents for foreign and international monetary authorities. Amounts bid for these accounts by Federal Reserve Banks will be added to the offering.

Both the 2-year and 5-year note auctions will be conducted in the single-price auction format. All competitive and non-competitive awards will be at the highest yield of accepted competitive tenders.

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356, published as a final rule on January 5, 1993, and effective March 1, 1993) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about each of the new securities are given in the attached offering highlights.

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Attachment

LB-445

HIGHLIGHTS OF TREASURY OFFERINGS TO THE PUBLIC OF
2-YEAR AND 5-YEAR NOTES TO BE ISSUED NOVEMBER 1, 1993

October 20, 1993

Offering Amount	$16,500 million	$11,000 million
Description of Offering:		
Term and type of security	2-year notes	5-year notes
Series	Series AC-1995	Series T-1998
CUSIP number	912827 M5 8	912827 M6 6
Auction date	October 26, 1993	October 27, 1993
Issue date	November 1, 1993	November 1, 1993
Dated date	November 1, 1993	November 1, 1993
Maturity date	October 31, 1995	October 31, 1998
Interest rate	Determined based on the highest accepted bid	Determined based on the highest accepted bid
Yield	Determined at auction	Determined at auction
Interest Payment dates	April 30 and October 31	April 30 and October 31
Minimum bid amount	$5,000	$1,000
Multiples	$1,000	$1,000
Accrued interest payable by investor	None	None
Premium or discount	Determined at auction	Determined at auction

The following rules apply to all securities mentioned above:

Submission of Bids:

Noncompetitive bids . . . Accepted in full up to $5,000,000 at the highest accepted yield

Competitive bids . . . .
(1) Must be expressed as a yield with two decimals, e.g., 7.10%
(2) Net long position for each bidder must be reported when the sum of the total bid amount, at all yields, and the net long position is $2 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid at a Single Yield . . . 35% of public offering

Maximum Award . . . . 35% of public offering

Receipt of Tenders:

Noncompetitive tenders . Prior to 12:00 noon Eastern Daylight Saving time on auction day

Competitive tenders . . . Prior to 1:00 p.m. Eastern Daylight Saving time on auction day

Payment Terms . . . . Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date

DEPARTMENT OF THE TREASURY
WASHINGTON

OFFICE OF FOREIGN ASSETS CONTROL
HAITIAN TRANSACTIONS REGULATIONS
31 C.F.R. Part 580

GENERAL NOTICE NO. 2

NOTIFICATION OF BLOCKED INDIVIDUALS
OF HAITI

General Notice No. 2 announces the names of 41 individuals who have been determined by the Treasury Department to be Blocked Individuals of Haiti. The persons identified on the attached list are included for one or more of the following reasons:

A. They are persons who seized power illegally from the democratically elected government of President Jean-Bertrand Aristide on September 30, 1991, or who since the effective date of Executive Order 12775, acted or purported to act directly or indirectly on behalf of, or under the asserted authority of, such persons or of any agencies, instrumentalities or entities purporting to act on behalf of the *de facto* regime in Haiti or under the asserted authority thereof, or any extra constitutional successor thereto; or

B. They (1) have contributed to the obstruction of the implementation of United Nations Security Council Resolutions 841 and 873, the Governors Island Agreement of July 3, 1993, or the activities of the United Nations Mission in Haiti, (2) have perpetuated or contributed to the violence in Haiti, or (3) have materially or financially supported any of the persons listed in B.(1) or B.(2), above.

This action by the Office of Foreign Assets Control is pursuant to the authority of Executive Order No. 12775 of October 4, 1991, Executive Order No. 12779 of October 28, 1991, Executive Order No. 12872 of October 18, 1993, the International Emergency Economic Powers Act, 50 U.S.C. 1701 *et seq.*, and sections 580.303 and 580.307 of the Haitian Transactions Regulations, 31 C.F.R. Part 580.

U.S. persons are prohibited from engaging in transactions with these individuals unless the transactions are licensed by the Office of Foreign Assets Control. Additionally, all assets within U.S. jurisdiction owned or controlled by these individuals are blocked. U.S. persons are not prohibited, however, from paying funds owed to these entities or individuals into blocked Government of Haiti Account No. 021083909 at the Federal Reserve Bank of New York, or, pursuant to specific licenses issued by the Office of Foreign Assets Control, into blocked accounts held in the names of

the blocked parties in domestic U.S. financial institutions.

WARNING: This list is not all-inclusive and will be updated from time to time. Unlicensed transactions with entities and individuals who fall within the definition of the *de facto* regime in Haiti found at section 580.303 of the Haitian Transactions Regulations are prohibited.

NOTE: Section II ("Blocked Entities of the *De Facto* Regime in Haiti") of Appendix A to the Haitian Transaction Regulations, as amended on August 31, 1993 (58 Fed. Reg. 46540), remains in full force and effect.

Issued:

Oct. 20, 1993

R. Richard Newcomb
Director
Office of Foreign Assets Control

DEPARTMENT OF THE TREASURY
WASHINGTON

NOTE: The following is provided to alert the public that Section II ("Blocked Entities of the *De Facto* Regime in Haiti") of Appendix A to the Haitian Transaction Regulations, as amended on August 31, 1993 (58 Fed. Reg. 46540), remains in full force and effect.

27TH COMPANY, FIRE DEPARTMENT
(a.k.a. **27ÈME COMPAGNIE, CORPS POMPIER**)
Haïti.

ACCIDENT/INSURANCE OFFICE
(a.k.a. **OFFICE D'ASSURANCE MALADIE/ACCIDENT**)
(a.k.a. **OFATMA**)
(a.k.a. **WORKERS' COMPENSATION, SICKNESS AND MATERNITY INSURANCE AGENCY**)
(a.k.a. **OFFICE D'ASSURANCE ACCIDENTS DU TRAVAIL, MALADIE ET MATERNITÉ**)
Chancerelles - Cité Militaire, P.O. Box 1012, Port-au-Prince, Haïti.

BANK OF THE REPUBLIC OF HAITI
(a.k.a. **CENTRAL BANK OF HAITI**)
(a.k.a. **BANQUE DE LA RÉPUBLIQUE D'HAÏTI**)
(a.k.a. **BRH**)
(f.k.a. **BANQUE NATIONALE DE LA RÉPUBLIQUE D'HAÏTI**)
Angle rue du Magasin de l'État et rue des Miracles, BP 1570, Port-au-Prince, Haïti.

BANQUE POPULAIRE HAITIENNE
(a.k.a. **BPH**)
Angle rues Eden et Quai, P.O. Box 1322, Port-au-Prince, Haïti

BUREAU OF THE INSPECTOR GENERAL SERVICE
(a.k.a. **BUREAU INSPECTEUR GÉNÉRALE, GRAND QUARTIER GÉNÉRALE (G.Q.G.)**)
Haïti.

CEMENT COMPANY
(a.k.a. **LE CIMENT D'HAÏTI, SA**)
(a.k.a. **CDH**)
Office Cité de l'Exposition, Port-au-Prince, Haïti;
Fond Mombin, Port-au-Prince, Haïti.

ELECTRICITY COMPANY
(a.k.a. **ÉLECTRICITÉ D'HAÏTI**)
(a.k.a. **ELECTRICITY OF HAITI**)
(a.k.a. **EDH**)
Rue Dante Destouches, Port-au-Prince, Haïti;
Boulevard Harry S Truman, P.O. Box 1753, Port-au-Prince,

Haïti.

FLOUR COMPANY
(a.k.a. **LA MINOTERIE D'HAÏTI**)
(a.k.a **MDH**)
Lafitteau, P.O. Box 404, Port-au-Prince, Haïti.

HAITIAN ARMED FORCES
(a.k.a. **FAD'H**)
(a.k.a. **FORCE ARMÉE D'HAÏTI**)
Haïti.

METROPOLITAN WATER CONCERN
(a.k.a. **WATER COMPANY**)
(a.k.a. **CENTRALE AUTONOME MÉTROPOLITAINE D'EAU POTABLE**)
(a.k.a. **CAMEP**)
Paul VI Avenue 104, Port-au-Prince, Haïti.

MILITARY DEPARTMENT - ARTIBONITE REGION
(a.k.a. **DÉPARTEMENT MILITAIRE DE L'ARTIBONITE**)
Haïti.

MILITARY DEPARTMENT OF THE METROPOLITAN ZONE
(a.k.a. **DÉPARTEMENT MILITAIRE DE LA ZONE MÉTROPOLITAINE**)
(a.k.a. **COMET**)
Haïti.

MINISTRY OF AGRICULTURE, NATURAL RESOURCES AND RURAL DEVELOPMENT
(a.k.a. **MINISTÈRE DE L'AGRICULTURE, DES RESSOURCES NATURELLES ET DU DÉVELOPPEMENT RURAL**)
(a.k.a. **MARNDR**)
Damien, Port-au-Prince, Haïti.

MINISTRY OF COMMERCE AND INDUSTRY
Rue Legitime, Champ de Mars, Port-au-Prince, Haïti.

MINISTRY OF ECONOMY AND FINANCE
(a.k.a. **MEF**)
Palais des Ministères, Port-au-Prince, Haïti.

MINISTRY OF EDUCATION, YOUTH AND SPORTS
(a.k.a. **MENJS**)
Boulevard Harry Truman, Cité de l'Exposition, Port-au-Prince, Haïti.

MINISTRY OF FOREIGN AFFAIRS AND WORSHIP
Boulevard Harry Truman, Cité de l'Exposition, Port-au-Prince, Haïti.

MINISTRY OF HEALTH UNIT FOR POTABLE WATER
(a.k.a. **COMMUNITY HEALTH AND DRINKING WATER POSTS**)
(a.k.a. **PROGRAMME DE SANTÉ DE L'EAU POTABLE**)
(a.k.a. **POSTES COMMUNAUTAIRES D'HYGIÈNE ET D'EAU POTABLE**)
(a.k.a. **POCHEP**)
Petite Place Cazeau, P.O. Box 2580, Port-au-Prince, Haïti.

DEPARTMENT OF THE TREASURY
WASHINGTON

BLOCKED INDIVIDUALS OF HAITI

ATOURISTE, Antoine, Colonel; Delmas 31, Rue Verly 9, Port-au-Prince, Haiti; 4141 N.W. 5th Avenue, Miami, FL 33127, U.S.A.; Passport No. 79-039396; DOB 03 Jul 51.

BEAUBRUN, Mondesir, Colonel; Delmas 75, Port-au-Prince, Haiti; DOB 10 May 49.

BEAULIEU, Serge; Haiti; U.S.A.

BIAMBY, Philippe, Brigadier General; Haiti; DOB 21 Sep 52.

CAZEAU, Jean-Lucien, Lieutenant Colonel; Haiti; DOB 04 Jan 51.

CEDRAS, Raoul, Lieutenant General; Haiti; 6501 S.W. 113th Avenue, Miami, FL 33173, U.S.A.; DOB 09 Jul 49.

CHAMBLAIN, Louis Judel; Haiti.

CLERJEUNE, Leopold, Colonel; Delmas 31, Rue E. Laforest, Port-au-Prince, Haiti; Passport No. 90678797; DOB 24 Aug 50.

CONSTANT, Emmanuel "Toto"; Haiti; DOB 27 Dec 56.

DEEB, Joel; Haiti; U.S.A.; DOB 28 Jun 54.

DORELIEN, Carl, Colonel; Haiti; Passport No. 82-57899; DOB 24 Jan 49.

DOUBY, Frantz, Colonel; Rue Cheriez 9, Rue 4 No. 8, Port-au-Prince, Haiti; 1900 Newkirk Avenue, No. 5E, Brooklyn, NY 11226, U.S.A.; DOB 19 Jan 48.

DUFRESNE, Jean Roland, Major; Haiti; DOB 11 Jun 56.

DUPERVAL, Jean-Claude, Major General; Haiti; DOB 19 Feb 47.

FRANÇOIS, Evans Macfarland; Haiti; Dominican Republic; Passport No. 466-91; Diplomatic Passport No. 92-012658; DOB 06 May 52.

FRANÇOIS, Joseph Michel, Lieutenant Colonel; Route Aeroport, Rue Bergera, Imp. Beauchamp No. 2, Port-au-Prince, Haiti; Passport No. 81151112; DOB 08 May 57.

GEDEON, Jean Evans, Lieutenant-Colonel; Haiti; DOB 11 Apr 44.

GEORGES, Reynold; Haiti; DOB 16 Oct 46.

GERMAIN, Henri P., Lieutenant-Colonel; Haiti; Brooklyn, NY, U.S.A.; DOB 06 Sep 51.

GROSHOMME, Belony, Colonel; Haiti; 2422 Marpoc Street, Hollywood, FL U.S.A.; Passport No. 81-161845; DOB 12 Feb 48.

GUERRIER, Derby, Lieutenant-Colonel; Drouillard Sarthe Village, Port-au-Prince, Haïti; 71 Webster Street, Irvington, NJ 07111, U.S.A.; Passport No. 85-271932; DOB 14 Oct 49.

JOANIS, Jackson, Captain; Ruelle Alix Roy, Imp. Telemaque No. 22, Port-au-Prince, Haïti; 942 Barlow Road, Apt. D, Fort Belvoir, VA 22060, U.S.A.; DOB 25 Oct 58.

JOSAPHAT, André Claudel, Lieutenant Colonel; Haiti; DOB 17 Aug 56.

JUSTAFORT, Serge, Major; Haiti; DOB 12 Jun 55.

KERNIZAN, Marc, Major; Delmas 45, No. 8, Port-au-Prince, Haiti; DOB 05 Sep 55.

LASSEGUE, Pierre Philippe; Haiti; U.S.A.

LEONIDAS, Bernardo R., Lieutenant-Colonel; Rue Oscar No. 23, Port-au-Prince, Haïti; Brooklyn, NY, U.S.A.; DOB 28 Feb 42.

LOISEAU, Joel, Major; Haiti; DOB 11 Nov 54.

MAYARD, Henry (Henri) Max, Brigadier General; Haiti; DOB 07 Feb 47.

PAUL, Max; Bourdon, Impasse Iginac No. 7, Haïti; 1019 Lenox Road, Brooklyn, New York 11212, U.S.A.; La Saline Boulevard, P.O. Box 616, Port-au-Prince, Haïti; P.O. Box 1792, Port-au-Prince, Haïti; Passport No. 90-705113; DOB 17 May 45.

POISSON, Bernadin, Colonel; Haiti; DOB 16 Feb 48.

PRUD'HOMME, Ernst, Colonel; Haiti; DOB 22 Sep 54.

RENAUD, Lener, Major; Haiti; DOB 22 Mar 56.

ROMAIN, Franck; Haiti; DOB 29 Jan 36.

ROMULUS, Dumarsais, Colonel; Haiti; DOB 18 Aug 48 (or) 16 Aug 48.

ROMULUS, Martial P., Colonel; Haiti; DOB 26 Feb 49.

SAINVIL, Ramus, Colonel; Delmas 68, Rue C. Henry No. 2, Port-au-Prince, Haiti; 1040 Carroll Street, Apt. 4K, Brooklyn, NY 11225, U.S.A.; Passport No. 84-161640; DOB 15 Sep 52.

SIMON, Estimien, Lieutenant Colonel; Haiti; DOB 03 Mar 41.

SYLVAIN, Diderot Lyonel (Lionel), Colonel; Haiti; DOB 10 Jun 50.

VALME, Marc, Major; Avenue Martin Luther King No. 152, Port-au-Prince, Haiti; Passport No. 81-142979; DOB 05 Dec 53.

VALMOND, Hébert, Colonel; Haiti; DOB 17 May 49.

MINISTRY OF INFORMATION AND COORDINATION
300 route de Delmas, Port-au-Prince, Haïti.

MINISTRY OF INTERIOR AND NATIONAL DEFENSE
(a.k.a. **MINISTÈRE DE L'INTÉRIEUR ET DÉFENSE NATIONALE**)
Palais des Ministères, Port-au-Prince, Haïti.

MINISTRY OF JUSTICE
Boulevard Harry Truman, Cité de l'Exposition, Port-au-Prince, Haïti.

MINISTRY OF PLANNING AND EXTERNAL COOPERATION
(a.k.a. **MINISTÈRE DE LA PLANIFICATION ET COOPÉRATION EXTERNELLE**)
Palais des Ministères, Rue Monseigneur Guilloux, Port-au-Prince, Haïti.

MINISTRY OF PUBLIC HEALTH
(a.k.a. **SANTÉ PUBLIQUE**)
(a.k.a. **MINISTRY OF PUBLIC HEALTH AND POPULATION**)
(a.k.a. **MINISTÈRE DE LA SANTÉ PUBLIQUE ET DE LA POPULATION**)
(a.k.a. **MINISTRY OF PUBLIC HEALTH AND HOUSING**)
Palais des Ministères, Port-au-Prince, Haïti.

MINISTRY OF PUBLIC WORKS, TRANSPORT AND COMMUNICATIONS
(a.k.a. **MINISTÈRE DES TRAVAUX PUBLICS, TRANSPORT ET COMMUNICATIONS**)
(a.k.a. **MTPTC**)
Palais des Ministères, BP 2002, Port-au-Prince, Haïti.

MINISTRY OF SOCIAL AFFAIRS
Rue de la Révolution, Port-au-Prince, Haïti.

NATIONAL CREDIT BANK
(a.k.a. **BANQUE NATIONALE DE CRÉDIT**)
(a.k.a. **BNC**)
Angle rue du Quai et rue des Miracles, BP 1320, Port-au-Prince, Haïti.

NATIONAL INSURANCE
(a.k.a. **OLD AGE INSURANCE**)
(a.k.a. **OFFICE NATIONAL D'ASSURANCE VIEILLESSE**)
(a.k.a. **ONA**)
Champ de Mars, Port-au-Prince, Haïti.

NATIONAL OFFICE FOR INDUSTRIAL PARKS
(a.k.a. **NATIONAL INDUSTRIAL PARK COMPANY**)
(a.k.a. **GOVERNMENT INDUSTRIAL PARK**)
(a.k.a. **SOCIÉTÉ NATIONALE DES PARCS INDUSTRIELS**)
(a.k.a. **SONAPI**)
Industrial Park, P.O. Box 2345, Port-au-Prince, Haïti.

NATIONAL PORT AUTHORITY
(a.k.a. **AUTORITÉ PORTUAIRE NATIONALE**)
(a.k.a. **PORT AUTHORITY**)
(a.k.a. **AIRPORT**)

(a.k.a. **APN**)
La Saline Boulevard, P.O. Box 616, Port-au-Prince, Haïti;
P.O. Box 1792, Port-au-Prince, Haïti.

NATIONAL WATER SERVICE
(a.k.a. **SERVICE NATIONAL D'EAU POTABLE**)
(a.k.a. **SNEP**)
Delmas 45 - Delmas Road, Port-au-Prince, Haïti.

OFFICE FOR PERMANENT MAINTENANCE OF ROAD NETWORK
(a.k.a. **SERVICE D'ENTRETIEN PERMANENT DU RÉSEAU ROUTIER NATIONAL**)
(a.k.a. **SERVICE D'ENTRETIEN DU RÉSEAU ROUTIER NATIONAL**)
(a.k.a. **SEPRRN**)
(a.k.a. **OFFICE OF ROAD MAINTENANCE**)
Varreux - National Road, 10 Varreux Road, Port-au-Prince, Haïti.

OFFICE OF CUSTOMS
(a.k.a. **ADMINISTRATION GÉNÉRALE DES DOUANES**)
161 Route de Delmas, Port-au-Prince, Haïti.

OFFICE OF MILITARY ATTACHES
(a.k.a. **BUREAU DES ATTACHÉS MILITAIRES**)
Haïti.

TELEPHONE COMPANY
(a.k.a. **TÉLÉCOMMUNICATIONS D'HAÏTI, SAM**)
(a.k.a. **TELECO**)
J.J. Dessalines Boulevard, P.O. Box 814, Port-au-Prince, Haïti.

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

FOR IMMEDIATE RELEASE
October 21, 1993

STATEMENT BY TREASURY SECRETARY BENTSEN

RE: German interest rate cuts

"I'm pleased by today's 50-basis point cut in official German interest rates. It's an important step in the downward trend of European rates that will help strengthen world growth and create jobs."

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TREASURY NEWS

Department of the Treasury · Washington, D.C. · Telephone 202-622-2960

For Immediate Release · October 21, 1993

Monthly Release of U.S. Reserve Assets

The Treasury Department today released U.S. reserve assets data for the month of September 1993.

As indicated in this table, U.S. reserve assets amounted to $75,835 million at the end of September 1993, up from $75,231 million in August 1993.

U.S. Reserve Assets
(in millions of dollars)

End of Month	Total Reserve Assets	Gold Stock 1/	Special Drawing Rights 2/3/	Foreign Currencies 4/	Reserve Position in IMF 2/
1993					
August	75,231	11,057	9,133	42,923	12,118
Sepember	75,835	11,057	9,203	43,474	12,101

1/ Valued at $42.2222 per fine troy ounce.

2/ Beginning July 1974, the IMF adopted a technique for valuing the SDR based on a weighted average of exchange rates for the currencies of selected member countries. The U.S. SDR holdings and reserve position in the IMF also are valued on this basis beginning July 1974.

3/ Includes allocations of SDRs by the IMF plus transactions in SDRs.

4/ Valued at current market exchange rates.

LB-447

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

FOR IMMEDIATE RELEASE
October 21, 1993

Contact: Peter O'Brien
(202) 622-2960

TREASURY BLOCKS ASSETS OF OPPONENTS OF DEMOCRACY IN HAITI

The U.S. Treasury Department has blocked the assets of 41 individuals who have obstructed the restoration of democracy in Haiti, perpetuated or contributed to Haiti's violence, or provided material or financial support to these activities. The list includes many senior military and police officials, some of whom were members of the illegal regime which seized power in 1991, and others who are involved with the "attaches" or are their financial patrons.

This action blocks all assets of these individuals within United States jurisdiction and effectively prohibits transactions with them. This is the first blocking action taken under the authority of Executive Order 12872, which went into effect just before midnight on October 18. It begins the process of identifying and blocking those individuals who are involved in obstructing the international community's determination to restore democracy to Haiti or are involved in the violence in Haiti.

In announcing this action, R. Richard Newcomb, Director of the Office of Foreign Assets Control, said "It is essential that economic sanctions against Haiti be as firm as possible to convey to the military and police in Haiti the cost of defying the Haitian people's choice of a democratic government, the international community's determination to support that exercise of democracy in Haiti, and to stop the violence that oppresses Haiti's political process."

These measures against the opponents of Haitian democracy complement the remaining elements of U.S. sanctions which were reinstated in full on October 18. These sanctions prohibit most trade and financial transactions with Haiti, restrict access to U.S. ports for vessels calling in Haiti for transactions that would be prohibited by the U.S. sanctions, and continue to block assets of the Haitian government and the de facto regime.

Violations of the Haiti embargo carry maximum criminal penalties of $500,000 per count for corporations, $250,000 for individuals, and 10 years in prison for individuals, including corporate officers. OFAC also may levy administrative civil penalties of up to $10,000 per violation.

The list of blocked individuals and entities of Haiti may be expanded or amended at any time, as new information becomes available to the Treasury Department. Persons with information on individuals or firms violating the Haiti sanctions may call 202-622-2430, or questions about licensing may call 622-2480. All calls will be kept confidential.

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TREASURY NEWS

Department of the Treasury   Washington, D.C.   Telephone 202-622-2960

REMARKS OF JEFFREY R. SHAFER
ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS
DEPARTMENT OF THE TREASURY
BEFORE THE
PRESIDENCY LEADERSHIP CONFERENCE
INDIANAPOLIS, INDIANA
OCTOBER 22, 1993

This evening I want to talk about the North American Free Trade Agreement. NAFTA is one of President Clinton's favorite causes, it's one of Secretary Bentsen's and it's one of mine. I want to explain why. And, since the theme of this Conference is leadership, I'd like to use this opportunity to argue the need for strong leadership to win NAFTA, and the need to win NAFTA so America can be a strong leader.

America would not be in a position of leadership today unless Americans had taken risks to compete and faced challenges head on, even when they were the underdogs.

Let me try to drive this point home. I'm a big soccer fan, and a couple of weeks ago I went to a soccer game between the United States and Mexico. Anyone who follows World Cup soccer knows that the United States is not regarded as a first rate international competitor, and Mexico was heavily favored to win. Mexico did go up a goal and looked headed for victory, but in the closing minutes, the U.S. scored on an elegantly executed play, and we came away with a tie. For the U.S., this was a real victory, and if we'd been afraid to compete, we never would have proven that we could hold our own against a top-ranked team.

If our players can do that well against Mexicans on the soccer field, our workers should have nothing to fear in the factories, since they've been competing on a playing field sharply tilted in favor of Mexico, and still coming out ahead. And I can't understand why anyone can oppose NAFTA when one of its fundamental accomplishments is to level that playing field so Mexico no longer has an advantage.

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If you don't agree with me, consider some other views on NAFTA: the authors of 18 out of 19 reputable studies on NAFTA have concluded that it will benefit the U.S.; a group of 300 renowned economists, including twelve Nobel Laureates, wrote to President Clinton in support of NAFTA.

And it is the real prospects for exports and jobs that have led 41 out of 50 governors to support the agreement. Five American Presidents- two Democrats and three Republicans- publicly support NAFTA.

I think this shows that winning NAFTA means getting the simple facts out about the agreement, and appealing to common sense instead of fear. And to do this, strong leadership is critical because NAFTA opponents are preying on fear-- fear of losing jobs, losing competitiveness, and more generally, fear of change.

We need to get the message out that rejecting NAFTA will not eliminate the fears that many Americans have about their future. In fact, I can't think of a more certain prescription than rejecting NAFTA for making them worse.

We need leadership to give us the courage to change. President Clinton is doing this by making NAFTA his own and leading the campaign for its passage. And, the message is getting through: after people listen to the facts about NAFTA, they seem to change their minds and agree that NAFTA will help us to conquer the anxieties about job loss and competitiveness that provoke their worries about the agreement in the first place.

Real leadership helps people see opportunities in change. It gives people the courage to embrace competition and win. It doesn't paralyze them with fear. We will need real leadership all across America, supporting President Clinton and all the ex-Presidents, in the effort to get the truth about NAFTA out. Let me give you a concrete example of how this can be done:

Recently, my boss, Larry Summers participated in a debate in front of about 30 people, and at the beginning, the majority opposed NAFTA. By the end, all but one supported NAFTA-- and remember, they heard both sides of the argument. Larry is a champion debater, but he also had the facts on his side.

And when you hear the facts, I think you'll agree:

1. NAFTA creates the world's largest market-- 370 million people with $6.5 trillion of production. It locks in preferential access for the United States to its first and third largest trading partners. Mexico is only offering preferential access to the United States and Canada-- the EC and Japan are excluded from this deal.

2. NAFTA levels a playing field that is sharply tilted in favor of Mexico. Mexican tariffs are now 2 and 1/2 times higher than ours. They will come down to zero.

3. NAFTA gets us more than we give. Mexico has to liberalize significantly more than we do to achieve the same level of openness.

4. NAFTA requires Mexico to change laws that today force our companies to move to Mexico in order to sell there.

5. NAFTA is the first trade agreement to address environmental and labor issues, and a new U.S./Mexican agreement that I negotiated provides money to clean up the border.

6. NAFTA gives us a larger secure market so we can become more competitive. For a wide range of products, we need to produce more than we can sell at home to be competitive. With greater demand from Mexico, Americans can produce more for less, and sell goods at a lower price, which is what being competitive is all about. And if we sell products at a lower cost, we'll also be more competitive in other markets where we won't get special treatment but go head on against Japan and the EC.

Mexico will win from NAFTA too, but not at our expense. We will both gain from the larger market and from combining our efforts to compete against Europe and Japan.

The bottom line: NAFTA is not a zero sum game. Everyone can benefit. And the United States will gain, particularly in terms of jobs and the environment. You've been hearing different views on these issues, and I want to set the record straight by looking directly at what the critics are telling us and why I think they're wrong.

NAFTA opponents say that jobs will go South because wages in Mexico are lower than wages in the U.S. That's wrong on three counts. First, it's simplistic: companies take a lot more than wages into account-- productivity matters, as does

infrastructure and access to technology-- all areas where we have a big advantage.

In fact, U.S. workers are competing with Mexican workers now, and winning. Take the example of Quality Inc., a maker of electromagnetic coils that lost money in Mexico due to high absenteeism, low productivity and problems with long distant management. The company moved its factory back to Connecticut this year and discovered that one worker in the U.S. does the job of three employees in Mexico.

And most companies don't have to experiment to come to this conclusion-- they only have to do a little research to know that the U.S. is a better location than Mexico for almost everything we do. For example, Haworth Inc., an office furniture maker in Michigan, has twice considered moving to Mexico and determined in both cases that it could manufacture furniture more cheaply in the U.S.

Second, NAFTA will keep jobs at home, and bring some back, by eliminating high tariffs that mean companies have to move to Mexico in order to be competitive there. Here's another example: McIlhenny Co. set up a Tabasco factory in Mexico to escape high tariffs and other import barriers, but then moved to Louisiana after these barriers were lowered in 1989. NAFTA will lead to more of this.

Third, NAFTA will eliminate Mexico's requirements that companies have to produce in Mexico to sell there. Due to burdensome regulations in the auto sector, for example, auto manufacturers have to move to Mexico if they want to do business there. To understand the impact of these barriers, just look at how the top ten selling American cars are doing in Mexico. The Big Three sold 2.1 million of their best-selling cars last year in the United States compared to only 162 in Mexico (all Cadillacs). With NAFTA, we expect to sell 60,000 new American cars to Mexico in the first year alone. And these cars will be made here because it costs over $400 more to build a car in Mexico.

Some people are skeptical about the claim that NAFTA will create jobs because Mexicans will buy more products, like cars, from the U.S. They don't believe that a poor country like Mexico really buys a lot from the U.S. But in fact, Mexicans buy 70 percent of their imports from the U.S.-- only 23 percent of Japan's imports came from the U.S., and for the EC the figure is only 7 percent. And Mexicans buy more per capita from us than the Europeans or Japanese.

Mexicans are already buying everything from tacos to tractors. For example, there is a corporation here in Indianapolis (SaniServe) that sells slush machines (for ice and ice-cream products) to Mexico. In 1992, its sales to Mexico reached nearly 1/2 million dollars, and they are expected to grow 20 percent this year. The workers who make these machines depend on sales to Mexico for their jobs.

And incomes in Mexico will rise as they join with us in realizing the gains from trade. This point is overlooked by NAFTA opponents who see Mexico as forever a low-wage supplier with low-income demand.

So that's my case for why NAFTA is good for jobs. The best estimates are that 200,000 jobs will be created in the first couple of years with NAFTA. I won't tell you that this is a lot in an economy the size of our own. But those who would have you believe that there will be fewer jobs in America after NAFTA, or lower paid jobs for that matter, are just wrong.

Now for my case on the environment:

Opponents say that NAFTA will generate more pollution. I don't believe that, and neither should you. In fact, NAFTA is the greenest trade agreement in history. It contains commitments to maintain and enforce domestic environmental laws. It is the first trade agreement to provide fines and trade sanctions for failure to enforce environmental laws.

The essential point, however, is this: NAFTA will help create a richer Mexico, which will be able to devote more resources to clean up its air and water, and preserve its natural resources. Poor countries can't afford to make the environment a high priority. Cutting off Mexico's best shot at pulling itself up through free trade and investment is no way to help the environment.

We are also doing something along with NAFTA to clean up the U.S. Mexico border area-- where hundreds of thousands of households lack clean drinking water and garbage collection.

We have just completed an agreement on border environmental cleanup with Mexico that creates two new institutions to design, finance and implement environmental infrastructure projects. The first is a U.S.-Mexican Border Environment Cooperation Commission Organization (BECC) to help coordinate projects and put together financing packages to support them. The second is a U.S.-Mexican financing facility to support environmental infrastructure projects along the border.

These facts about what NAFTA does on the environment explain why the agreement is supported by major environmental groups like the National Wildlife Fund, the Audubon Society, the National Resources Defense Council, and the Environmental Defense Fund. I've talked directly to their representatives about what we are doing for the environment in NAFTA, and they like it. If you care about the environment, you should care about winning NAFTA.

I started by promising to tell you why we need leadership to win NAFTA and why I think winning NAFTA is important to America as a world leader-- I've tried to accomplish the first objective, and

make my case for NAFTA as well. Now, let me turn to the second:

Several times during this century the United States has been called upon to take a position of leadership in the world, politically, economically and militarily. Each time there has been pressure to turn inward.

In 1932 fear got the upper hand and we got the Smoot-Hawley tariff. But we had the courage to lead the world to establish the GATT in 1947, and have persevered over the last 46 years in pressing for lower trade barriers.

I can't think where we would be today if the forces of isolation and protectionism had triumphed after World War II, as they did after World War I.

Today President Clinton talks about economic security as a defining principle of national and international security. Since he recognizes that our own economic security depends on our ability to sell to other nations, we are aggressively trying to open markets. We are urging countries to follow our example of embracing an open economy by liberalizing trade regimes and adopting market-oriented reforms. We are counting on the success of these initiatives to provide us with economic security. If other markets are not open to our goods and services, America can't prosper.

Consider, in this context, the importance of NAFTA. We need NAFTA, not only because it opens the markets of our first and third-largest trading partners, but because it reinforces our ability to lead the world in the direction of free markets and open economies. We need to be strong, and to be seen as strong in our commitment to the principles of a market economy, if we hope to convince our trading partners to remove barriers in the Uruguay Round, persuade countries in the former Soviet Union to adopt market-oriented reforms and induce Japan to buy more of our goods and services.

How can we expect other countries to respond to our demands for openness if we fail to open our market to Mexico-- a country with an economy roughly the size of Los Angeles-- because we give in to those who believe the best way to cope with economic insecurity is to retreat behind barriers? And it leaves me wondering how many times this approach has to fail, in the United States and around the world, before we learn that protectionism will not give us jobs, will not make us competitive and will not provide economic security.

Before I conclude, I ask that you consider what could happen if we lose NAFTA:

We spent years pressuring Mexico to adopt democratic reforms and market oriented policies. If we say no to NAFTA, there would be pressure in Mexico to reimpose barriers against us. Mexico would be free to raise its tariffs up to 50 percent. Think about what that means for the 700,000 jobs in the United States that depend on exports to Mexico.

Mexico would have less incentive to be cooperative in the areas of illegal immigration or drug smuggling. We need a good neighbor in Mexico if we really want to solve these problems. And for this we have to be a good neighbor, and build a relationship of mutual trust with the rest of Latin America.

We could lose a chance to build a strong partnership with our southern neighbor that has not come before in our history and may never come again, and in the bargain gain secure and greater access to the rest of Latin America-- the second fastest growing region in the world. Worse yet, we could be displaced by Japan and the EC in our own backyard.

We would pass up a chance to address environmental problems on the border, and lose our leverage for improving environmental protection and labor rights in Mexico.

To sum up, NAFTA means more jobs for more workers in the United States and a cleaner environment on both sides of the border. We can't afford to miss this opportunity. And to see that we don't, we need strong leadership to get the facts out about NAFTA, so we can dispel the myths and conquer the fears that are hurting us in this debate. And we need to win NAFTA at home if we expect to convince our other trading partners abroad that open markets, and not closed economies, are the key to international security and prosperity.

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TESTIMONY OF RONALD K. NOBLE
ASSISTANT SECRETARY (ENFORCEMENT)
DEPARTMENT OF THE TREASURY
BEFORE
THE U.S. HOUSE OF REPRESENTATIVES
HOUSE COMMITTEE ON APPROPRIATIONS
SUBCOMMITTEE ON TREASURY, POSTAL SERVICE,
AND GENERAL GOVERNMENT
OCTOBER 22, 1993

I WOULD LIKE TO THANK THE COMMITTEE AND YOU MR. CHAIRMAN FOR THE SUPPORT AND PATIENCE YOU HAVE EXTENDED TO THE DEPARTMENT OF THE TREASURY WHILE WE CONDUCTED OUR LENGTHY AND SEARCHING REVIEW OF THE EVENTS LEADING UP TO THE ASSAULT ON THE BRANCH DAVIDIAN COMPOUND OUTSIDE WACO, TEXAS. AS YOU WILL ALL RECALL, WHEN THE CHAIRMAN FIRST CONVENED HEARINGS BACK IN JUNE OF THIS YEAR, WE WERE CONCERNED ABOUT THE EFFECT HEARINGS MIGHT HAVE ON OUR PENDING INVESTIGATION AS WELL AS THE IMPORTANT CRIMINAL PROSECUTIONS IN WACO. THE CHAIRMAN AND THE COMMITTEE MEMBERS WERE SENSITIVE TO OUR CONCERNS AND DEMONSTRATED A WILLINGNESS TO WORK WITH US COOPERATIVELY TO REACH A SOUND ACCOMMODATION OF THE MANY INTERESTS AND ISSUES PRESENTED BY THE VARIOUS INQUIRIES. I HOPE, AND BELIEVE, THAT THE REPORT WE ISSUED IS WORTHY OF THE CONFIDENCE YOU SHOWED IN OUR ABILITY TO CONDUCT A THOROUGH, FAIR AND IMPARTIAL INVESTIGATION.

THE INVESTIGATION PRODUCED A REPORT THAT IS MORE THAN 500 PAGES LONG. IT REFLECTS THE HARD WORK AND DEDICATION OF MANY INDIVIDUALS. THE DAY TO DAY DIRECTION OF THE INVESTIGATION WAS DIRECTED BY THE PROJECT DIRECTOR, H. GEOFFREY MOULTON, JR., A FORMER FEDERAL PROSECUTOR WHO EARLIER WAS A LAW CLERK FOR CHIEF JUSTICE WILLIAM REHNQUIST. WITH ME HERE TODAY ARE THE TWO ASSISTANT PROJECT DIRECTORS. DAVID DOUGLASS, ALSO A FORMER FEDERAL PROSECUTOR, IS ON LEAVE FROM PRIVATE PRACTICE AT WILEY, REIN & FIELDING HERE IN WASHINGTON.

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SPECIAL AGENT LEWIS C. MERLETTI, THE OTHER ASSISTANT PROJECT DIRECTOR, IS PRESENTLY A DEPUTY ASSISTANT DIRECTOR WITH THE SECRET SERVICE.

TO ASSURE THE AMERICAN PEOPLE THAT THE REPORT WOULD BE AN UNCOMPROMISING EXAMINATION OF THE EVENTS LEADING UP TO THE TRAGEDY ON FEBRUARY 28, WE REACHED BEYOND THE TREASURY DEPARTMENT. WE ALSO CONSULTED 10 NON-TREASURY EXPERTS IN TACTICAL OPERATIONS; FIREARMS AND EXPLOSIVES.

THE INVESTIGATION AND REPORT WERE GUIDED BY THREE INDEPENDENT REVIEWERS OF NATIONAL PROMINENCE AND UNQUESTIONED INTEGRITY.

EDWIN O. GUTHMAN, A PULITZER PRIZE WINNING JOURNALIST AND FORMER EDITOR OF THE PHILADELPHIA INQUIRER AND NATIONAL EDITOR OF THE LOS ANGELES TIMES. HE WAS ALSO FORMERLY PRESS SECRETARY TO ATTORNEY GENERAL AND LATER SENATOR ROBERT F. KENNEDY.

HENRY S. RUTH, JR. - A LONGTIME JUSTICE OFFICIAL AND FORMER WATERGATE PROSECUTOR. MR. RUTH ALSO SERVED ON THE COMMISSION TO REVIEW LAW ENFORCEMENT'S HANDLING OF THE MOVE CRISIS.

WILLIE L. WILLIAMS - CHIEF OF THE LOS ANGELES POLICE DEPARTMENT. RECIPIENT OF NUMEROUS AWARDS AND CITATIONS, HE IS ALREADY CREDITED WITH SIGNIFICANT IMPROVEMENTS IN POLICE AND COMMUNITY RELATIONS IN THE CITY OF LOS ANGELES.

ALL OF THE EXPERTS AND INDEPENDENT REVIEWERS SERVED WITHOUT PAY AND PUT IN MANY LONG HOURS REVIEWING REPORTS, VIEWING VIDEOTAPES, MEETING WITH THE INVESTIGATIVE TEAM AND ATF AGENTS. THEY BROUGHT UNMATCHED EXPERIENCE AND PROVIDED INVALUABLE INSIGHT.

I WOULD BE REMISS IN NOT MENTIONING ONE FINAL GROUP WITHOUT WHOM WE COULD NOT HAVE CARRIED OUT THE MANDATE OF PRESIDENT CLINTON TO CONDUCT A "VIGOROUS AND THOROUGH" REVIEW OF THE EVENTS IN WACO--THE ATF AGENTS. WE RECEIVED UNQUALIFIED COOPERATION FROM THE HUNDREDS OF LINE AGENTS WE INTERVIEWED.

THEY WANTED THE TRUTH TO BE TOLD. AND TO ENSURE THAT IT WAS, THEY NOT ONLY SUBJECTED THEMSELVES WILLINGLY TO PROTRACTED AND NO DOUBT PAINFUL SCRUTINY--THEY WELCOMED IT. WITHOUT THEIR SUPPORT OF OUR EFFORTS AND THEIR PROFESSIONAL COMMITMENT TO EFFECTIVE LAW ENFORCEMENT, A DIFFICULT TASK MAY HAVE BEEN RENDERED IMPOSSIBLE. IN SUM, MR. CHAIRMAN, WHILE THE EVENTS OUTSIDE WACO LED TO A TRAGEDY UNEQUALLED IN TREASURY LAW ENFORCEMENT, I BELIEVE THE EFFORT UNDERTAKEN TO LEARN FROM THESE EVENTS DEMONSTRATED THE EXCEPTIONAL PROFESSIONALISM OF TREASURY'S LAW ENFORCEMENT BUREAUS. THE MEN AND WOMEN INVOLVED IN THE WACO INQUIRY AND REPORT SHOULD MAKE ALL OF US PROUD.

WE BEGAN OUR FIRST INTERVIEWS ON MAY 24. BETWEEN THAT DATE AND THE CONCLUSION OF OUR INVESTIGATION WE INTERVIEWED MORE THAN 500 INDIVIDUALS INVOLVED IN THE RAID ON THE 28TH.

IN ADDITION TO INTERVIEWING INDIVIDUALS, WE TRIED TO GATHER EVERY DOCUMENT AND ITEM OF RECORDED INFORMATION RELEVANT TO THE INVESTIGATION. WE COLLECTED THOUSANDS OF DOCUMENTS AND MATERIALS. WE ALSO COLLECTED VIDEOTAPES AND PHOTOGRAPHS. IN SHORT, WE PURSUED AND REVIEWED ALL MATERIAL THAT MIGHT HAVE HELPED US TO UNDERSTAND WHAT HAPPENED ON THE 28TH.

THE REVIEW FOUND THAT THERE WAS AMPLE JUSTIFICATION FOR INVESTIGATING DAVID KORESH AND HIS FOLLOWERS AND THAT THE INVESTIGATION WAS PROPERLY AND PROFESSIONALLY CONDUCTED. MAKE NO MISTAKE: DAVID KORESH HAD COMMITTED NUMEROUS FELONY VIOLATIONS OF FEDERAL FIREARMS AND EXPLOSIVES LAWS AND HE PRESENTED A DANGER TO THE COMMUNITY.

ACCORDING TO OUR FIREARMS AND EXPLOSIVES EXPERTS, BASED SOLELY ON SHIPPING INVOICES, LET ME DESCRIBE JUST <u>SOME</u> OF THE CULT'S ARSENAL:

1. APPROXIMATELY 136 ASSAULT RIFLES, 29 PISTOLS, 4 SHOTGUNS, 786 MAGAZINES FOR FIREARMS AND 211,000 ROUNDS OF AMMUNITION;

2. SUFFICIENT UPPER AND LOWER RECEIVERS TO ASSEMBLE AN ADDITIONAL 110 AR-15/M16 RIFLES.

3. GRENADE LAUNCHER ATTACHMENTS FOR THE AR-15/M16 RIFLES.

4. SUFFICIENT CHEMICALS AND COMPONENTS TO CONSTRUCT AT LEAST 50 GRENADES AND PERHAPS AS MANY AS 250. THEY ALSO HAD CHEMICALS AND COMPONENTS TO CREATE 70 PIPE BOMBS.

KORESH WAS INVESTIGATED BASED ON THE EVIDENCE THAT HE WAS VIOLATING FEDERAL FIREARMS AND EXPLOSIVES LAWS. HE WAS NOT INVESTIGATED FOR HIS RELIGIOUS BELIEFS.

AS YOU ALL NOW KNOW, WE FOUND THAT THE TACTICAL PLAN DEVELOPED TO SERVE THE WARRANTS WAS SERIOUSLY FLAWED IN SEVERAL RESPECTS. HOWEVER, FOUR OF OUR TACTICAL EXPERTS CONCLUDED THAT THE PLAN COULD HAVE SUCCEEDED HAD THE INTELLIGENCE ON WHICH IT WAS BASED BEEN ACCURATE. BUT ALL SIX EXPERTS IDENTIFIED SERIOUS DEFICIENCIES IN THE PLAN AND ULTIMATELY CHALLENGED THE WISDOM OF CONDUCTING A RAID UNDER THE CIRCUMSTANCES PRESENTED. ALTHOUGH WE CANNOT PREJUDGE ALL FUTURE SITUATIONS, WE MUST BE OPEN TO THE POSSIBILITY THAT A DYNAMIC ENTRY AS ATF CONFRONTED EXPOSING AGENTS, INNOCENT PERSONS AND CHILDREN TO GUNFIRE, MAY SIMPLY NOT BE AN ACCEPTABLE LAW ENFORCEMENT OPTION.

WE NOW KNOW THAT KORESH WAS ALERTED TO THE RAID BASED ON A WARNING--ALBEIT UNINTENTIONAL--FROM A TELEVISION CAMERAMAN TO ONE OF KORESH'S FOLLOWERS. WE ALSO KNOW THAT ON THE MORNING OF FEBRUARY 28, IN THE HOURS BEFORE THE RAID, THERE WERE SEVERAL VEHICLES THAT OBVIOUSLY CONTAINED REPORTERS. IN ADDITION, A SIGNIFICANT NUMBER OF NON-LAW ENFORCEMENT PERSONNEL KNEW OF THE RAID. THE POSSIBILITY THAT THESE CONDITIONS COULD LEAD TO THE RAID BEING COMPROMISED SHOULD HAVE BEEN RECOGNIZED BY THE RAID COMMANDERS.

THE REPORT DETAILS THE ACTIONS TAKEN AND STATEMENTS MADE BY SOME ATF FIELD SUPERVISORS AND NATIONAL MANAGERS AFTER THE RAID. THE REPORT CONCLUDES THAT STATEMENTS WERE MADE TO THE PUBLIC AND THE REVIEW TEAM WHICH WERE LESS THAN ACCURATE. INDEED, IT IS DIFFICULT TO CHARACTERIZE THEM AS ANYTHING OTHER THAN LIES. MOREOVER, AS A POLICY MAKER AND MANAGER, IT IS CLEAR TO ME THAT THEIR CONDUCT FELL FAR BELOW WHAT CAN BE ACCEPTED OF EXPERIENCED AGENTS WHO ARE RESPONSIBLE FOR THE LIVES OF OTHERS. AS YOU KNOW, THE ACTIONS OF SEVERAL INDIVIDUALS ARE UNDER REVIEW BY TREASURY'S OFFICE OF INSPECTOR GENERAL.

AS IMPORTANT AS FINDING OUT WHAT HAPPENED IN WACO AND WHY, IS ENSURING AS BEST WE CAN THAT SIMILAR TRAGEDIES DO NOT OCCUR AGAIN. WE HAVE ALREADY TAKEN SOME STEPS IN THAT DIRECTION, ON NEW ACTING DIRECTOR OF ATF JOHN MAGAW. DIRECTOR MAGAW GRACIOUSLY AGREED TO LEAVE HIS POSITION AS DIRECTOR OF THE SECRET SERVICE AND CONTRIBUTE HIS MANY YEARS OF LAW ENFORCEMENT EXPERIENCE TO STRENGTHENING ATF.

NEXT ALLOW ME TO INTRODUCE ATF'S NEW ASSOCIATE DIRECTOR FOR LAW ENFORCEMENT, CHARLES THOMSON, FORMERLY THE SPECIAL AGENT IN CHARGE OF ATF'S NEW YORK OFFICE.

APART FROM BRINGING IN NEW LEADERSHIP, THE OFFICE OF ENFORCEMENT HAS INITIATED STEPS TO IMPROVE ITS ABILITY TO OVERSEE AND DIRECT THE LAW ENFORCEMENT BUREAUS OVER WHICH IT EXERCISES OVERSIGHT RESPONSIBILITY. THESE STEPS ARE NOT TAKEN IN AN EFFORT TO ASSUME ROUTINE OPERATIONAL CONTROL OVER THE BUREAUS. AS WE NOTE IN THE REPORT, SUCH AN ATTEMPT WOULD BE AN EXERCISE IN FUTILITY. IN 1992 ALONE, ATF'S MORE THAN 2,OOO AGENTS EXECUTED 10,134 FEDERAL WARRANTS. IN ADDITION, THEY PARTICIPATED WITH STATE AND LOCAL AGENCIES IN THE SERVICE OF 12,884 SEARCH WARRANTS NATIONWIDE. GIVEN THE SPEED WITH WHICH MOST ENFORCEMENT ACTIVITIES OCCUR AND THE DEGREE OF FAMILIARITY THAT IS NEEDED BEFORE AN OPERATION CAN BE ASSESSED, INVOLVEMENT BY THE OFFICE OF ENFORCEMENT IN MOST ATF RAIDS, AND SIMILARLY IN THOSE OF THE OTHER LAW ENFORCEMENT BUREAUS, WOULD BE IMPOSSIBLE. THE OFFICE OF ENFORCEMENT POSSESSES NEITHER THE EXPERTISE NOR THE CAPACITY FOR SUCH MICRO-MANAGEMENT.

THE ROLE OF THE OFFICE OF ENFORCEMENT SHOULD BE TO ENSURE THAT THE LAW ENFORCEMENT BUREAUS ARE EXECUTING THEIR MISSIONS CONSISTENT WITH THE POLICIES, PRINCIPLES AND PRIORITIES ESTABLISHED BY THE DEPARTMENT OF THE TREASURY. TO ACCOMPLISH THIS OBJECTIVE, THE OFFICE OF ENFORCEMENT HAS ESTABLISHED A TREASURY LAW ENFORCEMENT COUNCIL COMPRISING THE DIRECTORS OF THE U.S. SECRET SERVICE, ATF, THE FEDERAL LAW ENFORCEMENT TRAINING CENTER, THE FINANCIAL CRIMES ENFORCEMENT NETWORK, THE COMMISSIONER OF CUSTOMS AND THE ASSISTANT COMMISSIONER FOR THE CRIMINAL INVESTIGATIVE DIVISION OF THE INTERNAL REVENUE SERVICE. ITS PURPOSE IS TO PROVIDE TREASURY LAW ENFORCEMENT LEADERS A FORUM TO DISCUSS SIGNIFICANT POLICY OR OPERATIONAL MATTERS WITH ONE ANOTHER AND WITH THE ASSISTANT SECRETARY FOR ENFORCEMENT.

IN CONJUNCTION WITH THE COUNCIL, I HAVE ESTABLISHED FORMAL REPORTING REQUIREMENTS AND CRISIS MANAGEMENT PROCEDURES FOR THE BUREAUS.

SECOND, I HAVE INSTITUTED A SERIES OF WEEKLY AND MONTHLY MEETINGS WITH BUREAU HEADS TO ENSURE THAT POLICY-LEVEL OFFICIALS ARE PROVIDED WITH TIMELY INFORMATION.

ULTIMATELY, EFFECTIVE OVERSIGHT AND SUPERVISION CANNOT BE REDUCED TO A FORMULA OR A LIST OF PRESCRIPTIVE ACTIONS, DUTIES AND RESPONSIBILITIES. RATHER, IT MUST BE THE PRODUCT OF A WORKING RELATIONSHIP CHARACTERIZED BY CLEAR DIRECTION, OPEN DIALOGUE AND MUTUAL TRUST. NONETHELESS, IT IS NOT TOO MUCH TO EXPECT OF THE DIRECTORS OF THE BUREAUS THAT THEY RECOGNIZE WHEN AN INVESTIGATION OR OPERATION SHOULD BE BROUGHT TO THE ATTENTION OF THE OFFICE OF ENFORCEMENT. AMONG THE FACTORS I EXPECT THE BUREAU HEADS TO CONSIDER IN DETERMINING WHETHER AND WHEN TO INVOLVE MY OFFICE ARE THE FOLLOWING:

1. WHETHER THE OPERATION PRESENTS A SIGNIFICANT RISK TO THE LIVES OF LAW ENFORCEMENT PERSONNEL OR CIVILIANS.

2. WHETHER THE OPERATION IS OF A SIGNIFICANTLY DIFFERENT SCOPE OR SCALE THAN PREVIOUS OPERATIONS UNDERTAKEN BY THAT BUREAU.

3. THE EXTENT TO WHICH THE OPERATION ENTAILS USE OF NOVEL OR UNTESTED TECHNIQUES OR TECHNOLOGY.

4. THE EXTENT TO WHICH THE OPERATION OR INVESTIGATION INVOLVES SENSITIVE ISSUES SUCH AS RELIGION OR POLITICS.

5. WHETHER THE OPERATION REQUIRES A RE-ALLOCATION OF BUREAU FUNDS OR OTHERWISE ENTAILS EXTRAORDINARY EXPENSES.

THIS LIST IS NOT INTENDED TO BE EXHAUSTIVE OR RIGID. RATHER IT INDICATES SOME ISSUES THAT SHOULD ACT AS A RED FLAG TO A BUREAU HEAD, SUGGESTING THAT THE OFFICE OF ENFORCEMENT SHOULD BE INFORMED OF THE OPERATION. OUR ROLE WOULD THEN BE TO ENSURE THAT THE BUREAU HAD TAPPED ALL OF THE EXPERTISE, INTELLIGENCE AND KNOWLEDGE AVAILABLE THROUGHOUT THE FEDERAL GOVERNMENT.

ULTIMATELY NO RULE OR POLICY WILL GUARANTEE THAT NO MORE AGENTS WILL LOSE THEIR LIVES ENFORCING THE LAW. LAW ENFORCEMENT WILL ALWAYS BE DANGEROUS AND AT TIMES DEADLY. NONETHELESS, WE OWE IT TO THOSE WHO RISK THEIR LIVES, AS WELL AS THOSE WHOSE LIVES MAY BE PUT AT RISK, TO ENSURE THAT EACH OPERATION IS THOROUGHLY PLANNED AND EXECUTED WITH THE UTMOST REGARD FOR SAFETY. I BELIEVE THAT THESE MEASURES, AND THE ONES THAT DIRECTOR MAGAW WILL DESCRIBE WILL BRING US SIGNIFICANTLY CLOSER TO REACHING THAT GOAL.

MR. CHAIRMAN, IN CLOSING, I WOULD LIKE TO THANK THE HUNDREDS OF PEOPLE WHO ASSISTED US IN OUR REVIEW INCLUDING THIS COMMITTEE AND YOUR STAFF. WE MUST LEARN FROM THE PAST AND OUR MISTAKES IF WE ARE TO IMPROVE THE FUTURE. I HOPE THAT OUR EFFORTS AT TREASURY SINCE THAT FATEFUL SUNDAY IN FEBRUARY WILL CONTRIBUTE TO GREATER SAFETY FOR OUR OFFICERS AND BETTER LAW ENFORCEMENT. AGAIN, THANK YOU FOR YOUR SUPPORT AND FOR ALLOWING ME TO SPEAK TO YOU TODAY. DIRECTOR MAGAW HAS A SHORT STATEMENT AND THEN WE WOULD BOTH BE HAPPY TO ANSWER ANY QUESTIONS YOU MAY HAVE.

TREASURY NEWS

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October 25, 1993

ADDRESS OF TREASURY SECRETARY LLOYD BENTSEN
CENTER FOR NATIONAL POLICY
WASHINGTON, D.C.

I want to discuss with you in broad terms the Clinton administration policies and approach to financial services issues. Undersecretaries Frank Newman and Lawrence Summers, and Comptroller of the Currency Gene Ludwig, will go into more detail tomorrow and over the next few weeks in testimony on the Hill.

President Clinton was elected to rebuild the American economy so it can grow, create jobs, and improve the standard of living of our citizens. To do that, it takes a well-functioning, efficient economy. It must be nourished by a steady flow of capital and credit -- to build businesses and create jobs.

One goal for our administration, then, is to take the steps that ensure our financial system can operate efficiently. There are impediments which we can remove. We have anachronistic, inconsistent, and sometimes excessive legislative and regulatory restrictions on our financial system. This is too critical an element of our economy to have its potential held back.

Our approach to freeing the flow of credit has two clear rules. First, government has a responsibility to involve itself in the marketplace to the extent of protecting the interests of all consumers and communities. And secondly, every action we take must make certain that our financial institutions remain safe and sound.

We have made important progress in beginning to put the American economy back on track. We have begun to curtail the federal deficit. Interest rates and thus the cost of capital are down to the lowest level in 20 years. Business investment is up. We are creating jobs.

A critical way to increase investment by American businesses -- small and large -- is to increase the flow of credit. We have taken administrative actions to do that, focusing particularly on the regulations that affect lending to our small businesses because of their importance in job creation. The Credit Availability Program initiative is largely in place. We are working hard now to implement it at the grass roots level. Credit is again beginning to fuel economic growth.

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As we look to what else can be done, the range of issues is broad. It stretches from the future of the thrift industry to fair trade, regulatory consolidation and interstate banking.

In recent years, there have been some well thought-out proposals, from past administrations, from Congress, from academics and from business. But too much energy has been spent spinning too many wheels at the same time.

Rather than spread ourselves too thin, this administration will take a deliberate, disciplined approach that will produce more and better results over time. We will focus on achievable goals and pick our targets carefully. We will build consensus, issue by issue. And we will listen seriously to the concerns of all those with a genuine public policy interest in an issue.

As we work on the issues before us, everyone must exercise self-restraint. This is one of the most complicated aspects of our economy. It is critical to our continued economic growth. Over-reaching, polarization and piling-on can only lead to failure. Our economy needs success, not failure.

Let me mention three areas we're looking at where we can improve the flow of credit and strengthen the competitive position of our financial system. Two are well along in the legislative process. The third -- fair trade -- can be shortly.

First, nothing highlights the importance of a strong financial industry more than the thrift problem of the 1980s. When you must take time, and huge taxpayer resources, to restore health to an industry, it takes momentum from your economy. It takes resources from other productive uses. The House and Senate have done the right thing and passed an RTC funding bill. I urge them to go to conference and pass a final bill. We need to make depositors whole and return these remaining thrifts to the economy so their assets can work again for the American people. We must quickly close this chapter in our history.

Secondly, the Community Development Financial Institutions measure has come out of Senate Banking with an important program for our distressed cities and poor rural areas. It also has a very sensible approach to reducing the regulatory burden on our financial institutions. It doesn't go overboard. It's a balanced, disciplined approach that has much to commend it. I hope the Senate passes it and the House acts with the same sense of practicality and balance.

There is a third area where we can move with some dispatch. If our institutions are to compete effectively at home, they must be free to compete on an equal basis abroad. Competition in the auto industry might look a lot different today if the Big Three had been producing cars in Japan for 40 years. Financial institutions, just like manufacturers, need distribution outlets in their major markets.

We have some of the most open financial markets in the world. Foreign firms are treated like they were American businesses. They are doing so well here they hold one-quarter of all the banking assets in the United States. Similarly, our banks, securities firms, insurance businesses and other lenders are major players in many international markets. But too often the global playing field looks like the Rockies. Barriers -- both formal and informal -- prevent U.S. firms from entering markets on an equal footing with their competitors.

This administration is committed to improving opportunities abroad for U.S. financial institutions. Our companies are world class innovators and competitors. They will succeed anywhere they are allowed to compete fairly. We are working to level the playing field on several fronts.

In the framework negotiations with Japan, the administration has identified financial services as a critical priority. We are focussing our efforts on pension fund management and corporate underwriting, where U.S. firms are far ahead of the domestic competition. We made some progress last summer, but we have a long way to go.

Regionally, we have negotiated a financial services chapter in the North American Free Trade Agreement that may serve as the model for agreements in Latin America and other regions as well.

Our highest priority is the Uruguay Round negotiations, which are now entering a critical stage. We are committed to achieving a multilateral agreement that opens financial markets on a non-discriminatory basis. But we have made it clear that we will not agree to lock our markets open on an MFN basis, unless or until other countries commit to open their markets to U.S. financial institutions.

We have not seen dramatic progress. So, we are making a major push over the next few weeks to encourage the key emerging markets of Asia and Latin America to offer better commitments. Countries that are now closed must do more than simply offer a standstill that locks in existing barriers against U.S. financial institutions. I have asked my assistant secretary to visit key capitals in early November to carry this message.

We are prepared to guarantee national treatment and full access to countries that commit to open their markets. And, we are prepared to guarantee their existing operations in our market. But we will not assure countries that keep their markets closed the right to expand operations here, or to take advantage of new powers or benefit from future reforms.

This approach is designed to lever additional progress by the end of the Uruguay Round and ensure that we retain incentives that encourage further liberalization in the event these negotiations don't produce enough liberalization.

Therefore, we are prepared to support the objectives of the Fair Trade in Financial Services legislation now on the Hill. It would give the Secretary of the Treasury the authority, consistent with Uruguay Round obligations, to deny new benefits to financial institutions in countries which discriminate against us. This is a reasonable way to ensure that just as we keep our markets open to others, others open their markets to our firms.

Beyond those issues, there are others we are looking at closely, such as regulatory consolidation and interstate banking. Over the long-term, both of those hold the prospect of removing more impediments to the flow of credit.

There is no question in anyone's mind that our regulatory structure is too overlapping and confusing. There are four federal agencies which look at the books of our banks and thrifts. We've all heard the stories. I saw one recently about a bank in California with 22 employees. One day they had 26 examiners in there looking them over. The customers couldn't even get into the parking lot. Surely there are more productive uses of the bank staff's time, and of the government's resources.

We're already addressing the problem of overlapping regulation in the Credit Availability Program. And, the additional steps we have in mind follow the spirit of Vice President Gore's initiative to reinvent government.

We can further streamline the existing structure and create one that can make more timely decisions. And, by eliminating duplicative regulatory agencies, we can help reduce inconsistent interpretations of the same laws and rules. Furthermore, inter-agency turf battles would be avoided. Finally, financial institutions could reduce their operating expenses and spend more time making sound loans than filling out papers in quadruplicate.

We are interested in pursing a rational consolidation of regulatory functions. If we go down that road, any new institution must remain responsive to the electorate with regard to policy. Banking policy is such a vital component of economic policy, that those who direct the policy must be able to affect its implementation. I have asked Frank Newman to discuss this with Congress next month.

Insofar as interstate banking is concerned, as our banking system has evolved over the years, impediments to efficiency have crept in. One of our eventual aims is to eliminate these roadblocks and make it less expensive and cumbersome for our banks to operate across state lines.

The Washington area is a perfect case, and it isn't unique. Down the street from my office is a branch of a banking organization that hangs out its shingle in Maryland, Washington, Virginia and a few other states. People who use this branch but have their account at a branch in Maryland or Virginia can walk up and cash a check.

They can draw hundreds of dollars out of the ATM machine, or transfer thousands of dollars between accounts. But they can't make a deposit in that branch and get a deposit slip showing the bank has accepted it.

I imagine people in Kansas City, or St. Louis, or Chicago and Gary have exactly the same problems.

In the age of fiber optics, when I can go to a machine on the streets of virtually any capital in the world and get cash with my bank card, not being able to make a deposit at my own bank just because that branch is in another state is like requiring that the space shuttle stay within the school-zone speed limit. We are the only country in the industrialized world with this kind of artificial restriction.

We currently have a de facto system of interstate banking. But it's a patchwork system, and it's clumsy. Change will not happen overnight. A number of complex policy issues must be worked through. And, more importantly, we need to concentrate our legislative efforts on more immediate priorities just now. But we look forward to working with Congress to develop interstate branch consolidation legislation in the future.

Our preference is to build upon what the marketplace has created rather than reinventing the banking business. The basic approach would be to let banking organizations convert existing multi-bank, multi-state operations into a single bank, multi-branch operation.

Customers could deal with the same bank, in every state where it operated. You could make a deposit in one branch while at work or traveling, and have it posted promptly.

But let me emphasize, this would continue to leave it entirely to the states to decide if they don't want out-of-state banks doing business within their borders. It would just end the necessity of having to maintain a separate subsidiary.

As a Texan who grew up with no branch banking whatsoever, I understand the sensitivities of states and localities. I know that no community wants to deposit its money but receive no benefits in return. Bank reform must move forward, but states can still have the power to decide where within their borders institutions can do business.

This approach can take some of the structural inefficiency out of our system. Consumers get better access to services, and banks will have the opportunity to operate more efficiently because of economies of scale, and because of the more efficient regulatory policies we also intend to pursue. And, states retain the authority to determine many of the key rules for banks in their markets, including where they can operate.

The dual banking system will continue to have its place in the nation's economy. I believe we can do this with appropriate protections for consumers, and proper implementation of the Community Reinvestment Act and Fair Lending. At the same time, community banks, with their orientation toward servicing local areas, can continue to play important roles in the banking system.

Ultimately, permitting a true interstate banking system can translate into increased lending, a safer and stronger banking system, and more competitive services for all consumers in all communities.

There is no shortage of issues for us to deal with. But we have a careful approach calculated to produce the results that will free up the flow of credit and make our system operate efficiently. We will focus on problems in a deliberate manner, and seek achievable goals.

For instance, early next year the regulators will present a new plan to make the Community Reinvestment Act a much more effective tool in actually generating lending services and investment in our communities, for all the people who live there, and for the businesses that provide them with jobs and services. It will also include paperwork reduction steps, keeping in mind the disproportionate burden paperwork requirements have on community banks.

Let me close with this: We must change our banking system in a careful, deliberate manner, to get it ready for the next century. We're operating with laws and regulations made for another time in America. We're paying a price for inefficiency. It touches every American who pays a service charge on a checking account, who borrows for a new car or buys a new home. It affects how businesses invest to create jobs, and how our economy grows. The Clinton Administration is committed to the careful steps that will assure an efficient flow of credit, while protecting consumers and communities, and ensuring the safety and security of our financial system.

Thank you.

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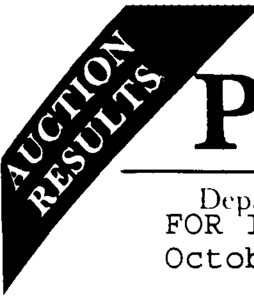

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
October 25, 1993

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $13,031 million of 13-week bills to be issued October 28, 1993 and to mature January 27, 1994 were accepted today (CUSIP: 912794H64).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.07%	3.14%	99.224
High	3.08%	3.15%	99.221
Average	3.08%	3.15%	99.221

Tenders at the high discount rate were allotted 90%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	34,355	34,355
New York	46,865,535	11,871,410
Philadelphia	6,321	6,321
Cleveland	33,361	33,161
Richmond	26,015	26,015
Atlanta	22,707	22,207
Chicago	1,940,013	219,913
St. Louis	8,589	8,589
Minneapolis	9,563	9,563
Kansas City	30,991	30,991
Dallas	19,295	19,295
San Francisco	528,379	210,379
Treasury	538,922	538,922
TOTALS	$50,064,046	$13,031,121
Type		
Competitive	$45,193,846	$8,160,921
Noncompetitive	1,030,200	1,030,200
Subtotal, Public	$46,224,046	$9,191,121
Federal Reserve	2,592,200	2,592,200
Foreign Official Institutions	1,247,800	1,247,800
TOTALS	$50,064,046	$13,031,121

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AUCTION RESULTS

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
October 25, 1993

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $13,066 million of 26-week bills to be issued October 28, 1993 and to mature April 28, 1994 were accepted today (CUSIP: 912794K37).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.17%	3.27%	98.397
High	3.19%	3.29%	98.387
Average	3.19%	3.29%	98.387

Tenders at the high discount rate were allotted 69%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	32,216	32,216
New York	42,313,390	11,969,100
Philadelphia	3,885	3,885
Cleveland	28,696	28,696
Richmond	20,430	20,430
Atlanta	17,333	17,023
Chicago	1,895,330	347,080
St. Louis	10,540	10,540
Minneapolis	6,112	6,112
Kansas City	22,881	22,881
Dallas	11,446	11,446
San Francisco	536,515	209,015
Treasury	387,741	387,741
TOTALS	$45,286,515	$13,066,165
Type		
Competitive	$40,373,620	$8,153,270
Noncompetitive	731,095	731,095
Subtotal, Public	$41,104,715	$8,884,365
Federal Reserve	2,800,000	2,800,000
Foreign Official Institutions	1,381,800	1,381,800
TOTALS	$45,286,515	$13,066,165

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TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

EXCERPT FROM REMARKS OF THE HONORABLE
LESLIE B. SAMUELS
ASSISTANT SECRETARY (TAX POLICY)
U.S. DEPARTMENT OF THE TREASURY
October 25, 1993

International Taxation

In General. International taxation issues will be a priority for the Office of Tax Policy in the coming years. The continued rapid evolution of a global economy makes it imperative that tax policies be developed with a worldwide perspective. It is clear that cross-border transactions are taking on ever increasing importance in the world of business operations. The tax policies of every nation must recognize that reality and reflect it.

We are taking steps to do just that. First, we plan to make the **Advance Pricing Agreement process** a centerpiece of the international tax agenda. We plan to promote APAs at every opportunity, not just with international businesses but with foreign tax authorities. Second, we plan to adapt our **tax treaty policies** to the changing and increasingly sophisticated business practices of international investors. Third, we plan to step up the pace of issuing **international tax regulations.**

Guiding Principles. Our actions in these areas will be guided by two principles. The first is the promotion of **international tax compliance.** The second is to consider the impact of tax rules on the **competitiveness** of U.S. businesses operating abroad. These twin themes complement each other by balancing the charge of the Treasury to protect the government's revenue base with the need for U.S. business to operate as efficiently as possible in the global marketplace.

This Administration is committed to improving and applying the tax laws to ensure that all corporations engaging in international transactions pay their proper share of taxes. The Treasury and the IRS cannot relax in the effort to enforce existing tax laws.

Progress has been made. Legislation was enacted as part of OBRA '93 to encourage compliance and to provide the IRS with contemporaneous documentation on intercompany pricing decisions. This legislation was accomplished within the framework of the arm's-length pricing standard.

However, more remains to be done.

I wish to emphasize that the purpose of the efforts to improve compliance with the tax laws is not to inhibit the development of global business activity nor to discourage foreign investment in the United States. On the contrary, the Administration welcomes and values these activities which create jobs for U.S. residents. The enforcement policies of the United States apply to both foreign and U.S.-controlled businesses, and will be administered reasonably and in a balanced, even-handed manner.

To this end, the IRS and the Treasury plan a coordinated initiative to further improve international tax compliance.

Advance Pricing Agreements. As I have mentioned, one successful recent experiment in improving voluntary compliance and reducing controversies has been the Advance Pricing Agreement (APA) program. Designed as a dispute resolution process, the APA program supplements the traditional administrative, judicial, and treaty dispute resolution mechanisms for resolving intercompany pricing issues.

The program enables taxpayers to arrive at an understanding with the IRS on three basic issues: (i) the factual nature of the intercompany transactions to which the APA applies; (ii) an appropriate transfer pricing method applicable to those transactions; and (iii) the expected range of results from applying that method to the transactions. Both sides win in an APA: The taxpayer obtains certainty, and the IRS and foreign tax authorities can devote fewer resources to subsequent audits of the taxpayer's business.

The Treasury and the IRS are committed to the APA program and will actively encourage taxpayers and foreign tax authorities to participate in the process. To accomplish this goal, the IRS plans several improvements in the APA program, intended to make the APA process more accessible to taxpayers and to reduce the costs of obtaining agreements. For example, in light of its experience, the IRS plans to revise Revenue Procedure 91-22 to make it easier for taxpayers to obtain APAs.

In addition, the IRS is preparing a notice that will provide generic guidance on the methodologies and approach taken in APAs involving global trading. As experience is gained with additional industries, similar guidance will be issued for other lines of business.

Treaties. In keeping with our emphasis on international compliance, the Treasury is committed to preventing abuse of the United States' extensive tax treaty network. A principal means to prevent the abuse of tax treaties is to limit the benefits of such treaties to bona fide residents of the treaty partner -- residents with a substantial nexus to the treaty partner. Our

new **treaty with the Netherlands**, one of our most important treaty partners, contains an extensive limitations-on-benefits provision. We also recently signed a Protocol to this treaty to prevent abuse created by permanent establishments of Dutch companies located in third countries -- the so-called "triangular case." We now look forward to approval by our respective legislatures of both agreements in time for them to become effective on January 1, 1994. This treaty and protocol **demonstrate that the treaty-shopping problem can be addressed** bilaterally and that unilateral action is unnecessary.

We are preparing for a **hearing** on Wednesday, October 27, **before the Senate Foreign Relations Committee that will cover** treaties and protocols with seven countries. This hearing will include the Dutch treaty and protocol, the Mexican treaty, the Russian treaty, and the Israeli and Barbados protocols. The Israeli protocol will bring that treaty into force. The Slovak treaty and the Czech treaty will be also considered at the hearing.

Now that the Dutch treaty and protocol are concluded, we have turned our attention to the **treaty with Luxembourg**. We have asked for a renegotiation of that treaty and those meetings are scheduled to begin in December.

As you know, our treaty with Switzerland does not contain a limitations-on-benefits clause. There have been recent erroneous **reports in the tax press about the Swiss treaty,** suggesting that we had reached agreement on a limitations-of-benefits article with the Swiss. That is not the case. But we are extremely interested in renegotiating the treaty to include a limitations-of-benefits provision. There have been technical talks with the Swiss recently, but we are stalled on the issue of bank secrecy and exchange of information. It is my hope, however, that the Swiss will soon see the merits in reaching agreement with the United States.

We also are working on a new model treaty with the OECD that we hope will facilitate future treaty negotiations and the expansion of our treaty network.

The treaty process, of course, serves more than an international compliance objective. We expect our nation's treaty network to facilitate the global business operations and **competitiveness** of American businesses. The presence or absence of a tax treaty is often a factor in international business and investment location decisions. There can be little doubt that tax treaties facilitate international flows of goods, capital, services, and technology. In addition, by reducing foreign taxes, U.S. businesses, especially those with excess foreign tax credits, benefit. These considerations guide our choice of treaty partners and the substance of our negotiations.

<u>Regulations</u>. Several regulation projects will be priorities for the Treasury in the international tax area.

- **Section 482.** Treasury issued proposed and temporary regulations under section 482 in January 1993. They replace proposed regulations that were issued in 1992. The new regulations allow taxpayers greater flexibility in selecting a method to determine an arm's-length price for their intercompany transactions.

  The IRS has received extensive comments from taxpayers and treaty partners on the new regulations. Taking into account these comments, revised final regulations should be issued in the first quarter of 1994.

- **Section 6662 Penalty.** The OBRA '93 amendments to section 6662(e) require taxpayers to prepare, maintain, and provide documentation substantiating the arm's-length nature of intercompany prices in order to avoid the penalties applicable to substantial or gross valuation misstatements for transactions subject to section 482. This documentation generally must have been prepared contemporaneously with the intercompany transaction under review and apply one of the methodologies set forth in the section 482 regulations to the transaction. The question in every case will be whether there was a good-faith, reasonable attempt to apply the 482 regulations prior to filing the tax return. Taxpayers should not be concerned that a minor "foot fault" will result in a penalty.

  By effectively requiring taxpayers to comply with section 482 contemporaneously, the amended provision should substantially improve compliance with section 482.

  Taxpayers have expressed concern that the penalty is essentially automatic if they fail to comply with any minor aspect of the documentation requirements or do not correctly apply one of the methods under the section 482 regulations, and an adjustment is eventually made. The statute is not intended to be automatic. The penalty is intended to apply if the taxpayer failed to analyze its related party transactions and to apply reasonably the substantive section 482 regulations. The penalty is intended to change taxpayer behavior from post hoc justification of a return position to pre-return analysis and documentation of related-party transactions. The question in every case therefore will be whether the taxpayer made a reasonable attempt to apply the 482 regulations prior to filing its tax return. The

penalty is not targeted to minor errors made in attempting to apply the transfer pricing rules. However, by the same token, taxpayers should not plan on escaping the penalty because of leniency on the part of the IRS. Rather they should make good faith efforts to comply with the new rules.

We expect to release regulations implementing the new rules by year-end.

- **Anti-conduit regulations.** Another OBRA '93 provision authorizes the Secretary to issue regulations that set forth rules for recharacterizing any multiple-party financing transaction as a transaction directly among two or more of the parties in cases where the Secretary determines that such recharacterization is necessary to prevent avoidance of tax. This provision is intended to bolster the IRS's ability to prevent tax avoidance through use of "conduit" transactions. The Treasury and the IRS are in the process of drafting proposed regulations under this provision.

I would also note that various regulation projects are close to completion.

- **Foreign currency, et al.** We hope to finish up regulations governing the application of the dollar approximate separate transactions method, the international aspects of section 338 transactions, interest expense allocation regulations, and final subpart F regulations.

- **Section 904(i) regulations.** In addition, we expect to issue regulations under section 904(i). Section 904(i) provides that in any case in which domestic corporations achieve deconsolidation through the use of nonincludable entities, the Secretary may by regulations provide for resourcing of income or modifications to the consolidated return rules to the extent necessary to prevent avoidance of the foreign tax credit limitation rules. Section 904(i) was adopted by the Revenue Reconciliation Act of 1989. The statutory language requires implementing regulations. We hope to complete and release proposed section 904(i) regulations by year-end.

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

STATEMENT OF THE HONORABLE LAWRENCE H. SUMMERS
UNDER SECRETARY FOR INTERNATIONAL AFFAIRS
U.S. TREASURY DEPARTMENT
BEFORE THE
SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
TUESDAY, OCTOBER 26, 1993

Fair Trade in Financial Services

I am pleased to have this opportunity to testify on S. 1527, the Fair Trade in Financial Services Act of 1993. Secretary Bentsen asserted in his confirmation hearing that, "The touchstone of our policy, including in international negotiations on financial services, is that we must demand reciprocity." He added that he would "be pleased to take a close look at the Fair Trade legislation and work with its supporters on an appropriate policy." I am here today in an effort to carry out that commitment.

We in the Administration appreciate the efforts by the sponsors of this bill and this Committee to provide the means to secure national treatment and equality of competitive opportunity abroad for U.S. financial institutions. We believe this legislation will give U.S. negotiators the same leverage available to their counterparts in most major industrial countries. The Administration supports the objectives of S. 1527 and will work closely with the Congress to iron out final details and obtain passage as soon as possible.

Why Do We Support Fair Trade in Financial Services Legislation?

We support this legislation because we want to open foreign markets and enable U.S. financial firms to compete in those markets, just as foreign firms are able to do here in the U.S. This falls in line with a broader objective of the Administration to improve the U.S. economy by increasing U.S. exports of goods and services. As President Clinton indicated early in the Administration, we must "compete not retreat."

To compete, we need the tools to make the competition a fair one. Improved negotiating leverage through S. 1527 is important because U.S. financial services firms comprise an increasingly important component of the U.S. economy, because our financial institutions need to compete in the markets of their major competitors if they are to remain competitive at home, and because moral suasion has not proven a sufficiently effective tool in inducing countries to liberalize. Our financial services firms are world class innovators: they will succeed when they are given the opportunity to compete. The specific negotiating leverage we seek is the following:

- Incentives for improved Uruguay Round commitments by a core of roughly a dozen important emerging market countries and Japan, whose current proposals for market liberalization are simply insufficient. I'll speak more on that in a few minutes.

- Authority to retaliate against objectionable foreign practices which violate international obligations. This authority must be more flexible than existing tools and, thus, more appropriate to financial services where safety and soundness concerns and potential international "spillover" effects involve unique considerations.

- Leverage in future negotiations with countries whose financial services markets are relatively closed to foreign participation and which do not make adequate market opening commitments in the Uruguay Round. We would have the tools necessary to negotiate effectively with these "free riders" which seek to benefit from international agreements without undertaking the responsibilities of maintaining an open international financial system.

I'd like to spend a few minutes explaining our current strategy in the Uruguay Round. Our objective in the negotiations is an agreement that contains obligations to provide national treatment and most favored nation treatment in the financial sector. We want an agreement that achieves sufficient liberalization to justify accepting a Uruguay Round MFN obligation.

The offers from many of the participants in the negotiations are not sufficient to meet our objectives. Standstill commitments that lock in existing protection are not a sufficient basis for a satisfactory agreement in financial services. We cannot justify committing to lock our markets open without comparable commitments from others. We have therefore taken the position that the U.S. will maintain an MFN exemption unless or until we are able to negotiate adequate commitments from other countries.

We are prepared to narrow the scope of our MFN exemption in order to provide substantial commitments on access and national treatment to <u>all countries</u>. We will guarantee existing operations of all firms now in the United States and provide entry to those not already here.

Also, we are prepared to improve our commitments and provide a higher level of benefits to countries that are already open or will commit to full liberalization within a

reasonable transition period. To these countries, we would provide additional commitments on expansion and new powers.

We consider Fair Trade in Financial Services legislation as an essential complement to our Uruguay Round strategy.

To help unblock the logjam in Geneva, we are sending a team of high level officials to several key emerging markets during the first week of November. The European Community has agreed to do the same over the next few weeks.

We believe this strategy will do two things. First, it will lever additional commitments between now and the end of the Round. Second, it will help ensure that in the event we fail to achieve sufficient progress that we have incentives in the agreement to encourage other countries to liberalize in the future. This should reassure those who are concerned that we may lock our markets open with no reciprocal commitments and that we will have little recourse in the future to improve the situation.

Why We Need A Fair Trade in Financial Services Statute

The fundamental basis of Fair Trade in Financial Services legislation is fairness. U.S. financial firms face two challenges when they look abroad for markets in which to compete. First, they must receive the right to establish, and second, they must obtain the right of national treatment and equality of competitive opportunity. Unfortunately, U.S. financial institutions -- our banks, securities firms, investment managers, and non-bank banks -- which are major players in some international markets, have had little or no success in clearing both hurdles in many other countries.

Our firms face both formal and informal obstacles. De facto barriers often exist, preventing foreign firms from full participation in the market, even when there are no legal barriers to access. Some countries apply discriminatory restrictions designed to protect domestic institutions under the guise of prudential regulation. We must be concerned with assuring the equality of competitive opportunity for U.S. firms abroad by preventing the artful use of informal or nontransparent barriers.

The barriers we face differ widely across countries. Most developed countries with sophisticated financial markets welcome foreign financial firms on a nondiscriminatory basis, have made strong financial services commitments in the Uruguay Round, and would not fall afoul of Fair Trade in Financial Services legislation. It is worth mentioning, however, that 21 OECD countries have reciprocal national treatment provisions for trade in financial services; and, the numbers have increased despite the standstill to the OECD Code of Liberalization in Capital Movements agreed in 1986.

In the emerging markets where financial liberalization is just getting underway, foreign financial institutions still face explicit barriers to entry and active discrimination.

These countries are the primary focus of our efforts in the Uruguay Round. Many have largely state-owned financial systems and still restrict a broad of range of capital transactions, but the door is beginning to open. Many of the newly industrializing economies of Asia and Latin America fall into this category.

Let me give you just a few examples of some of the problems our financial institutions face in seeking access and competitive opportunities in the emerging markets:

- In Korea, inadequate access to local currency funding sources by foreign banks, tight restrictions on offering new financial products, and pervasive foreign exchange and capital controls severely limit U.S. banks' opportunities for expansion in this important market.

- In Indonesia there are serious limitations on the ability to establish a commercial presence, including a requirement to establish joint ventures with Indonesian firms, and a 49 percent equity limit on those investments.

- The Philippines denies national treatment to banks with more than 40 percent foreign equity. Among other restrictions on foreign banks are limitations on the number of branches they may have and prohibitions on establishing additional branches or shifting existing ones.

- Taiwan, while not yet in the GATT, engages in financial policy discussions with Treasury. At present, Taiwan still imposes ceilings on banks' foreign exchange liabilities, particularly by limiting capital flows, and imposes restrictions on branching.

- Brazil's current legal framework presents a variety of problems. There are constitutional prohibitions on foreign investment. Financial institutions may not hold private issues of securities in their portfolios or place them. Most pension funds are in the public sector and managed by public sector entities, which effectively excludes foreign institutions from a major role in the sector.

U.S. financial firms have interests in other emerging markets as well. These include Malaysia, India, Egypt and a number of other Latin American countries.

Japan is a special case; it falls somewhere between the industrial and the newly emerging countries. Despite almost 15 years of deregulation and liberalization, foreign firms are still only marginal players, excluded explicitly by regulation from certain types of business and by more informal barriers from others.

We seek to level the playing field in areas where U.S. firms have a strong competitive advantage but are now constrained from exploiting that advantage. In both the Uruguay Round and the U.S.-Japan framework negotiations, we are seeking specific

commitments that will enable foreign firms to compete in the areas of asset management and securities -- where they are way ahead of domestic Japanese firms in terms of experience, innovation and efficiency.

- o Over 80 percent of the $900 billion corporate and public pension fund markets are closed to discretionary investment advisors. Moreover, rules on how these assets must be invested limit the ability of investment advisers to mobilize their considerable skills even in those portions of the market open to them.

- o In the securities area, U.S. investment banks are virtually excluded from Japanese underwriting by a combination of industry practices and legal and regulatory barriers hindering the development of a viable corporate finance market. There are constraints on distribution of securities products, who can issue them and how they can be structured. Again, innovative, cutting edge U.S. firms cannot exploit their competitive advantages.

- o The $450 billion mutual funds market in Japan has only a handful of foreign participants due to economic barriers. It cost 30 times more to establish a mutual fund in Japan than in other major markets, and foreign mutual fund managers must market their products through Japanese securities firms, which are their major local competitors.

- o Restrictions in Japan's foreign exchange regime are, despite Japan's large external surplus, the most comprehensive of the G-7 countries. This hampers Japanese investors' access to the full range of financial products offered cross border in overseas markets. Once again, innovative products and efficient services provided by foreign financial institutions are effectively shut out of the market.

In contrast to the variety of obstacles which U.S. firms face in foreign markets, the U.S. market is one of the most open financial markets in the world. Our policy is to welcome foreign firms and once they are established, to provide them national treatment and essentially the same competitive opportunities as U.S. firms in similar circumstances.

In the U.S. market, more than 700 offices and subsidiaries of foreign banks account for almost a quarter ($850 billion) of the total assets of the banking system and 35 percent of business loans. We benefit from this liberal regime in many ways, not least in terms of the estimated 300,000 direct and indirect jobs attributed to foreign banks. There are also approximately 130 foreign-controlled registered broker-dealers and roughly 200 registered foreign investment advisers in the United States.

<u>Discussion of S. 1527</u>

This brings me to S. 1527. The Administration believes that Fair Trade in Financial Services should reflect a number of important considerations in order to help achieve our

international strategy of opening foreign markets while retaining the benefits of foreign participation in the U.S. market.

- The legislation must be consistent with and supportive of the commitments that are undertaken in the Uruguay Round. It should provide protections for those countries which have committed to maintain open markets or to substantially liberalize their markets within a reasonable transition period.

- Second, existing operations of foreign financial institutions already established in the United States should be grandfathered. The impact of this legislation should be prospective in order to minimize the potential disruption to our market and possible retaliation.

- Third, the bill must provide ample discretion for negotiators, rather than automatic triggers tied to rigid deadlines. Therefore, any sanctions must be a last resort, not an opening salvo.

- Fourth, there must be effective provision for full consultations within the Executive Branch to ensure that consideration is given to all implications of any action. Most importantly, the regulatory authorities must be fully engaged throughout the process to ensure that the interests of borrowers, lenders, investors and consumers are considered.

The bill goes a long way to meeting these goals. It provides a careful, step-by-step approach involving analysis, identification and determination of problem countries and negotiation. There is discretion throughout the process, including in the application of sanctions. And, provision is made for grandfathering the existing operations of firms from countries that meet certain criteria.

There are two key areas, however, where we believe some improvements can be made to strengthen the overall approach.

- We believe that the Secretary of the Treasury, not the regulatory agencies, should exercise authority to impose sanctions in accordance with the specific direction of the President, if any. Application of the discretion in this bill could have wide-ranging implications for U.S. economic and foreign policies. The Secretary of the Treasury, under the direction of the President and in consultation with other Executive Branch agencies, is in the best position to make such decisions.

- We recommend a more flexible approach to grandfathering that would cover all foreign financial firms already established in the U.S. This would obviate any need to rely on the European Community's Second Banking Directive as the criterion for determining access to our market.

Let me respond to some of the concerns raised by critics of Fair Trade in Financial Services. First, our objective is to open foreign markets not to close the U.S. market. Our approach is designed to insure that we continue to enjoy the benefits of an open investment regime which has helped make U.S. financial markets the most liquid, competitive and sophisticated in the world.

In developing a new approach, we have sought to address the concerns expressed by some that reduced access to our market could hurt consumers, borrowers and investors. However, the current activities of all existing firms will be protected and countries not now in our markets will be provided access. In addition, we will guarantee non-discriminatory treatment on expansion and new powers to those countries with open markets or which are prepared to commit to liberalization within a reasonable transition. The ability to expand in our market would be limited only to those countries that fail to open their markets, and we would introduce such constraints only after full consideration of the likely impact on the U.S. economy.

Some have also raised the risk of counter retaliation. We do not believe the risks are significant. Most industrial countries will be protected from sanctions and clearly have the same powers being provided in this legislation. The scope of any sanctions is limited. Moreover, the approach we are pursuing is much more forthcoming and positive than our original proposal by providing very substantial commitments to all countries regardless of their degree of openness. Finally, the authority in the bill will be consistent with our GATT obligations.

Conclusion

This Administration has clearly stated its objective to open foreign financial markets. Fair Trade in Financial Services legislation will complement our efforts multilaterally, bilaterally and regionally to gain access to foreign markets on the basis of national treatment and equality of competitive opportunity. We believe that S. 1527 provides the basis for effective legislation and will work with this Committee and others on the Hill to place a final bill on the President's desk as soon as possible.

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

STATEMENT OF
THE HONORABLE FRANK N. NEWMAN
UNDER SECRETARY OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS SUPERVISION,
REGULATION AND DEPOSIT INSURANCE
OF THE
HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

October 26, 1993

Chairman Neal, Mr. McCollum, and members of the subcommittee, I am pleased to discuss with you today the Administration's views on the geographic restrictions imposed on commercial banks in the United States. These restrictions are unique among the industrialized nations of the world, and many observers consider them among the least defensible of our banking laws.

The Administration supports the idea of relaxing these geographic restrictions, as Secretary Bentsen stated yesterday. In my testimony today I will explore some of the reasons for that conclusion, discuss the concerns most commonly raised with respect to geographic liberalization, and provide the Administration's views on key issues with respect to interstate banking and branching.

I. Reasons to Relax Geographic Restrictions

Geographic restrictions on commercial banks originated in the earliest days of American banking. The purpose of these limits was to protect banks from competition and preserve local markets for local banks. However, these restrictions warrant reassessment because financial markets and institutions, and the economy itself, have evolved dramatically since then.

We no longer find the current framework of geographic restrictions appropriate, for several reasons. First, modern banks operate beyond local markets, and they compete with non-bank institutions that face no similar geographic restrictions. Second, the states themselves have relaxed geographic barriers. Third, removing these restrictions could improve the safety and soundness of the banking system. Fourth, the public could benefit from greater competition, improved bank performance, and greater customer convenience. Finally, removing geographic

restrictions would give banks the flexibility to structure themselves more efficiently, which could permit banks to make more credit available for businesses and consumers.

Current Operating Realities

Banking organizations can no longer be defined in terms of the limited services and facilities that might have been appropriate in past generations. New realities are apparent on both sides of the banking balance sheet. For example, on the liability side of the balance sheet, banks fund themselves not only with traditional (local) retail deposits, but also with large negotiable certificates of deposit, foreign deposits, Eurodollar borrowings, Fed funds, repurchase agreements, and debt and equity issues, among others. These funding transactions can involve local, regional, national, and international financial markets.

On the asset side, large banks have for many years reached for business opportunities beyond local markets. Real estate loans, commercial loans, foreign government loans, securitized loans, and various types of loan participations typically require involvement in non-local markets. The same can be said of such other services as money management, cash management, electronic funds transfers, private placements, credit card distributions, foreign exchange dealing, and various risk management activities.

Further, geographic restrictions keyed to local markets have proven porous. Unlike brick-and-mortar branches, banks' loan production offices and Edge Corporations are not geographically limited. In addition, banking organizations have routinely used subsidiaries to offer such financial services as mortgage finance, consumer finance, and securities brokerage across state boundaries. Moreover, numerous bank holding companies have used grandfather rights, emergency acquisitions, and evolving state laws to establish extensive, though unwieldy interstate banking networks.

Non-Bank Institutions. Many non-bank financial institutions offer products that compete directly with bank services. Yet these non-banks can operate more efficiently because they face no geographic restrictions. Mutual funds, many of which offer check-writing and other consumer conveniences, have become the most notable substitute for insured deposits. Securities firms also compete for the funds of savers by offering cash management accounts, with check-writing and credit card features, through large networks of geographically dispersed offices. Insurance companies provide a bank-like savings service nationwide through insurance policies with redeemable cash value; and they compete directly with banks in making large commercial and real estate loans. Other major competitors that operate free of geographic

restrictions include consumer, business, and sales finance companies; mortgage companies; the captive finance firms of automobile and appliance manufacturers; and retail credit grantors.

On balance, geographic restrictions have outlived their usefulness and no longer reflect bank practice or competition. Rather, they require banks to organize themselves in cumbersome and inefficient ways to compete.

The Trend Among the States

The states already have come to recognize the inefficiencies of geographic restrictions. For example, as recently as 1980, over 50 percent of the states retained highly restrictive intrastate branching policies. Since 1980, however, branching rules have loosened considerably. Today, 46 states (plus the District of Columbia) permit statewide branching. Four states continue with limited branching, and no state retains unit banking -- the old policy of allowing a bank to have only one office.

Interstate banking has developed even more dramatically. From the time of the Bank Holding Company Act of 1956 to the mid-1980s, interstate banking barely existed, and then only through grandfathering or other limited exceptions. But once the Supreme Court upheld New England's regional interstate banking compact in 1985, the states rapidly implemented regional interstate banking. Currently, all states but Hawaii allow out-of-state bank holding companies to acquire banks within the state. However, these laws vary considerably from state to state. Consequently, we lack a uniform, efficient, and truly national approach to interstate banking.

A number of factors help to explain the 1980s' trend toward easing geographic restrictions on banks. These include: (1) the desire of states to attract and pool capital that could be used to support a state's economic growth and development; (2) the need to facilitate the resolution of troubled banks and thrifts by permitting acquisitions by out-of-state institutions; and (3) the growing case presented to state legislators to establish competitive equity for banks vis-a-vis their non-bank competitors.

Safety and Soundness

Relaxing geographic restrictions will tend to promote safety and soundness in the banking system. Allowing banks to diversify their assets geographically promotes an aggregate income flow that is more stable than that from each area taken individually.

The earnings of geographically limited commercial banks are more susceptible to the vagaries of local market cycles, which renders such banks more likely to fail. Indeed, a large number of the bank failures of the 1980s involved institutions which were overcome by regional economic weakness.

Moreover, a strong retail deposit base represents additional protection against failure and is furthered by geographic diversification. Historically, we have had instances where banks heavily dependent on purchased funds have experienced rapid deposit outflows, reducing their stability. We also have had instances where a large, geographically diverse retail deposit base reduced liquidity risk for weak institutions, thereby protecting them against failure.

Finally, to the extent interstate consolidation and branching reduced bank operating costs, bank profitability would increase. This would help banks build their capital accounts, directly contributing to overall safety and soundness.

Competition and Performance

Geographic restrictions represent barriers to market entry that may permit protected banks to perform less favorably in serving consumers and businesses. Bank customers pay for geographic barriers through higher prices for loans and other financial services, reduced locational and product convenience, and lower interest rates earned on deposits. A number of studies of geographic market barriers found that competition and bank performance improved with ease of market entry, resulting in lower prices, higher returns, and greater convenience for bank customers.

Efficiency and Cost Savings

A number of banking organizations and bank analysts argue strongly in favor of the cost savings that many bank holding companies could realize through consolidation via interstate branching. Banks could achieve these cost savings largely by reducing non-interest expenses, as duplicative functions were reduced. While the amount of savings may vary from one bank to another, we are convinced that very substantial efficiencies can be realized by many. Moreover, the fact that savings may vary across banks is not reason enough to deny banks an opportunity to realize these savings.

II. Concerns Raised by Liberalization

A number of concerns are commonly raised with respect to geographic liberalization. Included among these are that liberalization might: (1) lead to a decline in the number of small banks; (2) result in an excess concentration of resources; (3) siphon credit from local communities; and (4) damage the dual banking system. I would like to discuss these concerns further.

Decline in Small Banks

One of the most frequently voiced concerns is that interstate branching will inevitably reduce the number of small banks: large institutions will enter local markets and drive out, or buy up, small community banks. However, ample evidence indicates that this outcome is not inevitable or even likely. For example, in states where intra- and interstate geographic restrictions were significantly relaxed over the years, such as New York, small banks have continued to prosper.

Even in states that have long had liberal branching laws, small banks prosper and compete successfully with large banks. For example, hundreds of small banks, as well as many thrifts and credit unions, operate alongside banking organizations with their far-reaching branch networks in California, which has had unrestricted branching since the early 1900s. Other long-standing branching states, such as New Jersey and North Carolina, also have strong small bank communities.

Thus, fears about the viability of small banks and the maintenance of competition in the face of relaxed geographic restrictions are, we believe, ill-founded. Over the years small banks have been among the most profitable and best-capitalized banks in the nation. Well-managed small banks that know and attend to their customers' needs will not be displaced if barriers to market entry are removed. Moreover, the availability of new bank charters will help to maintain a reasonable balance between large bank organizations and small, independent institutions.

Concentration of Resources

A long-standing concern with respect to the removal of geographic restrictions involves the potential concentration of banking resources and its effects on competition. While this concern cannot be dismissed lightly, new measures to limit concentration are not necessary, and would be extremely difficult to define by statute in a meaningful way. Despite progressive consolidation at the state and national levels, the level of

concentration in local urban and rural markets has remained virtually unchanged for almost two decades. The federal regulatory agencies routinely examine bank merger and acquisition transactions for competitive effects, and this remedy will remain in effect in the event of further relaxation of geographic restrictions.

No Local Reinvestment

Another concern raised is that interstate branching may undermine the intent of the Community Reinvestment Act of 1977, and siphon funds from local communities. But interstate branching legislation need not alter the CRA: all existing requirements for community reinvestment will remain intact and serve to ensure that banks meet local credit obligations. Moreover, no firm evidence indicates that branch banking is more likely than other banking structures to divert funds from local communities. On the contrary, the historical evidence shows generally higher bank loan-to-asset and loan-to-deposit ratios in jurisdictions with more liberal branching.

Indeed, the propensity to export capital or lend locally is unrelated to bank branching structure. For example, a community bank not wishing to lend locally -- or not finding sufficient local loan demand -- can sell Fed funds upstream to a correspondent bank, share in loan participations, or invest in securities rather than loans.

Finally, the siphoning argument amounts to a double-edged sword: a bank can also inject credit into an area, and bring funds into local communities. This is among the reasons why states liberalized their branching and interstate banking laws. That is, broader geographic expansion authority can produce more efficient credit distribution, including a greater flow of funds to communities where the demand for credit is greatest.

The Dual Banking System

An often-raised concern is that interstate branching will damage the dual banking system, but this should not happen. Current legislative proposals for interstate branching generally preserve states' authority to determine banking structure and otherwise regulate financial institutions within their jurisdiction. Under these proposals states would continue to control intrastate branching, by national and state banks, and to limit interstate branching by their own state banks. These proposals also permit states to impose on banks and branches within their borders certain state laws regarding fair lending practices, unsafe and unsound banking practices, and community

reinvestment requirements (as if the bank were headquartered in the host state).

III. The Administration's Principles

As I mentioned earlier, the Administration generally supports the idea of further relaxing geographic restrictions. But in that process, we believe that certain principles should be adhered to. The principles include: (1) promoting efficiency and competition; (2) protecting safety and soundness; (3) meeting consumer and community needs; and (4) respecting the interests of the states. Additionally, we believe that any legislation in this Congress to further relax geographic restrictions should be kept separate from other issues so that it can be considered on its own merits.

We believe it would be consistent with these principles to allow multi-state banking organizations to consolidate their bank subsidiaries. Consolidation would permit these organizations to structure themselves more efficiently, reducing overall banking system costs. And it would benefit consumers and businesses through lower costs and greater convenience in the market for financial services. Moreover, simply consolidating existing interstate banks will not change the amount of banking assets under common control, and does not raise new issues regarding concentration.

Indeed, we believe the issue of market share limits (and other concentration safeguards) demands further analysis. As I discussed in detail earlier, modern banks engage in a wide variety of activities in competition with a wide variety of non-bank financial intermediaries. Because of this, determining the appropriate limits on market share, or even the proper definition of market, can be complicated. Among other things, serious questions need to be answered involving the size of market, the range of institutions covered, and the degree of uniformity of limits across different jurisdictions. Without good answers to these questions, market share limits may not render the intended effect. For these reasons, we believe it is better to continue to rely on reviews of merger and acquisition transactions by the appropriate federal agencies.

We are seriously concerned that any relaxation of geographic restrictions not undermine banks' obligation to serve their local communities. In this respect, it is useful to emphasize that all existing CRA requirements will remain in effect. Moreover, we support provisions for the applicability of state community reinvestment laws to the branches of out-of-state banks. A final concern here is that interstate consolidation of banks into branch systems may reduce the availability of information on banks in their communities. We believe an appropriate response to this concern is a separate CRA evaluation for each

metropolitan area; this matter will be addressed in the new performance-based CRA approach currently being developed by the regulatory agencies.

Finally, any legislation enacted must provide foreign banks with national treatment -- the same competitive opportunities as U.S. banks.

IV. Conclusion

In conclusion, we believe relaxing current geographic restrictions could yield a number of benefits. Banks could benefit from greater efficiency. Businesses and consumers could benefit from less costly financial services, higher returns on savings, and greater locational and product convenience. And the banking system could benefit from improved safety and soundness.

Mr. Chairman, I commend you and the other members of the subcommittee for the seriousness and commitment you bring to this important issue. We look forward to working with you to achieve our common objectives.

I would be pleased to respond to any questions you might have.

AUCTION RESULTS

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
October 26, 1993

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 2-YEAR NOTES

Tenders for $16,530 million of 2-year notes, Series AC-1995, to be issued November 1, 1993 and to mature October 31, 1995 were accepted today (CUSIP: 912827M58).

The interest rate on the notes will be 3 7/8%. All competitive tenders at yields lower than 3.94% were accepted in full. Tenders at 3.94% were allotted 63%. All noncompetitive and sucessful competitive bidders were allotted securities at the yield of 3.94%, with an equivalent price of 99.876. The median yield was 3.91%; that is, 50% of the amount of accepted competitive bids were tendered at or below that yield. The low yield was 3.83%; that is, 5% of the amount of accepted competitive bids were tendered at or below that yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	42,312	42,312
New York	37,484,257	15,118,057
Philadelphia	26,136	26,136
Cleveland	51,726	51,726
Richmond	95,162	95,162
Atlanta	60,178	38,328
Chicago	1,296,010	679,160
St. Louis	35,478	35,478
Minneapolis	14,800	14,800
Kansas City	60,887	60,887
Dallas	26,298	26,298
San Francisco	538,248	96,248
Treasury	245,292	245,292
TOTALS	$39,976,784	$16,529,884

The $16,530 million of accepted tenders includes $866 million of noncompetitive tenders and $15,664 million of competitive tenders from the public.

In addition, $905 million of tenders was awarded at the high yield to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $816 million of tenders was also accepted at the high yield from Federal Reserve Banks for their own account in exchange for maturing securities.

LB-457

TREASURY NEWS

Department of the Treasury   Washington, D.C.   Telephone 202-622-2960

FOR RELEASE AT 2:30 P.M.
October 26, 1993

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $26,800 million, to be issued November 4, 1993. This offering will provide about $3,750 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $23,044 million.

Federal Reserve Banks hold $5,740 million of the maturing bills for their own accounts, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold $2,262 million as agents for foreign and international monetary authorities, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills.

Tenders for the bills will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356, published as a final rule on January 5, 1993, and effective March 1, 1993) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about each of the new securities are given in the attached offering highlights.

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Attachment

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED NOVEMBER 4, 1993

October 26, 1993

Offering Amount	$13,400 million	$13,400 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 H7 2	912794 K4 5
Auction date	November 1, 1993	November 1, 1993
Issue date	November 4, 1993	November 4, 1993
Maturity date	February 3, 1994	May 5, 1994
Original issue date	August 5, 1993	May 6, 1993
Currently outstanding	$12,407 million	$14,354 million
Minimum bid amount	$10,000	$10,000
Multiples	$ 1,000	$ 1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

Noncompetitive bids . . . . Accepted in full up to $1,000,000 at the average discount rate of accepted competitive bids

Competitive bids . . . .
(1) Must be expressed as a discount rate with two decimals, e.g., 7.10%.
(2) Net long position for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is $2 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid at a Single Yield . . . . 35% of public offering

Maximum Award . . . . 35% of public offering

Receipt of Tenders:

Noncompetitive tenders . . . . . . Prior to 12:00 noon Eastern Standard time on auction day

Competitive tenders . . . . Prior to 1:00 p.m. Eastern Standard time on auction day

Payment Terms . . . . Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

FOR RELEASE UPON DELIVERY
Expected at 10:00 a.m. EDT
October 27, 1993

STATEMENT OF
LESLIE B. SAMUELS
ASSISTANT SECRETARY (TAX POLICY)
DEPARTMENT OF THE TREASURY
BEFORE THE
COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE

Mr. Chairman and members of the Committee, I am pleased to be here today to discuss the bilateral tax treaties and protocols with seven countries that are currently pending before you. My colleague, Mr. Sessions, will discuss the treaty with Mexico. Although these treaties were, for the most part, negotiated and signed by prior Administrations, I am here on behalf of the Administration to urge the Committee to take prompt and favorable action on all of these agreements.

The treaties and protocols before the Committee today include a range of U.S. interests. There are treaties and a protocol with some of our most important trading partners, such as the Netherlands. There are agreements with smaller, but nevertheless significant, U.S. partners -- Israel and Barbados. There also are three treaties with countries that are likely to become significant partners in the future -- the Russian Federation, the Czech Republic and the Slovak Republic.

Since this is my first appearance before this Committee, and is also the first opportunity for some members of the Committee to consider tax treaty issues in detail, I would like to take this opportunity, before discussing the individual agreements, to share with you the Administration's views regarding the U.S. tax treaty program. As the Committee is aware, the Administration is committed to ensure that foreign investors in the United States are bearing their fair share of the U.S. tax burden. An extensive tax treaty network greatly facilitates that process through the cooperation that it engenders between the tax authorities of the Contracting States. An active tax treaty program is also a significant element in the overall international economic policy of the United States. The presence or absence of a tax treaty is often a factor in international business and investment location decisions. A treaty does affect the ability of a firm to compete in international markets. There can be little doubt that tax treaties facilitate international flows of goods, capital, services and technology.

A network of bilateral tax treaties is a necessary addition to tax legislation that deals with the taxation of international flows of income, because legislation, by its nature, is unilateral, and, to the extent that it deals with such income, it cannot easily distinguish among countries. It cannot take into account other countries' rules for the taxation of particular classes of income, and how those rules interact with the U.S. statutory rules. Neither can legislation reflect variations in countries' bilateral economic relations with the United States. We cannot, for example, distinguish in any practical way, between income flows to or from another industrial country and those flowing to or from a developing country. This is often an important distinction. By contrast, all of these factors can be taken into account in international agreements which can alter, in an appropriate manner, domestic statutory law as it applies to income flowing between the parties to the agreement.

General Purpose of Tax Treaties

International flows of income are generally subject to taxation in at least two jurisdictions -- the country in which the income arises (i.e., the source country) and the country of residence of the income recipient. Unlike most countries, the United States also taxes on the basis of citizenship, taxing its nonresident, as well as resident, citizens on worldwide income. Thus, when a U.S. citizen is involved, a third taxing right may also be present. Treaties are designed to avoid the resulting double (or triple) taxation by assigning to one country the primary right to tax each class of income.

Strong arguments can be made for assigning primary taxing rights on cross-border income flows to either the source country (the country in which income arises) or the residence country (the country of residence of the owner of the income). Since the source country provides the infrastructure, legal protections and many other resources that support the income generating activity and enhance its profitability, a strong case can be made for giving that state the primary taxing right. Furthermore, since source taxation is frequently imposed on gross income flows, it offers a relatively simple, objective basis for application. Developing countries, in particular, tend to prefer this basis for taxation because it does not require the acquisition and verification of extensive information on expenses associated with particular items of income.

There are, however, also strong arguments that can be made against source taxation and in support of residence-based taxation of international income flows. Residence taxation can be based on worldwide net income, taking into account the economic circumstances of the taxpayer. With source-basis tax, only a portion of the taxpayer's income and expenses can be taken into account. For example, the taxpayer may generate a small amount

of income in the source country which may be more than offset by losses in the rest of the world. The result of a tax at source is the taxation of a person with overall losses. Furthermore, source basis tax is most often imposed by means of withholding tax on gross income payments, particularly for dividends, interest and royalties. Even a moderate rate of tax on gross income can often translate into an excessively high rate of tax on net income. Treaties generally limit withholding rates at source on dividends, interest and royalties to a maximum well below the statutory rate, in many cases to zero, at least with respect to interest and royalties.

With respect to income from business activities or personal services carried on in one country by a resident of the other, treaties generally require a greater level of activity in, or a closer nexus to, the host country than that required under domestic law before it can tax the income. When the threshold test for host-country tax has been passed, tax is imposed at ordinary statutory rates, but the tax is on net income, not gross, thus avoiding the major problem with high source country tax on passive income.

For example, unrelieved double taxation can arise from a difference in views between two countries on the allocation of the income that arises from a transaction between two related parties. The tax treaty norm for resolving these so-called "transfer pricing" disputes is the arm's length standard. Some have questioned whether it is advisable to continue to adhere to that standard in our tax treaties. For at least three reasons, this Administration firmly believes that such adherence is essential in the context of our tax treaties. First, it is essential that tax treaties maintain an agreed standard for resolving transfer pricing disputes. Second, if the international community at some point decides that it is advisable to accommodate use of a different standard, it will do so irrespective of the provisions of these and other treaties. Finally, adherence to the arm's length standard in our tax treaties is essential to the success of the Administration's efforts to improve compliance with our transfer pricing rules.

It is imperative that tax treaties apply a common treaty standard to determine transfer prices and to resolve transfer pricing disputes. It is unlikely that our trading partners will conclude tax treaties with the United States, including those treaties under consideration today, that do not adhere to the arm's length treaty standard. If the United States and its treaty partners employed different standards, the burdens on taxpayers and tax administrations would be incalculable. One set of transfer pricing rules based on the arm's length standard and another set of rules based on a different standard would lead to different answers in virtually every case. By effectively requiring taxpayers to report two different levels of income for

the same set of transactions, a system would be created that effectively required taxpayers to violate the transfer pricing rules of either the United States or its treaty partner or to perform two completely different types of calculations for each transaction.

Some critics of the arm's length standard fear that the United States ties its hands for the future by concluding new tax treaties that adhere to the arm's length standard. These treaties do not, however, tie our hands for the future. Due to the heavy burdens, described above, that would arise if a country unilaterally departed from the arm's length treaty standard, it would only be feasible for a nation to move to another treaty standard in conjunction with the rest of the world. If the major economic actors in international trade agree that the arm's length standard is no longer viable and that another treaty standard must be adopted, they will agree on that standard and develop guidelines for uniform application of that standard. Such consensus will avoid the economic dislocations that would ensue from unilateral abandonment of the arm's length treaty standard.

The world's existing tax treaties would inevitably give way in the face of such a consensus. They would either be interpreted in a new way to permit the use of the new standard or be revised to permit it. If the time comes to shift to a new treaty standard, we and our treaty partners will do so, regardless of the provisions of these particular treaties.

Finally, departing from the arm's length standard in these treaties would undermine the centerpiece of this Administration's transfer pricing compliance efforts, the Advanced Pricing Agreement (APA) program. Under the APA program, the taxpayer works together with the IRS and a foreign tax administration to develop an agreed approach to that taxpayer's transfer pricing issues. An effective APA program depends on an agreed standard for determining transfer prices and the ability to exchange information. These essential ingredients are provided by our tax treaties. If we do not have tax treaties, the APA program and our transfer pricing enforcement efforts will be seriously undermined. Based on the forgoing, I ask that this Committee endorse the Administration's enforcement efforts and embrace the provisions of these treaties that adhere to the arm's length standard.

Having granted a limited primary taxing right to the source country, treaties then obligate the residence country to relieve international double taxation either by exercising a residual taxing right and granting a foreign tax credit for the tax imposed by the source country, or by exempting the income that has been taxed in the source country. The United States avoids double taxation, both in internal law and by treaty, by means of

a foreign tax credit. For the United States, its treaties merely confirm the already available statutory treatment. Some countries, however, provide only a deduction for foreign taxes by statute and rely solely on treaties for full removal of double taxation.

Given the fact that we provide a generous foreign tax credit unilaterally, which we do not expand upon by treaty, one might ask why it is necessary to devote resources to the negotiation of an extensive network of "treaties for the avoidance of double taxation." There are, in fact, a number of good reasons. The presence of a unilateral foreign tax credit, does not necessarily avoid double taxation, and certainly does not eliminate the need for a double taxation treaty. Ordinarily a degree of coordination between the countries' tax systems, which is accomplished by treaty, is required.

To take another case, it might appear that reductions in source-country withholding rates on investment income payments can do little to facilitate foreign investment because one might assume that the lower foreign tax merely lowers the foreign tax credit that the residence country is required to allow, and the reduction in source-country tax merely transfers revenues from the source country to the residence country. This is not, in fact, likely to be the result in most cases. The income tax rates imposed by the United States on its residents tend not to be high by world standards, even after the recent amendments to the Code. When a dividend is paid to a U.S. parent by a subsidiary in a country with a corporate rate roughly comparable to, or even slightly lower than, that in the United States, that dividend is subject to a withholding tax in the source country. In the absence of a treaty, that withholding tax will frequently be imposed at a rate of 25 or 30 percent. Thus, the amount allowed as a foreign tax credit in the United States for the combination of the withholding tax and the amount of corporate tax on the income from which the dividend is paid, can exceed the limit on the credit, set under the Internal Revenue Code by reference to the U.S. tax on that income. A reduction in the foreign withholding tax, therefore, may reduce excess foreign tax credits, and provide a direct benefit to the U.S. investor.

Tax treaties also operate to minimize the effects of tax considerations on investment location decisions and minimize tax effects on decisions affecting trade, technology transfer and the provision of personal services. This tends to facilitate the cross-border flow of services and technology. For example, treaties exempt, or substantially reduce, source-country taxation of royalties and know-how payments. Also, the personal service provisions of tax treaties often permit a resident of one country to work in the other for short periods of time without becoming subject to host-country tax.

Tax treaties also provide for cooperation between the tax administrations of the two countries. Much of this cooperation is aimed at the "prevention of fiscal evasion" purpose of tax treaties. Every treaty designates a competent authority for each partner. The competent authorities exchange information, including otherwise confidential taxpayer information, as may be necessary for the proper administration of the countries' tax laws. As mentioned previously, effective information exchange is central to the success of the APA program.

This aspect of tax treaties has increasingly come to be recognized, both by our tax administration and by the administrations of our partners, as one of the most important. We have several kinds of information exchange programs in place and working with our treaty partners. The information that is obtained by these programs may be used, for example, to identify unreported income or to investigate transfer pricing cases. Information exchange is particularly important in the context of transfer pricing, as administration of our transfer pricing rules frequently requires the United States to acquire financial data not only from the U.S. taxpayer, but also from the U.S. taxpayer's foreign affiliates.

In addition to exchanging information, the competent authorities are empowered to resolve disputes that arise under a treaty, thus giving investors a place to turn in the event of a conflict with host-country tax authorities. We believe that this is an important benefit of treaties, and the Internal Revenue Service has recently developed new procedures intended to make the process more accessible to taxpayers and more efficient.

The treaty with the Netherlands builds upon the German treaty signed in 1989 and approved by the full Committee in 1990, by providing for the possibility, in the future, of expanding dispute resolution through the use of voluntary, binding arbitration. In approving the German treaty, the Committee suggested that the use of arbitration in international tax disputes be given an opportunity to be tested, under the U.S.-German treaty and under the EC procedures on the subject, before making it a standard part of U.S. bilateral tax policy. The Netherlands treaty, therefore, contains an arbitration provision that can become operational only after being triggered by a formal exchange of diplomatic notes. We do not intend to exchange such notes until we are satisfied, on the basis of experience, that arbitration offers a practical, workable, back-up to the traditional competent authority mechanism for the resolution of bilateral international tax disputes.

Treaties with Developed and Developing Countries

There are treaties under consideration today with both developed and developing countries. They differ in certain

respects both in form and in objective. In a treaty between two industrial countries, capital and technology tend to flow in both directions. The income generated from these flows, therefore, also flows in both directions. Each partner is the source country with respect to some flows of income, and, therefore, costs and benefits of the treaty tend to be roughly reciprocal. It follows further, then, that each partner has the same general interests in a treaty -- to ensure that the benefits granted by the partner flow to its residents, and to encourage trade and investment in its country by residents of the partner. Such treaties, exemplified by the treaty before you with the Netherlands, are designed in a reciprocal manner to enhance the bilateral economic relations between the partners.

The economic relationships between the United States and its developing country treaty partners, in contrast, are generally quite different. The vast bulk of the capital and technology flowing between the partners moves from the United States to the developing country. The income, therefore, flows almost exclusively from the developing country to the United States. Since a typical tax treaty provides for a substantial reduction of taxes at source, it is the developing country partner that is called upon to bear the bulk of the revenue cost. The cost is magnified when the tax reduction relates to payments that are normally deductible in the source state. Accordingly, the objectives of the partners in such a treaty are not the same as those of two developed country treaty partners.

The developing country partners' often conflicting objectives are attracting U.S. capital and technology, while, at the same time, preserving scarce revenues. Developing countries often try to square those two objectives by seeking to retain high source-country taxes, while asking the United States, the capital exporting country partner, to provide a tax incentive for its residents to invest in the developing country. This incentive generally takes the form of a "tax sparing credit". This is a "phantom" foreign tax credit for the taxes that would have been paid to the developing country but were waived under its tax holiday regime.

The United States will not agree to such incentives. This is a major factor in the relatively small size of the U.S. network of treaties with developing countries. The objective of the United States is to move in the direction of neutrality for U.S. investors (often by lowering the frequently high developing country's taxes), while seeking to minimize the revenue sacrifice by the developing country to the extent possible consistent with this objective.

In support of their interest in preserving revenues, developing countries tend to be reluctant to reduce their withholding taxes on dividends, interest and royalties paid to residents of

the other country. Further, they typically apply such withholding taxes to broad categories of income, including payments for the lease of equipment, and, in some cases, payment for technical services, whenever the payment is made (and, thus, a deduction is taken) by a resident. One of the most difficult articles to negotiate in a treaty with a developing country is frequently that dealing with royalties, because of the one-way flow of income and the high rates and broad base sought by developing countries.

Each of the treaties under consideration today is the result of a negotiated bargain between countries with some conflicting objectives. The objectives that developing countries bring to the table are frequently much different than those of other developed countries. Thus, our treaties with developing countries are often a reflection of the practical reality that an agreement requires greater concessions and compromises. Therefore, the choice in many cases is between a treaty that accomplishes much, but not all, of our objectives, and no treaty at all, not a more nearly perfect treaty from the U.S. viewpoint. Although there are certainly some aspects of U.S. treaty policy that are non-negotiable (e.g., the inclusion of anti-abuse rules, the preservation of taxing rights with respect to U.S. citizens and residents and the refusal to grant tax sparing) we believe that the interests of the United States are best served by minimizing preconditions for negotiations.

Relationship between Statutes and Treaties

We are all certainly aware, as are our treaty partners and potential partners, that our Constitution grants the right to Congress to override obligations under bilateral treaties by unilateral act of Congress. Since treaties and statutes are both "the law of the land" and have equal status, the general principle is that the later in time prevails in the absence of specific Congressional indications to the contrary.

Under the constitutional systems of many of our treaty partners, treaties constitute a higher form of law than statutes, and cannot, therefore, be overridden by a later statute. In some countries, such overrides are constitutionally possible, but seldom, if ever, exercised. I would strongly urge Congress to avoid such overrides.

The treaties under consideration by this Committee today contain two lessons on this important subject. First, I believe that our new treaty with the Netherlands provides clear and ample evidence that serious problems in the operation and effect of our treaty program do not require treaty override, but can be resolved by bilateral negotiation. Our present Dutch treaty has been one of the most widely abused in our entire treaty network. Investors from all over the world have used that treaty as a

vehicle for investing in the United States in order to derive benefits to which they are not properly entitled. Congress has, on occasion, considered the use of overrides to eliminate treaty shopping into the United States. I believe that the new Dutch treaty provides us with as clear a statement as can be made that even problems as serious as this one can be resolved bilaterally.

The second lesson is of the strong negative feelings that our treaty partners hold regarding the entire process of treaty overrides. Our negotiators are finding that our treaty partners are becoming increasingly concerned by the possibility that agreements that are reached in good faith at the negotiating table may, in future years, cease, by unilateral U.S. action, to have effect. This has two consequences. First, countries are less willing to make concessions that would benefit U.S. business and investors because they fear a treaty is likely to be "unbalanced" by future legislation. Also, they increasingly are insisting on some provision in new treaties that preserves a right to respond to U.S. overrides.

Our new treaty with the Netherlands and the pending Protocol to the treaty with Israel, provide for the competent authorities to consult if a change in law or its application in one of the Contracting States is thought to impede the application of the treaty. These consultations would, if appropriate, lead to a reopening of negotiations to reach agreement on amendments to the treaties to restore the overall balance that had existed prior to the statutory change in question. While we hope that there will be no need in the future to resort to this type of provision, we believe that it does offer a reasonable mechanism for dealing with treaty overrides, should they arise. This provision does not commit the Administration to agree to a future protocol that may result from the application of this provision. Nor does approval by the Senate of a treaty containing such a provision imply a commitment to approve a future protocol.

<u>Treaty Abuse</u>

The United States has been the leader among OECD countries in identifying problems of treaty abuse, and dealing with these problems in bilateral treaties. We have included some form of anti-abuse provision in almost every treaty concluded since the mid-1970's. Other countries are now, increasingly, following the U.S. lead on these matters, and in 1992 the Commentary of the OECD Model income tax treaty was substantially revised to describe these issues and suggest possible solutions. I think, because of the emphasis we have placed on these issues in recent years, the United States Government can take much of the credit for this development.

When I speak of "treaty abuse," I refer to circumstances in which a structure is established that will allow a person, who

may or may not be a resident of one of the Contracting States, to enjoy the benefits of a treaty where such benefit was not intended. The most widespread of such abuses is a practice known as "treaty shopping". I do not intend in this part of my testimony to describe either the nature of the abuses or of the remedies, other than to assure the Committee that we believe that the anti-abuse provisions in each of the treaties under consideration deal appropriately and adequately with the potential for abuse. I will, however, discuss these issues in some detail below in my discussion of the individual treaties, particularly that with the Netherlands.

My purpose now is to assure the Committee that this Administration continues to view treaty abuse as an important issue. We want to make certain that those seeking to take undue advantage of the system, will not, with the revision of the Netherlands treaty, merely be able to turn to another U.S. treaty partner and receive the same unintended advantages. We intend, as promptly as time and resources permit, to modify all of our existing treaties to include modern, effective, anti-abuse provisions. We have, in this connection, announced that we will be opening negotiations with Luxembourg in early December.

Future Treaties

The United States currently is negotiating treaties or protocols with more than 20 countries. Generally these negotiations have the purpose of updating an existing treaty to reflect changes in U.S. tax law since the treaty was negotiated (or last amended by protocol) -- particularly the Tax Reform Act of 1986 -- and to expand the U.S. treaty network to include additional countries. In particular, the United States is now negotiating with many of the republics of the former Soviet Union to replace the existing treaty with the USSR, which although still in force in those countries does not reflect the political and economic developments of the last few years. We also hope to expand the network to include more of the fast-growing economies of East Asia and Latin America. However, as I have noted, concluding treaties with developing countries is often a difficult task because of the hard compromises that need to be made.

Netherlands Convention and Protocol

General Background

I would like to turn first to the new Convention and Protocol with the Netherlands, and the detailed memorandum of understanding and exchange of notes that accompany the Convention and the Protocol. This agreement has, without doubt, attracted the most attention in the international tax and business communities of all of those before this Committee today. The proposed new Convention with the Netherlands, and the Protocol amending that

Convention, will replace the existing treaty, which was originally signed in 1948, and was last amended in 1965. The present treaty has become one of our most important tax treaties, in part because of our extensive bilateral economic relations with the Netherlands, and in significant part because the Netherlands has become a major conduit through which third-country residents invest in the United States. Many of these third-country residents are engaged in a practice known as "treaty shopping." Treaty shoppers are frequently from a country with which the United States has no tax treaty, or a treaty providing limited benefits with respect to the relevant classes of income. Such persons can obtain the benefits of the U.S.-Netherlands treaty by establishing a resident entity in the Netherlands, providing capital to that Netherlands entity and then directing the entity to invest in the United States on the third-country resident's behalf. Since the entity is a resident of the Netherlands, the income that it receives from the United States is entitled to the full benefits of the U.S.-Netherlands income tax treaty. The entity, its capital structure and its income flows will frequently be arranged in such a way that it will pay little tax in the Netherlands, and will be able to make income payments from the Netherlands to the third-country resident at little tax cost. If the third-country resident had invested directly in the United States, income flows from the United States potentially would be subject to full U.S. withholding tax of 30 percent.

I would like to explain why treaty shopping is a concern to the United States, and why it is important to our treaty program that it be controlled. The concern is not so much the loss of revenues that occurs when a payment to a resident of a treaty country receives the benefits of a U.S. treaty, even though the ultimate beneficial owner of the income (i.e., the real investor) is a resident of a third country who would not be entitled to the benefits of that treaty if the investment had been made directly from the real investor's home country. A much more significant problem growing from the extensive use of treaty shopping is that the residence country of the real investor is under little pressure from its residents to enter into a treaty with the United States. If that country's residents can obtain the best treaty benefits that the United States has to offer, for example through use of the U.S.-Netherlands treaty, that country will have no strong reason to enter into a treaty with the United States, which would require it to grant reciprocal benefits to U.S. residents. U.S. residents, therefore, will receive no benefits with respect to income from their investments in that country. This is not a theoretical matter. When the initialling of the new U.S.-Netherlands treaty was announced, and it became clear that it would deal with this treaty-shopping issue, investors in several other countries suddenly became interested in the progress, if any, in developing a treaty relationship between their countries of residence and the United States, and began

pressuring their home countries to move forward quickly toward agreement with the United States.

As I indicated, at least in part because of the use of the present Netherlands treaty as a vehicle for treaty shopping, that treaty has become one of the most important elements in our tax treaty network. The proposed new treaty, therefore, is also of tremendous significance, since it is designed to limit treaty shopping through the Netherlands. While there are many important, and in some cases innovative provisions in this treaty, there is no question that it is the anti-treaty shopping rules that have attracted the most attention. I think that it is fair to say, as well, that the anti-treaty shopping rules under Article 26, called the Limitation on Benefits provisions, constitute the most complicated set of tax treaty provisions ever devised. I will discuss these rules in some detail below, but I would like merely to note at this point that I believe these rules constitute an effective and comprehensive method of dealing with treaty shopping. In evaluating the balance of costs and benefits that is reflected in this agreement, it is important for the Committee to bear in mind that the effective elimination of the Netherlands as a path for treaty shopping into the United States represents an important concession on the part of the Netherlands, a concession that will prove costly to many in the Dutch private sector. The extreme complexity of the provision is the result of the desire by the Dutch negotiators to provide the maximum degree of certainty for its taxpayers who are not engaged in treaty shopping. I would not expect such complexity to be considered necessary in most bilateral relationships.

There is a second abusive structure under the Netherlands treaty that has become widely used by residents of the Netherlands to derive a combination of U.S. and Dutch tax benefits in an unjustified manner. This structure is known as the "triangular case," under which an enterprise that is a resident of the Netherlands sets up a permanent establishment (i.e., a branch) in a low-tax, third jurisdiction and derives interest or royalty income from the United States that is attributable to that branch. The branch is an integral part of the Dutch enterprise, and the income that it derives, therefore, is the income of a resident of the Netherlands, entitled to U.S. benefits under the U.S.-Netherlands income tax treaty (assuming that resident has met at least one of the tests of the Limitation on Benefits provisions). Under Dutch law, as well as under bilateral arrangements between the Netherlands and a number of other jurisdictions, the profits of a branch of a Dutch enterprise are exempt from tax in the Netherlands. Had the interest or the royalty income been earned directly by the Dutch enterprise, and had it not been attributable to the branch, it would have been subject to full Dutch tax (35 percent in the case of a Dutch corporation). By passing the income through the third point in the triangle (i.e., the third-jurisdiction branch), the income is

subject to no tax in the United States, to little or no tax in the host jurisdiction of the permanent establishment, and is exempt from Dutch tax.

When the new Convention was being negotiated, the United States wanted to include a rule that would prevent such abuse. Since this is primarily a problem of abuse of the Dutch system, which the Dutch Government has recognized as being considerably broader than a U.S.-Netherlands bilateral issue, the Netherlands negotiators asked that their Government be given an opportunity to correct the problem unilaterally before dealing with it in the new treaty. A provision was, therefore, put into the treaty (Article 24(4)) under which the issue was identified and it was agreed that if the problem had not been unilaterally resolved by the time of hearings before the Foreign Relations Committee on the treaty, a Protocol would be negotiated to deal with the problem.

Legislation has been proposed in the Netherlands to deny the Dutch exemption of permanent establishment profits in certain abuse cases. I have received assurances from my counterpart in the Dutch Government that they are pressing forward to enactment. The legislation, however, has not yet been enacted, and, in any event, the problem cannot be entirely solved by unilateral action of the Dutch Parliament, because in some cases the Dutch exemption is the result of treaties and other bilateral agreements that in the Netherlands cannot be overridden by statutory enactment. As a result, it was necessary to agree to a Protocol to cover cases that would not be addressed by the proposed Dutch legislation. The Protocol before you today, therefore, was negotiated to carry out the intent of Article 24(4).

Despite the public attention that has been devoted to Article 26, and, more recently, to the Protocol, it is important to bear in mind that the objective of the treaty is to provide treaty benefits for the "qualified" residents of the two contracting states, not to deny benefits to those residents that do not qualify. Before discussing those rules that will deny benefits to certain residents of the Contracting States, therefore, I would like to review with the Committee the significant benefits that the treaty will provide to residents of the two countries and to both tax administrations.

General Provisions

The tax treaty provisions that generally affect the largest numbers of taxpayers are the investment income articles -- those articles that limit the rates of taxation at source on dividends, interest and royalties. The proposed treaty, like the present treaty, follows the standard for U.S. treaties with other industrial countries -- generally low or zero rates. Most dividends are subject to tax at source at a rate of 15 percent, except when

the shareholder is a corporation that owns at least a 10 percent interest in the paying corporation, in which case the rate is 5 percent. This 5 percent rate also applies to the "dividend equivalent amount" under the U.S. branch tax. The treaty also reflects what has now come to be the standard U.S. policy for the taxation of dividends paid by RICs and REITs. In order to prevent the transformation of what should be relatively high-taxed income paid into these entities into lower taxed income, special rules are provided for dividends paid by these entities, as well as by their Dutch counterparts.

Interest and royalties are both generally exempt from tax at source. Once again, in conformity with what has become standard U.S. treaty policy, excess inclusions with respect to residual interests in REMICs are subject to the statutory withholding rate of 30 percent. A minor variation in our standard approach to the taxation of royalties is found in the source rule, under which certain royalties paid by residents of the Netherlands can be treated as U.S. source. These are cases in which the Dutch payor acts as a conduit for the payment of royalties from the United States to residents of a third State.

As a general matter, various types of business profits are subject to the standard treaty rules under this proposed treaty. Business profits of an enterprise of one State can be taxed in the other State only when those profits are attributable to a permanent establishment in that other State. The definition of a "permanent establishment" in the treaty is also standard for treaties between industrial countries. The proposed treaty incorporates a provision of the 1986 Tax Reform Act that attributes to a permanent establishment income that is earned during the life of the permanent establishment, but is deferred, and not received until after the permanent establishment no longer exists. Two other types of business income -- income from real property, and profits from the operation of ships and aircraft in international traffic, are subject to the normal rules. Real property income is taxable in the country of situs of the property, under its statutory rules, and transport income is taxable only in the State of residence of the operator.

Some types of business income, however, are subject to non-standard rules. Income from offshore petroleum exploration activities is subject to special rules under which lower taxation thresholds apply than under standard treaty rules. The rules in the proposed Convention are similar to those found in our treaties with two of our other treaty partners bordering on the North Sea -- the United Kingdom and Norway. In addition, income from the rental of ships and aircraft, that is not incidental to the operation of ships and aircraft, and income from the use or rental of containers, are treated as business profits rather than as transportation income. As such, to the extent attributable to a permanent establishment in that country, these classes of

income are subject to tax in the country where the income arises. While I recognize that this treatment is not consistent with standard U.S. treaty policy, and is something that U.S. negotiators work hard to avoid, the Committee should understand that this is the policy underlying the rules found in the OECD Model treaty, and is the result on which the Netherlands insisted.

The taxation of capital gains under the proposed Convention will be essentially the same as under the present treaty and the U.S. Model, with two exceptions. A special "fresh-start" rule, similar to the rule in the U.S.-Canada treaty, is provided to increase basis to fair market value as of the end of 1984 (when the current U.S.-Netherlands treaty was overridden by the 1980 Foreign Investment in Real Property Tax Act (FIRPTA) legislation) for gains on certain U.S. real property interests that have been held continuously by a Netherlands resident since 1980. In addition, deferral of tax on gains arising from certain corporate reorganizations is provided until such gains are also recognized in the other State, provided the payment of tax is adequately secured.

The proposed Convention contains rules, not found in the U.S. Model, for exemption, on a reciprocal basis, for certain income earned by exempt pension trusts and charitable organizations.

The proposed Convention provides a U.S. foreign tax credit for the Dutch profit share tax imposed on offshore oil income. Since this credit may go beyond the credit allowed under the Internal Revenue Code, special limitations are provided to assure that the credit for this tax cannot be applied with respect to income that was not subject to the profit share tax.

Also included in the proposed Convention are the normal rules necessary for administering the Convention, including rules for the resolution of disputes under the treaty and the exchange of information. As I noted above, the dispute resolution provisions include the possibility of using an arbitration procedure for certain disputes that cannot be resolved under traditional tax treaty procedures by the competent authorities. The use of arbitration, however, will not begin until the two States have agreed that it is appropriate to do so.

The proposed Convention authorizes the General Accounting Office and the tax-writing Committees of Congress to obtain access to certain tax information exchanged under the Convention for use in their oversight of the administration of U.S. tax laws and treaties. Like the present Convention, but unlike the U.S. Model, the proposed Convention also provides for the mutual assistance by each State in the collection of taxes for the other.

The proposed Convention is subject to ratification. It enters into force 30 days after each State has notified the other that it has completed all of its ratification procedures. It will have effect, with respect to taxes payable at the source for payments made or credited on or after the first day of January following entry into force, and in other cases with respect to taxable years beginning on or after that date. Where, however, the present Convention affords a more favorable result for a taxpayer than the proposed Convention, the taxpayer may elect to continue to apply the provisions of the present Convention, in its entirety, for one additional year. This will, among other things, provide ample opportunity for investors who may be affected by the anti-abuse provisions to restructure their operations in a manner that will permit them, legitimately, to enjoy the benefits of the Convention.

Anti-abuse Provisions

Treaty Shopping

The proposed Convention contains, in Article 26, significant rules to extend the benefits of the Convention only to persons that are not engaged in treaty shopping. In addition to the significantly greater detail than that found in other anti-treaty-shopping provisions, with respect to residents of the Netherlands, greater explicit recognition is given than in other recent treaties with EC members to the position of the Netherlands as a member of the European Communities. This latter concession reflects the closer economic relationship that exists between EC member countries than between other trading partners.

I cannot do justice in this kind of presentation to the degree of specificity that is included in the Article, but I will try to describe its provisions for the Committee in general terms.

First, Article 26 identifies, in paragraph 1, certain classes of residents of a Contracting State that are entitled to the benefits of the Convention. Individual residents and the Governments of the Contracting States, and their political subdivisions and local authorities are entitled to benefits. Benefits are granted to resident companies that are publicly traded on a "recognized stock exchange", including an exchange in one of the Contracting States, and, subject to certain tests, a subsidiary of a publicly traded company. Ownership by residents of certain EC countries may also be taken into account in determining qualified ownership of Netherlands companies. Benefits are also granted to a resident that is more than 50 percent owned, directly or indirectly, by the persons described above, and that is not engaging in "base erosion" (i.e., less than 50 percent of its gross income is used to make deductible payments to non-qualified persons). Finally, paragraph 1 provides that

residents of a Contracting State that are not-for-profit organizations that meet certain tests will be entitled to benefits. Any person that qualifies for benefits under the provisions of paragraph 1 is entitled to benefits with respect to any item of income derived from the other Contracting State.

Paragraph 2 provides that even if a person does not qualify for benefits under the rules described in paragraph 1, that person may qualify with respect to specific items of income that are related in a specified manner to an active trade or business carried on by that person in his State of residence. Either the income generating activity in one State must be related to the active business in the person's State of residence, and that active business must be substantial in relation to the size of the income producing activity in the other State, or the item of income must be incidental to the trade or business carried on in the State of residence. In the case of a Netherlands resident, some of the residence country activities may be carried on in other EC countries.

Paragraph 3 specifies conditions under which a resident of a Contracting State that is functioning as a headquarters company for a multinational corporate group may qualify for benefits. These requirements ensure that a significant amount of real business activity is being carried on in a qualified headquarters company in the Netherlands or the United States, as the case may be.

Paragraph 4 grants, in a limited and highly specified manner, what has become known as "derivative benefits". This term relates to the fact that the entitlement to benefits derives, in part, from the provisions of treaties between the source country and third countries. The benefits granted under this paragraph are only those relating to dividends, interest, royalties and branch tax. These benefits are to be granted if the resident of the Netherlands claiming benefits is at least 30 percent owned by qualified Dutch persons, and at least 70 percent by resident of EC member countries whose treaties with the United States provide the same or greater benefits with respect to the item of income in question.

Finally, paragraph 7 provides that in cases where a resident of a Contracting State does not qualify for benefits under any of the objective tests described above, but, nevertheless believes that it should be entitled to benefits, it can seek a ruling from the competent authority of the State of source of the income granting benefits.

The Memorandum of Understanding to the Convention and the Exchange of Notes to the Protocol provide extensive guidance to taxpayers and to the competent authorities in interpreting and administering the provisions of this Article.

Triangular Case

Articles 1 and 2 of the Protocol deal with the two classes of income affected by the triangular case issue--the taxation of interest and royalties, respectively. These two items of income were the focus of our concern in negotiating the Protocol because they are the classes of income that are exempt from U.S. tax under the treaty and that, if earned directly by a resident of the Netherlands and not attributable to a third-jurisdiction permanent establishment, would be subject to Netherlands tax. Those Protocol provisions specify the factors that identify the abusive cases, and provide rules to prevent the abuse. Although the provision is drafted reciprocally, it will almost invariably apply in cases where the income recipient is a Dutch resident deriving income from the United States. An abusive triangular case is one in which income is paid by a U.S. resident to a resident of the Netherlands and is attributable to a permanent establishment in a third jurisdiction, and the income is subject to a combined effective rate of tax in the Netherlands and the host jurisdiction of the permanent establishment that does not reach a specified threshold. That threshold is 50 percent of the rate of tax generally applicable in the Netherlands (currently 35 percent for corporations) for income arising before January 1, 1998. For income arising on or after January 1, 1998, the threshold rate of aggregate tax is 60 percent of the tax generally applicable. Regardless of the aggregate rate of tax, a structure will not be treated as abusive if the income is generated by an active business carried on within the permanent establishment. In the case of interest, the making or managing of investments is not treated as an active business for this purpose, unless the activities are banking or insurance activities carried on by a bank or insurance company. In the case of royalties, an active business is one in which the intangibles in respect of which the royalties are paid are produced or developed by the permanent establishment. When on the basis of these factors, a payment of interest or royalties is deemed to be an abusive transaction, the maximum rate of U.S. withholding tax is increased from zero to 15 percent, which corresponds, with only limited exceptions, to the highest rate of withholding tax on interest and royalties found in U.S. tax treaties.

The provision for a 15 percent rate of U.S. withholding tax on gross income payments makes it unlikely that this structure will be used in the future.

We believe that the anti-abuse provisions of the Convention and Protocol, coupled with the enforcement of new statutory rules such as those relating to back-to-back loans, will serve to allow the new Convention as amended by the Protocol to serve its intended function -- the encouragement of increased economic activity between the United States and the Netherlands, unaccom-

panied by the concern that benefits are flowing to persons that are not intended to be beneficiaries of the Convention.

Russia Convention and Protocol

The proposed new treaty and protocol with Russia would replace the treaty concluded with the former Soviet Union, which has been in effect since 1976 (and continues in effect for other countries of the Commonwealth of Independent States). The new treaty retains some features of its predecessor, but for the most part reflects more recent treaty policy as indicated by the OECD Model and the 1981 US Model.

With respect to investment income, the proposed treaty introduces a provision, not included in the prior treaty, that limits the tax at source on dividends and branch profits. The tax may not exceed 5 percent of dividends paid to companies owning at least a 10 percent interest in the paying corporation, and 10 percent of other dividends. The 5 percent rate also applies to the dividend equivalent amount of branch profits. Profits distributed by Russian joint ventures are treated as dividends for purposes of these rate limitations. However, dividends distributed by U.S. regulated investment companies and real estate investment trusts are not subject to the rate limitations of this article, but are taxed at the U.S. statutory rate. As in the existing treaty, interest and royalties are exempt from tax at source.

In the new treaty, income from the rental of personal property is not treated as a royalty, but as business profits. Profits from the rental of ships, aircraft, and containers used in international traffic are exempt from tax at source under Article 8 (International Transport). Other equipment rentals are subject to the rules applicable to business profits in general; when such income is derived by a resident of one Contracting State, it may be taxed by the other State only if attributable to a fixed place of business ("permanent establishment") in that other State. The new treaty defines the term "permanent establishment" in a manner similar to the definition in the OECD and US models. It reduces the time threshold for a construction site to become taxable from 36 to 18 months, still considerably longer than the 12 month rule of the OECD and US models. It also expands the scope of that provision to include drilling rigs.

The rules applicable to the taxation at source of income from independent personal services retain the 183 day presence test of the existing treaty, in addition to the requirements that the services be performed in the other State and attributable to a fixed base there. The standard treaty rules apply to the taxation at source of dependent personal services in general.

However, special exemptions at source are provided for employees on ships or aircraft engaged in international transport, employees working at construction sites or on drilling rigs, and employees providing technical services connected with a patent, process, or other right giving rise to a royalty payment. Special tax relief applies to grants and amounts from abroad for living costs received by students, trainees, and researchers. However, the new treaty does not preserve the two year exemption of personal service income earned by teachers, researchers and correspondents that is found in the existing treaty. It is not the policy of the OECD model or of either of the two countries to provide special exemptions of the compensation earned by teachers, researchers, or journalists. Individuals who enjoyed those benefits under the existing treaty may choose to apply the provisions of that treaty, in full, for one additional year beyond the time at which it would otherwise cease to apply.

The new treaty confirms the availability of a foreign tax credit in the country of residence, subject to the provisions of domestic law. The treaty does not provide a credit for the Russian taxes covered that is independent of the criteria required by U.S. law; but by providing in the treaty for certain deductions not otherwise available under Russia's domestic law, it intends to ensure that the Russian taxes qualify for a foreign tax credit.

The administrative provisions of the treaty have been modernized and expanded. The new treaty contains a limitation on treaty benefits, provisions for the exchange of information, and cooperation between the tax authorities of the two countries for purposes of avoiding double taxation and preventing tax evasion.

Israel Protocol

Before discussing the substantive provisions of the pending U.S.-Israel Protocol, an explanation of the historical context in which the Protocol has come before the Committee may be helpful. U.S. efforts to conclude a tax treaty with Israel go back to the late 1950's. Because two early treaties negotiated with Israel in the 1950's and 1960's contained U.S. investment incentives, they never entered into force. A treaty that did not contain such incentives was signed in 1975. It became clear shortly after signature, however, that some changes would be necessary before the treaty could enter into force. These changes are reflected in a Protocol signed in 1980. The 1975 Convention, as amended by the 1980 Protocol, was approved by the Senate in 1981.

As with the entire group of tax treaties approved in 1981, the Israeli treaty was approved with an understanding assuring GAO and tax-writing committee access to information exchanged under the treaty for use in the performance of the tax oversight functions of these organizations. At the time, Israel was unwilling to agree to the understanding, because of concerns regarding the confidentiality of information, and instruments of ratification could not be exchanged bringing the treaty into force. When Israel reconsidered its position in 1986, and agreed to exchange instruments reflecting the 1981 Senate understanding, the Tax Reform Act of 1986 had been enacted, requiring additional changes in U.S. treaty policy.

The 1993 Protocol makes all of those necessary changes, and others reflecting changes in U.S. policy subsequent to 1986. The Protocol also includes amendments that reflect changes in Israeli law since 1980. Furthermore, it provides for GAO and tax-writing committee access to otherwise confidential information exchanged under the treaty, thus, resolving the issue that gave rise to the 1981 Senate understanding and the delay in ratification.

When, as we expect, the Senate gives its advice and consent to the ratification of this second Protocol, it is our intention to exchange instruments for the 1975 treaty, the 1980 Protocol and the 1993 Protocol at the same time, thus, putting the treaty as amended by the two protocols into force at the same time.

Attached to the Protocol, but not forming an integral part of it, is an exchange of notes spelling out a number of understandings reached during the negotiation of the Protocol regarding its interpretation and application.

The Protocol contains a number of significant amendments to the pending Convention, as well as a number of minor refinements. Among the more significant changes are the following: The coverage of the nondiscrimination protection will be broadened to include state and local taxes, as well as national taxes. The

"saving clause," under which the United States reserves its statutory taxation rights with respect to its citizens and residents, will be extended to include former citizens who have expatriated for tax avoidance purposes. Consistent with the Tax Reform Act of 1986, the Convention will be amended to make clear that any income earned by a permanent establishment, the receipt of which is deferred until after the permanent establishment has ceased to exist, will be attributable to the permanent establishment.

The Convention will be amended to assure that dividends paid by non-taxable conduit entities, such as U.S. Regulated Investment Companies and Real Estate Investment Trusts, will not receive unjustified treaty benefits. The pending Convention allows relatively high withholding taxes at source on interest payments. The Protocol will amend the Convention to provide an election for the interest recipient to be taxable on his interest income by the source country on a net basis. We believe that this provision will mitigate, in many cases, the impact of the high gross-basis withholding rates. The Protocol will amend the interest provisions of the pending Convention to deny treaty benefits to so-called "excess inclusions" with respect to a residual interest in a real estate mortgage investment conduit. The Convention will be amended to permit the application of branch taxes, which were introduced into U.S. law by the Tax Reform Act of 1986. Although Israel does not now impose such taxes, it has preserved the right in the Protocol to do so.

The pending Convention permits one Contracting State to impose tax on a resident of the other State on gain from the sale of stock in a corporation resident in the first-mentioned State if the alienator owned at least 50 percent of the voting power of the corporation. The Protocol will lower the holding requirement to 10 percent, and make certain other technical amendments.

The Protocol will replace the limited anti-treaty-shopping rules in the pending Convention with a modern, comprehensive set of rules to prevent treaty-shopping abuse of the Convention. The Protocol will conform the exchange of information rules in the Convention to the Senate understanding in connection with its 1981 approval of the pending Convention. As amended, the Convention will provide for GAO and Congressional tax-writing committee access to confidential information exchanged under the Convention in connection with their performance of oversight functions.

A provision will be added to the Convention stating an agreement by the Contracting States to consult to determine whether it would be appropriate to amend the Convention in response to changes in the tax laws or treaty policies of one of the States. In the event that it is deemed appropriate, or in the event of a unilateral override of a provision of the Convention which has a significant impact on the balance of benefits,

the Contracting States agree to endeavor to make the necessary amendments to the Convention.

Finally, the effective dates for the provisions of the Convention will be amended by the Protocol to provide that, for other than withholding taxes, the Convention will have effect retroactively to the beginning of the year in which it enters into force if the entry into force takes place within the first half of the year. The Convention will have effect prospectively, from the beginning of the year following that in which the Convention enters into force, if entry into force occurs during the second half of the year.

We believe that, particularly as amended by the second Protocol, the pending Convention will provide a significant positive force in U.S.-Israeli economic relations, and, therefore, should receive a favorable recommendation by this Committee.

Conventions with the Czech Republic and the Slovak Republic

Because these two proposed treaties are substantively the same, I will summarize by referring to them both in the same section. In both cases, the proposed treaties will be the first such tax treaties between the United States and the respective republics. They are based on the OECD model income tax treaty and the 1981 U.S. model and are similar to other treaties recently concluded by the United States.

With respect to investment income, the two treaties provide for taxation of dividends at source at a rate not higher than 5 percent of dividends paid to companies having at least a 10 percent interest in the paying corporation and of 15 percent on other dividends. The 5 percent rate also applies to the "dividend equivalent amount" of branch profits. Dividends distributed by U.S. regulated investment companies are taxed at the 15 percent rate and dividends distributed by real estate investment trusts are taxed at 15 percent in some cases and at the statutory rate (30 percent) in other cases.

Interest is exempt from tax at source. However, this article does not limit the tax on excess inclusions with respect to residual interests in a real estate mortgage investment conduit (REMIC). Copyright royalties are also exempt from tax at source, and other royalties are taxable at not more than 10 percent.

The taxation of business profits follows, in most respects, the rules of the OECD and U.S. Model income tax treaties. However, the definition of a "permanent establishment," which gives rise to taxation of business income, is modified to include the furnishing of personal services, such as consultants' services,

for more than 9 months in a 12 month period. The UN model treaty, developed as a guide for treaties between industrial and developing countries, provides a similar rule, but with a 6 month threshold. Some other U.S. tax treaties with developing countries also provide such a rule with a threshold period of 3-6 months.

The proposed treaties contain standard rules with respect to the taxation of capital gains and most income from personal services. Special rules apply to the personal service income of entertainers and athletes, who are taxable at source without any minimum time presence or earnings level unless the visit is substantially supported by either Government or is made under an inter-Government arrangement; in the latter two cases the earnings are exempt from tax at source. Relief is provided from the taxation of certain scholarship grants to visiting students and researchers and to amounts they receive from abroad to meet living costs, but not for personal service income. The article governing the taxation of capital is also standard. It is included to cover possible future property taxes; none of the three States currently imposes such a tax at the national level.

The new treaties contain the usual limitation on benefits article and other provisions designed to improve the administration of the treaty, itself, and the tax laws covered by the treaty, such as the exchange of information and competent authority procedures. They also provide for nondiscrimination in taxation and ensure a foreign tax credit, subject to the limitations of domestic law.

Barbados Protocol

This Protocol will amend the U.S. income tax Convention with Barbados signed on December 31, 1984. Barbados has taken a new, and, we believe, highly constructive approach to its tax treaty policy with capital exporting countries. The most significant provisions of the Protocol reflect this basic alteration in Barbadian treaty policy since negotiation of the present Convention in the early 1980's. The Protocol also incorporates a number of changes in U.S. statutory law and treaty policy since the Convention was signed in 1984.

At the request of Barbados, the Protocol substantially reduces withholding taxes on interest and royalties, from a general rate of 12.5 percent to a general rate of 5 percent. The dividend Article already reflected the OECD Model rates of 5 and 15 percent on direct and portfolio dividends, respectively.

The Protocol also replaces the Convention's relatively low thresholds for the presence of a permanent establishment with much higher thresholds, which are generally consistent with those in U.S. treaties with other developed countries. For example,

the Protocol eliminates the Convention's special 90 day threshold for the furnishing of services to constitute a permanent establishment, and a similar 120 day threshold for the maintenance of substantial machinery and equipment. Further, the "limited force of attraction" rules in the present Convention for the taxation of business profits, taken from the U.N. Model, will be eliminated, and, thus, bring the Convention into conformity with the preferred U.S. position. The result is that only business profits actually attributable to a permanent establishment will be taxable in the host country.

The Convention will be amended to assure that dividends paid by non-taxable conduit entities, such as U.S. Regulated Investment Companies and Real Estate Investment Trusts, will not receive unjustified treaty benefits.

Although the present Convention does not prohibit the application of the U.S. branch tax, which was enacted subsequent to the signature of the Convention, it does not provide rules for its application. The Protocol will include a new article providing for the imposition of a branch tax both in the United States and Barbados.

The Protocol will replace the anti-treaty-shopping rules in the present Convention with a more modern set of rules, based on the recent U.S.-Germany treaty, which will increase the flexibility that may be used in applying the Article. The Protocol is accompanied by a memorandum of understanding, similar to the memorandum that accompanied the U.S.-Germany treaty, regarding the anti-treaty shopping provisions. This memorandum is intended to provide guidance to taxpayers and to tax administrations as to the proper interpretation and application of the provisions. The presence of this comprehensive anti-treaty-shopping provision assures that Barbadian entities operating in the Barbados offshore sector, thus, enjoying special benefits under Barbados law, will not be entitled to U.S. benefits under the Convention.

The pending protocol to the tax treaty with Barbados is an encouraging exception to the normal pattern of treaties with developing countries. This protocol reflects a fresh look at these issues by the Government of Barbados. When amended by the 1991 Protocol, the U.S.-Barbados treaty will much more closely conform to standard U.S. treaty policy, resembling a developed country treaty rather than one with a developing country. This change reflects a realization by Barbados that lowering withholding taxes and raising thresholds for the taxation of business profits will remove impediments to cross-border business activity that are present in the Convention. Perhaps we will see other developing countries follow the Barbadian example in the future.

In considering the current treaty with Barbados in 1985, the Senate attached a reservation to an accumulated earnings tax

provision which contains an inadvertent drafting error. It was decided while negotiating the Protocol to incorporate the reservation into the treaty itself by means of the Protocol. In doing so, we preserved the drafting error. We have explained this problem to the Barbadian Government, which has agreed that the signed text of the Protocol does not reflect the intent of the negotiators on this point. As Barbados has already concluded its ratification procedures, it has graciously agreed that a Senate reservation would be the most efficient method of correcting the text at this point. They have advised us that the Government of Barbados will agree to such a reservation. We, therefore, would not object if the provision in question (paragraph 2 of Article III of the Protocol) were amended, as suggested by the staff of the Joint Committee on Taxation, by means of a Senate reservation, to refer to voting power <u>and</u> value, rather than voting power <u>or</u> value.

I am pleased to note that the Government of Barbados has reviewed our Technical Explanation of the Protocol and has stated that they regard it, for their purposes, as a correct explanation of the Protocol.

Let me conclude by urging the Committee, on behalf of the Administration, to take prompt and favorable action on all of the Conventions and Protocols before you today. Such action will send a number of important messages both to our trading partners and to our business community. It will make clear our intent to deal bilaterally in a forceful and realistic manner with treaty abuse. It will expand our economic relations with those countries that have seen significant economic and political changes in the last several years. Finally, it will demonstrate our desire to expand the U.S. treaty network with income tax treaties formulated to enhance the worldwide competitiveness of U.S. companies.

TREASURY NEWS

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FOR IMMEDIATE RELEASE
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**REMARKS OF FRANK N. NEWMAN
UNDER SECRETARY OF THE TREASURY
FOR DOMESTIC FINANCE
BEFORE THE
CFTC CONFERENCE ON OTC DERIVATIVE MARKETS
WASHINGTON, D.C.**

It is a pleasure to be here this afternoon to discuss the over-the-counter derivative markets and their regulation. I would like to thank Sheila Bair and the CFTC for affording me this opportunity to present the Treasury's views on this important topic.

As you know, the issue of risks posed by derivative products is currently a subject of considerable attention. This should not be surprising due to the rapid growth of the international market for these innovative instruments, some of which are quite complex.

As a result, a number of studies prepared by different organizations have been issued in recent years regarding the over-the-counter derivative market. These include studies prepared by the Bank for International Settlements, the Basle Committee on Banking Supervision, the Bank of England, Moody's, U.S. banking regulators, and the Group of Thirty. The Commodity Futures Trading Commission has just released its study, and the General Accounting Office is currently working on a study which should be out sometime in the next several months.

Of course, Congress is interested in this subject. As I am sure this audience is aware, the House Banking Committee is scheduled to hold hearings on derivatives tomorrow morning. Also, the subject of derivatives is almost certain to be discussed during the Congressional reauthorization process of the CFTC that will take place next year.

In an important sense, all the studies, conferences, and hearings on derivatives are welcome. A great deal of useful information has been made available, certain problems have been identified, and work has been done to resolve these problems. The intense interest in derivatives also indicates that both the private sector and governmental entities take seriously their responsibilities with respect to this market.

However, as useful and productive as all the interest shown in derivatives has been, there is also a danger of overreaction. We hear it said that these instruments are too complex and beyond human understanding. Management is letting the "rocket scientists" in their organizations make heavy bets that put their firms at risk. In different, and more difficult, market environments, which are coming, we are told, all the derivative activity, which seems so beneficial now, will prove to be a curse.

It does not help matters that discussions of the size of this market have focused on notional amounts, and that estimates include numbers as different as $4 trillion and $7-1/2 trillion. These numbers, of course, are based on different definitions of derivatives and do not tell us anything about the amount at risk. Short-term derivatives and long-term derivatives are equally weighted in the calculation, and nothing is indicated by these numbers about the credit quality of the counterparties or the volatility of the underlying cash markets.

Rather than being focused on the size of this market, we need to examine how participants are using over-the-counter derivative products and how their use is affecting the risk profiles of the participants. In other words, while we recognize that there are legitimate policy questions, careful analysis is required before we reach the conclusion that there is something going on here that requires a major legislative response.

As a former banker and as a Treasury official with responsibility for bank regulatory policy, I would like to make some observations concerning how commercial banks use the derivative markets.

Let me give four examples of the ways in which commercial banks are involved in the derivative markets:

- First, as end users, banks use derivatives to hedge business risk. For example, a bank with a portfolio of floating rate loans may find it cost effective to raise long-term funds and enter into a swap in order to create a synthetic floating rate liability that more closely matches the duration of the assets it is funding.

- Second, as dealers, banks enter into swaps as a service to their customers and to earn fees. For example, a bank with a strong business relationship with a corporation provides a swap to that firm for a fee to help its customer hedge a business risk. The bank may in turn lay off the risk from its book of customer swaps by entering into other swaps or by using the futures markets.

- Third, banks may enter into swaps with other banks so that one or both of these banks can create a matched book. For example, a large bank with customer swaps may lay off some of that risk by entering into a swap with a

smaller bank. There may be a sharing of customer fees in this situation, and the set of transactions is then analogous to a loan syndication.

- Fourth, banks, even those with no derivative portfolio, act as liquidity providers to other financial institutions who participate directly in the derivative markets. An example is a bank that is the primary lender and line of credit provider to a major investment bank. As that investment bank enters into the swaps market vigorously, the bank's exposure to the investment bank's derivative portfolio grows.

These examples indicate the diversity of ways banks can participate in the derivative markets. The formulation of guidelines, rules, and examination and supervision procedures has to take into account the risks stemming from the business strategies of the particular banks involved in the derivative markets. In addition, the bank regulators have to assess the execution of a bank's derivative business. For example, what techniques are being used to manage risk? What type of management and information systems are in place to monitor and control derivatives activities? What management oversight is there?

Let me turn now to discuss briefly some of the recent activities of the Office of the Comptroller of the Currency and the Office of Thrift Supervision in the derivatives area. The OCC has coordinated an informal interagency group consisting of the OCC, OTS, the FDIC, and the Federal Reserve to discuss procedures for information sharing among the bank regulators and to discuss regulatory accounting standards for derivatives. This morning the OCC issued guidelines on risk management for national banks that engage in derivative transactions. The major elements of the OCC guidelines include discussion of senior management and board oversight, market risk management, credit risk management, liquidity risk management, operations and systems risk management, legal issues, and capital adequacy.

In addition, the OCC is working on guidelines for its bank examiners to use in examination of banks that engage in derivative transactions either as dealers or end users. These examiner guidelines will provide further guidance as to safe and sound procedures for risk management of derivative activities. OCC also has various training programs concerning derivatives for its bank examiners.

OTS has developed and implemented an interest-rate risk model that can include derivatives in its assessment of an institution's interest rate risk exposure. Quarterly reports for individual savings associations of their interest rate risk are provided to the institutions and to OTS supervisory and examination personnel.

OTS also has developed a reporting form for derivatives that is capable of distinguishing among nearly 300 different types of off-balance-sheet derivatives. This

reporting form was introduced in March, and except for some small, highly-capitalized institutions, this form must be submitted quarterly by savings associations.

OTS, like OCC, has training programs for its staff. Both agencies are intensively studying this fast-changing market and developing strategies to meet the supervisory and regulatory challenges.

These activities should not be taken to imply that derivatives are a crisis waiting to happen. While I believe that derivatives pose certain challenges to the government in terms of understanding the sometimes complex instruments and strategies employed, I think it is important to emphasize that derivatives are both a potentially profitable activity for financial institutions acting as dealers and a useful risk management tool.

If one looks at some of the actions taken by the government in recent years, we can conclude that the government has been trying to remove impediments to this market so that the risk-management and financial innovation potential of derivatives can be realized.

For example, FIRREA, FDICIA, and the 1990 amendments to the Bankruptcy Code have addressed issues related to the validity of netting and the avoidance of the automatic stay of the Bankruptcy Code with respect to many types of derivatives when certain types of entities become insolvent or file for bankruptcy. The Federal Reserve has proposed a rule, under the authority granted to it under FDICIA, to broaden the class of institutions which can benefit from the bilateral and multilateral netting provisions of that Act.

The Futures Trading Practices Act of 1992 enabled the CFTC to remove legal uncertainty concerning the applicability of the Commodity Exchange Act to the swaps market. The CFTC promptly used its new exemptive authority in order to remove the threat that the Commodity Exchange Act might be interpreted to mean that some swaps contracts were illegal, and hence unenforceable. This was a very positive and helpful step. In addition, the CFTC has let it be known that it is willing to consider extending this exemption from most provisions of the CEA to swaps that are cleared by a multilateral clearinghouse if a specific application for this is made.

As many in this audience have no doubt appreciated, there were some questions concerning the tax character of hedging gains and losses under the Supreme Court's Arkansas Best decision. The IRS has recently clarified this matter in temporary and proposed regulations. We are aware that the regulations do not resolve all tax-related hedging questions, but I am sure that most market participants are greatly relieved by the recent IRS action.

Finally, it should not surprise anyone that the Treasury has had a continuing interest in a provision of the Commodity Exchange Act known as the "Treasury

Amendment," a provision that was put into the CEA, on the recommendation of the Treasury Department, in 1974 at the time of the creation of the CFTC as an agency separate from the Agriculture Department. Without getting into all the nuances and semantic arguments surrounding this provision, the Treasury Amendment excludes transactions in foreign currency, government securities, and a list of other instruments from the provisions of the CEA unless such transactions "involve the sale thereof for future delivery conducted on a board of trade." The Treasury has a strong interest in the foreign currency and government security markets. In recent years, we have been concerned that a narrow reading of the Treasury Amendment could stifle innovation and have other undesirable impacts on the government securities market, which since 1986 has been subject to regulation under the Government Securities Act.

Consequently, we were pleased with the October 18 Fourth Circuit decision in the Tauber case, which holds, among other things, that options in foreign currency, whether exercised or not, are excluded from the provisions of the CEA. I would note that the Treasury Department commented in May 1986 that the Treasury Amendment exempts certain types of transactions and says nothing about the participants to those transactions. We indicated at that time, and have since repeated, that we are sympathetic to some of the concerns that the CFTC might have with respect to contracts that might be offered to the general public that might be excluded from the CEA by the Treasury Amendment. In other words, we were not, and are not, in favor of boiler room operations marketing derivatives in foreign currency to the general public. If there is a problem in this area, we are happy to work with the CFTC and others toward a legislative solution.

While the government has been removing impediments to the OTC derivative markets, this should not be taken to mean that there are no areas of concern. Let me mention some of the challenging issues that these markets pose. As the industry itself has recognized, there are questions concerning the legal enforceability of contracts, particularly in cross-border situations, and accounting issues that need to be addressed.

It is not always clear, for example, that netting will be recognized in all jurisdictions in insolvency situations. Also, as some market participants learned in their dealings with local councils in the U.K., it is extremely important to determine that counterparties have the necessary legal authority to enter into these contracts.

Financial statements have become harder to analyze due to large off-balance sheet activity. While the bank regulators are working on this issue, accepted accounting practices need to be developed for participants in this market.

Other concerns are more controversial, such as those revolving around the potential difficulty of unwinding derivative positions of a firm that is in liquidation or the systemic risk these instruments may pose for the financial system. As one might be able to discern from my remarks, based on what we now know, I believe that concerns that derivatives could perpetrate a financial meltdown are overblown.

With respect to the liquidity question, it is possible to conceive of situations where regulators are constrained in their ability to deal with a failing firm because it has a large and illiquid derivatives book. Also, the liquidity issue is partly a concern about price transparency. Accurately pricing these complex and custom-tailored products is in some cases difficult. As the market develops further, these two concerns related to liquidity should lessen, but they are issues that need to be thought about. We believe that dealers who arrange derivative transactions bear responsibility to continue to make markets and provide pricing information to their customers.

While I think it is premature to make wholesale changes to regulatory structures in order to deal with derivatives, let me make a few observations concerning the current regulatory scheme.

First, it is true that there is a group of derivative dealers that are unregulated, mainly affiliates of investment banking firms. It is reassuring in this respect that the market has demanded that these affiliates be very well capitalized and have very high credit ratings. Also, under the Market Reform Act, the SEC is able to obtain financial information about these unregulated entities in order to determine whether they pose any risks to the regulated broker-dealer.

Second, the established futures exchanges have been arguing that there should be a level playing field among those who offer risk shifting instruments. The two major Chicago exchanges have tossed this issue to the CFTC with proposals for exemptions from provisions of the CEA for certain futures contracts limited to institutional investors.

We realize that this is a difficult issue and believe that the CFTC in its request for comments on the futures exchanges' proposals is asking many of the right questions. However, let me make some observations concerning the relationship between the futures exchanges and the OTC derivative markets.

To a certain extent, the OTC derivative markets and the futures exchanges compete. The OTC derivative markets have been successful in part because of their ability to offer custom- tailored products that precisely meet the requirements of end users, while futures contracts cannot be customized. However, the OTC derivative markets have also complemented the traditional futures markets. End users that may not use the futures markets can now go to a commercial or investment bank and get a customized product that meets their needs. The OTC derivatives dealers may then offset some of the risk in their derivative book by entering into futures contracts. In a sense, then, the OTC derivative market serves for some customers a "retail" function, while the futures markets can be used as a "wholesale" risk management vehicle.

In other words, whatever the eventual decisions on some of the difficult regulatory questions to which the futures exchanges are pressing for answers, I am sure that they

will continue to thrive. They offer exceptional liquidity, transparency, and well-run clearinghouses, which take away much of the need for credit evaluation that is currently necessary for participants in the OTC derivative markets.

Third, while I believe that major regulatory change is premature at this point, let me suggest a possible model for regulation that might be usefully considered at some future time. A model I have had recent experience with is the one established by the Government Securities Act of 1986. Under the Government Securities Act model, one entity makes rules for all brokers and dealers involved in the particular market. These rules are enforced by the appropriate regulatory agencies, i.e., the bank regulators and the SEC. OTC derivative dealers are similar to government securities dealers in that they are currently regulated by various regulatory agencies and some are not subject to any regulatory agency at all. This latter group is analogous to the unregulated government securities dealers that existed prior to passage of the Government Securities Act.

The Treasury believes that the Government Securities Act structure has worked well. If, at some future time, a change in regulatory structure is considered necessary to deal with the OTC derivative market, a regulatory approach in some ways similar to the Government Securities Act model might be usefully considered.

In the meantime, while details need to be worked out, I am happy to join in the CFTC's recommendation that a mechanism be developed for more and better interagency coordination with respect to derivatives. We certainly want to work with the CFTC, the various financial institution regulators, and the SEC to bring this about.

In closing, I want to caution all of us not to fight the last war. The derivative market is not just the latest investment craze from Wall Street to be guarded against by vigilant regulators. This market can trace some of its roots, for example, to transactions in foreign currency that have been around for a very long time. We in the government need to consider, first, what we need to do to ensure that financial institutions understand what they are doing when they participate in the derivative markets, and, second, whether there are additional steps that the government can usefully take so that derivatives can meet their potential for enhancing the efficiency of financial markets. While I am not convinced that there is a problem here that demands a large dose of additional regulation, I do believe that this fast evolving market bears watching, further study, and a coordinated approach from the existing regulators.

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

For Release Upon Delivery
Expected at 8:30 A.M. EST
October 27, 1993

STATEMENT OF THE HONORABLE JEFFREY SHAFER
ASSISTANT SECRETARY OF THE TREASURY
FOR INTERNATIONAL AFFAIRS
BEFORE THE
SENATE COMMITTEE ON FOREIGN RELATIONS
WASHINGTON, D.C.

U.S.-MEXICAN AGREEMENT ON BORDER ENVIRONMENTAL CLEANUP

It is a pleasure to join Deputy Secretary Wharton and Deputy USTR Yerxa in discussing the NAFTA agreements.

NAFTA offers an historic opportunity to improve our competitiveness, create new U.S. jobs and develop a strong partnership with Latin America.

Here's why:

- NAFTA will create the world's largest market and level a playing field sharply tilted in Mexico's favor;
- NAFTA will lock in preferential access for the United States to its first and third largest trading partners;
- NAFTA will give us a secure market that offers new opportunities for Americans to sell to Mexico;
- NAFTA will create an estimated 200,000 high wage jobs related to exports to Mexico by 1995;
- NAFTA will give us special access to the rest of Latin America -- the second fastest growing region in the world -- where demand for U.S. products is escalating rapidly.

What makes NAFTA truly historic is that it is the first trade agreement to address labor and the environment. I will focus my remarks on our recent negotiations with Mexico to

improve cooperation and increase financing for border environmental infrastructure projects. Our agreement offers a new model for international cooperation at the local level to design, finance, and build environmental projects to resolve problems having a direct impact on U.S. citizens. It will also provide loans or guarantees to help those throughout the United States and Mexico who are in communities facing NAFTA-related adjustment.

The problems of raw sewage dumped in boundary waters, unsafe drinking water, and inadequate municipal waste disposal on both sides of the border predate NAFTA, and demand resolution. The NAFTA package offers us the opportunity to assure that they will be addressed. Failure to pass NAFTA would be a major setback for both U.S. trade opportunities generally and for environmental efforts along the border.

Our new agreements will create two new institutions. The first is a U.S.-Mexican Border Environment Cooperation Commission (BECC) to help coordinate projects and assemble financing packages. The second is a new U.S.-Mexican North American Development Bank (NADBank). It will provide financing at minimal budget cost that will support border environmental infrastructure projects and NAFTA-related community adjustment and investment programs.

Border Environment Cooperation Commission

The new coordinating agency will help border states and communities to design and arrange financing for environmental infrastructure projects, and oversee the use of the money. It will give priority initially to wastewater treatment, drinking water, and municipal waste projects.

The degree of public and local participation will be unprecedented in an international agreement. Hallmarks of the agreement include a strong emphasis on state and municipal government involvement in proposing, and deciding upon, environmental infrastructure projects in the border area with transboundary impacts -- and decision-making procedures to ensure that the views of affected states, local communities, and members of the public will be fully taken into account. The new Commission will have a binational Board of Directors with federal, state and local government, and public representation It will also have a public advisory council, with members drawn from the border region. Provision is made in the agreement for public notice and comment on proposed projects.

The new commission will have no sovereign power of its own. It can only offer its services to state and local bodies and assist them in cooperative activities.

Let me illustrate how this new entity would provide valuable assistance to border communities. If El Paso should seek to expand its wastewater treatment facility, it would likely approach the Border Environment Cooperation Commission for assistance. The BECC would be able to provide El Paso with access to considerable expertise in planning, designing, financing, constructing and operating the facility, and assessing its economic benefits.

In addition, the BECC would serve as a conduit for improving coordination among the various groups and jurisdictions on both sides of the border that have an interest in the results of the project. In this example, the BECC would encourage El Paso to include its sister city in Mexico, Ciudad Juarez, in the planning process to help ensure that mutual concerns are addressed and, where appropriate, economies of scale in design, construction, and operations are considered.

Once the project is ready for formal review, it will go to the Advisory Council for comment and then on to the Board of Directors for certification. Each project would have to meet local environmental requirements. The agreement provides that project proposals with transboundary effects should have an environmental assessment. The public would be able to comment on all projects prior to board consideration. If the directors certified that the project met appropriate engineering, environmental and financial standards, the commission would try to assemble a financing package from private, public and international sources. The BECC will try to mobilize private capital to the maximum extent possible.

<u>Sources of Financing</u>

We want to maximize private sector financing for these projects, based on local user fees to help service debt, but we recognize that continued funding from the Mexican and U.S. governments will be necessary in many cases. We estimate that up to $8 billion will be needed for border environmental infrastructure projects over the next decade. We see this coming from the following sources:

(1) private financing, and as needed,

(2) up to $2 billion from existing state and local programs, including state revolving funds, municipal revenue bonds, and the colonias program for projects on the U.S. side of the border;

(3) $2 billion in new funding from the World Bank and Inter-American Development Bank, offered as loans to Mexico;

(4) approximately $1.4 billion in U.S. and Mexican grants (half from the United States);

(5) some $2 billion in loans or guarantees for environmental infrastructure projects from the NADBank.

NADBank Financing

Creation of the NADBank responds to the need for additional financing -- both for border environmental projects and for those anywhere in the nation in communities facing difficulties due to NAFTA, and who seek credit support in order to undertake adjustment. We do not expect many displacements as a result of NAFTA, and few communities will face difficult adjustment. We are nevertheless committed to providing all the help we can to workers who are affected by NAFTA, and are extending a similar commitment to support investment in affected communities, so that they can have the confidence of knowing measures are in place to assist them.

The financing structure of the NADBank would mirror that of the multilateral development banks: this will enable us to minimize budgetary resources by leveraging paid-in capital into substantially larger loans and guarantees through borrowing in the capital markets, backed by U.S. and Mexican callable capital.

Total capital of the NADBank will amount to $3 billion. The United States and Mexico will provide equal shares of paid-in capital for the NADBank -- $225 million each, provided over a period of four years -- for a total of $450 million. Through market borrowings, we believe we can leverage the paid-in capital into $2 billion initially and perhaps eventually up to $3 billion in financing via loans and guarantees. Market borrowings would be limited to assure a AAA credit rating for the institution.

The paid-in amounts represent 15 percent of the total capital, which we estimate to be appropriate for this kind of activity. Callable capital would amount to $2.55 billion; as with other multilateral development banks, we would not expect it to be called.

The NADBank would have a six-member board of directors, composed of three members from the U.S. and three from Mexico, appointed by the respective Governments. The Board would elect a Manager to conduct the business of the Bank.

To minimize any new staff requirements, we anticipate that the NADBank could negotiate a management arrangement with a multilateral development bank, possibly the Inter-American Development Bank. It could then draw on the expertise of the multilateral bank's staff for borrowing in the capital markets, loan administration, and financial evaluation of the projects.

The bulk of NADBank financing will be available to support environmental infrastructure projects. NADBank loans and guarantees will backstop any shortfall in private sector financing to make certain projects can be completed. Environmental projects financed by NADBank would require certification by the Border Environment Cooperation Commission.

Ten percent of the U.S. and Mexican capital would be reserved for NAFTA-related community adjustment and investment in the U.S. and Mexico. Community adjustment and investment financing on the U.S. side would be funneled through existing government sponsored credit programs targetting special help for those in U.S. communities particularly affected by NAFTA.

We expect that the program could generate at least $200 million in community adjustment financing through loans and guarantees on the U.S. side. A special advisory and review committee, including representatives of low-income communities and other private representatives, would provide advice on loan guidelines and community adjustment issues.

The cost to the United States for generating up to $3 billion in loans and guarantees is expected to be only $56 million annually over four years. That's significant leveraging. While we expect loan charges and investments to defray administrative costs for the financing facility, some small additional costs -- perhaps $5 million a year for each country -- would be incurred for operating expenses for the Border Environment Cooperation Commission. The price is a small one to help assure clean, safe water in the border area, and support for communities affected by NAFTA even outside the border area.

Conclusion

Let me close by saying that we have put considerable effort into developing an agreement with measures that address border region environmental infrastructure problems. We have consulted closely with the border states and cities, with key members of Congress, and with national and local environmental groups. We believe the agreement we have negotiated reflects their interests, and offers a new model for international cooperation at the local level. It is an important complement to the NAFTA agreement.

We have a window of opportunity to help Americans and Mexicans in the border region undertake joint environmental commitments. Your support for the NAFTA package is essential to turn that opportunity into reality.

TREASURY NEWS

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ASSISTANT SECRETARY OF THE TREASURY
FOR INTERNATIONAL AFFAIRS
BEFORE THE
HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
SUBCOMMITTEE ON INTERNATIONAL DEVELOPMENT, FINANCE,
TRADE AND MONETARY POLICY
WASHINGTON, D.C.

U.S.-MEXICAN AGREEMENT ON BORDER ENVIRONMENTAL CLEANUP

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NAFTA offers an historic opportunity to improve our competitiveness, create new U.S. jobs and develop a strong partnership with Latin America.

Here's why:

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What makes NAFTA truly historic is that it is the first trade agreement to address labor and the environment. I will focus my remarks on our recent negotiations with Mexico to

improve cooperation and increase financing for border environmental infrastructure projects. Our agreement offers a new model for international cooperation at the local level to design, finance, and build environmental projects to resolve problems having a direct impact on U.S. citizens. It will also provide loans or guarantees to help those throughout the United States and Mexico who are in communities facing NAFTA-related adjustment.

The problems of raw sewage dumped in boundary waters, unsafe drinking water, and inadequate municipal waste disposal on both sides of the border predate NAFTA, and demand resolution. The NAFTA package offers us the opportunity to assure that they will be addressed. Failure to pass NAFTA would be a major setback for both U.S. trade opportunities generally and for environmental efforts along the border.

Our new agreements will create two new institutions. The first is a U.S.-Mexican Border Environment Cooperation Commission (BECC) to help coordinate projects and assemble financing packages. The second is a new U.S.-Mexican North American Development Bank (NADBank). It will provide financing at minimal budget cost that will support border environmental infrastructure projects and NAFTA-related community adjustment and investment programs.

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The new coordinating agency will help border states and communities to design and arrange financing for environmental infrastructure projects, and oversee the use of the money. It will give priority initially to wastewater treatment, drinking water, and municipal waste projects.

The degree of public and local participation will be unprecedented in an international agreement. Hallmarks of the agreement include a strong emphasis on state and municipal government involvement in proposing, and deciding upon, environmental infrastructure projects in the border area with transboundary impacts -- and decision-making procedures to ensure that the views of affected states, local communities, and members of the public will be fully taken into account. The new Commission will have a binational Board of Directors with federal, state and local government, and public representation It will also have a public advisory council, with members drawn from the border region. Provision is made in the agreement for public notice and comment on proposed projects.

The new commission will have no sovereign power of its own. It can only offer its services to state and local bodies and assist them in cooperative activities.

Let me illustrate how this new entity would provide valuable assistance to border communities. If El Paso should seek to expand its wastewater treatment facility, it would likely approach the Border Environment Cooperation Commission for assistance. The BECC would be able to provide El Paso with access to considerable expertise in planning, designing, financing, constructing and operating the facility, and assessing its economic benefits.

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(1) private financing, and as needed,

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The financing structure of the NADBank would mirror that of the multilateral development banks: this will enable us to minimize budgetary resources by leveraging paid-in capital into substantially larger loans and guarantees through borrowing in the capital markets, backed by U.S. and Mexican callable capital.

Total capital of the NADBank will amount to $3 billion. The United States and Mexico will provide equal shares of paid-in capital for the NADBank -- $225 million each, provided over a period of four years -- for a total of $450 million. Through market borrowings, we believe we can leverage the paid-in capital into $2 billion initially and perhaps eventually up to $3 billion in financing via loans and guarantees. Market borrowings would be limited to assure a AAA credit rating for the institution.

The paid-in amounts represent 15 percent of the total capital, which we estimate to be appropriate for this kind of activity. Callable capital would amount to $2.55 billion; as with other multilateral development banks, we would not expect it to be called.

The NADBank would have a six-member board of directors, composed of three members from the U.S. and three from Mexico, appointed by the respective Governments. The Board would elect a Manager to conduct the business of the Bank.

To minimize any new staff requirements, we anticipate that the NADBank could negotiate a management arrangement with a multilateral development bank, possibly the Inter-American Development Bank. It could then draw on the expertise of the multilateral bank's staff for borrowing in the capital markets, loan administration, and financial evaluation of the projects.

The bulk of NADBank financing will be available to support environmental infrastructure projects. NADBank loans and guarantees will backstop any shortfall in private sector financing to make certain projects can be completed. Environmental projects financed by NADBank would require certification by the Border Environment Cooperation Commission.

Ten percent of the U.S. and Mexican capital would be reserved for NAFTA-related community adjustment and investment in the U.S. and Mexico. Community adjustment and investment financing on the U.S. side would be funneled through existing government sponsored credit programs targetting special help for those in U.S. communities particularly affected by NAFTA.

We expect that the program could generate at least $200 million in community adjustment financing through loans and guarantees on the U.S. side. A special advisory and review committee, including representatives of low-income communities and other private representatives, would provide advice on loan guidelines and community adjustment issues.

The cost to the United States for generating up to $3 billion in loans and guarantees is expected to be only $56 million annually over four years. That's significant leveraging. While we expect loan charges and investments to defray administrative costs for the financing facility, some small additional costs -- perhaps $5 million a year for each country -- would be incurred for operating expenses for the Border Environment Cooperation Commission. The price is a small one to help assure clean, safe water in the border area, and support for communities affected by NAFTA even outside the border area.

Conclusion

Let me close by saying that we have put considerable effort into developing an agreement with measures that address border region environmental infrastructure problems. We have consulted closely with the border states and cities, with key members of Congress, and with national and local environmental groups. We believe the agreement we have negotiated reflects their interests, and offers a new model for international cooperation at the local level. It is an important complement to the NAFTA agreement.

We have a window of opportunity to help Americans and Mexicans in the border region undertake joint environmental commitments. Your support for the NAFTA package is essential to turn that opportunity into reality.

Thank you.

SUMMARY OF THE AGREEMENT ESTABLISHING THE BORDER ENVIRONMENT COOPERATION COMMISSION AND THE NORTH AMERICAN DEVELOPMENT BANK

The Governments of Mexico and the United States have agreed on arrangements to assist communities on both sides of the border in coordinating and carrying out environmental infrastructure projects. The new agreement furthers the goals of the North American Free Trade Agreement and the North American Agreement on Environmental Cooperation.

The governments will establish two institutions:

1) a **North American Development Bank (NADBank)**, capitalized in equal shares by the United States and Mexico, that will provide some $2 billion or more in new financing to supplement existing sources of funds and foster the expanded participation of private capital; and

2) a **Border Environment Cooperation Commission (BECC)** to assist local communities and other sponsors in developing and implementing environmental infrastructure projects, and to certify projects for NADBank financing.

The agreement provides up to 10 per cent of the NADBank capital to be used for community adjustment and investment programs in support of the purposes of the NAFTA.

The new agreement represents a significant additional commitment by Mexico and the United States to implement effective solutions to the environmental problems in the border region. It embodies the basic principles for coordinating and financing environmental infrastructure projects set forth by the two governments during their meeting on environmental cooperation in August, 1993. The two new institutions will help marshall resources from all sources, both public and private, to solve the environmental problems of the border region. The agreement is contingent on the entry into force of the North American Free Trade Agreement.

BORDER ENVIRONMENT COOPERATION COMMISSION

The Border Environment Cooperation Commission (BECC) will work with the affected states and local communities and non-governmental organizations in developing effective solutions to environmental problems in the border region.

The BECC will provide technical and financial planning assistance for environmental infrastructure projects so as to enhance the environment in the border region for the well-being of the people. The BECC will not itself develop or manage projects. Rather, it will assist, with their concurrence, states and localities and private investors proposing environmental infrastructure projects in:

- coordinating environmental infrastructure projects;
- preparing, developing, and implementing projects;
- assessing their technical and financial feasibility;
- evaluating social and economic benefits; and
- arranging public and private financing for projects.

The BECC will certify projects to the NADBank and may do so for other financial institutions that elect to use the certification of the Commission. The BECC may certify any project that meets the technical, environmental, and financial criteria applied by it. To be eligible for certification, projects shall observe the environmental laws for the place where the project is to be located or carried out.

For a project with significant transboundary effects, an environmental assessment shall be presented and the Board shall determine, in consultation with affected states and localities, that the project meets the necessary conditions to achieve a high level of environmental protection for the affected area.

This Commission has no sovereign power. It can only offer its services to state and local bodies and assist them in cooperative activities.

The BECC and the International Boundary and Water Commission will cooperate with each other in planning, developing, and carrying out border sanitation and other environmental activities.

The BECC will have a binational Board of Directors and decision-making procedures structured to ensure that the views of affected states, local communities, and members of the public will be fully taken into account.

- Each country shall have five members on the Board of Directors with environmental, engineering, economic or financial expertise, as follows:
  - the senior environmental official (the Administrator of the Environmental Protection Agency for the United States and the Secretario de Desarollo Social for Mexico);
  - the commissioner of the International Boundary and Water Commission;
  - a representative from a border state;
  - a representative from a locality in the border region;
  - a member of the public who resides in the border region.
- The Commission will be required to consult with an Advisory Council of 18 members--nine from each country--that will include representatives of state or local governments or community groups from each of the border states, and members of the public, including nongovernmental organizations.
- The Commission will establish procedures for public participation, including written notice and opportunity to comment on general guidelines and on applications for certification of projects. The Commission's annual report will be made available to the public.

The BECC can mobilize sources of financing for environmental infrastructure projects from:

- the North American Development Bank;
- direct government support, such as grants, loans, and guarantees from federal, state and local governments; or
- the private sector.

The BECC will seek to mobilize private capital to the maximum extent possible in order to leverage government financing. Arrangements for servicing the debt will encourage reliance on fees paid by those causing pollution and those benefitting from the improved environment.

NORTH AMERICAN DEVELOPMENT BANK

The North American Development Bank (NADBank) will be capitalized and governed by the two countries. Its purpose is to finance projects certified by the Border Environment Cooperation Commission. Based on its capitalization, it is envisaged that the Bank will be able to make some $2 billion or more in loans and guarantees, with an upper limit of $3 billion.

The Bank will use its own capital (contributed equally by the United States and Mexico), funds raised by it in the financial markets, and other available resources to:

1) finance public and private investment in environmental infrastructure projects; and
2) encourage and supplement private investment in environmental infrastructure projects.

The Bank will be governed by a six-member board, with an equal number of representatives from each country. The Bank will evaluate the financial feasibility of projects certified by the BECC and provide financing as appropriate.

Initial paid-in capital will be $450 million, with callable capital of $2.55 billion.

The United States and Mexico also have agreed that up to 10 per cent of the resources of the Bank will be made available, on an equal basis, for community adjustment and investment programs in both countries, which need not be in the border region. Each government will develop criteria and procedures for directing these resources through existing government programs.

The NADBank is intended to supplement existing sources of financing. It will support, not impair, the ability of governments and investors to seek financing from other institutions.

DEPARTMENT OF THE TREASURY
WASHINGTON

FACT SHEET ON THE U.S./MEXICAN AGREEMENT ON THE BORDER ENVIRONMENT COOPERATION COMMISSION (BECC) AND THE NORTH AMERICAN DEVELOPMENT BANK (NADBANK)

Final agreement has been reached with the Mexican Government on new binational mechanisms to facilitate border environmental clean-up and to provide additional support for community adjustment and investment related to NAFTA. This agreement, reached after months of negotiations, ensures that the United States and Mexico will work together to address the environmental problems that plague the border region between our two countries. Special priority will be placed initially on wastewater treatment, water pollution, and municipal waste problems. Two new organizations will be created:

(1) A Border Environment Cooperation Commission to assist border states and local communities in coordinating, designing, and financing environmental infrastructure projects with cross-border impact. The degree of local and public participation will be unprecedented, including strong representation on the Commission's Board of Directors and Advisory Council, as well as public notification and comment on proposed projects.

(2) A North American Development Bank (NADBank) to provide $2 - 3 billion in financing for both border environmental projects and, more broadly within the U.S., for NAFTA-related community adjustment and investment. The U.S. and Mexico will each provide $225 million in paid-in capital over a 4-year period to leverage financing. Ten percent of the U.S. and the Mexican shares of the NADBank will be available for community adjustment and investment. The U.S. shares should generate at least $200 million in financing by complementing existing small and rural business assistance programs.

The binational agreement reflects an unprecedented degree of local involvement and public comment for border projects. It will help to maximize private sector financing and minimize the budget cost to the U.S. Government. The new accord underscores how NAFTA has fostered a new level of cooperation on the environment between our two countries.

Border Environment Cooperation Commission

The Border Environment Cooperation Commission (BECC) will work with the affected states and local communities and non-governmental organizations in developing effective solutions to environmental problems in the border region. The BECC will certify projects to the NADBank and other financial institutions. To be eligible, projects must observe the environmental laws for the place where the project is to be located or carried out. For a project with significant transboundary effects, an environmental assessment shall be presented and the Board shall determine, in consultation with affected states and localities, that the project meets the necessary conditions to achieve a high level of environmental protection for the affected area.

The BECC will have a binational Board of Directors and decision-making procedures structured to ensure that the views of affected states, local communities, and members of the public will be fully taken into account. Each country shall have five members on the Board of Directors: the senior environmental official; the commissioner of the International Boundary and

Water Commission; a representative from a border state; a representative from a locality in the border region; and a member of the public who resides in the border region. The Commission will be required to consult with an Advisory Council of 18 members--nine from each country--that will include representatives of state or local governments or community groups from each of the border states, and members of the public, including nongovernmental organizations. The Commission will establish procedures for public participation, including written notice and opportunity to comment on general guidelines and on applications for certification of projects.

The BECC will seek to mobilize private capital to the maximum extent possible in order to leverage government financing. Arrangements for servicing the debt will encourage reliance on fees paid by those causing pollution. The BECC can mobilize sources of financing for environmental infrastructure projects from the North American Development Bank; direct government support, such as grants, loans, and guarantees from federal, state and local governments; and the private sector.

North American Development Bank (NADBank)

The North American Development Bank (NADBank) will be capitalized and governed by the two countries. Its purpose is to finance projects certified by the Border Environment Cooperation Commission, and provide support for community adjustment and investment. The NADBank's capital shares ($450 million of paid-in capital and $2.55 billion of callable capital) will be contributed equally by the United States and Mexico. It is envisaged that the Bank will be able to make some $2 billion or more in loans and guarantees, with an upper limit of $3 billion. The Bank will be governed by a six-member board, with an equal number of representatives from each country. The Bank will evaluate the financial feasibility of projects certified by the BECC and provide financing as appropriate.

The United States and Mexico also have agreed that up to 10 per cent of the resources of the Bank will be made available, on an equal basis, for community adjustment and investment in both countries, which need not be in the border region. The United States will implement the program by tapping into existing federal credit programs, such as the Small Business Administration's Section 7(a) loan guarantee program and the Rural Development Administration's Business and Industrial Loan Guarantee program. Pursuant to an agreement with NADBank, a participating federal agency will issue and administer loans or guarantees on behalf of the NADBank to borrowers meeting both that agency's lending criteria and additional criteria reflecting the purposes of the community adjustment and investment window. The NADBank will transfer money (up to $22.5 million of its paid-in capital) to participating federal agencies to pay the subsidy costs and, if appropriate, other costs of this program.

The U.S. community adjustment window is designed to ensure broad public participation. An Advisory Committee, that will include low income community representatives and non-government organizations, will be created to provide advice on critical issues and the program's guidelines. Through appointment of an ombudsman, the program will establish procedures for responding to the public and providing independent inspection of the operations of the window.

TREASURY NEWS

Department of the Treasury · Washington, D.C. · Telephone 202-622-2960

FOR RELEASE UPON DELIVERY
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October 27, 1993

STATEMENT OF
SAMUEL Y. SESSIONS
DEPUTY ASSISTANT SECRETARY (TAX POLICY)
DEPARTMENT OF THE TREASURY
BEFORE THE
COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE

Mr. Chairman and members of the Committee, I am pleased to be here today to discuss the proposed bilateral tax treaty with Mexico. The proposed income tax convention with Mexico is a new convention. It will bring Mexico into the U.S. network of tax treaties for the first time and will secure the United States a place in the impressive network of bilateral tax treaties that Mexico has negotiated with over a dozen countries since the beginning of the Salinas administration. It will significantly complement the existing agreement between the U.S. and Mexico on the exchange of tax information, signed on November 9, 1989, which is already being used by both countries to improve compliance with domestic tax laws.

Like the other proposed treaties under consideration today, the proposed treaty with Mexico limits the tax that may be applied at source on cross-border payments of dividends, interest, and royalties. At present, the limitations on the rates applicable to dividends generally would affect only dividends paid from a United States company. Under Mexico's integrated corporate and personal tax on distributed profits, there is no tax on dividends at the shareholder level.

More specifically, the treaty would limit to 5 percent the rate of source country tax that may be imposed when a company resident in one country pays a dividend to a company resident in the other country, if the recipient is a 10 percent or more shareholder (these are called "direct investment dividends"). The same 5 percent limit applies to the tax on the "dividend equivalent amount" of branch profits. Other dividends are subject to a tax of not more than 15 percent at source during the first five years that the dividend article is in effect and to a

tax of 10 percent thereafter. The 10 percent rate was part of a negotiated package that included the rates on other types of investment income and on the treatment of the Mexican assets tax. Therefore, although it is somewhat lower than the rate on portfolio dividends in other U.S. treaties, it would not be appropriate to draw any conclusions about future treaty policy from this rate. Moreover, the limitation on benefits article is detailed and comprehensive and, together with the fact that Mexico has significant taxes of its own, should effectively forestall abusive use of the treaty by residents of a third country whose treaty with the U.S. (if one exists at all) provides higher rates for portfolio dividends. Like the other tax treaties under consideration today, this treaty reflects U.S. policy with respect to dividends paid by U.S. investment entities (RICs and REITs).

Under a "most favored nation" clause, if the U.S. agrees in a treaty with another country to impose a rate of less than 5 percent on direct investment dividends, that same rate would apply to direct dividends paid by a U.S. company to a Mexican company. Any treaty that triggers this MFN provision would, of course, be presented to the Senate for ratification, and the Senate would have an opportunity at that point to consider the prudence of extending a lower rate not only to the new treaty partner but to Mexico as well.

The proposed treaty limits source tax on interest to a maximum rate of 10 percent when the interest is paid on loans by banks and insurance companies or on publicly traded securities. In other cases, the maximum tax at source is 15 percent. (However, the treaty retains the U.S. statutory rate on the excess inclusion with respect to a residual interest in a real estate mortgage investment conduit (REMIC) and permits Mexico to retain its statutory tax in analogous cases.) After five years, the 10 percent rate applicable to banks, insurance companies, and publicly-traded debt will decline to 4.9 percent, and the general 15 percent rate will decline to 10 percent in the cases of interest paid by banks and interest on certain sales of machinery and equipment on credit. The rate will remain at 15 percent on other interest. The rate applicable to the excess interest of branches will be 10 percent for the first five years and then 4.9 percent.

The taxation of cross-border interest was one of the most contentious issues in the negotiations. The 4.9 percent rate is also part of the package of mutual compromises, referred to above, on the withholding rates applicable to dividends, interest, and royalties and on the treatment of Mexico's assets tax. It reflects an inherent tension in balancing Mexico's concerns about revenue loss with the interest of attracting U.S. lenders, and the U.S. interest in making U.S. lenders competitive in Mexico while advancing its preference for exemption of

interest at source. The 4.9 percent rate will permit a bank to include interest earned on loans into Mexico with other foreign source income from its active business for purposes of computing the foreign tax credit limitation, rather than isolating the Mexican source interest in the separate high withholding tax category. We think the 4.9 percent is a reasonable result given the particular issues in this case, but we do not view it as precedential.

The treaty permits a maximum tax at source of 10 percent on royalties. For this purpose royalties are defined to include film rentals and equipment rentals. However, the leasing of containers is exempt from tax at source under the article dealing with international transportation income.

The treaty's provisions with respect to the taxation of business profits and personal services income are similar to those in other recent U.S. income tax treaties. The business profits rules adopt some aspects of the U.N. Model treaty in expanding the circumstances in which there may be taxation of business profits at source beyond the circumstances typical in treaties between countries of comparable industrial development. For example, a construction site or drilling rig is considered a permanent establishment after 6 months, rather than a year, and profits of a home office from sales of goods similar to those sold through its permanent establishment may be attributed to that permanent establishment.

The treatment of business profits and the package of withholding rates reflect Mexico's status as a country that is emerging as a developed country but that still is less developed than the United States. Thus, as in U.S. treaties with other such countries, the withholding rates are higher than those in the U.S. model. Mexico agreed to lower rates to advance its interest in attracting U.S. capital and technology but needed to preserve a positive rate of tax on payments of interest and royalties because of its revenue interest in source-based taxation.

An important and unique feature of this treaty is that it ensures that the Mexican assets tax will not nullify the treaty's income tax benefits. In Mexico, the income tax is credited against the asset tax liability. Thus, in the absence of special rules, the treaty's reduction or elimination of income tax could be offset by a higher asset tax. Special rules are provided in the Protocol to prevent that result.

The treaty provides reciprocal recognition by Mexico and the United States of each other's tax-exempt organizations, both for purposes of exempting the organization from tax on its income and for purposes of allowing deductions to persons contributing to such organizations. Mexico's rules and regulations are closely

patterned on those of the United States, and close administrative cooperation will permit monitoring the application of those policies. These factors, along with the unique position of Mexico as a neighboring country, supported the decision to facilitate cross-border philanthropy. The United States competent authority will remain integrally involved in the administration of this provision and is given the right to deny an exemption in a specific case where it would be inappropriate, after consultation with the competent authority of Mexico.

Like all other recent U.S. tax treaties, this treaty contains provisions limiting its benefits to residents of the two countries who meet certain standards. In this case, although to a lesser extent than in the treaty with the Netherlands, those standards are modified to take into account the economic flows anticipated in the proposed free trade area. If the NAFTA is in effect, for purposes of claiming a lowered treaty withholding rate on a cross-border payment of dividends, interest, branch tax or royalties, a Mexican or U.S. company may satisfy the ownership and base erosion tests in the limitation on benefits provision by taking into account ownership by, and payments to, residents of Canada (or, in the future, any other NAFTA country), provided that the maximum rate provided in the U.S.-Mexico treaty is not more favorable than the comparable rate in a treaty between the recipient's residence country and Canada. This provision is referred to as giving "derivative benefits." Similarly, a Mexican or U.S. company that is partly owned by a publicly traded Canadian company may qualify for the lowered withholding rates in the U.S.-Mexico treaty as well as for other treaty benefits.

We believe that the circumstances in which Canadian ownership is relevant are administrable, reasonably limited, and will be an important component of any future trade relationship. The ability of a Canadian to obtain "derivative benefits" through a Mexican company is circumscribed both by the requirement that the company have a minimum level of Mexican and U.S. ownership and by the base erosion limitations. Moreover, the Canadian owners will not be able in any event to obtain, through the derivative benefits provision, lower withholding rates than they would have enjoyed under the U.S.-Canada treaty were they to invest directly in the United States. With respect to expansion of the publicly-traded test to give benefits to a company owned in part by a publicly-traded Canadian company, the requirement that the Canadian owner itself be publicly-traded embodies a treaty shopping antidote: our more recent limitation on benefits provisions typically contain a safe harbor for residents of a treaty country that are themselves publicly-traded.

Like the treaty with the Netherlands, the Mexican treaty builds upon the German treaty by providing for the possibility of binding arbitration. The provision will only enter into force, however, following an exchange of diplomatic notes that will

itself follow a period of experience with the German arbitration provision and a determination that arbitration offers a practical, workable back-up to the traditional competent authority mechanism for international bilateral dispute resolution. Also like the proposed treaty with the Netherlands (and the pending protocol with Israel), the treaty with Mexico acknowledges the possibility of treaty overrides and requires competent authority consultation to restore the balance of treaty benefits as appropriate.. We believe this provision is an appropriate mechanism for dealing with overrides, should they arise.

Like the other treaties before you today, the proposed treaty with Mexico adheres to the arm's length standard for transfer pricing. Mexico, in developing its treaty network, has brought itself fully into an international context in which the arm's length standard prevails. Thus, although we have never before signed a tax treaty with Mexico, Mexico does have a vested interest in adherence to this standard. As long as the arm's length standard remains the international norm, it is in the interest of Mexico, as well as the United States, to adhere to it. Failure to do so will result in unrelieved double taxation and, in extreme cases, to avoidance of taxation.

The treaty contains the usual guarantees of nondiscrimination in taxation and of relief from double taxation. It also includes the standard provisions for enforcing the provisions of the treaty and of the domestic laws covered by the treaty.

On balance, the new treaty with Mexico represents a package of concessions that is fair to both sides and should contribute to strengthening both economies.

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

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REMARKS OF TREASURY SECRETARY LLOYD BENTSEN
NAFTA ENDORSEMENT ANNOUNCEMENTS
WASHINGTON, D.C.

Good afternoon. I'll keep my remarks brief. I'm not about to stand in the way of anyone who wants to say something nice about NAFTA.

A few weeks ago the president reasserted his strong support for NAFTA in a ceremony in the East Room with Presidents Carter, Bush and Ford. He showed real leadership in stepping out on NAFTA. He knew there was organized opposition, but he knew that he had to move the country aggressively into the 21st Century. He knows we cannot afford to turn the clock back to our protectionist past. And he knows that with the environmental side agreement and new North American Development Bank to help finance environmental cleanup and community adjustment, NAFTA is an example of leadership in protecting our environment.

There are leaders in this room today, leaders who share the president's vision. They know that NAFTA is about growth, positive change and increased opportunities for all Americans. NAFTA will create jobs, improve the environment, and better position the United States to compete with the EC and Japan in the global marketplace.

Esteban Torres is a leader in his community and in Congress. He once campaigned, I understand, on the slogan "from autoworker to ambassador -- the American Dream." He has put this experience to work as a positive force with the administration on NAFTA.

We are also fortunate to be joined by leaders of the Latino community. Raul Yzaguirre is the voice of La Raza fighting for communities around the country on behalf of social and economic justice. Antonia Hernandez, as president of the Mexican American Legal Defense and Education Fund, has been doing outstanding work protecting the rights of Anerica's 16 million Hispanics. And Andy Hernandez is an old friend. His organization, the Southwest Voter Research Institute, has been a progressive voice for change in the region of the country I know so well.

Justin Ward will also discuss the Natural Resources Defense Council's views regarding NAFTA in light of some recent developments regarding the environmental agreement with the Mexican government.

We all approach NAFTA from different perspectives but have reached the same conclusion. NAFTA is about the future -- a future of growth and opportunity for all Americans.

Let me now ask my friend Esteban Torres to say a few words.

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AD REFERENDUM TEXT 10/22/93

AGREEMENT BETWEEN THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF THE UNITED MEXICAN STATES CONCERNING THE ESTABLISHMENT OF A BORDER ENVIRONMENT COOPERATION COMMISSION AND A NORTH AMERICAN DEVELOPMENT BANK

The Government of the United States of America and the Government of the United Mexican States ("the Parties"):

Convinced of the importance of the conservation, protection and enhancement of their environments and the essential role of cooperation in these areas in achieving sustainable development for the well-being of present and future generations;

Recognizing the bilateral nature of many transboundary environmental issues, and that such issues can be most effectively addressed jointly;

Acknowledging that the border region of the United States and Mexico is experiencing environmental problems which must be addressed in order to promote sustainable development;

Recognizing the need for environmental infrastructure in the border region, especially in the areas of water pollution, wastewater treatment, municipal solid waste, and related matters;

Affirming that, to the extent practicable, environmental infrastructure projects should be financed by the private sector, but that the urgency of the environmental problems in the border region requires that the Parties be prepared to assist in supporting these projects;

Affirming that, to the extent practicable, environmental infrastructure projects in the border region should be operated and maintained through user fees paid by polluters and those who benefit from the projects, and should be subject to local or private control;

Noting that the International Boundary and Water Commission, established pursuant to the Treaty between the United States and Mexico Relating to Utilization of Waters of the Colorado and Tijuana Rivers and of the Rio Grande, signed at Washington February 3, 1944, plays an important role in efforts to preserve the health and vitality of the river waters of the border region;

Recognizing that there is a need to establish a new organization to strengthen cooperation among interested parties and to facilitate the financing, construction, operation and maintenance of environmental infrastructure projects in the border region;

Affirming the desirability of encouraging increased investment in the environmental infrastructure in the border region, whether or not such investment is made under the auspices of this Agreement;

Convinced of the need to collaborate with states and localities, non-governmental organizations, and other members of the public in the effort to address environmental problems in the border region;

Seeking to assist community adjustment and investment in the United States and Mexico;

Reaffirming the importance of the environmental goals and objectives embodied in the Agreement on Cooperation for the Protection and Improvement of the Environment in the Border Area, signed at La Paz, Baja California Sur August 14, 1983; and

Wishing to follow upon the goals and objectives of the North American Free Trade Agreement, signed at Washington, Ottawa, and Mexico December 8, 11, 14, and 17, 1992, and the North American Agreement on Environmental Cooperation, signed at Mexico, Washington, and Ottawa September 8, 9, 12, and 14, 1993;

Have agreed as follows:

INTRODUCTORY ARTICLE

The Parties agree to establish the Border Environment Cooperation Commission and the North American Development Bank, which shall operate in accordance with the following provisions:

CHAPTER I
BORDER ENVIRONMENT COOPERATION COMMISSION

Article I
PURPOSE AND FUNCTIONS

Section 1. Purpose

(a) The purpose of the Commission shall be to help preserve, protect and enhance the environment of the border region in order to advance the well-being of the people of the United States and Mexico.

(b) In carrying out this purpose, the Commission shall cooperate as appropriate with the North American Development Bank and other national and international institutions, and with private sources supplying investment capital for environmental infrastructure projects in the border region.

Section 2. Functions

In carrying out this purpose, the Commission may do any or all of the following:

(i) with their concurrence, assist states and

localities and other public entities and private investors in:

(A) coordinating environmental infrastructure projects in the border region;

(B) preparing, developing, implementing, and overseeing environmental infrastructure projects in the border region, including the design, siting and other technical aspects of such projects;

(C) analyzing the financial feasibility or the environmental aspects, or both, of environmental infrastructure projects in the border region;

(D) evaluating social and economic benefits of environmental infrastructure projects in the border region;

(E) organizing, developing and arranging public and private financing for environmental infrastructure projects in the border region; and

(ii) certify, in accordance with Article II, Section 3 of this Chapter, applications for financing to be submitted to the North American Development Bank, or to other sources of financing that request such certification, for environmental infrastructure projects in the border region.

The Commission, with the concurrence of the United States Environmental Protection Agency and the Mexican Secretaría de Desarollo Social, may carry out these functions with respect to an environmental infrastructure project outside the border region upon finding that the project would remedy a transboundary environmental or health problem.

Article II
OPERATIONS

Section 1. Use of resources

The resources and facilities of the Commission shall be used exclusively to implement the purpose and functions enumerated in Article I of this Chapter.

Section 2. Requests for assistance

(a) The Commission may seek and accept requests from states and localities, other public entities and private investors for assistance in carrying out the activities enumerated in Article I of this Chapter.

(b) Upon receipt of a request for assistance pursuant to paragraph (a) of this Section, the Commission may provide any and all such assistance as it deems appropriate. In providing such assistance, or in making certifications pursuant to Section 3 of this Article, the Commission shall give preference to environmental infrastructure projects relating to water pollution, wastewater treatment, municipal solid waste and related matters.

(c) In providing such assistance, the Commission shall consult with the Advisory Council established pursuant to Article III, Section 5 of this Chapter, and, as appropriate, with private investors and national and international institutions, particularly the North American Development Bank.

Section 3. Applications for certification

(a) The Commission may accept applications from states and localities, other public entities and private investors for certification of environmental infrastructure projects in the border region with respect to which an applicant will be seeking financial assistance from the North American Development Bank or other sources of financing requesting such certification.

(b) The Commission may certify for such financing any project that meets or agrees to meet the technical, environmental, financial or other criteria applied, either generally or specifically, by the Commission to that project. To be eligible for certification, a project shall observe or be capable of observing the environmental and other laws of the place where it is to be located or executed.

(c) For each project located in the border region and having significant transboundary environmental effects,

(1) an environmental assessment shall be presented as part of the application process, and the Board of Directors shall examine potential environmental benefits, environmental risks, and costs, as well as available alternatives and the environmental standards and objectives of the affected area; and

(2) the Board of Directors, in consultation with affected states and localities, shall determine that the project meets the necessary conditions to achieve a high level of environmental protection for the affected area.

(d) Upon certification of a project for financial assistance from the North American Development Bank, the Commission shall submit a proposal for such assistance to the Bank for its consideration.

(e) Upon certification of a project for financial assistance from another source of financing requesting such certification, the Commission shall submit a proposal for such assistance to that source for its consideration.

Section 4. Relationship with the public

The Commission shall establish procedures in English and Spanish:

(1) ensuring, to the extent possible, public availability of documentary information on all projects for which a request for assistance or an application for certification is made;

(2) for giving written notice of and providing members of the public reasonable opportunity to comment on any general guidelines which may be established by the Commission for environmental infrastructure projects for which it provides assistance, and on all applications for certification received by the Commission; and

(3) whereby the Board of Directors could receive complaints from groups affected by projects that the Commission has assisted or certified and could obtain independent assessments as to whether the terms of this Chapter or the procedures established by the Board of Directors pursuant to this Chapter have been observed.

Section 5. Reimbursement, fees and charges

(a) The Commission may arrange for reimbursement of the costs of furnishing assistance on terms which the Commission deems appropriate.

(b) The Commission may establish reasonable fees or other charges for its assistance, including the processing of applications for certification.

Article III
ORGANIZATION AND MANAGEMENT

Section 1. Location of offices

The Commission shall have its offices in the border region.

Section 2. Structure of the Commission

The Commission shall have a Board of Directors, a General Manager, a Deputy General Manager, an Advisory Council and such other officers and staff to perform such duties as the Commission may determine.

Section 3. Board of Directors

(a) All the powers of the Commission, including the power to determine its general operational and structural policies, shall be vested in the Board of Directors. The Board shall have ten Directors:

(1) the United States Commissioner of the International Boundary and Water Commission, who shall serve ex officio;

(2) the Mexican Commissioner of the International Boundary and Water Commission, who shall serve ex officio;

(3) the Administrator of the Environmental Protection Agency of the United States, or his/her delegate, who shall serve ex officio;

(4) the Secretario de Desarollo Social of Mexico, or his/her delegate, who shall serve ex officio;

(5) six additional directors having expertise in environmental planning, economics, engineering, finance, or related matters, consisting of--

(i) a representative of one of the U.S. border states, appointed by the United States in such manner as it may determine;

(ii) a representative of one of the Mexican border states, appointed by Mexico in such manner as it may determine;

(iii) a representative of a U.S. locality in the border region, appointed by the United States in such manner as it may determine;

(iv) a representative of a Mexican locality in the border region, appointed by Mexico in such manner as it may determine;

(v) a member of the U.S. public who is a resident of the border region, appointed by the United States in such manner as it may determine; and

(vi) a member of the Mexican public who is a resident of the border region, appointed by Mexico in such manner as it may determine.

Each of the Parties, on an alternating basis, shall select one of the directors as Chairperson of the Board of Directors for a one-year term.

(b) The Board of Directors may delegate to the General Manager authority to exercise any powers of the Board, except the power to:

(i) certify environmental infrastructure projects in accordance with Article II, Section 3 of this Chapter;

(ii) apply, either generally or specifically, technical, environmental, financial or other criteria to an environmental infrastructure project;

(iii) determine the salary and terms of contract of service of the General Manager and the Deputy General Manager; and

(iv) approve the annual program and budget and the annual report of the Commission.

(c) The Board of Directors shall hold quarterly regular sessions, and such other special sessions as may be called by the Board or the General Manager. At all regular sessions, the Board of Directors shall hold at least one public meeting. One public meeting each year shall be designated the Annual Meeting of the Board.

(d) A quorum for any meeting of the Board of Directors shall be a majority of the directors appointed by each of the Parties.

(e) All decisions of the Board of Directors shall require the approval of a majority of the members appointed by each Party. A written record of such decisions shall be made public in English and Spanish.

(f) The Board of Directors may adopt such rules and regulations as may be necessary or appropriate to conduct the business of the Commission.

(g) Directors shall serve as such without compensation from the Commission, but the Commission shall pay them reasonable expenses incurred in attending meetings of the Board of Directors.

Section 4. General Manager

(a) The Board of Directors shall appoint a General Manager and a Deputy General Manager, neither of whom shall be a Director. The General Manager and the Deputy General Manager shall each be appointed for a term of three years and may be reappointed. The General Manager and the Deputy General Manager shall cease to hold office when the Board of Directors so decides with respect to either officer. The offices of General Manager and Deputy General Manager shall alternate between nationals of the Parties. The General Manager and the Deputy General Manager shall be nationals of different Parties at all times.

(b) The General Manager shall exercise all the powers delegated to him or her by the Board of Directors. The General Manager may participate in meetings of the Board, but shall not vote at such meetings. The General Manager shall be chief of the operating staff of the Commission and shall conduct, under the direction of the Boardof Directors, the ordinary business of the Commission. Subject to the general control of the Board of Directors, the General Manager shall be responsible for the organization, appointment and dismissal of the officers and staff of the Commission.

(c) The General Manager, officers and staff of the Commission, in the discharge of their offices, shall owe their duty entirely to the Commission and to no other authority. The Parties shall respect the international character of this duty and shall refrain from all attempts to influence any of them in the discharge of their duties.

(d) In appointing the officers and staff, the General Manager shall, subject to the paramount importance of securing the highest standards of efficiency and technical competence, seek to achieve at each level a balanced proportion of nationals of each Party.

(e) The General Manager shall submit to the Board of Directors for its approval an annual program and budget for the Commission. The Advisory Council established pursuant to Section 5 of this Article shall receive at the same time as the Board of Directors drafts of the annual program and budget and may make comments to the Board on the same.

Section 5. Advisory Council

(a) The Advisory Council shall be composed of:

(i) at least one resident of each of the U.S. border states, totalling not more than six such representatives, who shall represent states or localities, or local community groups, to be appointed by the United States in such manner as it may determine;

(ii) one resident of each of the Mexican border states, who shall represent states or localities, or local community groups, to be appointed by Mexico in such manner as it may determine;

(iii) three members of the public, including at least one representative of a U.S. non-governmental organization, appointed by the United States in such manner as it may determine; and

(iv) three members of the public, including at least one representative of a Mexican non-governmental organization, appointed by Mexico in such manner as it may determine.

(b) Council members shall be appointed for a term of two years and may be reappointed. Each of the Parties shall select from among the members it appoints a Co-Chairperson of the Council. Council members shall serve as such without compensation from the Commission, but the Commission shall pay them reasonable expenses incurred in attending meetings of the Council.

(c) The Council shall meet quarterly during the regular sessions of the Board of Directors, and at such other times as the Council, with the consent of a majority of the members appointed by each of the Parties, or the Board shall determine.

(d) The Council may adopt such rules as may be necessary or appropriate to conduct the business of the Council.

(e) The Council may provide advice to the Board of Directors or the General Manager on any matter within the scope of this Chapter, including certifications pursuant to Article II of this Chapter, and on the implementation and further elaboration of this Chapter, and may perform such other functions as directed by the Board.

Section 6. Relationship to the International Boundary and Water Commission

(a) The Commission may enter into arrangements with the International Boundary and Water Commission ("IBWC") regarding facilities, personnel and services and arrangements for reimbursement of administrative and other expenses paid by one organization on behalf of the other.

(b) Nothing in this Chapter shall make the Commission liable for the acts or obligations of the IBWC, or the IBWC liable for the acts or obligations of the Commission.

(c) The Parties shall call upon the Commission and the IBWC to cooperate, as appropriate, with each other in planning, developing and carrying out border sanitation and other environmental activities.

Section 7. Funding

Each Party shall contribute an equal share of the budget of the Commission, subject to the availability of appropriated funds in accordance with its domestic legal requirements. The Commission shall establish an account or accounts to receive such contributions from the Parties.

Section 8. Channel of communication

Each Party shall designate an appropriate authority with which the Commission may communicate in connection with any matter arising under this Chapter.

Section 9. Annual reports

(a) The Commission shall submit to the Parties an annual report in English and Spanish on its operations. The report shall be prepared by the General Manager and shall be approved by the Board of Directors. The Advisory Council shall receive at the same time as the Board of Directors drafts of the annual report and may make comments to the Board on the same. The annual report shall include an audited statement of the Commission's accounts.

(b) Copies of the annual report prepared under this section shall be made available to the public.

Section 10. Limitations on disclosure

(a) Notwithstanding any other provision of this Chapter, the Commission, including its officers and staff, shall not make public information with respect to which a Party has notified the Commission that public disclosure would impede its law enforcement.

(b) The Commission shall establish regulations to protect from disclosure business or proprietary information and information the disclosure of which would violate personal privacy or the confidentiality of government decision-making.

(c) A party that requests assistance or submits an application to the Commission may request that information contained therein be designated confidential by the Commission, and may request an advance determination from the Commission as to whether such information is entitled to confidentiality pursuant to subsection (b) above. If the Commission determines that such information is not entitled to confidentiality pursuant to subsection (b) above, the party may withdraw its request or application prior to further action by the Commission. Upon such withdrawal, the Commission shall not keep any copy of the information and shall not make public that it received such a request or application.

Article IV
STATUS, IMMUNITIES AND PRIVILEGES

Section 1. Scope of article

To enable the Commission to fulfill its purpose and the functions with which it is entrusted, the status, immunities and privileges set forth in this Article shall be accorded to the Commission in the territories of each Party.

Section 2. Legal status

(a) The Commission shall possess juridical personality and, in particular, full capacity:

(i) to contract;

(ii) to acquire and dispose of immovable and movable property; and

(iii) to institute legal proceedings.

(b) The Commission may exercise such other powers as shall be necessary in furtherance of its purpose and functions, consistent with the provisions of this Chapter.

Section 3. Judicial proceedings

The Commission, its property and its assets, wherever located, and by whomsoever held, shall enjoy the same immunity from suit and every form of judicial process as is enjoyed by foreign governments, except to the extent that the Commission may expressly waive its immunity for the purposes of any proceedings or by the terms of any contract.

Section 4. Immunity of assets

Property and assets of the Commission, wheresoever located and by whomsoever held, shall be considered public international property and shall be immune from search, requisition, confiscation, expropriation or any other form of taking or foreclosure by executive or legislative action.

Section 5. Inviolability of archives

The archives of the Commission shall be inviolable.

Section 6. Freedom of assets from restrictions

To the extent necessary to carry out the purpose and functions of the Commission and to conduct its operations in accordance with this Chapter, all property and other assets of the Commission shall be free from restrictions, regulations, controls and moratoria of any nature, except as may otherwise be provided in this Chapter.

Section 7. Privilege for communications

The official communications of the Commission shall be accorded by each Party the same treatment that it accords to the official communications of the other Party.

Section 8. Personal immunities and privileges

(a) The directors, General Manager, Deputy General Manager, officers and staff of the Commission shall have the following privileges and immunities:

> (i) immunity from legal process with respect to acts performed by them in their official capacity except when the Commission expressly waives this immunity;

(ii) when not local nationals, the same immunities from immigration restrictions, alien registration requirements and national service obligations and the same facilities as regards exchange provisions as are accorded by each Party to the representatives, officials, and employees of comparable rank of the other Party; and

(iii) the same privileges in respect of travelling facilities as are accorded by each Party to representatives, officials, and employees of comparable rank of the other Party.

Section 9. Immunities from taxation

(a) The Commission, its property, other assets, income, and the operations it carries out pursuant to this Chapter shall be immune from all taxation and from all customs duties. The Commission shall also be immune from any obligation relating to the payment, withholding or collection of any tax or customs duty.

(b) No tax shall be levied on or in respect of salaries and emoluments paid by the Commission to officers or staff of the Commission who are not local nationals.

Section 10. Implementation

Each Party, in accordance with its juridical system, shall take such action as is necessary to make effective in its own territories the principles set forth in this Article, and shall inform the Commission of the action which it has taken on the matter.

Article V
CONSULTATIONS

Section 1. Principle of cooperation

The Parties shall at all times endeavor to agree on the interpretation and application of this Chapter, and shall make every effort to resolve any matter that might affect the implementation of this Chapter.

Section 2. Consultations

Upon the written request of either Party or the Board of Directors in English and Spanish, the Parties shall consult regarding the interpretation or application of this Chapter. These consultations shall take place within 30 days after a written request for consultations.

Article VI
TERMINATION OF OPERATIONS

(a) The Parties, by mutual agreement, may terminate the operations of the Commission. A Party may withdraw from the Commission by delivering to the Commission at its principal office a written notice of its intention to do so. Such withdrawal shall become finally effective on the date specified in the notice but in no event less than six months after the notice is delivered to the Commission. However, at any time before the withdrawal becomes finally effective, the Party may notify the Commission in writing of the cancellation of its notice of intention to withdraw. The Commission shall terminate its operations on the effective date of any notice of withdrawal from the Commission.

(b) After such termination of operations the Commission shall forthwith cease all activities, except those incident to the conservation, preservation, and realization of its assets and settlement of its obligations.

CHAPTER II
NORTH AMERICAN DEVELOPMENT BANK

Article I
PURPOSES AND FUNCTIONS

Section 1. Purposes

The purposes of the North American Development Bank shall be:

(a) to provide financing for projects certified by the Border Environment Cooperation Commission, as appropriate, and, at the request of the Commission, to otherwise assist the Commission in fulfilling its purposes and functions;

(b) to provide financing endorsed by the United States, as appropriate, for community adjustment and investment in support of the purposes of the North American Free Trade Agreement; and

(c) to provide financing endorsed by Mexico, as appropriate, for community adjustment and investment in support of the purposes of the North American Free Trade Agreement.

Section 2. Functions

To implement its purposes, the Bank shall utilize its own capital, funds raised by it in financial markets, and other available resources and shall fulfill the following functions:

(a) to promote the investment of public and private capital contributing to its purposes;

(b) to encourage private investment in projects, enterprises, and activities contributing to its purposes, and to supplement private investment when private capital is not available on reasonable terms and conditions; and

(c) to provide technical and other assistance for the financing and, in coordination with the Commission, the implementation of plans and projects.

In carrying out its functions, the Bank shall cooperate as appropriate with national and international institutions and with private sources supplying investment capital.

Article II
CAPITAL OF THE BANK

Section 1. Authorized capital

(a) The authorized capital stock of the Bank initially shall be in the amount of $3,000,000,000 in United States dollars and shall be divided into 300,000 shares having a par value of $10,000 each, which shall be available for subscription by the Parties in accordance with Section 2 of this Article.

(b) The authorized capital stock shall be divided into paid-in shares and callable shares. $450,000,000 shall be paid-in shares, and $2,550,000,000 shall be callable for the purposes specified in Section 3(d) of this Article.

(c) The authorized capital stock may be increased when the Board of the Bank by a unanimous vote deems it advisable, subject to the domestic legal requirements of the Parties.

Section 2. Subscription of shares

(a) Each Party shall subscribe to shares of the capital stock of the Bank. The number of shares to be subscribed by the Parties shall be those set forth in Annex A of this Agreement, which specifies the obligation of each Party as to both paid-in and callable capital.

(b) Shares of capital stock initially subscribed by the Parties shall be issued at par. Other shares shall be issued at par unless the Board of the Bank decides in special circumstances to issue them on other terms.

(c) The liability of the Parties on capital shares shall be limited to the unpaid portion of their issue price.

(d) Shares of capital stock shall not be pledged or encumbered in any manner, and they shall be transferable only to the Bank.

Section 3. Payment of subscriptions

Payment of the subscriptions to the capital stock of the Bank as set forth in Annex A shall be made as follows:

(a) As soon as possible after this Agreement enters into force pursuant to Article I of Chapter III, but no later than thirty days thereafter, each Party shall deposit with the Bank an Instrument of Subscription in which it agrees to pay in either Party's currency to the Bank the amount of paid-in capital set forth for it in Annex A, and to accept the obligations of callable shares ("Unqualified Subscription"). Payment of the paid-in capital shall be due according to a schedule to be established by the Board of the Bank after entry into force of this Agreement.

(b) Notwithstanding the provisions of paragraph (a) of this Section regarding Unqualified Subscriptions, as an exceptional case, a Party may deposit an Instrument of Subscription in which it agrees that payment of all installments of paid-in capital, and its obligations with respect to all callable shares, are subject to subsequent budgetary legislation ("Qualified Subscription"). In such an instrument, the Party shall undertake to seek to obtain the necessary legislation to pay the full amount of paid-in capital and to accept the full amount of corresponding obligations for callable shares, by the payment dates determined in accordance with paragraph (a) of this Section. Payment of an installment due after any such date shall be made within sixty days after the requisite legislation has been obtained.

(c) If any Party which has made a Qualified Subscription has not obtained the legislation to make payment in full of any installment (or to accept obligations in respect of callable shares) by the dates determined in accordance with paragraph (a) of this Section, then a Party which has paid the corresponding installment on time and in full, may, after consultation with the Board of the Bank, direct the Bank in writing to restrict commitments against that installment. That restriction shall not exceed the percentage which the unpaid portion of the installment, due from the Party which has made the Qualified Subscription, bears to the entire amount of the installment to be paid by that Party, and shall be in effect only for the time that unpaid portion remains unpaid.

(d) The callable portion of the subscription for capital shares of the Bank shall be subject to call only when required to meet the obligations of the Bank created under Article III, Section 2(b) and (c) of this Chapter on borrowings of funds for inclusion in the Bank's capital resources or guarantees chargeable to such resources. In the event of such a call, payment shall be made in either Party's currency. Calls on unpaid subscriptions shall be uniform in percentage on all shares.

Section 4. Capital resources

(a) As used in this Chapter, the term "capital resources" of the Bank shall be deemed to include the following:

(1) authorized capital, including both paid-in and callable shares, subscribed pursuant to Sections 2 and 3 of this Article;

(2) all funds raised by borrowings under the authority of Article V, Section 1(a) of this Chapter to which the commitment set forth in Section 3(d) of this Article is applicable;

(3) all funds received in repayment of loans made with the resources indicated in paragraphs (1) and (2) of this section;

(4) all income derived from loans made from the aforementioned funds or from guarantees to which the commitment set forth in Section 3(d) of this Article is applicable; and

(5) all other income derived from any of the resources mentioned above.

Article III
OPERATIONS

Section 1. Use of resources

The resources and facilities of the Bank shall be used exclusively to implement the purposes and functions enumerated in Article I of this Chapter.

Section 2. Methods of making or guaranteeing loans

Subject to the conditions stipulated in this Article, the Bank may make or guarantee loans to either Party, or any agency or political subdivision thereof, and to any entity in the territory of a Party, in any of the following ways:

(a) by making or participating in direct loans with funds corresponding to the unimpaired paid-in capital and to its reserves and undistributed surplus;

(b) by making or participating in direct loans with funds raised by the Bank in capital markets, or borrowed or acquired in any other manner, for inclusion in the capital resources of the Bank; and

(c) by guaranteeing in whole or in part loans made to, or securities issued in connection with, projects.

Section 3. Grants

(a) Subject to the conditions stipulated in this Article, the Bank shall make grants to the United States or any agency or political subdivision thereof, and to any entity in the territory of the United States for purposes specified in Article I, Section 1(b) of this Chapter.

(b) Subject to the conditions stipulated in this Article, the Bank shall make grants to Mexico or any agency or political subdivision thereof, and to any entity in the territory of Mexico for purposes specified in Article I, Section 1(c) of this Chapter.

Section 4. Limitations on operations

(a) The total amount outstanding of loans and guarantees made by the Bank in its operations shall not at any time exceed the total amount of the unimpaired subscribed capital of the Bank, plus the unimpaired reserves and surplus included in the capital resources of the Bank, as defined in Article II, Section 4 of this Chapter, and other income of the capital resources assigned by decision of the Board of the Bank to reserves not available for loans or guarantees.

(b) The total amount of loans, guarantees and grants provided for the purposes specified in Article I, Section 1(b) of this Chapter, shall not exceed 10 percent of the sum of the initial paid-in capital actually paid to the Bank by the United States, and the initial amount of callable shares for which the United States has an unqualified subscription.

The total amount of grants made pursuant to Section 11 of this Article, plus 15 percent of the total amount of loans and guarantees made for the purposes specified in Article I, Section 1(b) of this Chapter, shall not exceed 10 percent of the initial paid-in capital actually paid to the Bank by the United States.

(c) The total amount of loans, guarantees and grants provided for the purposes specified in Article I, Section 1(c) of this Chapter, shall not exceed 10 percent of the sum of the initial paid-in capital actually paid to the Bank by Mexico, and the amount of initial callable shares for which Mexico has an unqualified subscription.

The total amount of grants made pursuant to Section 11 of this Article, plus 15 percent of the total amount of loans and guarantees made for the purposes specified in Article I, Section 1(c) of this Chapter, shall not exceed 10 percent of the initial paid-in capital actually paid to the Bank by Mexico.

Section 5. Direct loan and grant financing

In making grants or in making direct loans or participating in them, the Bank may provide financing in the currencies of the Parties to meet the costs and expenses related to the purposes of the grant or loan.

Section 6. Rules and conditions for making or guaranteeing loans

(a) The Bank may make or guarantee loans, subject to the following rules and conditions:

(1) in considering a request for a loan or a guarantee, the Bank shall take into account the ability of the borrower to obtain the loan from private sources of financing on terms which, in the opinion of the Bank, are reasonable for the borrower, taking into account all pertinent factors;

(2) in making or guaranteeing a loan, the Bank shall pay due regard to prospects that the borrower and its guarantor, if any, will be in a position to meet their obligations under the loan contract;

(3) in the opinion of the Bank, the rate of interest, other charges and the schedule for repayment of principal are appropriate for the purpose or project in question; and

(4) in guaranteeing a loan made by other investors, the Bank shall receive suitable compensation for its risk.

(b) In addition to the rules and conditions set forth in paragraph (a) of this Section, the following rules and conditions shall apply to loans or guarantees made pursuant to a certification from the Commission:

(1) the applicant for the loan shall have submitted a detailed proposal to the Bank, and the Commission shall have presented a written report certifying the proposal;

(2) in making or guaranteeing a loan to a project, the Bank shall find that the project is economically/financially sound, and pay due regard to the prospects that the project will generate sufficient revenues, by user fees or otherwise, to be self-sustaining, or that funds will be available from other sources to meet debt servicing obligations; and

(3) loans made or guaranteed by the Bank shall be for financing specific projects.

(c) In addition to the rules and conditions set forth in paragraph (a) of this Section, loans and guarantees made for the purposes specified in Article I, Section 1(b) of this Chapter shall require an endorsement from the United States.

(d) In addition to the rules and conditions set forth in paragraph (a) of this Section, loans and guarantees made for the purposes specified in Article I, Section 1(c) of this Chapter shall require an endorsement from Mexico.

Section 7. Optional conditions for making or guaranteeing loans

(a) In the case of loans or guarantees of loans to nongovernmental entities, the Bank may, when it deems it advisable, require that the Party in whose territory the project is to be carried out, or a public institution or a similar agency of the Party acceptable to the Bank, guarantee the repayment of the principal and the payment of interest and other charges on the loan.

(b) The Bank may attach such other conditions to the making of loans or guarantees as it deems appropriate.

Section 8. Use of loans made or guaranteed by the Bank

(a) The Bank shall impose no condition that the proceeds of a loan shall be spent in the territory of either Party.

(b) The Bank shall take the necessary measures to ensure that the proceeds of any loan made, guaranteed, or participated in by the Bank are used only for the purposes for which the loan was granted, with due attention to considerations of economy and efficiency.

Section 9. Payment provisions for direct loans

Direct loan contracts made by the Bank in conformity with Sections 5 and 6 of this Article shall establish:

(a) All the terms and conditions of each loan, including among others, provision for payment of principal, interest and other charges, maturities, and dates of payment; and

(b) The currency or currencies in which payment shall be made to the Bank.

Section 10. Guarantees

(a) In making any guarantee pursuant to Section 2(c) of this Article, the Bank shall charge a guarantee fee, at a rate determined by the Bank, payable periodically on the amount of the loan outstanding.

(b) Guarantee contracts concluded by the Bank shall provide that the Bank may terminate its liability with respect to interest if, upon default by the borrower and by the guarantor, if any, the Bank offers to purchase, at par and interest accrued to a date designated in the offer, the bonds or other obligations guaranteed.

(c) In issuing guarantees, the Bank shall have power to determine any other terms and conditions.

Section 11. Rules and conditions for making grants

(a) Notwithstanding Article VI, Section 3 of this Chapter, and subject to the limitations specified in Article II, Section 4(b) of this Chapter, the Bank shall make grants for the purposes specified in Article I, Section 1(a) of this Chapter pursuant to an endorsement by the United States.

(b) Notwithstanding Article VI, Section 3 of this Chapter, and subject to the limitations specified in Article II, Section 4(c) of this Chapter, the Bank shall make grants for the purposes specified in Article I, Section 2(c) of this Chapter pursuant to an endorsement by Mexico.

Section 12. Relationship with other entities

(a) The Bank may make arrangements with other entities, including multilateral development banks, regarding facilities, personnel and services and arrangements for reimbursement of administrative expenses paid by either entity on behalf of the other.

(b) Nothing in this Agreement shall make the Bank liable for the acts or obligations of an entity referred to in paragraph (a) of this Section, or any such entity liable for the acts or obligations of the Bank.

Article IV
CURRENCIES

Section 1. Use of currencies

(a) The Parties may not maintain or impose restrictions of any kind upon the use by the Bank or by any recipient from the Bank, for payments in any country, of the following:

(1) currencies received by the Bank in payment of each Party's subscription to shares of the Bank's capital;

(2) currencies of the Parties purchased with the resources referred to in (1) of this paragraph;

(3) currencies obtained by borrowings, pursuant to the provisions of Article V, Section 1(a) of this Chapter, for inclusion in the capital resources of the Bank;

(4) currencies received by the Bank in payment on account of principal, interest, or other charges in respect of loans made from the funds referred to in (1), (2) or (3) of this paragraph; and currencies received in payment of commissions and fees on all guarantees made by the Bank; and

(5) currencies received from the Bank pursuant to Article V, Section 4(c) of this Chapter, in distribution of net profits.

(b) A Party's currency held by the Bank in its capital resources, which is not covered by paragraph (a) of this section, also may be used by the Bank or any recipient from the Bank for payments in any country without restriction of any kind.

(c) The Parties may not place any restrictions on the holding and use by the Bank, for making amortization payments or anticipating payment of, or repurchasing part or all of the Bank's own obligations, of currencies received by the Bank in repayment of direct loans made from borrowed funds included in the capital resources of the Bank.

Section 2. Valuation of currencies

(a) The amount of a currency other than the U.S. dollar paid for purposes of Section 3(a), (b) or (d) of Article II of this Chapter or Section 3 of this Article to discharge a U.S. dollar-denominated obligation shall be that amount which will yield to the Bank the U.S. dollar amount of such obligation.

(b) Whenever it shall become necessary under this Chapter to value any currency in terms of another currency, such valuation shall be determined by the Bank after consultation, if necessary, with the International Monetary Fund.

Section 3. Methods of conserving currencies

The Bank shall accept from either Party promissory notes or similar securities issued by the government of the Party, or by the depository designated by such Party, in lieu of any part of the currency of the Party representing the paid-in portion of its subscription to the Bank's authorized capital, provided such currency is not required by the Bank for the conduct of its operations. Such notes or securities shall be non-negotiable, non-interest-bearing, and payable to the Bank at their par value on demand. On the same conditions, the Bank shall also accept such notes or securities in lieu of any part of the subscription of a Party with respect to which part the terms of the subscription do not require payment in cash.

Article V
MISCELLANEOUS POWERS AND DISTRIBUTION OF PROFITS

Section 1. Miscellaneous powers of the Bank

In addition to the powers specified elsewhere in this Chapter, the Bank shall have the power to:

(a) borrow funds and in that connection to furnish such collateral or other security therefor as the Bank shall determine, provided that, before making a sale of its obligations in the markets of a Party, the Bank shall have obtained the approval of that country and of the Party in whose currency the obligations are denominated.

(b) invest funds not needed in its operations in such obligations as it may determine;

(c) guarantee securities in its portfolio for the purpose of facilitating their sale; and

(d) exercise such other powers as shall be necessary or desirable in furtherance of its purposes and functions, consistent with the provisions of this Chapter.

Section 2. Warning to be placed on securities

Every security issued or guaranteed by the Bank shall bear on its face a conspicuous statement to the effect that it is not an obligation of any government, unless it is in fact the obligation of a particular government, in which case it shall so state.

Section 3. Methods of meeting the losses of the Bank

(a) In cases of arrears or default on loans made, participated in, or guaranteed by the Bank, the Bank shall take such action as it deems appropriate. The Bank shall maintain appropriate provisions against possible losses.

(b) Losses arising in the Bank's operations shall be charged first, to the provisions referred to in paragraph (a); second, to net income; third, against its general reserve and surpluses; and fourth, against the unimpaired paid-in capital.

(c) Whenever necessary to meet contractual payments of interest, other charges, or amortization on the Bank's borrowings payable out of its capital resources, or to meet the Bank's liabilities with respect to similar payments on loans guaranteed by it chargeable to its capital resources, the Bank may call upon both Parties to pay an appropriate amount of their callable capital subscriptions, in accordance with Article II, Section 3 of this Chapter. Moreover, if the Bank believes that a default may be of long duration, it may call an additional part of such subscriptions not to exceed in any one year one per cent of the total subscriptions of the Parties to the capital resources, for the following purposes:

(1) to redeem prior to maturity, or otherwise discharge its liability on, all or part of the outstanding principal of any loan guaranteed by it chargeable to its capital resources in respect of which the debtor is in default; and

(2) to repurchase, or otherwise discharge its liability on, all or part of its own outstanding obligations payable out of its capital resources.

Section 4. Distribution or transfer of net profits and surplus

(a) The Board of the Bank may determine periodically what part of the net profits and of the surplus of the capital resources shall be distributed. Such distributions may be made only when the reserves have reached a level which the Board considers adequate.

(b) The distributions referred to in paragraph (a) of this section shall be made from the capital resources in proportion to the number of capital shares held by each Party.

(c) Payments pursuant to paragraph (a) of this section shall be made in such manner and in such currency or currencies as the Board of the Bank shall determine. If such payments are made to a Party in currencies other than its own, the transfer of such currencies and their use by the receiving country shall be without restriction by either Party.

Article VI
ORGANIZATION AND MANAGEMENT

Section 1. Structure of the Bank

The Bank shall have a Board, a Manager, and such other officers and staff as may be considered necessary.

Section 2. Board of the Bank

(a) All the powers of the Bank shall be vested in the Board. Each Party shall appoint three representatives to the Board of the Bank, who shall serve at the pleasure of the appointing Party. Board members shall be persons of recognized competence and experience. Each Party, on an alternating basis, shall select one of its representatives as Chairperson for a one-year term.

(b) Each Board member shall appoint an alternate who shall have full power to act for him or her when he or she is not present. Alternates may participate in meetings but may vote only when they are acting in place of their principals. In unusual circumstances, when neither a Board member nor his or her alternate is able to attend a meeting, the Board member may designate a temporary alternate.

(c) Board members shall serve as such without compensation from the Bank, but the Bank may pay them reasonable expenses incurred in attending meetings of the Board of the Bank.

(d) The Board of the Bank shall meet at the principal office of the Bank as often as the business of the Bank may require.

(e) A quorum for any meeting of the Board of the Bank shall require two representatives, alternates, or temporary alternates from each Party.

(f) The Board of the Bank may appoint such committees as it deems advisable.

(g) The Board of the Bank shall determine the basic organization of the Bank, including the number and general responsibilities of the chief administrative and professional positions of the staff, and shall approve the budget of the Bank.

Section 3. Decision-making

All decisions of the Board of the Bank shall require the assent of at least two representatives, alternates, or temporary alternates of each Party.

Section 4. Manager and staff

(a) The Board of the Bank shall elect a Manager of the Bank who may serve pursuant to an agreement entered into pursuant to Article III, Section 12 of this Chapter. The Manager, under the direction of the Board of the Bank, shall conduct the business of the Bank and shall be chief of its staff. The Manager or his or her designee shall be the legal representative of the Bank. The term of office of the Manager shall be three years. The Manager may be elected to successive terms. He or she shall cease to hold office when the Board of the Bank so decides.

(b) The Manager, officers and staff of the Bank, in the discharge of their offices, shall owe their duty entirely to the Bank and to no other authority. The Parties shall respect the international character of this duty and shall refrain from all attempts to influence any of them in the discharge of their duties.

(c) In appointing the officers and staff the Manager shall, subject to the paramount importance of securing the highest standards of efficiency and technical competence, seek to achieve, at each level, a balance in the number of nationals from each Party.

(d) The Bank, its officers and staff shall not interfere in the political affairs of either Party, nor shall they be influenced in their decisions by the political character of the Party or Parties concerned. Only economic/financial considerations shall be relevant to their decisions, and these considerations shall be weighed impartially in order to achieve the purposes and functions stated in Article I of this Chapter.

Section 5. Publication of reports and provision of information.

(a) The Bank shall publish an annual report containing an audited statement of its accounts. It shall also transmit quarterly to the Parties a summary statement of its financial position and a profit-and-loss statement showing the results of its operations.

(b) The Bank may also publish such other reports as it deems desirable to inform the public of its activities and to carry out its purposes and functions.

Article VII
SUSPENSION AND TERMINATION OF OPERATIONS

Section 1. Suspension of operations

In an emergency the Board of the Bank may suspend operations in respect of new loans and guarantees until such time as the Board of the Bank may have an opportunity to consider the situation and take pertinent measures.

Section 2. Termination of operations

(a) The Parties, by mutual agreement, may terminate the operations of the Bank. A Party may withdraw from the Bank by delivering to the Bank at its principal office a written notice of its intention to do so. Such withdrawal shall become finally effective on the date specified in the notice but in no event less than six months after the notice is delivered to the Bank. However, at any time before the withdrawal becomes finally effective, the Party may notify the Bank in writing of the cancellation of its notice of intention to withdraw. The Bank shall terminate its operations on the effective date of any notice of withdrawal from the Bank.

(b) After such termination of operations the Bank shall forthwith cease all activities, except those incident to the conservation, preservation, and realization of its assets and settlement of its obligations.

Section 3. Liability of the Parties and payment of claims

(a) The liability of the Parties arising from their subscriptions to the capital stock of the Bank shall continue until all direct and contingent obligations shall have been discharged.

(b) All creditors holding direct claims shall be paid out of the assets of the Bank and then out of payments to the Bank on unpaid or callable subscriptions. Before making any payments to creditors holding direct claims, the Board of the Bank shall make such arrangements as are necessary, in its judgment, to ensure a pro rata distribution among holders of direct and contingent claims.

Section 4. Distribution of assets

(a) No distribution of assets shall be made to either Party on account of their subscriptions to the capital stock of the Bank until all liabilities to creditors chargeable to such capital stock shall have been discharged or provided for. Moreover, such distribution must be approved by a decision of the Board of the Bank.

(b) Any distribution of the assets of the Bank to the Parties shall be in proportion to payments on capital stock held by each Party and shall be effected at such times and under such conditions as the Bank shall deem fair and equitable. The shares of assets distributed need not be uniform as to type of assets. No Party shall be entitled to receive its share in such a distribution of assets until it has settled all of its obligations to the Bank.

(c) A Party receiving assets distributed pursuant to this Article shall enjoy the same rights with respect to such assets as the Bank enjoyed prior to their distribution.

Article VIII
STATUS, IMMUNITIES AND PRIVILEGES

Section 1. Scope of article

To enable the Bank to fulfill its purposes and the functions with which it is entrusted, the status, immunities, and privileges set forth in this Article shall be accorded to the Bank in the territories of each Party.

Section 2. Legal status

The Bank shall possess juridical personality and, in particular, full capacity:

(a) to contract;

(b) to acquire and dispose of immovable and movable property; and

(c) to institute legal proceedings.

Section 3. Judicial proceedings

Actions may be brought against the Bank only in a court of competent jurisdiction in the territories of a Party in which the Bank has an office, has appointed an agent for the purpose of accepting service or notice of process, or has issued or guaranteed securities.

No action shall be brought against the Bank by the Parties or persons acting for or deriving claims from the Parties. However, the Parties shall have recourse to such special procedures to settle controversies between the Bank and its Parties as may be prescribed in this Chapter, in the by-laws and regulations of the Bank or in contracts entered into with the Bank.

Property and assets of the Bank shall, wheresoever located and by whomsoever held, be immune from all forms of seizure, attachment or execution before the delivery of final judgment against the Bank.

Section 4. Immunity of assets

Property and assets of the Bank, wheresoever located and by whomsoever held, shall be considered public international property and shall be immune from search, requisition, confiscation, expropriation or any other form of taking or foreclosure by executive or legislative action.

Section 5. Inviolability of archives

The archives of the Bank shall be inviolable.

Section 6. Freedom of assets from restrictions

To the extent necessary to carry out the purposes and functions of the Bank and to conduct its operations in accordance with this Chapter, all property and other assets of the Bank shall be free from restrictions, regulations, controls and moratoria of any nature, except as may otherwise be provided in this Chapter.

Section 7. Privilege for communications

The official communications of the Bank shall be accorded by each Party the same treatment that it accords to the official communications of the other Party.

Section 8. Personal immunities and privileges

All Board members, alternates, officers, and staff of the Bank shall have the following privileges and immunities:

(a) immunity from legal process with respect to acts performed by them in their official capacity, except when the Bank waives this immunity;

(b) when not local nationals, the same immunities from immigration restrictions, alien registration requirements and national service obligations and the same facilities as regards exchange provisions as are accorded by the Parties to the representatives, officials, and employees of comparable rank of the Inter-American Development Bank; and

(c) the same privileges in respect of traveling facilities as are accorded by the Parties to representatives, officials, and employees of comparable rank of members of the Inter-American Development Bank.

Section 9. Immunities from taxation

(a) The Bank, its property, other assets, income, and the operations it carries out pursuant to this Chapter shall be immune from all taxation and from all customs duties. The Bank shall also be immune from any obligation relating to the payment, withholding or collection of any tax or customs duty.

(b) No tax shall be levied on or in respect of any salaries or emoluments paid by the Bank to Board members, alternates, officials or staff of the Bank who are not local nationals.

(c) No tax of any kind shall be levied on any obligation or security issued by the Bank, including any dividend or interest thereon, by whomsoever held:

(1) which discriminates against such obligation or security solely because it is issued by the Bank; or

(2) if the sole jurisdictional basis for such taxation is the place or currency in which it is issued, made payable or paid, or the location of any office or place of business maintained by the Bank.

(d) No tax of any kind shall be levied on any obligation or security guaranteed by the Bank, including any dividend or interest thereon, by whomsoever held:

(1) which discriminates against such obligation or security solely because it is guaranteed by the Bank; or

(2) if the sole jurisdictional basis for such taxation is the location of any office or place of business maintained by the Bank.

Section 10. Implementation

Each Party, in accordance with its juridical system, shall take such action as is necessary to make effective in its own territories the principles set forth in this Article, and shall inform the Bank of the action which it has taken on the matter.

Article IX
INTERPRETATION AND ARBITRATION

Section 1. Interpretation

The Parties shall at all times endeavor to agree on the interpretation and application of this Chapter, and shall make every effort to resolve any matter that might affect the implementation of this Chapter.

Section 2. Arbitration

In the event the Parties are not able to reach agreement on any question of interpretation of this Chapter within a reasonable time, either Party may request in writing the initiation of an arbitral proceeding. An arbitration panel shall be established in accordance with the following procedures:

(1) the panel shall be composed of three members;

(2) panelists shall be selected from the financial services roster established pursuant to Article 1414 of the North American Free Trade Agreement;

(3) the Parties shall endeavor to agree on the chairperson of the panel within 15 days of the delivery of the request for the initiation of the arbitral proceeding. If the Parties are unable to agree on the chairperson within this period, the Party chosen by lot shall select from the financial services roster within five days as chairperson an individual who is not a national of that Party; and

(4) within 15 days of selection of the chairperson, each disputing Party shall select a panelist from among the roster members who are nationals of the other Party.

Article XI
GENERAL PROVISIONS

Section 1. Principal office

The principal office of the Bank shall be located in a place to be mutually agreed by the Parties so as to facilitate the operations of the Bank.

Section 2. Relations with other organizations

The Bank may enter into arrangements with other organizations with respect to the exchange of information or for other purposes consistent with this Chapter.

Section 3. Channel of communication

Each Party shall designate an official entity for purposes of communication with the Bank on matters connected with this Chapter.

Section 4. Depositories

Each Party shall designate its central bank to serve as a depository in which the Bank may keep its holdings of such Party's currency and other assets of the Bank. However, with the agreement of the Bank, a Party may designate another institution for such purpose.

Section 5. Commencement of operations

The Parties shall call the first meeting of the Board of the Bank as soon as this Agreement enters into force under Article I of Chapter III of this Agreement.

CHAPTER III
ENTRY INTO FORCE, AMENDMENT, DEFINTIONS AND OTHER ARRANGEMENTS

Article I
ENTRY INTO FORCE

This Agreement shall enter into force on January 1, 1994, immediately after entry into force of the North American Free Trade Agreement, on an exchange of written notifications certifying the completion of necessary legal procedures.

Article II
AMENDMENT

The Parties may agree on any modification of or addition to this Agreement. In particular, the Parties shall from time to time consider whether to make such modifications of or additions to this Agreement as would be necessary to:

expand the functions of the Commission to include other kinds of environmental or other infrastructure projects;

expand the geographic scope of the Commission;

give the Commission the capacity to raise capital so that it might issue loans or guarantees for environmental or other infrastructure projects; or

change the environmental preferences expressed in Article II, Section 2(b) of Chapter I of this Agreement.

When so agreed, and approved in accordance with the applicable legal procedures of each Party, a modification or addition shall constitute an integral part of this Agreement.

Article III
RELATION TO OTHER AGREEMENTS OR ARRANGEMENTS

(a) Nothing in this Agreement shall prejudice other agreements or arrangements between the Parties, including those relating to conservation or the environment.

(b) Nothing in this Agreement shall be construed to limit the right of any public entity or private person of a Party to seek investment capital or other sources of finance, or to propose, construct or operate an environmental infrastructure project in the border region without the assistance or certification of the Commission.

Article IV
AUTHENTIC TEXTS

The English and Spanish texts of this Agreement are equally authentic.

Article V
DEFINITIONS

For purposes of this Agreement, it shall be understood that:

"Bank" means the North American Development Bank established pursuant to Part II of this Agreement;

"Board of Directors" means the Board established pursuant to Article III, Section 3, of Chapter I of this Agreement;

"Board of the Bank" means the Board established pursuant to Article VI, Section 2, of Chapter II of this Agreement;

"Border region" means the area within 100 kilometers of the international frontier between the United States and Mexico;

"Commission" means the Border Environment Cooperation Commission established pursuant to Part I of this Agreement;

"Environmental infrastructure project" means a project that will prevent, control or reduce environmental pollutants or contaminants, improve the drinking water supply, or protect flora and fauna so as to improve human health, promote sustainable development, or contribute to a higher quality of life;

"Mexico" means the United Mexican States;

"Mexican border states" means Baja California, Chihuahua, Coahuila, Nuevo Leon, Sonora and Tamaulipas;

"National" means a natural person who is a citizen or permanent resident of a Party, including:

1) with respect to Mexico, a national or a citizen according to Articles 30 and 34, respectively, of the Mexican Constitution; and

2) with respect to the United States, "national of the United States" as defined in the existing provisions of the Immigration and Nationality Act.

"Non-governmental organization" means any scientific, professional, business, non-profit or public interest organization or association which is neither affiliated with, nor under the direction of, a government;

"North American Development Bank" means the bank established by the Parties pursuant to Chapter II of this Agreement;

"United States" means the United States of America; and

"U.S. border states" means Arizona, California, New Mexico and Texas.

DONE at ____, this __ day of __, 1993, in duplicate, in the English and Spanish languages, each text being equally authentic.

IN WITNESS WHEREOF the undersigned, being duly authorized by their respective Governments, have signed this Agreement.

FOR THE GOVERNMENT OF THE UNITED STATES OF AMERICA:	FOR THE GOVERNMENT OF THE UNITED MEXICAN STATES:

ANNEX A

INITIAL SUBSCRIPTIONS TO THE AUTHORIZED CAPITAL STOCK OF THE BANK
(In shares of U.S. $10,000 each)

	Paid-in Capital Shares	Callable Shares	Total Subscription
United States	22,500	127,500	150,000
Mexico	22,500	127,500	150,000
Total	45,000	255,000	300,000

AUCTION RESULTS

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
October 27, 1993

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 5-YEAR NOTES

Tenders for $11,013 million of 5-year notes, Series T-1998, to be issued November 1, 1993 and to mature October 31, 1998 were accepted today (CUSIP: 912827M66).

The interest rate on the notes will be 4 3/4%. All competitive tenders at yields lower than 4.81% were accepted in full. Tenders at 4.81% were allotted 84%. All noncompetitive and sucessful competitive bidders were allotted securities at the yield of 4.81%, with an equivalent price of 99.736. The median yield was 4.80%; that is, 50% of the amount of accepted competitive bids were tendered at or below that yield. The low yield was 4.74%; that is, 5% of the amount of accepted competitive bids were tendered at or below that yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	26,336	26,336
New York	28,626,886	10,287,038
Philadelphia	13,014	13,014
Cleveland	27,231	27,231
Richmond	32,382	32,380
Atlanta	43,795	18,785
Chicago	856,555	326,435
St. Louis	15,011	15,011
Minneapolis	6,927	6,927
Kansas City	25,450	25,450
Dallas	9,242	9,242
San Francisco	596,635	180,030
Treasury	45,506	45,506
TOTALS	$30,324,970	$11,013,385

The $11,013 million of accepted tenders includes $532 million of noncompetitive tenders and $10,481 million of competitive tenders from the public.

In addition, $1,250 million of tenders was awarded at the high yield to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $750 million of tenders was also accepted at the high yield from Federal Reserve Banks for their own account in exchange for maturing securities.

LB-465

TREASURY NEWS

Department of the Treasury · Washington, D.C. · Telephone 202-622-2960

Text as Prepared for Delivery
For Immediate Release
October 27, 1993

ADDRESS OF TREASURY SECRETARY LLOYD BENTSEN
AMERICAN BANKERS COUNCIL
WASHINGTON, D.C.

I want to discuss how this administration will approach key policy questions in the financial services area, and what some of those policies are going to be.

President Clinton was elected to get this economy moving again, creating jobs, improving our standard of living. As bankers, you recognize that to make that happen, we must have an efficient economy. We recognize that too.

The administration's goal is to straighten out the bottlenecks that reduce the efficiency of our economy. We have, for instance, outdated, inconsistent and sometimes excessive restrictions on the financial services industry. This is far too important a part of our economy to have its potential held back.

Before I deal with specifics, I'm going to lay down two rules for our approach. First, we understand that government has the responsibility to involve itself in the marketplace to the extent of protecting the interests of all consumers and communities. Second, every action must ensure that our financial institutions remain safe and sound.

We have made important progress in beginning to put the economy back on track. We're making headway on the deficit. Interest rates haven't been this low in 20 years. Business investment is up. We are creating jobs.

One way to increase investment by American businesses -- both small and large -- is to increase the flow of credit. We have taken administrative actions to do that, focusing on the regulations that affect lending to our small businesses. That's because they are so critical to job creation. The Credit Availability Program initiative is largely in place. We are working hard now to implement it at the grass roots level. It is important that we get the word out to every level of the system, particularly the examiners.

There is no dearth of issues for us to look at from the national perspective. There's everything from the future of the thrift industry, to fair trade and money laundering, regulatory consolidation and interstate banking.

We have seen some well-thought out proposals in recent years, from Capitol Hill, from the administrations, from business and from the academics. However, I believe far too much energy has been spent spinning too many wheels at once.

Therefore, we will take a deliberate approach that will produce more and better results over time. We will focus on what we believe are achievable goals and pick our targets carefully. We will build consensus, issue by issue. And we will listen seriously to the concerns of those with a genuine public policy interest in an issue.

However, I want to offer a caution. Everyone involved must exercise some self-restraint. This is a critical and complicated area. A smoothly functioning system will help continue economic growth. Over-reaching and piling on can lead us to failure, and our economy doesn't need that.

Let me mention three areas we're looking to improve the flow of credit and strengthen the competitive position of our financial system. Two are well along in the legislative process. The third -- fair trade -- can be shortly.

First, nothing highlights the importance of a strong financial industry more than the thrift problem of the 1980s. When you must take time and huge financial resources to restore health to an industry, it takes momentum from your economy. It takes resources from other productive uses. I have urged the House and Senate to go to conference on the RTC funding bill and get it to the president. We need to make depositors whole and get these assets back out working for the economy. We must quickly close this chapter in our history.

Secondly, the Community Development Financial Institutions measure has come out of the Senate Banking Committee with an important program for our distressed cities and poor rural areas. It also has a very sensible approach to reducing the regulatory burden on our financial institutions. It doesn't go overboard. It's a balanced, disciplined approach that has much to commend it. I hope the Senate passes it and the House acts with the same sense of practicality and balance.

There is a third area where we can move with some dispatch. If our institutions are to compete effectively at home, they must be free to compete on an equal basis abroad. Look at it this way. If we'd been building and selling cars in Japan for the past 40 years, competition in the industry might look different. Likewise, financial institutions need distribution outlets in the major markets.

We have some of the most open financial markets in the world. Foreign firms are treated like they were American businesses. They are doing so well here they hold one-quarter of all the banking assets in the United States. Similarly, our banks, securities firms, insurance businesses and other lenders are major players in many international markets. But too often the global playing field looks like the Rockies. Barriers -- both formal and informal -- prevent U.S. firms from entering markets on an equal footing with their competitors.

This administration is committed to improving opportunities abroad for U.S. financial institutions. We are working to level the playing field through NAFTA, with our bilateral negotiations with Japan, and through the Uruguay Round of GATT talks. On that last point, let me say that we support the Fair Trade in Financial Services legislation up on Capitol Hill.

Now many of you also know I'm very interested in NAFTA. I think it's a great deal. Without giving you a full-blown NAFTA speech, let me tell you there's a financial services section there that can be a model for agreements in Latin America. The word has to get out that NAFTA is a winner for the United States. It's going to give us tremendous market access, and create jobs.

Beyond these issues, there are others we are looking at closely, such as regulatory consolidation and interstate banking. Over the long-term, both of those hold the prospect of removing more impediments to the flow of credit. We're also working on the money-laundering problem.

We need your help on this. The industry has made some gains, and I want you to know I have told our Office of Enforcement to review all of our money-laundering laws and regulations. We want to be certain that we reduce the regulatory burden your industry faces complying with the Bank Secrecy Act. A streamlined currency reporting process can benefit us all by making law enforcement more efficient and effective.

The Enforcement Office has established a task force on this issue. They're working to get the number of forms you have to fill out reduced by 30 percent, and to simplify the existing forms and procedures. They started work last month, and we expect them to have some draft recommendations later this year.

That's just one place to streamline things. There is no question in anyone's mind that our regulatory structure is too overlapping and confusing. There are four federal agencies supervising our banks and thrifts. We've all heard the stories. I saw one in a newspaper recently about a bank in California with 22 employees. One day they had 26 examiners in there looking them over. The customers couldn't even get into the parking lot. Surely there are more productive uses of the bank staff's time, and of the government's resources.

We can further streamline the existing structure and create one that can make more timely decisions. And, by eliminating duplicative regulatory agencies, we can help reduce inconsistent interpretations of the same laws and rules. Furthermore, inter-agency turf battles can be avoided. Finally, financial institutions could reduce their expenses and spend more time making sound loans than filling out papers in quadruplicate.

We are interested in pursing a rational consolidation of regulatory functions. If we go down that road, any new institution must remain responsive to the electorate with regard to policy. Banking policy is such a vital component of economic policy, that those who direct policy must be able to affect its implementation. I have asked Frank Newman to discuss this with Congress next month.

Insofar as interstate banking is concerned, as our banking system has evolved over the years, impediments to efficiency have crept in. One of our eventual aims is to eliminate these and make it less expensive and cumbersome for banks to operate across state lines.

The Washington area is a perfect case. Down the street from my office is a branch of a banking organization that operates in a number of jurisdictions. People who use this branch but have their account at a branch in Maryland or Virginia can walk up and cash a check. They can draw hundreds of dollars out of the ATM machine, or transfer thousands of dollars between accounts. But they can't make a deposit in that branch and get a deposit slip showing the bank has accepted it.

I imagine people in Kansas City, or the New York area, or Chicago and Gary have exactly the same problems. We are the only country in the industrialized world with this kind of artificial restriction.

We currently have a de facto system of interstate banking. But it's a patchwork system, and it's clumsy. Change will not happen overnight. A number of policy issues must be worked through. And, more importantly, we need to concentrate our legislative efforts on more immediate priorities just now. But we look forward to working with Congress to develop freestanding interstate branch consolidation legislation in the near future.

Our preference is to build upon what the marketplace has created rather than reinventing the banking business. The basic approach would be to let banking organizations convert multi-bank, multi-state operations into a single bank, multi-branch operation.

But let me emphasize, this would continue to leave it entirely to the states to decide if they don't want out-of-state banks doing business within their borders. It would just end the necessity of having to maintain a separate subsidiary.

This approach can take some of the inefficiency out of our system. Consumers get better access to services, and banks will have the opportunity to operate more efficiently because of economies of scale, and because of the more efficient regulatory policies we also intend to pursue. And, states retain the authority to determine many of the key rules for banks in their markets, including where they can operate.

The dual banking system will continue to have its place in the nation's economy. I believe we can do this with appropriate protections for consumers, and the proper implementation of the Community Reinvestment Act and Fair Lending. At the same time, community banks, can continue to play a very important role in the banking system.

Ultimately, permitting a true interstate banking system can translate into increased lending, a safer and stronger banking system, and more competitive services for all consumers in all communities.

We have no shortage of issues ahead of us. And we have a careful approach calculated to free up the flow of credit and make our system operate efficiently. We will focus on problems in a deliberate manner, and seek achievable goals.

For instance, early next year the regulators will present a new plan to make the Community Reinvestment Act a much more effective tool in actually generating lending services and investment in our communities, for all the people who live there, and for the businesses that provide them with jobs and services. It will also include paperwork reduction steps, keeping in mind the disproportionate burden paperwork requirements have on community banks.

Let me close with this: We must change our banking system in a careful, deliberate manner, to bring it into a new era. We're operating with laws and regulations made for another time in America. We're paying a price for inefficiency. It touches every American who pays a service charge on a checking account, who borrows for a new car or buys a new home. It affects how businesses invest to create jobs, and how our economy grows. The Clinton Administration is committed to the careful steps that will assure an efficient flow of credit, while protecting consumers and communities, and ensuring the safety and security of our financial system.

Thank you.

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TREASURY NEWS

Department of the Treasury · Washington, D.C. · Telephone 202-622-2960

RECORD TESTIMONY OF TREASURY SECRETARY LLOYD BENTSEN
BEFORE THE
SUBCOMMITTEE ON HEALTH AND THE ENVIRONMENT
AND
THE SUBCOMMITTEE ON COMMERCE, CONSUMER PROTECTION AND COMPETITIVENESS

Thank you, Chairman Dingell, Chairwoman Collins and Chairman Waxman for the opportunity to come before you today to discuss the President's health reform plan.

As you know, this is an issue which holds great interest for me, and one on which we worked closely with one another over the years when I served in the Senate.

Reform of the health care system is one of the President's highest priorities and an integral part of his economic strategy.

From the beginning, this administration has been dedicated to raising the standard of living in this country for us and for our children. Over the long term the only way to ensure higher standards of living is to have faster wage growth.

Faster wage growth requires investment in plant and equipment. But when this administration took office, the country's debt and deficits were growing faster than the economy. This was driving up interest rates and creating a climate that was hostile to business planning and investment.

The first thing we had to do was get our deficit headed down. Our budget plan and its $500 billion in deficit reduction has provided the basis for economic growth and rising wages. As soon as the critical elements of the plan emerged last winter, interest rates began to fall and they have been falling ever since. They're the lowest they've been in 20 years. In response, the interest sensitive sectors of our economy have taken off and we are well on our way to a healthy and steady, investment-led recovery.

An economic recovery by itself, however, will not ensure higher standards of living. For too long now, rising health care costs have been a drag on wages and profits -- not to mention being a major contributor to the federal deficit. So now we turn to health care reform. Let me assure you, from an economic standpoint, failing to act is not an option.

LMB-467

When employers pay their workers more, but health care costs rise also, workers' payslips don't go up as they should. The average worker today would be earning at least $1,000 more a year if health insurance costs had not risen faster than wages for the last 15 years. If nothing is done, 120 percent -- every bit and more of projected wage increases in the coming decade -- will be consumed by health care costs. Talk about going backwards!

As a nation, we spend 14 percent of GDP on health care. No other developed country spends near that. Japan and Germany are down around 9 percent. If nothing is done, health care will consume more than 19 percent of GDP by the year 2000, while our competitors remain under 10 percent.

Maybe spending all this money would be worth it, if we saw good results. But other countries have longer life expectancy and lower rates of infant mortality. They spend less and they cover everyone. We're spending more money and not providing all Americans the security they need.

The Health Security plan addresses the fundamental problems with the current system. The current system costs too much, and the real tragedy is that too many people have inadequate coverage or lack coverage altogether. More than 37 million Americans have no health coverage, and nearly 10 million are children. Another 22 million more are underinsured.

This lack of universal coverage is not a problem just for the uninsured. Every time someone without insurance shows up at the emergency room and is treated, every one of us who has insurance foots the bill. Estimates show that many corporate insurance premiums are 10 percent higher than they need be in order to pay for uncompensated care.

Universal coverage is critical to getting costs under control. I remember when Lawton Chiles was chairman of the Budget Committee in the Senate. He was convinced that it was necessary to control health care costs first <u>before</u> extending coverage to everyone. Lawton left the Senate and became governor of Florida. Within less than a year he was telling the Finance Committee that he had changed his mind. Universal coverage was absolutely necessary <u>in order</u> to control costs so that business and people do not become the victims of cost shifting -- paying higher premiums to cover the cost of care for those who have no coverage.

The Health Security plan addresses the coverage issue. It will provide security to Americans and shift resources to more productive uses. Many businesses will see their costs fall, and others will be able to offer insurance for the first time.

Slower cost growth will allow workers to enjoy faster growth in real wages, and universal coverage will ensure that workers no longer have to fear losing their health insurance coverage if they change jobs or want to start their own businesses.

To avoid major disruptions, the new system will be financed primarily like the current system. Creating a broad, single-payer program would have been too disruptive and transferred too large a role to the federal government. The key to making this plan effective is to build on the system of insuring individuals through their employers. Most businesses already cover their workers; even two-thirds of small businesses already provide health insurance. Just as they do today, employer and individual health insurance premiums will pay for the bulk of health coverage.

Employers will be required to pay 80 percent of the average premium. However, the plan limits the percentage of payroll that would be devoted to health care premiums to 7.9 percent for large firms, and provides discounts for small low-wage firms and individuals of modest means. Unless they qualify for a discounted premium, individuals will be asked to contribute the balance of the total premium cost.

Additional federal support will be required to cover the costs of these discounts, as well as the cost of the new Medicare drug benefit and long-term care benefit. Revenues for these outlays will come from slowing the growth in Medicare and Medicaid, a 75-cent increase in the tax on a pack of cigarettes, an assessment on large companies that choose to establish corporate alliances, and increased revenues as compensation shifts from non-taxable health care benefits to taxable wages and profits.

The Treasury Department has been responsible for estimating the new sources of revenues for the program, so I would like to talk to you for a minute about the major provisions.

First, however, there are three points I want to emphasize. One, the president's plan is the only comprehensive proposal that spells out exactly how it will be financed. Laying out the specifics of the benefits package is the only fiscally responsible thing to do. To put those numbers together, we consulted with some of the nation's most respected actuaries and health economists. I feel confident that we have approached the estimating process in a very responsible way.

Second, we have protected both the private sector and the public sector from cost overruns by insisting on accountability.

And third, this plan will be phased in, which allows sufficient time to make adjustments should we find that modifications are needed.

Now, as to some specifics.

As you know, our plan includes a proposal to increase the tax on tobacco products. Specifically, the excise tax on cigarettes would be increased by 75 cents per pack -- raising the federal tax from the current level of 24 cents to just under a dollar a pack. The administration also proposes to increase the federal excise tax rates on all other tobacco products.

This will both promote better health -- not just among adults but very importantly among our children. I am particularly concerned about the dramatic increase in the use of tobacco products by adolescents.

The increased tobacco taxes will provide much of the revenue we need to fund this plan.

Although we know it will promote better health, I want to elaborate briefly on this point. This is an entirely appropriate way to finance health care for several reasons.

First, tobacco consumption is the leading preventable cause of death and disease in the United States. As members of this committee know, it accounts for about half a million deaths a year and billions of dollars in health care costs.

Second, since the president's health care plan does not generally allow differential health insurance premiums for smokers and non-smokers, the fact of the matter is non-smokers will bear some of the increased health costs of smokers.

Studies by the Department of Health and Human Services, as well as the Canadian experience, demonstrate that raising tobacco taxes can successfully discourage the use of tobacco products by the young. This is particularly true for the proposed increase in taxes on smokeless tobacco. Studies have shown that nearly 20 percent of high school students use this type of tobacco, and it presently is taxed at a disproportionally low rate in comparison to cigarettes.

In addition, the Clinton plan will support critical health research with a payroll assessment on large employers who opt to form their own health alliance. Employers who are in the regional health alliances will also contribute to the cost of medical education and research. It is a fair and straightforward way to allow corporate alliance employers and employees to contribute to the health research and specialized care from which they also benefit.

Let me remind you, small expenditures in research have paid billions of dollars in dividends. This money, among other things, will go for added research into such areas as heart disease, cancer, AIDS, Alzheimer's disease and others. It also will be used for studies that give American health consumers important information about the quality and cost of health care.

I would also note that we anticipate that revenue impact of the general reform proposals in the health plan would result in a $23 billion increase in tax revenues. This results largely from increased competition and greater cost consciousness and other cost containment measures which are expected to lead over time to lower health insurance costs. It is assumed that the lower per-employee costs of tax-preferred employer-provided health insurance will lead employers to increase taxable wages, which in turn will generate more income and payroll taxes, despite the increased numbers of workers covered.

There are other tax provisions in the president's health plan that will accomplish many of the goals of this committee.

For example, the individual income tax health insurance deductions for self-employed taxpayers will be increased to 100 percent of the costs of the comprehensive benefit package. A self-employed taxpayer could claim the full deduction once the state of residence establishes a regional alliance. The 25 percent health insurance deduction for self-employed workers will continue in force until the 100 percent deduction is applicable.

In addition, I know that many of you here are very interested in making certain our rural residents, and those who live in some urban areas, have adequate access to quality health care. This plan provides for that. It encourages doctors and nurses to locate in underserved areas. The plan's initiatives work well with the expanded National Health Service Corps and Community Health Center initiatives. It will have at least 3,000 primary care practitioners in rural areas by the end of the decade, and increase the number of minority physicians, nurses and other health professionals.

Specifically, we propose two tax incentives to encourage adequate medical care in all areas of the country. A physician who works full-time for at least two years in an area designated as being short of health professionals can receive a tax credit of up to $1,000 per month for up to 60 months. Certified nurse-midwives, nurse practitioners, and physician assistants who work in health professional shortage areas can receive a tax credit up to $500 per month for up to the same period. In addition, for physicians who work in areas designated as being short of health professionals, the section 179 expensing limit will be increased by $10,000 for medical equipment.

There are other ways the tax system will be used to achieve other objectives of the health plan. For example, it will expand and improve long-term care options, stressing home and community-based services and the improvement of private long-term care insurance.

The plan proposes to modify the current tax treatment of long-term care expenses and insurance. Qualified long-term care expenses incurred by certain incapacitated individuals will be treated as deductible medical expenses, and taxpayers will be able to exclude up to $150 a day from taxable income for benefits paid under qualified long-term care policies. In addition, employers could deduct the premiums paid for these policies, and employees will also be able to exclude the value of this employer-provided coverage from taxable income.

But the non-tax aspects of the president's health plan on long-term health insurance markets are equally important. Under the plan, the Secretary of Health and Human Services has regulatory authority to establish uniform standards for the provision of private long-term care insurance. This authority will be exercised in consultation with a newly-established National Long-Term Care Insurance Advisory Council, appointed by the HHS Secretary. Federal regulations will provide standardized formats and terminology for long-term care insurance policies, require insurers to provide customers with information on the range of public and private long-term care coverage available, and establish other requirements to promote consumer understanding, make it easy to compare benefits, and regulate sales practices, insurance coverage, premium rates and increases, and conditions for payment of benefits.

CONCLUSION

The administration has offered a bold and comprehensive plan. By holding down health care costs, it can make our businesses more competitive and could lead to lower prices. It also can, over the long run, create jobs.

But beyond that, it accomplishes everything many of us tried to do in the last session, and much more. You may recall that last year we worked together to fashion four bills that, taken together, would have made important but incremental progress in extending health coverage to low income families. I helped develop those bills because at the time it was as far as I thought we could go in achieving some reform of the health care system. Things have changed.

I've been waiting a long time for a president willing to take the lead on this issue. I'm proud to be a part of an administration tackling this country's health care problem. It's a problem that can cripple our economy if we don't act.

President Clinton is committed to universal coverage and comprehensive benefits, with lifetime coverage, and coverage and cost protections for every American. He is committed to choice in health care.

Furthermore, President Clinton is intent on seeing that the quality of health care improves. He wants to reduce the paperwork burden for individuals and employers. He wants to make everyone responsible for health care. And, he is intent on financing the Health Security plan in a responsible manner. This plan does all of that with minimal government intrusion.

These are important principles. There are a number of ideas out there, but few meet all those tests -- particularly universality, comprehensive benefits defined from the outset, and responsible financing. Some would, for instance, attack the problem by only changing insurance requirements, but that approach leaves health care consumers without sufficient leverage in the marketplace.

The president wants a bipartisan solution to this problem. It is an American issue, not a partisan one. The president looks forward to working with the members of this Committee, and others in Congress, to enact a comprehensive and lasting reform of our health care system.

Thank you.

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TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

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For Immediate Release
October 28, 1993

STATEMENT OF TREASURY SECRETARY LLOYD BENTSEN BEFORE THE SUBCOMMITTEE ON HEALTH AND THE ENVIRONMENT AND THE SUBCOMMITTEE ON COMMERCE, CONSUMER PROTECTION AND COMPETITIVENESS

Thank you, Chairman Dingell, Chairwoman Collins and Chairman Waxman for the opportunity to discuss the President's health reform plan. I have a longer statement for the record which I'd like to summarize.

As you know, health care reform is an issue which holds great interest for me, and one on which we worked closely with one another over the years when I served in the Senate.

Reform of the health care system is one of the President's highest priorities and an integral part of his economic strategy. With the first step, the deficit reduction plan, we have renewed the basis for economic growth and rising wages in America.

But recovery by itself will not ensure a higher standard of living for Americans. For too long now, rising health care costs have been a drag on wages and profits -- not to mention being a major contributor to the federal deficit. So now we turn to health care reform. Let me assure you, from an economic standpoint, failing to act is not an option.

When employers pay their workers more, but health care costs also rise, workers' paychecks don't go up as they should. The average worker today would be earning at least $1,000 more a year if health insurance costs had not risen faster than wages for the last 15 years. If nothing is done, 120 percent -- every bit and more of projected wage increases in the coming decade -- will be consumed by health care costs. Talk about going backwards!

This country spends 14 percent of its GDP on health care -- 50 percent more than our major competitors. If nothing is done, health care is projected to consume more than 19 percent of GDP by the year 2000, while our competitors remain under 10 percent.

LB-468

For all this extra spending, our health is no better than theirs. In many areas, it is worse. We're spending more money and not offering Americans health security.

The president's Health Security plan addresses the fundamental problems with the current system -- the cost, and the real tragedy of Americans going without coverage. More than 37 million Americans have no health coverage, and almost 10 million of them are children. Another 22 million more Americans are underinsured.

This lack of universal coverage affects all of us. Every time someone without insurance is treated at an emergency room, each of us with insurance foots the bill. Estimates show that corporate premiums are 10 percent higher than they need be in order to pay for uncompensated care.

Universal coverage is critical to getting costs under control. I remember when Lawton Chiles was chairman of the Budget Committee in the Senate. He was convinced it was necessary to control health care costs first before extending coverage to everyone. He left the Senate and became governor of Florida. In less than a year he was telling my committee that he had changed his mind. Universal coverage was absolutely necessary in order to control costs so that businesses and people do not become the victims of cost shifting -- paying higher premiums to cover care for those who have no coverage.

The Health Security plan addresses the coverage issue. It will provide security to all Americans and shift resources to more productive uses. Many businesses will see their costs fall, and others will be able to offer insurance for the first time. Slower cost growth will let workers enjoy real pay raises, and universal coverage will ensure that workers no longer have to fear losing their health insurance if they change jobs or want to start their own business.

The key to making this plan effective is to build on the existing system of insuring individuals. Just as they do today, employers and individuals will pay premiums to cover the bulk of health coverage costs.

Additional federal support will be required to cover the costs of discounts to businesses and individuals eligible for reduced premiums, as well as the cost of the new drug benefit and long-term care benefit. Funding for these subsidies and program improvements will come largely from slowing the rate of growth in Medicare and Medicaid, a 75-cent increase in the tax on a pack of cigarettes, and an assessment on large companies that choose to establish corporate alliances.

The Treasury Department has been responsible for estimating the new sources of revenues for the program, so I would like to talk to you for a minute about the major provisions.

First, however, there are three points I want to emphasize. One, the President's plan is the only comprehensive proposal that spells out exactly how it will be financed. Laying out the specifics of the benefit package and the details of the financing is the only fiscally responsible thing to do. To put those numbers together, we consulted with the nation's best actuaries and health care economists. I feel confident we have approached the estimating process in a very responsible way.

Second, we have protected both the private sector and the public sector from cost overruns by insisting on accountability.

And third, this plan will be phased in, which allows sufficient time to make adjustments should we find that modifications are needed.

Now, let me offer two specifics on the tax side of the plan which would accomplish the goals of this committee.

We propose increasing the excise tax on cigarettes by 75 cents, to 99 cents a pack. We also propose raising the federal excise tax rates on all other tobacco products. This will promote better health -- not just among adults but very importantly among our children. Like many of you on this committee, I am very concerned about the increase in the use of tobacco products among our youngest children.

And, the Clinton plan will provide the funds needed to continue federal support of critical health research by assessing large employers who opt to form their own health alliance.

In addition to those steps, we want to help the self-employed better afford their contribution to health coverage. To do that, we propose increasing the health insurance deduction for self-employed taxpayers to 100 percent of the cost of the comprehensive benefit package.

In addition, we want to ensure that our rural residents, and those who live in some urban areas, have adequate access to quality health care. This plan provides for that. It encourages doctors and nurses to locate in underserved areas.

The administration has offered a bold and comprehensive plan. It can make our businesses more competitive, and over the long term it can lead to job creation.

But beyond that, it accomplishes everything many of us tried to do in the last session -- and more, much more. I've been waiting a long time for a president willing to take the lead on this issue. I'm proud to be part of an administration tackling this country's health care problem. It's a problem that can cripple our economy if we don't act.

President Clinton is committed to universal coverage and comprehensive benefits, with lifetime coverage. He is intent on seeing that the quality of health care improves, and that consumers have a choice of plans. He wants to reduce the paperwork burden. And, he is intent on financing the Health Security plan in a responsible manner, and with minimal government regulation.

These are important principles. There are a number of ideas out there, but few meet all those tests -- particularly universality, comprehensive benefits defined from the outset, and responsible financing.

The president wants a bipartisan solution to this problem. It is an American issue, not a partisan one. The president looks forward to working with the members of this Committee, and others in Congress, to pass a comprehensive and lasting reform of our health care system.

Thank you.

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TREASURY NEWS

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FOR IMMEDIATE RELEASE
October 28, 1993

JOINT STATEMENT OF LLOYD BENTSEN, SECRETARY OF THE TREASURY, AND LEON E. PANETTA, DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET, ON BUDGET RESULTS FOR FISCAL YEAR 1993

SUMMARY

The Administration is today releasing the September Monthly Treasury Statement of Receipts and Outlays of the United States Government. The statement shows the actual financial totals for the fiscal year ended September 30, 1993, as follows:

-- a deficit of $254.9 billion (4.0 percent of Gross Domestic Product (GDP));

-- total receipts of $1,153.2 billion (18.3 percent of GDP); and

-- total outlays of $1,408.1 billion (22.4 percent of GDP).

LB-469

Table 1. TOTAL RECEIPTS, OUTLAYS AND DEFICITS
(in billions of dollars)

	Receipts	Outlays	Deficits
1992 Actual............	1,090.5	1,380.8	-290.3
1993:			
April Budget Estimate..	1,145.7	1,467.6	-322.0
Mid-Session Review Estimate..........	1,144.1	1,425.2	-281.1
Actual.................	1,153.2	1,408.1	-254.9

DEFICIT

The actual FY 1993 deficit, $254.9 billion, is $26.1 billion lower than the deficit estimated in the Mid-Session Review (MSR). The changes from the MSR deficit estimate reflect the impact of:

-- a $17.0 billion decrease in outlays; and

-- a $9.1 billion increase in receipts.

RECEIPTS

Actual FY 1993 receipts were $1,153.2 billion, $9.1 billion higher than the MSR estimate. Higher-than-expected collections of individual and corporation income taxes, social insurance taxes and contributions, and deposits of earnings by the Federal Reserve account for most of this increase relative to the MSR. Table 2 displays actual receipts and estimates from the budget and MSR by source.

Changes in Receipts According to Source

-- Individual income taxes were $509.7 billion, $1.6 billion higher than the MSR estimate. Higher-than-estimated withheld taxes, partially offset by lower-than-expected estimated payments of 1993 liability and higher-than- estimated refunds of 1992 liability, were primarily responsible for the increase in this source of receipts relative to the MSR.

-- Corporation income taxes were $117.5 billion, $5.8 billion higher than the MSR estimate. Estimated payments of 1993 liability by corporations were higher than anticipated and accounted for most of the increase in this source of receipts.

-- Social insurance taxes and contributions were $0.8 billion higher than the MSR estimate of $427.5 billion. Lower-than-estimated refunds of social security and medicare payroll taxes accounted for $0.3 billion of the increase in this source of receipts. An unanticipated repayment of a loan to the unemployment insurance trust fund accounted for most of the remaining increase in this source of receipts relative to the MSR estimate.

-- Miscellaneous receipts were $0.6 billion higher than the MSR estimate, the net effect of higher-than-anticipated deposits of earnings by the Federal Reserve System of $1.3 billion, and lower-than-anticipated collections of other miscellaneous receipts of $0.7 billion. Higher-than-expected asset values on securities denominated in foreign currencies accounted for most of the increase in deposits of earnings by the Federal Reserve System.

-- Other receipts, which include customs duties, excise taxes, and estate and gift taxes, were $79.4 billion, $0.3 billion above the MSR estimate.

OUTLAYS

Total outlays were $1,408.1 billion, $17.1 billion lower than the MSR estimate. The major outlay changes since the MSR are described below. Table 3 displays actual outlays and estimates from the April Budget and the MSR by agency and major program.

Department of Agriculture. Actual outlays for the Department of Agriculture were $63.1 billion, $3.6 billion lower than the MSR estimate. Outlays for the Commodity Credit Corporation (CCC) were $16.0 billion, $1.1 billion below the MSR. CCC crop disaster payments were $0.4 billion lower than anticipated. New subsidies for export loan guarantees were $0.2 billion below the MSR estimate, and net outlays for export loan guarantees made prior to FY 1992 were $0.4 billion less than assumed.

Net outlays for the Rural Electrification Administration were $0.9 billion below the MSR estimate due largely to increases in offsetting receipts resulting from refinancings of loans. Outlays for P.L. 480 agricultural foreign assistance were $0.6 billion below the MSR. A portion of this difference ($0.2 billion) is due to delays in new subsidies for Russia. The remaining difference is due to lower grant and program outlays and lower receipts from old loans.

Net outlays for the remaining 39 bureaus of the Department of Agriculture were nearly $1.0 billion less than anticipated. Outlays from the Federal Crop Insurance Corporation in response to the Midwest flood were lower than expected. In addition, higher-than-anticipated prepayments for Farmers Home Administration

housing loans resulted in lower net outlays.

Department of Energy. Actual outlays for the Department of Energy were $16.8 billion, $0.7 billion lower than the MSR estimates. The difference is due to slower-than-expected spending in atomic energy defense activities because of rapid reductions in nuclear weapons programs.

Department of Health and Human Services. Actual outlays for the Department of Health and Human Services were $581.1 billion, $2.3 billion lower than the MSR estimate.

Actual outlays for Supplemental Security Income (SSI) benefits were $22.6 billion, $0.8 billion below the MSR estimate. SSI benefits for cases associated with the 1989 Zebley Supreme Court decision were overestimated for FY 1993. (That decision retroactively and prospectively expanded childhood eligibility for SSI benefits). Regular SSI payments were slightly higher than estimated.

Actual outlays of the Administration for Children and Families, excluding Family Support Payments to States, were $12.2 billion, $1.3 billion below the MSR estimate. According to HHS, some of this difference may be attributable to a delay in the Head Start expansion in the Children and Families Services Programs. Grants for this program went out later than anticipated, reducing FY 1993 outlays. Other programs, such as child care, JOBS, and Foster Care also had lower-than-expected outlay rates.

Actual outlays for the Medicaid program in FY 1993 were $75.8 billion, $0.8 billion (or 1%) higher than was estimated in the MSR. In FY 1991 and FY 1992, MSR Medicaid estimates differed by 1.5% and 2.4%, respectively, from actual outlays. State draws of Federal funds for disproportionate share hospitals (DSH), those that serve a disproportionate number of Medicaid or other low-income individuals, accelerated in the last quarter of FY 1993, especially in September. The Federal portion of DSH payments in that month was $1.45 billion, compared to $0.64 billion in July and $0.46 billion in August. DSH payments may have increased in September in response to the publishing of Federal DSH allotments by HCFA on August 13. States drawing an unusually high proportion of their DSH allotment in September included California, Missouri, Pennsylvania, and West Virginia.

Department of Labor. Actual outlays for the Department of Labor were $44.7 billion, $0.7 billion lower than the MSR estimate. The difference is largely attributable to higher-than-expected offsetting collections in the Pension Benefit Guaranty Corporation (PBGC).

Department of Transportation. The Department of Transportation's actual outlays were $34.5 billion, $1.5 billion below the MSR projection. Federal Highway Administration outlays were $1.1

billion lower than projected. Highway spending was generally slower than anticipated, with $0.2 billion resulting from lower-than-anticipated obligations and the remaining $0.8 billion due to slower-than-expected spendout from prior year obligations. The timing of obligations and outlays for the Federal highway program are at the control of State Highway Departments. Late enactment of the Intermodal Surface Transportation Efficiency Act of 1992 (ISTEA), lack of familiarity with the new program structure, and other changes in the Act are probably responsible for the lag in spending.

Outlays for the Maritime Administration and the Coast Guard were also below the MSR estimates. The Maritime Administration outlays were lower because of lower-than-expected defaults on guaranteed loans.

Environmental Protection Agency. Actual outlays for the Environmental Protection Agency were $5.9 billion, $0.5 billion below the MSR estimate. Outlays for wastewater treatment construction were $0.3 billion less than projected. The wet weather in California and in the Midwest slowed planned construction of wastewater facilities. In addition, the State of New York made a major change in its program that resulted in reduced outlays. Outlays in several other EPA programs were also lower than anticipated.

General Services Administration. Actual outlays for the General Services Administration were $0.7 billion, $0.6 billion below the MSR estimate. Outlays were lower because net income and unobligated balances were higher than expected, and because of delays in certain construction and repair and alteration projects.

Deposit Insurance. Net offsetting collections exceeded outlays by $28.0 billion, $2.0 billion more than the MSR estimate. Net outlays for the Bank Insurance Fund were $0.8 billion lower than the MSR estimate because the number of bank resolutions in the fourth quarter of FY 1993 was lower than expected. Outlays for the FSLIC Resolution Fund were $0.9 billion lower than the MSR estimate because of slightly higher liquidation collections and the shift of approximately $0.7 billion in assistance agreement payments into FY 1994. Outlays for other deposit insurance, including the National Credit Union Administration, were $0.3 billion below the MSR.

Federal Emergency Management Agency. Actual outlays for the Federal Emergency Management Agency were $0.6 billion below the MSR estimate because disaster relief outlays were lower than expected. Unusually heavy disaster activity in the past year, including Hurricanes Andrew and Iniki, the late winter blizzard in the Northeast, and the flooding in the Midwest made disaster relief outlay estimates subject to substantial variance.

Postal Service. Actual outlays of the U.S. Postal Service

revolving fund were $0.8 billion below the MSR estimate. This decrease in outlays reflects the net impact of increased receipts, lower-than-planned capital disbursements, and higher-than-anticipated operating disbursements.

Table 2.--1993 BUDGET RECEIPTS BY SOURCE
(fiscal years; in millions of dollars)

	1992	1993				
		Estimate			Change	
	Actual	Budget	Mid-Session	Actual	Budget	Mid-Session
Individual income taxes	475,964	515,315	508,106	509,680	-5,635	1,574
Corporation income taxes	100,270	106,261	111,758	117,520	11,259	5,762
Social insurance taxes and contributions:						
Employment taxes and contributions:						
On-budget	83,065	84,490	84,830	85,005	515	175
Off-budget	302,426	311,776	311,830	311,934	158	104
Subtotal, Employment taxes and contributions	385,491	396,266	396,660	396,939	673	279
Unemployment insurance	23,410	25,768	26,071	26,556	788	485
Other retirement contributions	4,788	4,782	4,782	4,805	23	23
Subtotal, Social insurance taxes and contributions	413,689	426,815	427,513	428,300	1,485	787
Excise taxes	45,569	47,628	47,542	48,057	429	515
Estate and gift taxes	11,143	12,594	12,607	12,577	-17	-30
Customs duties	17,359	19,192	18,954	18,802	-390	-152
Miscellaneous receipts	26,459	17,880	17,617	18,239	359	622
Total, Receipts	1,090,453	1,145,685	1,144,097	1,153,175	7,490	9,078
On-budget	788,027	833,909	832,267	841,241	7,332	8,974
Off-budget	302,426	311,776	311,830	311,934	158	104

Table 3.--1993 BUDGET OUTLAYS BY AGENCY
(fiscal years; in millions of dollars)

Outlays by Major Agency	1992 Actual	1993 Estimate Budget	1993 Estimate Mid-Session	1993 Actual	Change Budget	Change Mid-Session
Legislative branch and the Judiciary	4,985	5,482	5,388	4,985	-497	-403
Executive Office of the President	186	241	240	194	-47	-46
Funds Appropriated to the President:						
International Security Assistance:						
Foreign Military Financing	4,399	4,612	4,612	4,580	-32	-32
Economic Support Fund	2,938	3,170	3,170	3,231	61	61
Other	-134	-185	-194	-489	-304	-295
International development assistance	4,029	4,009	4,008	3,856	-153	-152
International monetary programs	-686	11	11	336	325	325
Military sales programs	559	172	172	-6	-178	-178
Other	8	40	41	19	-21	-22
Subtotal, Funds Appropriated to the President	11,113	11,829	11,820	11,527	-302	-293
Agriculture:						
Commodity Credit Corporation	9,738	17,134	17,150	16,043	-1,091	-1,107
Foreign assistance - P.L. 480	971	1,230	1,461	880	-350	-581
Federal Crop Insurance Corporation	954	867	867	461	-406	-406
Rural Electrification Administration	-934	-310	-310	-1,216	-906	-906
Farmers Home Administration	3,552	2,100	2,136	2,042	-58	-94
Food and Nutrition Service	32,096	35,018	34,877	34,700	-318	-177
Forest Service	3,293	3,447	3,279	3,292	-155	13
Other	6,765	7,429	7,245	6,941	-488	-304
Subtotal, Agriculture	56,436	66,915	66,705	63,143	-3,772	-3,562
Commerce	2,567	3,179	3,064	2,798	-381	-266
Defense-Military:						
Military Personnel	81,171	75,965	75,965	75,904	-61	-61
Operation and Maintenance	92,042	91,100	91,096	94,105	3,005	3,009
Procurement	74,881	68,512	68,512	69,936	1,424	1,424
Research, Development, Test and Evaluation	34,632	37,328	37,328	36,958	-370	-370
Other	3,906	4,398	5,659	1,673	-2,725	-3,986
Subtotal, Defense-Military	286,632	277,304	278,560	278,576	1,272	16
Defense-Civil	28,270	29,496	29,488	29,262	-234	-226
Education	26,047	30,907	30,770	30,414	-493	-356
Energy	15,439	17,522	17,471	16,801	-721	-670

Table 3.--1993 BUDGET OUTLAYS BY AGENCY
(fiscal years; in millions of dollars)

	1992	1993			Change	
		Estimate				
Outlays by Major Agency	Actual	Budget	Mid-Session	Actual	Budget	Mid-Session
Health and Human Services -- except Social Security:						
Medicare	132,256	147,777	146,344	145,858	-1,919	-486
Medicaid	67,827	80,511	75,000	75,774	-4,737	774
Public Health Service	17,447	19,213	18,825	18,865	-348	40
Family Support Payments to States	15,103	15,768	15,768	15,628	-140	-140
Other Administration for Children and Families	12,145	13,879	13,502	12,170	-1,709	-1,332
Supplemental Security Income	19,445	23,594	23,443	22,642	-952	-801
Other	-6,931	-7,953	-7,703	-8,163	-210	-460
Subtotal, Health and Human Services -- except Social Security	257,293	292,788	285,179	282,774	-10,014	-2,405
Health and Human Services -- Social Security	281,418	298,943	298,256	298,349	-594	93
Subtotal, Health and Human Services	538,711	591,731	583,435	581,123	-10,608	-2,312
Housing and Urban Development:						
Housing payments	16,436	17,704	18,064	17,990	286	-74
Federal Housing Administration funds	2,456	1,245	745	1,073	-172	328
Government National Mortgage Association	-352	-361	-353	-454	-93	-101
Community development grants	3,090	3,811	3,160	3,198	-613	38
Other	2,839	3,619	3,145	3,378	-241	233
Subtotal, Housing and Urban Development	24,470	26,018	24,760	25,185	-833	425
Interior	6,555	7,544	7,144	6,728	-816	-416
Justice	9,802	10,554	10,502	10,197	-357	-305
Labor:						
Training and employment services	4,281	5,188	4,671	4,241	-947	-430
Unemployment trust fund	41,294	39,040	39,448	39,869	829	421
Pension Benefit Guaranty Corporation	-654	-789	-789	-1,508	-719	-719
Other	2,243	3,372	2,104	2,136	-1,236	32
Subtotal, Labor	47,163	46,812	45,434	44,738	-2,074	-696
State	5,007	5,545	5,252	5,384	-161	132

Table 3.--1993 BUDGET OUTLAYS BY AGENCY
(fiscal years; in millions of dollars)

Outlays by Major Agency	1992 Actual	1993 Estimate Budget	1993 Estimate Mid-Session	1993 Actual	Change Budget	Change Mid-Session
Transportation:						
Federal Highway Administration	15,511	18,025	17,716	16,656	-1,369	-1,060
Federal Transit Administration	3,614	3,662	3,515	3,457	-205	-58
Federal Aviation Administration	8,155	8,813	8,772	8,800	-13	28
Coast Guard	3,518	3,855	3,840	3,575	-280	-265
Maritime Administration	456	875	875	737	-138	-138
Other	1,254	1,234	1,237	1,232	-2	-5
Subtotal, Transportation	32,510	36,464	35,955	34,457	-2,007	-1,498
Treasury:						
Exchange Stabilization Fund	-2,345	-1,000	-1,000	-1,379	-379	-379
Interest on the public debt	292,323	294,658	291,714	292,502	-2,156	788
IRS	17,403	18,727	18,623	18,472	-255	-151
Other	-14,416	-10,722	-10,454	-10,884	-162	-430
Subtotal, Treasury	292,964	301,663	298,883	298,711	-2,952	-172
Department of Veterans Affairs	33,897	35,406	35,560	35,487	81	-73
Environmental Protection Agency	5,932	6,516	6,460	5,925	-591	-535
General Services Administration	469	1,350	1,331	743	-607	-588
National Aeronautics and Space Administration	13,961	14,082	14,081	14,305	223	224
Office of Personnel Management	35,596	37,163	37,163	36,794	-369	-369
Small Business Administration	546	840	860	937	97	77
Other independent agencies:						
District of Columbia	367	702	674	539	-163	-135
Export-Import Bank	-119	-853	-853	-747	106	106
Federal Deposit Insurance Corporation:						
Bank insurance fund	3,666	4,009	-9,022	-9,834	-13,843	-812
FSLIC resolution fund	8,469	3,837	3,300	2,362	-1,475	-938
Other FDIC	-292	-903	-924	-940	-37	-16
Subtotal, Federal Deposit Insurance Corporation	11,843	6,944	-6,646	-8,412	-15,356	-1,766
Federal Emergency Management Agency	1,406	3,073	3,857	3,252	179	-605
National Credit Union Administration	-345	-186	-186	-372	-186	-186
National Science Foundation	2,249	2,879	2,753	2,452	-427	-301
Postal Service:						
On-budget	511	161	161	161	0	0
Off-budget	659	1,627	1,627	866	-761	-761
Subtotal, Postal Service	1,169	1,788	1,788	1,027	-761	-761

Table 3.--1993 BUDGET OUTLAYS BY AGENCY
(fiscal years; in millions of dollars)

	1992	1993				
		Estimate			Change	
	Actual	Budget	Mid-Session	Actual	Budget	Mid-Session
Outlays by Major Agency						
Railroad Retirement Board	4,843	4,828	4,828	4,782	-46	-46
Resolution Trust Corporation	-8,934	-3,907	-19,069	-19,153	-15,246	-84
Tennessee Valley Authority	1,469	1,364	1,364	1,629	265	265
Other (net)	4,700	5,411	5,429	4,372	-1,039	-1,057
Subtotal, other independent agencies	18,648	22,042	-6,061	-10,631	-32,673	-4,570
Undistributed offsetting receipts:						
Employer share, employee retirement (on-budget)	-30,680	-28,494	-28,508	-28,185	309	323
Employer share, employee retirement (off-budget)	-6,101	-6,373	-6,415	-6,416	-43	-1
Interest received by on-budget trust funds	-54,193	-54,834	-55,083	-55,488	-654	-405
Interest received by off-budget trust funds	-23,637	-26,967	-26,787	-26,788	179	-1
Rents and royalties on the Outer Continental Shelf lands	-2,498	-2,299	-2,299	-2,785	-486	-486
Subtotal, undistributed offsetting receipts	-117,111	-118,966	-119,092	-119,662	-696	-570
Total, Outlays	1,380,794	1,467,639	1,425,174	1,408,122	-59,517	-17,052
On-budget	1,128,455	1,200,409	1,158,493	1,142,110	-58,299	-16,383
Off-budget	252,339	267,230	266,681	266,012	-1,218	-669
Deficit (-)	-290,340	-321,954	-281,077	-254,948	67,006	26,129
On-budget	-340,428	-366,500	-326,226	-300,870	65,630	25,356
Off-budget	50,087	44,546	45,149	45,922	1,376	773

NOTE: Detail may not add to totals due to rounding.

Final Monthly Treasury Statement

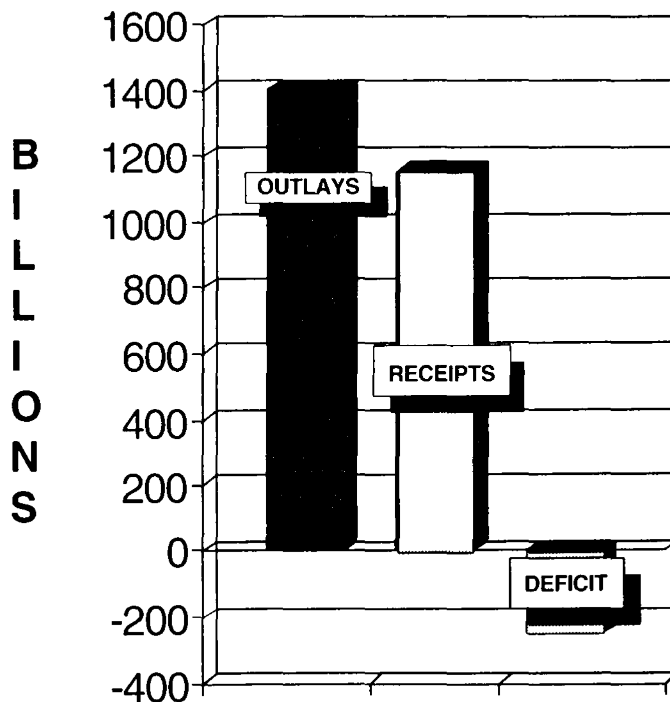
of Receipts and Outlays
of the United States Government

For Fiscal Year 1993 Through **September 30, 1993,** and Other Periods

Highlight

This issue includes the final budget results for fiscal year 1993.

RECEIPTS, OUTLAYS, AND SURPLUS/DEFICIT THROUGH SEPTEMBER 1993



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Compiled and Published by

Department of the Treasury
Financial Management Service

Introduction

The *Monthly Treasury Statement of Receipts and Outlays of the United States Government (MTS)* is prepared by the Financial Management Service, Department of the Treasury, and after approval by the Fiscal Assistant Secretary of the Treasury, is normally released on the 15th workday of the month following the reporting month. The publication is based on data provided by Federal entities, disbursing officers, and Federal Reserve banks.

Audience

The *MTS* is published to meet the needs of: Those responsible for or interested in the cash position of the Treasury; Those who are responsible for or interested in the Government's budget results; and individuals and businesses whose operations depend upon or are related to the Government's financial operations.

Disclosure Statement

This statement summarizes the financial activities of the Federal Government and off-budget Federal entities conducted in accordance with the Budget of the U.S. Government, i.e., receipts and outlays of funds, the surplus or deficit, and the means of financing the deficit or disposing of the surplus. Information is presented on a modified cash basis: receipts are accounted for on the basis of collections; refunds of receipts are treated as deductions from gross receipts; revolving and management fund receipts, reimbursements and refunds of monies previously expended are treated as deductions from gross outlays; and interest on the public debt (public issues) is recognized on the accrual basis. Major information sources include accounting data reported by Federal entities, disbursing officers, and Federal Reserve banks.

Triad of Publications

The *MTS* is part of a triad of Treasury financial reports. The *Daily Treasury Statement* is published each working day of the Federal Government. It provides data on the cash and debt operations of the Treasury based upon reporting of the Treasury account balances by Federal Reserve banks. The *MTS* is a report of Government receipts and outlays, based on agency reporting. The *U.S. Government Annual Report* is the official publication of the detailed receipts and outlays of the Government. It is published annually in accordance with legislative mandates given to the Secretary of the Treasury.

Data Sources and Information

The Explanatory Notes section of this publication provides information concerning the flow of data into the *MTS* and sources of information relevant to the *MTS*.

Table 1. Summary of Receipts, Outlays, and the Deficit/Surplus of the U.S. Government, Fiscal Years 1992 and 1993, by Month

[$ millions]

Period	Receipts	Outlays	Deficit/Surplus (−)
FY 1992			
October	78,065	114,659	36,594
November	73,095	117,779	44,684
December	103,636	106,170	2,534
January	104,031	119,699	15,668
February	62,747	111,927	49,180
March	72,127	122,839	50,712
April	138,351	123,748	−14,603
May	62,184	108,957	46,773
June	120,878	117,096	−3,782
July	79,050	122,197	43,147
August	78,101	102,843	24,742
September	118,189	[1]112,879	−5,310
Year-to-Date	**[2]1,090,453**	**[2]1,380,794**	**[2]290,340**
FY 1993			
October	76,824	125,616	48,792
November	74,625	107,351	32,726
December	113,683	152,629	38,947
January	112,712	82,896	−29,817
February	65,975	114,172	48,197
March	83,284	127,258	43,974
April	132,021	123,930	−8,091
May	70,640	107,603	36,963
June	128,568	117,469	−11,099
July	80,633	120,211	39,577
August	86,741	[1]109,819	23,078
September	127,469	119,168	−8,300
Year-to-Date	**1,153,175**	**1,408,122**	**254,948**

[1]The outlays and the guaranteed loan financing for the Small Business Administration have been increased by $152 million in September 1992 and August 1993, respectively; and the outlays and guaranteed loan financing have been correspondingly decreased in August 1993 and September 1992, respectively; to correct agency reporting.

[2]The receipt, outlay and deficit figures differ from the *FY 1994 Budget*, released by the Office of Management and Budget on April 8, 1993, by $58 million due mainly to revisions in data following the release of the Final September Monthly Treasury Statement.

Note: The receipt and outlay figures for FY 1993 have been revised to reflect adjustments made by the Internal Revenue Service to the earned income credit.

Table 2. Summary of Budget and Off-Budget Results and Financing of the U.S. Government, September 1993 and Other Periods

[$ millions]

Classification	This Month	Current Fiscal Year to Date	Budget Estimates Full Fiscal Year[1]	Prior Fiscal Year to Date (1992)	Budget Estimates Next Fiscal Year (1994)[1]
Total on-budget and off-budget results:					
Total receipts	127,469	1,153,175	1,144,097	1,090,453	1,241,312
On-budget receipts	98,609	841,241	832,267	788,027	903,425
Off-budget receipts	28,860	311,934	311,830	302,426	337,888
Total outlays	119,168	1,408,122	1,425,171	1,380,794	1,500,060
On-budget outlays	91,038	1,142,110	1,158,490	1,128,455	1,219,390
Off-budget outlays	28,130	266,012	266,681	252,339	280,671
Total surplus (+) or deficit (−)	+8,300	−254,948	−281,074	−290,340	−258,748
On-budget surplus (+) or deficit (−)	+7,570	−300,869	−326,223	−340,428	−315,965
Off-budget surplus (+) or deficit (−)	+730	+45,922	+45,149	+50,087	+57,217
Total on-budget and off-budget financing	−8,300	254,948	281,074	290,340	258,748
Means of financing:					
Borrowing from the public	−9,346	248,619	263,078	310,698	265,244
Reduction of operating cash, increase (−)	−11,713	6,283	18,789	−17,305	......
By other means	12,758	46	−793	−3,053	−6,496

[1]These figures are based on the appendix tables in the *Mid-Session Review of the FY 1994 Budget*, released by the Office of Management and Budget in September 1993.

... No Transactions.

Note: Details may not add to totals due to rounding.

Figure 1. Monthly Receipts, Outlays, and Budget Deficit/Surplus of the U.S. Government, Fiscal Years 1992 and 1993

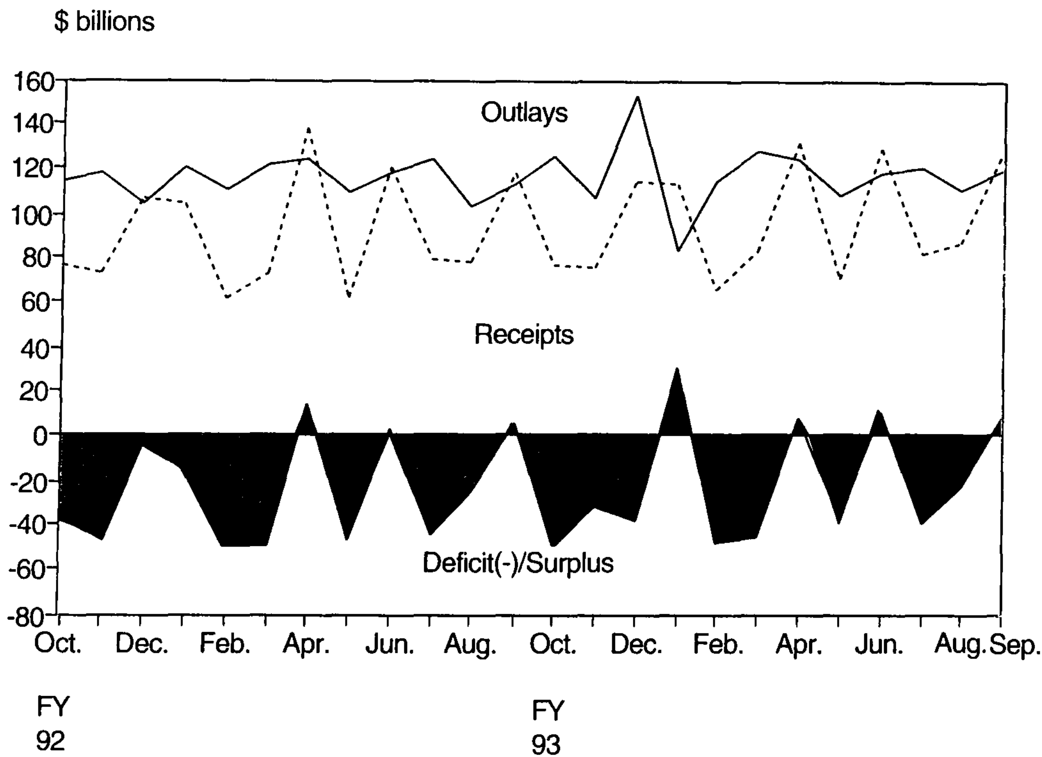

Figure 2. Monthly Receipts of the U.S. Government, by Source, Fiscal Years 1992 and 1993

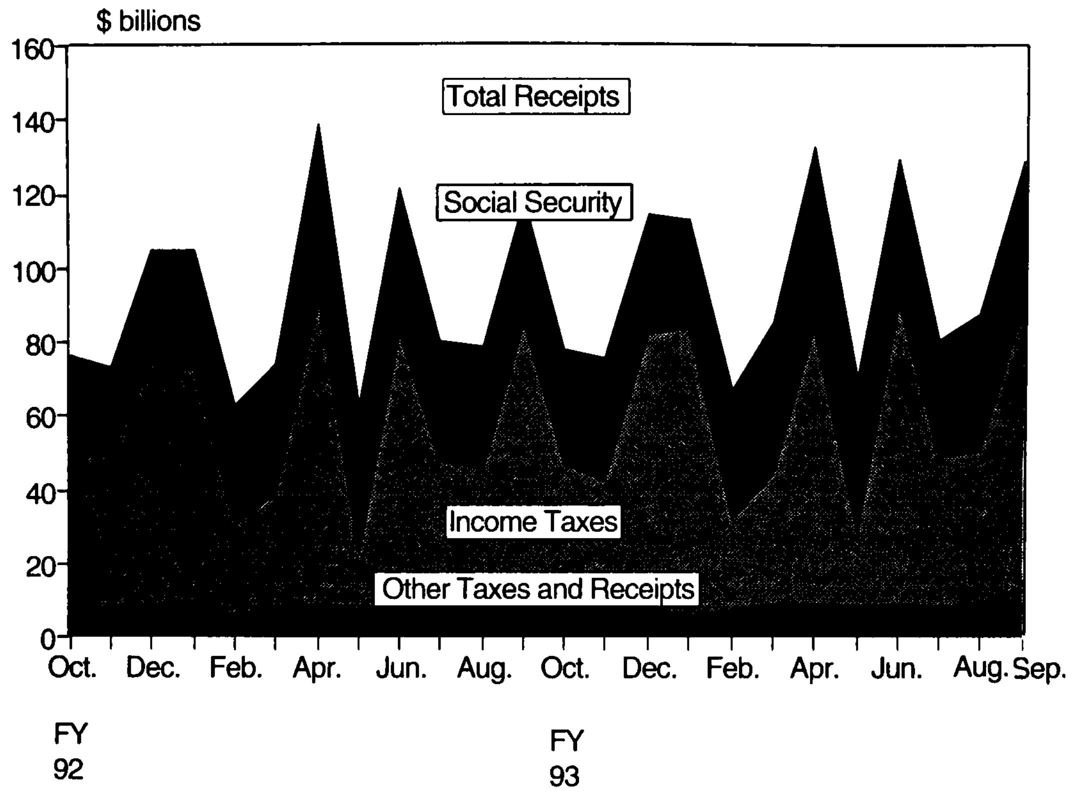

Figure 3. Monthly Outlays of the U.S. Government, by Function, Fiscal Years 1992 and 1993

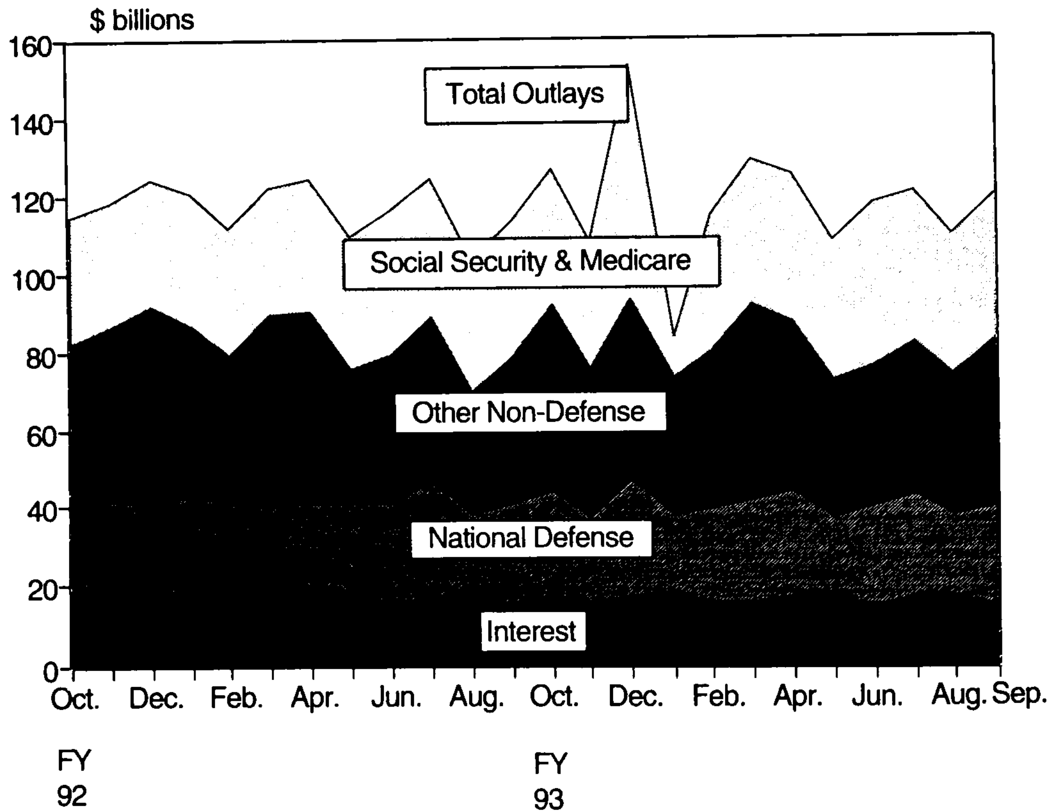

Table 3. Summary of Receipts and Outlays of the U.S. Government, September 1993 and Other Periods

[$ millions]

Classification	This Month	Current Fiscal Year to Date	Comparable Prior Period	Budget Estimates Full Fiscal Year[1]
Budget Receipts				
Individual income taxes	55,653	[2]509,680	475,964	508,106
Corporation income taxes	24,510	117,520	100,270	111,758
Social insurance taxes and contributions:				
Employment taxes and contributions (off-budget)	28,860	311,934	302,426	311,830
Employment taxes and contributions (on-budget)	8,048	85,005	83,065	84,830
Unemployment insurance	413	26,556	23,410	26,071
Other retirement contributions	447	4,805	4,788	4,782
Excise taxes	4,385	48,057	45,569	47,542
Estate and gift taxes	1,049	12,577	11,143	12,607
Customs duties	1,646	18,802	17,359	18,954
Miscellaneous receipts	2,456	18,239	26,459	17,617
Total Receipts	**127,469**	**1,153,175**	**1,090,453**	**1,144,097**
(On-budget)	**98,609**	**841,241**	**788,027**	**832,267**
(Off-budget)	**28,860**	**311,934**	**302,426**	**311,830**
Budget Outlays				
Legislative Branch	198	2,406	2,677	2,847
The Judiciary	206	2,579	2,308	2,541
Executive Office of the President	12	194	186	240
Funds Appropriated to the President	763	11,527	11,113	11,820
Department of Agriculture	4,125	63,143	56,436	66,705
Department of Commerce	317	2,798	2,567	3,064
Department of Defense—Military	23,707	278,576	286,632	278,560
Department of Defense—Civil	2,473	29,262	28,270	29,488
Department of Education	2,858	30,414	26,047	30,770
Department of Energy	1,693	16,801	15,439	17,471
Department of Health and Human Services, except Social Security	24,021	282,774	257,293	285,179
Department of Health and Human Services, Social Security	25,554	298,349	281,418	298,256
Department of Housing and Urban Development	2,169	25,185	24,470	24,760
Department of the Interior	904	6,728	6,555	7,144
Department of Justice	916	10,197	9,802	10,502
Department of Labor	3,124	44,738	47,163	45,434
Department of State	375	5,384	5,007	5,252
Department of Transportation	3,562	34,457	32,510	35,955
Department of the Treasury:				
Interest on the Public Debt	17,040	292,502	292,323	291,714
Other	−934	[2]6,209	641	7,169
Department of Veterans Affairs	2,997	35,487	33,897	35,560
Environmental Protection Agency	600	5,925	5,932	6,460
General Services Administration	243	743	469	1,331
National Aeronautics and Space Administration	1,230	14,305	13,961	14,081
Office of Personnel Management	3,077	36,794	35,596	37,163
Small Business Administration	110	[3]937	[3]546	860
Other independent agencies:				
Resolution Trust Corporation	−18	−19,153	−8,934	−19,069
Other	3,789	8,522	27,582	13,008
Undistributed offsetting receipts:				
Interest	−122	−82,276	−77,831	−81,870
Other	−5,823	−37,386	−39,280	−37,224
Total outlays	**119,168**	**1,408,122**	**1,380,794**	**1,425,171**
(On-budget)	**91,038**	**1,142,110**	**1,128,455**	**1,158,490**
(Off-budget)	**28,130**	**266,012**	**252,339**	**266,681**
Surplus (+) or deficit (−)	**+8,300**	**−254,948**	**−290,340**	**−281,074**
(On-budget)	**+7,570**	**−300,869**	**−340,428**	**−326,223**
(Off-budget)	**+730**	**+45,922**	**+50,087**	**+45,149**

[1]These figures are based on the appendix tables in the *Mid-Session Review of the FY 1994 Budget*, released by the Office of Management and Budget in September 1993.

[2]Includes a decrease of $548 million to reflect adjustments made by the Internal Revenue Service to the earned income credit.

[3]The outlays and the guaranteed loan financing for the Small Business Administration have been increased by $152 million in September 1992 and August 1993, respectively; and the outlays and guaranteed loan financing have been correspondingly decreased in August 1993 and September 1992, respectively; to correct agency reporting.

Note: Details may not add to totals due to rounding.

Table 4. Receipts of the U.S. Government, September 1993 and Other Periods

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Receipts	Refunds (Deduct)	Receipts	Gross Receipts	Refunds (Deduct)	Receipts	Gross Receipts	Refunds (Deduct)	Receipts
Individual income taxes:									
Withheld	[1]31,991			[2]430,427			408,352		
Presidential Election Campaign Fund	(* *)			28			30		
Other	[1]25,579			154,772			149,342		
Total—Individual income taxes	**57,571**	**1,918**	**55,653**	**585,226**	**75,546**	**509,680**	**557,724**	**81,760**	**475,964**
Corporation income taxes	**25,909**	**1,398**	**24,510**	**131,548**	**14,027**	**117,520**	**117,951**	**17,680**	**100,270**
Social insurance taxes and contributions:									
Employment taxes and contributions:									
Federal old-age and survivors ins. trust fund:									
Federal Insurance Contributions Act taxes	[1]23,577	466	23,111	267,838	466	267,372	256,691	678	256,013
Self-Employment Contributions Act taxes	[1]2,951	......	2,951	14,372	......	14,372	17,117	......	17,117
Deposits by States	4	......	4	−9	......	−9	6	......	6
Other	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Total—FOASI trust fund	26,532	466	26,065	282,202	466	281,735	273,814	678	273,137
Federal disability insurance trust fund:									
Federal Insurance Contributions Act taxes	[1]2,526	51	2,475	28,706	51	28,655	27,516	73	27,443
Self-Employment Contributions Act taxes	[1]320	......	320	1,545	......	1,545	1,845	......	1,845
Deposits by States	(* *)	......	(* *)	−1	......	−1	1	......	1
Other	......	......	......	......	......	......	(* *)	......	(* *)
Total—FDI trust fund	2,846	51	2,795	30,250	51	30,199	29,363	73	29,289
Federal hospital insurance trust fund:									
Federal Insurance Contributions Act taxes	[1]6,790	13	6,777	76,170	13	76,157	73,362	54	73,308
Self-Employment Contributions Act taxes	[1]960	......	960	4,687	......	4,687	5,459	......	5,459
Receipts from Railroad Retirement Board	......	......	......	381	......	381	337	......	337
Deposits by States	1	......	1	−2	......	−2	4	......	4
Total—FHI trust fund	7,751	13	7,738	81,237	13	81,224	79,162	54	79,108
Railroad retirement accounts:									
Rail industry pension fund	179	(* *)	179	2,378	11	2,367	2,453	5	2,449
Railroad Social Security equivalent benefit	131	......	131	1,414	......	1,414	1,508	......	1,508
Total—Employment taxes and contributions	37,438	531	36,908	397,480	542	396,939	386,300	809	385,491
Unemployment insurance:									
State taxes deposited in Treasury	385	......	385	20,966	......	20,966	17,605	......	17,605
Federal Unemployment Tax Act taxes	34	6	28	5,561	124	5,437	5,755	147	5,608
Railroad unemployment taxes	(* *)	......	(* *)	64	......	64	136	......	136
Railroad debt repayment	(* *)	......	(* *)	89	......	89	61	......	61
Total—Unemployment insurance	419	6	413	26,680	124	26,556	23,557	147	23,410
Other retirement contributions:									
Federal employees retirement – employee contributions	438	......	438	4,709	......	4,709	4,683	......	4,683
Contributions for non-federal employees	9	......	9	96	......	96	105	......	105
Total—Other retirement contributions	447	......	447	4,805	......	4,805	4,788	......	4,788
Total—Social insurance taxes and contributions	**38,304**	**536**	**37,768**	**428,965**	**666**	**428,300**	**414,645**	**956**	**413,689**
Excise taxes:									
Miscellaneous excise taxes[3]	2,231	86	2,145	26,718	595	26,123	24,389	824	23,565
Airport and airway trust fund	410	......	410	3,276	15	3,262	4,660	15	4,645
Highway trust fund	1,777	......	1,777	18,321	283	18,039	17,287	553	16,733
Black lung disability trust fund	53	......	53	634	......	634	626	......	626
Total—Excise taxes	**4,471**	**86**	**4,385**	**48,949**	**892**	**48,057**	**46,961**	**1,392**	**45,569**
Estate and gift taxes	**1,077**	**28**	**1,049**	**12,891**	**314**	**12,577**	**11,479**	**336**	**11,143**
Customs duties	**1,720**	**74**	**1,646**	**19,613**	**811**	**18,802**	**18,135**	**775**	**17,359**
Miscellaneous Receipts:									
Deposits of earnings by Federal Reserve banks	2,084	......	2,084	14,908	......	14,908	22,920	......	22,920
All other	375	3	372	3,489	159	3,331	3,545	7	3,538
Total — Miscellaneous receipts	**2,460**	**3**	**2,456**	**18,397**	**159**	**18,239**	**26,466**	**7**	**26,459**
Total — Receipts	**131,512**	**4,044**	**127,469**	**1,245,590**	**92,415**	**1,153,175**	**1,193,360**	**102,907**	**1,090,453**
Total — On-budget	**102,135**	**3,526**	**98,609**	**933,138**	**91,898**	**841,241**	**890,183**	**102,156**	**788,027**
Total — Off-budget	**29,378**	**518**	**28,860**	**312,452**	**518**	**311,934**	**303,177**	**751**	**302,426**

[1]In accordance with the provisions of the Social Security Act as amended, "Individual Income Taxes Withheld" have been decreased and "Federal Insurance Contributions Act Taxes" correspondingly increased by $179 million to correct estimates for the quarter ending September 30, 1992 and by $2 million to correct estimates for calendar year 1992 and prior. "Individual Income Taxes Other" have been decreased and "Self Employment Contributions Act Taxes" correspondingly increased by $571 million to correct estimates for calendar year 1990 and prior.

[2]Includes a decrease of $548 million to reflect adjustments made by the Internal Revenue Service to the earned income credit.

[3]Includes amounts for windfall profits tax pursuant to P.L. 96-223.

... No Transactions.

(* *) Less than $500,000.

Note: Details may not add to totals due to rounding.

Table 5. Outlays of the U.S. Government, September 1993 and Other Periods

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Legislative Branch:									
Senate	38	(* *)	38	453	1	452	435	1	434
House of Representatives	61	1	60	762	11	751	772	11	761
Joint items	6	......	6	78	......	78	79	......	79
Congressional Budget Office	2	......	2	22	......	22	22	......	22
Architect of the Capitol	24	1	23	222	9	212	240	8	232
Library of Congress	37	......	37	344	......	344	547	......	547
Government Printing Office:									
Revolving fund (net)	−9	......	−9	−37	......	−37	25	......	25
General fund appropriations	8	......	8	106	......	106	114	......	114
General Accounting Office	43	......	43	440	......	440	427	......	427
United States Tax Court	2	......	2	32	......	32	30	......	30
Other Legislative Branch agencies	2	......	2	32	......	32	29	......	29
Proprietary receipts from the public	......	1	−1	......	8	−8	......	7	−7
Intrabudgetary transactions	−13	......	−13	−19	......	−19	−16	......	−16
Total—Legislative Branch	**201**	**2**	**198**	**2,435**	**29**	**2,406**	**2,704**	**27**	**2,677**
The Judiciary:									
Supreme Court of the United States	2	......	2	24	......	24	27	......	27
Courts of Appeals, District Courts, and other judicial services	193	(* *)	193	2,456	1	2,456	2,181	(* *)	2,181
Other	11	......	11	100	......	100	99	......	99
Total—The Judiciary	**206**	**(* *)**	**206**	**2,580**	**1**	**2,579**	**2,308**	**(* *)**	**2,308**
Executive Office of the President:									
Compensation of the President and the White House Office	4	......	4	40	......	40	36	......	36
Office of Management and Budget	4	......	4	55	......	55	54	......	54
Other	4	......	4	99	......	99	96	......	96
Total—Executive Office of the President	**12**	**......**	**12**	**194**	**......**	**194**	**186**	**......**	**186**
Funds Appropriated to the President:									
International Security Assistance:									
Guaranty reserve fund	73	91	−18	860	654	206	1,058	748	310
Foreign military financing grants	56	......	56	4,580	......	4,580	4,399	......	4,399
Economic support fund	199	......	199	3,231	......	3,231	2,938	......	2,938
Military assistance	3	......	3	(* *)	......	(* *)	132	......	132
Peacekeeping Operations	4	......	4	28	......	28	31	......	31
Other	5	......	5	36	......	36	45	......	45
Proprietary receipts from the public	......	33	−33	......	760	−760	......	652	−652
Total—International Security Assistance	340	124	216	8,735	1,414	7,322	8,603	1,400	7,203
International Development Assistance:									
Multilateral Assistance:									
Contribution to the International Development Association	......	......	......	774	......	774	885	......	885
International organizations and programs	159	......	159	382	......	382	270	......	270
Other	......	......	......	391	......	391	562	......	562
Total—Multilateral Assistance	159	......	159	1,547	......	1,547	1,717	......	1,717
Agency for International Development:									
Functional development assistance program	197	......	197	1,460	......	1,460	1,430	......	1,430
Sub-Saharan Africa development assistance	91	......	91	741	......	741	500	......	500
Operating expenses	47	......	47	492	......	492	452	......	452
Payment to the Foreign Service retirement and disability fund	43	......	43	43	......	43	41	......	41
Other	71	3	67	755	50	704	604	45	560
Proprietary receipts from the public	......	489	−489	......	1,294	−1,294	......	840	−840
Intrabudgetary transactions	(* *)	......	(* *)	−1	......	−1	(* *)	......	(* *)
Total—Agency for International Development	448	493	−44	3,490	1,344	2,145	3,027	885	2,142
Peace Corps	33	......	33	212	......	212	196	......	196
Overseas Private Investment Corporation	9	10	−2	79	204	−125	195	285	−90
Other	5	1	5	86	9	77	78	14	64
Total—International Development Assistance	654	504	151	5,414	1,558	3,856	5,213	1,184	4,029
International Monetary Programs	−93	......	−93	336	......	336	−686	......	−686
Military Sales Programs:									
Special defense acquisition fund	21	(* *)	21	257	193	64	291	235	56
Foreign military sales trust fund	1,247	......	1,247	13,162	......	13,162	12,440	......	12,440
Kuwait civil reconstruction trust fund	(* *)	......	(* *)	7	(* *)	7	299	53	246
Proprietary receipts from the public	......	779	−779	......	13,239	−13,239	......	12,182	−12,182
Other	(* *)	......	(* *)	19	......	19	8	......	8
Total—Funds Appropriated to the President	**2,169**	**1,407**	**763**	**27,931**	**16,404**	**11,527**	**26,167**	**15,054**	**11,113**

Table 5. Outlays of the U.S. Government, September 1993 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Agriculture:									
Agricultural Research Service	72	......	72	733	......	733	686	......	686
Cooperative State Research Service	43	......	43	445	......	445	426	......	426
Extension Service	34	......	34	404	......	404	404	......	404
Animal and Plant Health Inspection Service	48	......	48	489	......	489	448	......	448
Food Safety and Inspection Service	54	......	54	508	......	508	468	......	468
Agricultural Marketing Service	37	......	37	706	1	705	711	4	707
Soil Conservation Service:									
Watershed and flood prevention operations	24	......	24	236	......	236	201	......	201
Conservation operations	55	......	55	580	......	580	555	......	555
Other	8	......	8	83	......	83	79	......	79
Agricultural Stabilization and Conservation Service:									
Conservation programs	41	......	41	1,899	......	1,899	1,864	......	1,864
Other	74	......	74	767	......	767	764	......	764
Farmers Home Administration:									
Credit accounts:									
Agricultural credit insurance fund	48	97	−48	2,149	1,910	239	3,199	2,229	969
Rural housing insurance fund	472	275	197	4,314	3,238	1,075	5,086	3,182	1,904
Other	(* *)	(* *)	(* *)	(* *)	1	(* *)	(* *)	(* *)	(* *)
Salaries and expenses	66	......	66	650	......	650	609	......	609
Other	6	......	6	78	......	78	69	......	69
Total—Farmers Home Administration	593	372	221	7,191	5,149	2,042	8,964	5,412	3,552
Foreign assistance programs	438	37	401	917	37	880	971	......	971
Rural Development Administration:									
Rural development insurance fund	76	27	49	1,035	487	548	1,163	484	678
Rural water and waste disposal grants	26	......	26	240	......	240	184	......	184
Other	7	(* *)	7	70	3	68	51	2	48
Rural Electrification Administration	779	787	−8	3,302	4,519	−1,216	3,370	4,304	−934
Federal Crop Insurance Corporation	104	1	103	793	332	461	1,241	287	954
Commodity Credit Corporation:									
Price support and related programs	694	907	−213	24,232	8,368	15,864	17,122	7,575	9,547
National Wool Act Program	3	......	3	179	......	179	191	......	191
Food and Nutrition Service:									
Food stamp program	2,055	......	2,055	24,602	......	24,602	22,800	......	22,800
State child nutrition programs	307	......	307	6,597	......	6,597	6,127	......	6,127
Women, infants and children programs	225	......	225	2,924	......	2,924	2,640	......	2,640
Other	24	......	24	577	......	577	530	......	530
Total—Food and Nutrition Service	2,611	......	2,611	34,700	......	34,700	32,096	......	32,096
Forest Service:									
National forest system	110	......	110	1,367	......	1,367	1,369	......	1,369
Forest service permanent appropriations	255	......	255	533	......	533	536	......	536
Other	166	......	166	1,392	......	1,392	1,389	......	1,389
Total—Forest Service	531	......	531	3,292	......	3,292	3,293	......	3,293
Other	34	3	31	573	34	540	592	30	562
Proprietary receipts from the public	......	126	−126	......	1,154	−1,154	......	1,310	−1,310
Intrabudgetary transactions	......	......	......	−150	......	−150	......	......	......
Total—Department of Agriculture	**6,386**	**2,261**	**4,125**	**83,227**	**20,084**	**63,143**	**75,845**	**19,409**	**56,436**
Department of Commerce:									
Economic Development Administration	22	1	21	175	19	156	165	40	125
Bureau of the Census	35	......	35	346	......	346	302	......	302
Promotion of Industry and Commerce	29	......	29	321	......	321	297	......	297
Science and Technology:									
National Oceanic and Atmospheric Administration	192	4	187	1,675	26	1,649	1,612	26	1,585
Patent and Trademark Office	9	......	9	53	......	53	56	......	56
National Institute of Standards and Technology	33	......	33	252	......	252	183	......	183
Other	19	18	1	89	57	33	81	......	81
Total—Science and Technology	253	22	231	2,069	82	1,987	1,932	26	1,905
Other	11	......	11	103	......	103	85	......	85
Proprietary receipts from the public	......	10	−10	......	116	−116	......	139	−139
Intrabudgetary transactions	......	......	......	(* *)	......	(* *)	−8	......	−8
Offsetting governmental receipts	......	......	......	......	(* *)	(* *)	......	(* *)	(* *)
Total—Department of Commerce	**350**	**33**	**317**	**3,015**	**217**	**2,798**	**2,772**	**205**	**2,567**

Table 5. Outlays of the U.S. Government, September 1993 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Defense—Military:									
Military personnel:									
Department of the Army	2,417	......	2,417	28,476	......	28,476	31,937	......	31,937
Department of the Navy	2,235	......	2,235	27,278	......	27,278	28,226	......	28,226
Department of the Air Force	1,644	......	1,644	20,150	......	20,150	21,007	......	21,007
Total—Military personnel	6,296	......	6,296	75,904	......	75,904	81,171	......	81,171
Operation and maintenance:									
Department of the Army	2,517	......	2,517	23,879	......	23,879	26,397	......	26,397
Department of the Navy	3,205	......	3,205	27,002	......	27,002	27,165	......	27,165
Department of the Air Force	1,823	......	1,823	24,482	......	24,482	23,462	......	23,462
Defense agencies	1,481	......	1,481	18,742	......	18,742	15,019	......	15,019
Total—Operation and maintenance	9,027	......	9,027	94,105	......	94,105	92,042	......	92,042
Procurement:									
Department of the Army	935	......	935	11,271	......	11,271	12,858	......	12,858
Department of the Navy	2,300	......	2,300	29,991	......	29,991	31,976	......	31,976
Department of the Air Force	1,832	......	1,832	24,915	......	24,915	26,774	......	26,774
Defense agencies	415	......	415	3,760	......	3,760	3,272	......	3,272
Total—Procurement	5,482	......	5,482	69,936	......	69,936	74,881	......	74,881
Research, development, test, and evaluation:									
Department of the Army	552	......	552	6,218	......	6,218	5,978	......	5,978
Department of the Navy	690	......	690	8,944	......	8,944	7,826	......	7,826
Department of the Air Force	905	......	905	12,338	......	12,338	11,998	......	11,998
Defense agencies	929	......	929	9,458	......	9,458	8,829	......	8,829
Total—Research, development, test and evaluation	3,077	......	3,077	36,958	......	36,958	34,632	......	34,632
Military construction:									
Department of the Army	139	......	139	1,097	......	1,097	832	......	832
Department of the Navy	94	......	94	926	......	926	1,090	......	1,090
Department of the Air Force	103	......	103	1,169	......	1,169	1,163	......	1,163
Defense agencies	198	......	198	1,639	......	1,639	1,177	......	1,177
Total—Military construction	534	......	534	4,831	......	4,831	4,262	......	4,262
Family housing:									
Department of the Army	125	......	125	1,354	......	1,354	1,550	......	1,550
Department of the Navy	80	......	80	880	......	880	787	......	787
Department of the Air Force	103	......	103	964	......	964	904	......	904
Defense agencies	8	4	4	85	28	57	42	12	30
Revolving and management funds:									
Department of the Army	158	......	158	195	......	195	−91	......	−91
Department of the Navy	109	......	109	96	......	96	−3	......	−3
Defense agencies:									
Defense business operations fund	−738	......	−738	−4,860	......	−4,860	3,160	......	3,160
Other	−11	(* *)	−11	−172	5	−176	53	3	51
Trust funds:									
Department of the Army	(* *)	......	(* *)	(* *)	(* *)	(* *)	(* *)	(* *)	(* *)
Department of the Navy	3	2	2	44	20	24	47	20	26
Department of the Air Force	5	5	(* *)	32	27	5	38	39	−1
Defense agencies	44	......	44	131	......	131	−38	......	−38
Proprietary receipts from the public:									
Department of the Army	......	−41	41	......	232	−232	......	218	−218
Department of the Navy	......	55	−55	......	205	−205	......	212	−212
Department of the Air Force	......	−104	104	......	222	−222	......	289	−289
Defense agencies	......	−50	50	......	34	−34	......	206	−206
Intrabudgetary transactions:									
Department of the Army	−64	......	−64	......	......	......	......	......	......
Department of the Navy	−537	......	−537	−22	......	−22	−23	......	−23
Department of the Air Force	−104	......	−104	......	......	......	......	......	......
Defense agencies:									
Defense cooperation account	(* *)	......	(* *)	−2	......	−2	−330	......	−330
Voluntary separation incentive fund	......	......	......	−949	......	−949	......	......	......
Other	−16	......	−16	−99	......	−99	−527	......	−527
Offsetting governmental receipts:									
Department of the Army	......	4	−4	......	24	−24	......	16	−16
Defense agencies:									
Defense cooperation account	......	......	......	......	38	−38	......	4,910	−4,910
Total—Department of Defense—Military	**23,581**	**−125**	**23,707**	**279,412**	**836**	**278,576**	**292,557**	**5,925**	**286,632**

Table 5. Outlays of the U.S. Government, September 1993 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Defense—Civil									
Corps of Engineers:									
Construction, general	104	......	104	999	......	999	1,182	......	1,182
Operation and maintenance, general	−267	......	−267	1,078	......	1,078	1,070	......	1,070
Other	488	......	488	1,466	......	1,466	1,500	......	1,500
Proprietary receipts from the public	......	10	−10	......	190	−190	......	186	−186
Total—Corps of Engineers	325	10	314	3,544	190	3,354	3,752	186	3,565
Military retirement:									
Payment to military retirement fund	......	......	......	12,273	......	12,273	11,169	......	11,169
Retired pay	......	......	......	(* *)	......	(* *)	−2	......	−2
Military retirement fund	2,148	......	2,148	25,708	......	25,708	24,492	......	24,492
Intrabudgetary transactions	......	......	......	−12,273	......	−12,273	−11,169	......	−11,169
Education benefits	7	......	7	145	......	145	129	......	129
Other	6	1	5	69	4	65	100	5	95
Proprietary receipts from the public	......	1	−1	......	9	−9	......	10	−10
Total—Department of Defense—Civil	**2,485**	**12**	**2,473**	**29,465**	**204**	**29,262**	**28,471**	**201**	**28,270**
Department of Education:									
Office of Elementary and Secondary Education:									
Compensatory education for the disadvantaged	377	......	377	6,615	......	6,615	6,159	......	6,159
Impact aid	1	......	1	432	......	432	795	......	795
School improvement programs	121	......	121	2,017	......	2,017	1,502	......	1,502
Chicago litigation settlement	......	......	......	15	......	15	13	......	13
Indian education	3	......	3	100	......	100	69	......	69
Total—Office of Elementary and Secondary Education	502	......	502	9,180	......	9,180	8,537	......	8,537
Office of Bilingual Education and Minority Languages Affairs	16	......	16	125	......	125	198	......	198
Office of Special Education and Rehabilitative Services:									
Special education	196	......	196	2,564	......	2,564	2,243	......	2,243
Rehabilitation services and disability research	153	......	153	1,984	......	1,984	1,992	......	1,992
Special institutions for persons with disabilities	8	......	8	151	......	151	107	......	107
Office of Vocational and Adult Education	148	......	148	1,190	......	1,190	1,079	......	1,079
Office of Postsecondary Education:									
College housing loans	......	2	−2	18	60	−42	19	59	−40
Student financial assistance	680	......	680	7,678	......	7,678	7,071	......	7,071
Federal family education loans	924	......	924	5,555	......	5,555	3,254	......	3,254
Higher education	119	......	119	1,042	......	1,042	718	......	718
Howard University	18	......	18	264	......	264	191	......	191
Other	4	......	4	20	......	20	26	......	26
Total—Office of Postsecondary Education	1,745	2	1,744	14,578	60	14,518	11,280	59	11,221
Office of Educational Research and Improvement	39	......	39	413	......	413	370	......	370
Departmental management	57	......	57	353	......	353	368	......	368
Proprietary receipts from the public	......	5	−5	......	64	−64	......	69	−69
Total—Department of Education	**2,865**	**7**	**2,858**	**30,538**	**124**	**30,414**	**26,175**	**128**	**26,047**
Department of Energy:									
Atomic energy defense activities	[1]1,130	......	1,130	11,049	......	11,049	[1]10,606	......	10,606
Energy programs:									
General science and research activities	135	......	135	1,436	......	1,436	1,263	......	1,263
Energy supply, R and D activities	217	......	217	2,850	......	2,850	2,895	......	2,895
Uranium supply and enrichment activities	−813	......	−813	204	......	204	120	......	120
Fossil energy research and development	39	......	39	411	......	411	404	......	404
Energy conservation	56	......	56	521	......	521	468	......	468
Strategic petroleum reserve	45	......	45	444	......	444	312	......	312
Nuclear waste disposal fund	25	......	25	262	......	262	323	......	323
Other	[1]-139	(* *)	−139	3	3	(* *)	[1]-5	3	−8
Total—Energy programs	−434	(* *)	−435	6,131	3	6,128	5,780	3	5,777
Power Marketing Administration	504	86	418	2,469	1,360	1,109	1,959	1,284	675
Departmental administration	[1]-230	......	−230	121	......	121	[1]362	......	362
Proprietary receipts from the public	......	[1]-731	731	......	1,310	−1,310	......	[1]1,712	−1,712
Intrabudgetary transactions	2	......	2	−296	......	−296	−268	......	−268
Offsetting governmental receipts	......	[1]-78	78	......	......	......	......	......	......
Total—Department of Energy	**971**	**−722**	**1,693**	**19,473**	**2,672**	**16,801**	**18,438**	**2,999**	**15,439**

Table 5. Outlays of the U.S. Government, September 1993 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Health and Human Services, except Social Security:									
Public Health Service:									
Food and Drug Administration	57	(* *)	56	738	4	733	756	4	752
Health Resources and Services Administration	293	......	293	2,467	......	2,467	2,333	......	2,333
Indian Health Service	196	......	196	1,735	......	1,735	1,558	......	1,558
Centers for Disease Control	164	......	164	1,412	......	1,412	1,198	......	1,198
National Institutes of Health	812	......	812	9,543	......	9,543	8,376	......	8,376
Substance Abuse and Mental Health Services Administration	185	......	185	2,667	......	2,667	2,864	......	2,864
Agency for Health Care Policy and Research	28	......	28	88	......	88	113	......	113
Assistant secretary for health	43	......	43	221	......	221	254	......	254
Total—Public Health Service	1,779	(* *)	1,779	18,869	4	18,865	17,452	4	17,447
Health Care Financing Administration:									
Grants to States for Medicaid	7,069	......	7,069	75,774	......	75,774	67,827	......	67,827
Payments to health care trust funds	3,735	......	3,735	44,721	......	44,721	39,390	......	39,390
Federal hospital insurance trust fund:									
Benefit payments	7,707	......	7,707	90,738	......	90,738	80,784	......	80,784
Administrative expenses and construction	85	......	85	866	......	866	1,187	......	1,187
Total—FHI trust fund	7,792	......	7,792	91,604	......	91,604	81,971	......	81,971
Federal supplementary medical insurance trust fund:									
Benefit payments	4,490	......	4,490	52,409	......	52,409	48,627	......	48,627
Administrative expenses and construction	136	......	136	1,845	......	1,845	1,658	......	1,658
Total—FSMI trust fund	4,626	......	4,626	54,254	......	54,254	50,285	......	50,285
Other	4	......	4	98	......	98	−108	......	−108
Total—Health Care Financing Administration	23,226	......	23,226	266,452	......	266,452	239,366	......	239,366
Social Security Administration:									
Payments to Social Security trust funds	69	......	69	6,236	......	6,236	6,127	......	6,127
Special benefits for disabled coal miners	62	......	62	801	......	801	829	......	829
Supplemental security income program	1,902	......	1,902	22,642	......	22,642	19,445	......	19,445
Total—Social Security Administration	2,033	......	2,033	29,679	......	29,679	26,401	......	26,401
Administration for children and families:									
Family support payments to States	1,095	......	1,095	15,628	......	15,628	15,103	......	15,103
Low income home energy assistance	24	......	24	1,068	......	1,068	1,142	......	1,142
Refugee and entrant assistance	47	......	47	361	......	361	381	......	381
Community Services Block Grant	59	......	59	423	......	423	442	......	442
Payments to States for afdc work programs	66	......	66	736	......	736	594	......	594
Interim assistance to States for legalization	182	......	182	318	......	318	501	......	501
Payments to States for child care assistance	48	......	48	411	......	411	......	......	......
Social services block grant	189	......	189	2,785	......	2,785	2,708	......	2,708
Children and families services programs	72	......	72	3,432	......	3,432	3,870	......	3,870
Payments to States for foster care and adoption assistance	271	......	271	2,636	......	2,636	2,505	......	2,505
Other	......	......	......	(* *)	......	(* *)	(* *)	......	(* *)
Total—Administration for children and families	2,054	......	2,054	27,798	......	27,798	27,248	......	27,248
Administration on aging	40	......	40	567	......	567	......	......	......
Office of the Secretary	104	......	104	223	......	223	166	......	166
Proprietary receipts from the public	......	1,479	−1,479	......	16,089	−16,089	......	13,944	−13,944

Table 5. Outlays of the U.S. Government, September 1993 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Health and Human Services, except Social Security:—Continued									
Intrabudgetary transactions:									
Payments for health insurance for the aged:									
Federal supplementary medical insurance trust fund	−3,722	......	−3,722	−44,227	......	−44,227	−38,684	......	−38,684
Payments for tax and other credits:									
Federal hospital insurance trust fund	−13	......	−13	−495	......	−495	−706	......	−706
Total—Department of Health and Human Services, except Social Security	**25,501**	**1,480**	**24,021**	**298,867**	**16,094**	**282,774**	**271,242**	**13,949**	**257,293**
Department of Health and Human Services, Social Security (off-budget):									
Federal old-age and survivors insurance trust fund:									
Benefit payments	22,382	......	22,382	264,582	......	264,582	251,317	......	251,317
Administrative expenses and construction	234	......	234	2,026	......	2,026	1,824	......	1,824
Payment to railroad retirement account	......	......	......	3,353	......	3,353	3,148	......	3,148
Total—FOASI trust fund	22,616	......	22,616	269,960	......	269,960	256,290	......	256,290
Federal disability insurance trust fund:									
Benefit payments	2,928	......	2,928	33,626	......	33,626	30,394	......	30,394
Administrative expenses and construction	82	......	82	932	......	932	843	......	843
Payment to railroad retirement account	......	......	......	83	......	83	58	......	58
Total—FDI trust fund	3,010	......	3,010	34,641	......	34,641	31,295	......	31,295
Proprietary receipts from the public	......	6	−6	......	6	−6	......	(* *)	(* *)
Intrabudgetary transactions[2]	−65	......	−65	−6,246	......	−6,246	−6,166	......	−6,166
Total—Department of Health and Human Services, Social Security(off-budget)	**25,560**	**6**	**25,554**	**298,356**	**6**	**298,349**	**281,419**	**(* *)**	**281,418**
Department of Housing and Urban Development:									
Housing programs:									
Public enterprise funds	7	12	−5	82	76	6	49	70	−21
Credit accounts:									
Federal housing administration fund	1,055	1,040	15	7,607	6,534	1,073	9,098	6,642	2,456
Housing for the elderly or handicapped fund	−3	59	−62	777	660	117	1,123	638	485
Other	42	......	42	345	(* *)	345	39	(* *)	39
Rent supplement payments	5	......	5	55	......	55	54	......	54
Homeownership assistance	10	......	10	97	......	97	77	......	77
Rental housing assistance	56	......	56	663	......	663	652	......	652
Rental housing development grants	10	......	10	24	......	24	13	......	13
Low-rent public housing	27	......	27	714	......	714	744	......	744
Public housing grants	276	......	276	2,583	......	2,583	2,101	......	2,101
College housing grants	1	(* *)	1	19	(* *)	19	21	(* *)	20
Lower income housing assistance	858	......	858	10,808	......	10,808	10,742	......	10,742
Section 8 contract renewals	258	......	258	2,532	......	2,532	1,510	......	1,510
Other	4	......	4	27	......	27	19	......	19
Total—Housing programs	2,607	1,111	1,496	26,334	7,271	19,063	26,244	7,352	18,892
Public and Indian Housing programs:									
Low-rent public housing—Loans and other expenses	5	1	5	186	35	151	175	37	138
Payments for operation of low-income housing projects	269	......	269	2,453	......	2,453	2,162	......	2,162
Community Partnerships Against Crime	11	......	11	116	......	116	37	......	37
Total—Public and Indian Housing programs	286	1	285	2,755	35	2,720	2,375	37	2,338
Government National Mortgage Association:									
Management and liquidating functions fund	(* *)	(* *)	(* *)	(* *)	4	−4	(* *)	5	−4
Guarantees of mortgage-backed securities	111	67	44	1,153	1,604	−450	2,010	2,357	−347
Total—Government National Mortgage Association	111	67	44	1,154	1,608	−454	2,010	2,362	−352

Table 5. Outlays of the U.S. Government, September 1993 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Housing and Urban Development:—Continued									
Community Planning and Development:									
Community Development Grants	269	......	269	3,198	......	3,198	3,090	......	3,090
Other	72	14	58	526	131	395	366	98	268
Total—Community Planning and Development	341	14	327	3,724	131	3,593	3,457	98	3,358
Management and Administration	39	......	39	522	......	522	461	......	461
Other	6	......	6	37	......	37	35	......	35
Proprietary receipts from the public	......	28	−28	......	296	−296	......	262	−262
Total—Department of Housing and Urban Development	**3,390**	**1,221**	**2,169**	**34,526**	**9,341**	**25,185**	**34,581**	**10,111**	**24,470**
Department of the Interior:									
Land and minerals management:									
Bureau of Land Management:									
Management of lands and resources	65	......	65	536	......	536	531	......	531
Fire protection	21	......	21	120	......	120	139	......	139
Other	184	......	184	407	......	407	492	......	492
Minerals Management Service	52	......	52	676	......	676	630	......	630
Office of Surface Mining Reclamation and Enforcement	31	......	31	304	......	304	293	......	293
Total—Land and minerals management	352	......	352	2,042	......	2,042	2,086	......	2,086
Water and science:									
Bureau of Reclamation:									
Construction program	39	......	39	288	......	288	280	......	280
Operation and maintenance	28	......	28	284	......	284	251	......	251
Other	63	23	40	494	153	341	585	127	458
Geological Survey	61	......	61	620	......	620	588	......	588
Bureau of Mines	21	3	18	203	30	173	202	32	171
Total—Water and science	211	26	185	1,889	183	1,706	1,907	159	1,748
Fish and wildlife and parks:									
United States Fish and Wildlife Service	133	......	133	1,239	......	1,239	1,083	......	1,083
National Park Service	173	......	173	1,522	......	1,522	1,350	......	1,350
Total—Fish and wildlife and parks	306	......	306	2,761	......	2,761	2,433	......	2,433
Bureau of Indian Affairs:									
Operation of Indian programs	160	......	160	1,401	......	1,401	1,135	......	1,135
Indian tribal funds	34	......	34	287	......	287	395	......	395
Other	−3	1	−4	256	19	237	371	18	353
Total—Bureau of Indian Affairs	191	1	190	1,944	19	1,924	1,901	18	1,883
Territorial and international affairs	87	......	87	317	......	317	359	......	359
Departmental offices	6	......	6	116	......	116	102	......	102
Proprietary receipts from the public	......	192	−192	......	2,009	−2,009	......	1,926	−1,926
Intrabudgetary transactions	−30	......	−30	−129	......	−129	−127	......	−127
Offsetting governmental receipts	......	(* *)	(* *)	......	(* *)	(* *)	......	4	−4
Total—Department of the Interior	**1,123**	**219**	**904**	**8,941**	**2,212**	**6,728**	**8,662**	**2,108**	**6,555**
Department of Justice:									
Legal activities	250	......	250	2,786	......	2,786	2,884	......	2,884
Federal Bureau of Investigation	196	......	196	1,975	......	1,975	1,832	......	1,832
Drug Enforcement Administration	70	......	70	792	......	792	758	......	758
Immigration and Naturalization Service	165	......	165	1,551	......	1,551	1,376	......	1,376
Federal Prison System	245	9	236	2,234	98	2,136	2,200	75	2,125
Office of Justice Programs	61	......	61	810	......	810	785	......	785
Other	−5	......	−5	863	......	863	573	......	573
Intrabudgetary transactions	−3	......	−3	−200	......	−200	−50	......	−50
Offsetting governmental receipts	......	55	−55	......	515	−515	......	481	−481
Total—Department of Justice	**980**	**64**	**916**	**10,810**	**613**	**10,197**	**10,358**	**556**	**9,802**
Department of Labor:									
Employment and Training Administration:									
Training and employment services	394	......	394	4,241	......	4,241	4,281	......	4,281
Community Service Employment for Older Americans	34	......	34	389	......	389	398	......	398
Federal unemployment benefits and allowances	2	......	2	131	......	131	84	......	84
State unemployment insurance and employment service operations	13	......	13	23	......	23	−38	......	−38
Payments to the unemployment trust fund	......	......	......	7,532	......	7,532	1,293	......	1,293
Advances to the unemployment trust fund and other funds	1,334	......	1,334	4,994	......	4,994	490	......	490

Table 5. Outlays of the U.S. Government, September 1993 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Labor:—Continued									
Unemployment trust fund:									
Federal-State unemployment insurance:									
State unemployment benefits	2,589	......	2,589	35,977	......	35,977	37,503	......	37,503
State administrative expenses	281	......	281	3,413	......	3,413	3,308	......	3,308
Federal administrative expenses	15	......	15	213	......	213	201	......	201
Veterans employment and training	18	......	18	176	......	176	173	......	173
Railroad unemployment insurance	5	......	5	70	......	70	86	......	86
Other	2	......	2	21	......	21	24	......	24
Total—Unemployment trust fund	2,910	......	2,910	39,869	......	39,869	41,294	......	41,294
Other	7	......	7	76	......	76	77	......	77
Total—Employment and Training Administration	4,694	......	4,694	57,256	......	57,256	47,879	......	47,879
Pension Benefit Guaranty Corporation	68	[3]294	−227	821	2,329	−1,508	783	1,438	−654
Employment Standards Administration:									
Salaries and expenses	25	......	25	229	......	229	230	......	230
Special benefits	−331	......	−331	216	......	216	218	......	218
Black lung disability trust fund	417	......	417	978	......	978	967	......	967
Other	8	......	8	120	......	120	117	......	117
Occupational Safety and Health Administration	24	......	24	280	......	280	303	......	303
Bureau of Labor Statistics	38	......	38	286	......	286	238	......	238
Other	46	......	46	463	......	463	473	......	473
Proprietary receipts from the public	......	73	−73	......	76	−76	......	64	−64
Intrabudgetary transactions	−1,497	......	−1,497	−13,506	......	−13,506	−2,542	......	−2,542
Total—Department of Labor	**3,492**	**368**	**3,124**	**47,143**	**2,405**	**44,738**	**48,665**	**1,501**	**47,163**
Department of State:									
Administration of Foreign Affairs:									
Salaries and expenses	311	......	311	2,287	......	2,287	2,029	......	2,029
Acquisition and maintenance of buildings abroad	53	......	53	485	......	485	383	......	383
Payment to Foreign Service retirement and disability fund	......	......	......	273	......	273	276	......	276
Foreign Service retirement and disability fund	32	......	32	412	......	412	381	......	381
Other	−28	......	−28	63	......	63	47	......	47
Total—Administration of Foreign Affairs	368	......	368	3,521	......	3,521	3,116	......	3,116
International organizations and Conferences	5	......	5	1,376	......	1,376	1,336	......	1,336
Migration and refugee assistance	55	......	55	672	......	672	671	......	671
International narcotics control	14	......	14	133	......	133	134	......	134
Other	8	......	8	79	......	79	68	......	68
Proprietary receipts from the public	......	......	......	......	(* *)	(* *)	......	(* *)	(* *)
Intrabudgetary transactions	−75	......	−75	−396	......	−396	−318	......	−318
Total—Department of State	**375**	**......**	**375**	**5,385**	**(* *)**	**5,384**	**5,007**	**(* *)**	**5,007**
Department of Transportation:									
Federal Highway Administration:									
Highway trust fund:									
Federal-aid highways	1,927	......	1,927	16,259	......	16,259	15,182	......	15,182
Other	27	......	27	150	......	150	147	......	147
Other programs	20	......	20	248	......	248	183	......	183
Total—Federal Highway Administration	1,974	......	1,974	16,656	......	16,656	15,511	......	15,511
National Highway Traffic Safety Administration	20	......	20	242	......	242	242	......	242
Federal Railroad Administration:									
Grants to National Railroad Passenger Corporation	......	......	......	465	......	465	508	......	508
Other	26	(* *)	26	367	14	353	419	19	400
Total—Federal Railroad Administration	26	(* *)	26	832	14	818	927	19	908

Table 5. Outlays of the U.S. Government, September 1993 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Transportation:—Continued									
Federal Transit Administration:									
Formula grants	55	......	55	1,191	......	1,191	1,868	......	1,868
Discretionary grants	116	......	116	1,298	......	1,298	1,268	......	1,268
Other	102	......	102	968	......	968	478	......	478
Total—Federal Transit Administration	273	......	273	3,457	......	3,457	3,614	......	3,614
Federal Aviation Administration:									
Operations	171	......	171	2,212	......	2,212	2,277	......	2,277
Airport and airway trust fund:									
Grants-in-aid for airports	221	......	221	1,931	......	1,931	1,672	......	1,672
Facilities and equipment	292	......	292	2,166	......	2,166	1,885	......	1,885
Research, engineering and development	31	......	31	212	......	212	214	......	214
Operations	190	......	190	2,279	......	2,279	2,110	......	2,110
Total—Airport and airway trust fund	734	......	734	6,589	......	6,589	5,881	......	5,881
Other	(* *)	(* *)	(* *)	(* *)	2	−2	(* *)	3	−3
Total—Federal Aviation Administration	905	(* *)	905	8,802	2	8,800	8,158	3	8,155
Coast Guard:									
Operating expenses	225	......	225	2,514	......	2,514	2,407	......	2,407
Acquisition, construction, and improvements	45	......	45	311	......	311	345	......	345
Retired pay	48	......	48	505	......	505	461	......	461
Other	15	(* *)	14	252	6	246	313	7	306
Total—Coast Guard	333	(* *)	332	3,581	6	3,575	3,525	7	3,518
Maritime Administration	86	23	63	1,475	738	737	1,057	601	456
Other	−1	4	−5	332	15	316	283	14	270
Proprietary receipts from the public	......	1	−1	......	13	−13	......	29	−29
Intrabudgetary transactions	−2	......	−2	−6	......	−6	......	......	......
Offsetting governmental receipts	......	23	−23	......	125	−125	......	136	−136
Total—Department of Transportation	**3,614**	**52**	**3,562**	**35,371**	**914**	**34,457**	**33,318**	**808**	**32,510**
Department of the Treasury:									
Departmental offices:									
Exchange stabilization fund	−128	1	−129	−1,367	12	−1,379	−2,331	15	−2,345
Other	44	......	44	292	......	292	258	......	258
Financial Management Service:									
Salaries and expenses	20	......	20	220	......	220	225	......	225
Payment to the Resolution Funding Corporation	......	......	......	2,328	......	2,328	2,328	......	2,328
Claims, judgements, and relief acts	43	......	43	519	......	519	792	......	792
Other	504	......	504	660	......	660	250	......	250
Total—Financial Management Service	568	......	568	3,728	......	3,728	3,594	......	3,594
Federal Financing Bank	−110	......	−110	(* *)	......	(* *)	2	......	2
Bureau of Alcohol, Tobacco and Firearms:									
Salaries and expenses	41	......	41	376	......	376	336	......	336
Internal revenue collections for Puerto Rico	13	......	13	197	......	197	271	......	271
United States Customs Service	182	......	182	1,774	......	1,774	1,938	......	1,938
Bureau of Engraving and Printing	−2	......	−2	−29	......	−29	−35	......	−35
United States Mint	212	......	212	10	......	10	108	......	108
Bureau of the Public Debt	45	......	45	305	......	305	254	......	254
Internal Revenue Service:									
Processing tax returns and assistance	125	......	125	1,674	......	1,674	1,654	......	1,654
Tax law enforcement	408	......	408	3,862	......	3,862	3,517	......	3,517
Information systems	146	......	146	1,226	......	1,226	1,065	......	1,065
Payment where earned income credit exceeds liability for tax	39	......	39	[4]8,781	......	8,781	7,262	......	7,262
Health insurance supplement to earned income credit	7	......	7	650	......	650	491	......	491
Refunding internal revenue collections, interest	381	......	381	2,127	......	2,127	3,253	......	3,253
Other	20	......	20	151	(* *)	151	166	6	160
Total—Internal Revenue Service	1,126	......	1,126	18,472	(* *)	18,472	17,409	6	17,403

Table 5. Outlays of the U.S. Government, September 1993 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of the Treasury:—Continued									
United States Secret Service	46	......	46	511	......	511	497	......	497
Comptroller of the Currency	43	6	37	369	398	−29	322	357	−35
Office of Thrift Supervison	17	3	14	208	197	11	236	253	−17
Interest on the public debt:									
Public issues (accrual basis)	16,787	......	16,787	205,880	......	205,880	210,887	......	210,887
Special issues (cash basis)	253	......	253	86,622	......	86,622	81,437	......	81,437
Total—Interest on the public debt	17,040	......	17,040	292,502	......	292,502	292,323	......	292,323
Other	5	......	5	57	......	57	52	......	52
Proprietary receipts from the public	......	956	−956	......	2,804	−2,804	......	2,273	−2,273
Intrabudgetary transactions	−2,016	......	−2,016	−14,550	......	−14,550	−18,694	......	−18,694
Offsetting governmental receipts	......	55	−55	......	733	−733	......	670	−670
Total—Department of the Treasury	**17,126**	**1,020**	**16,106**	**302,855**	**4,145**	**298,711**	**296,539**	**3,574**	**292,964**
Department of Veterans Affairs:									
Veterans Health Administration:									
Medical care	1,215	......	1,215	14,296	......	14,296	13,567	......	13,567
Other	62	20	42	694	258	437	759	250	509
Veterans Benefits Administration:									
Public enterprise funds:									
Guaranty and indemnity fund	202	43	159	1,480	426	1,054	968	306	662
Loan guaranty revolving fund	53	41	12	843	545	298	1,257	1,009	248
Other	44	40	3	[5]487	459	28	413	444	−31
Compensation and pensions	1,421	......	1,421	17,012	......	17,012	16,412	......	16,412
Readjustment benefits	52	......	52	854	......	854	746	......	746
Post-Vietnam era veterans education account	6	......	6	103	......	103	126	......	126
Insurance funds:									
National service life	100	......	100	1,127	......	1,127	1,329	......	1,329
United States government life	2	......	2	20	......	20	26	......	26
Veterans special life	11	3	8	127	183	−56	133	182	−49
Other	8	......	8	15	......	15	22	......	22
Total—Veterans Benefits Administration	1,898	128	1,771	22,068	1,613	20,456	21,432	1,941	19,491
Construction	47	(* *)	47	622	(* *)	621	639	(* *)	639
Departmental administration	15	......	15	901	......	901	914	......	914
Proprietary receipts from the public:									
National service life	......	32	−32	......	393	−393	......	421	−421
United States government life	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)	(* *)
Other	......	62	−62	......	[5]803	−803	......	748	−748
Intrabudgetary transactions	(* *)	......	(* *)	−28	......	−28	−54	......	−54
Total—Department of Veterans Affairs	**3,238**	**241**	**2,997**	**38,553**	**3,066**	**35,487**	**37,257**	**3,360**	**33,897**
Environmental Protection Agency:									
Program and research operations	66	......	66	875	......	875	1,065	......	1,065
Abatement, control, and compliance	69	......	69	1,271	......	1,271	965	7	958
Water infrastructure financing	270	......	270	2,130	......	2,130	2,421	......	2,421
Hazardous substance superfund	159	......	159	1,418	......	1,418	1,303	......	1,303
Other	62	(* *)	62	690	18	672	620	17	603
Proprietary receipts from the public	......	25	−25	......	182	−182	......	184	−184
Intrabudgetary transactions	......	......	......	−250	......	−250	−234	......	−234
Offsetting governmental receipts	......	(* *)	(* *)	......	9	−9	......	......	......
Total—Environmental Protection Agency	**626**	**26**	**600**	**6,134**	**209**	**5,925**	**6,139**	**208**	**5,932**
General Services Administration:									
Real property activities	211	......	211	573	......	573	314	......	314
Personal property activities	−51	......	−51	33	......	33	40	......	40
Information Resources Management Service	59	......	59	57	......	57	51	......	51
Federal property resources activities	3	......	3	22	......	22	18	......	18
General activities	24	......	24	69	......	69	74	......	74
Proprietary receipts from the public	......	2	−2	......	11	−11	......	27	−27
Total—General Services Administration	**245**	**2**	**243**	**754**	**11**	**743**	**497**	**27**	**469**

Table 5. Outlays of the U.S. Government, September 1993 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
National Aeronautics and Space Administration:									
Research and development	559	......	559	7,086	......	7,086	6,579	......	6,579
Space flight, control, and data communications	458	......	458	5,025	......	5,025	5,118	......	5,118
Construction of facilities	76	......	76	557	......	557	463	......	463
Research and program management	136	......	136	1,622	......	1,622	1,788	......	1,788
Other	1	......	1	16	......	16	14	......	14
Total—National Aeronautics and Space Administration	**1,230**	......	**1,230**	**14,305**	......	**14,305**	**13,961**	......	**13,961**
Office of Personnel Management:									
Government payment for annuitants, employees health and life insurance benefits	371	......	371	3,777	......	3,777	3,344	......	3,344
Payment to civil service retirement and disability fund	19,793	......	19,793	19,793	......	19,793	19,101	......	19,101
Civil service retirement and disability fund	2,940	......	2,940	34,906	......	34,906	33,668	......	33,668
Employees health benefits fund	1,214	1,456	−242	14,624	15,510	−886	13,874	14,262	−389
Employees life insurance fund	110	125	−15	1,315	2,402	−1,087	1,220	2,352	−1,132
Retired employees health benefits fund	1	1	(* *)	8	8	(* *)	8	8	(* *)
Other	26	......	26	127	......	127	158	......	158
Intrabudgetary transactions:									
Civil service retirement and disability fund:									
General fund contributions	−19,793	......	−19,793	−19,793	......	−19,793	−19,101	......	−19,101
Other	−4	......	−4	−43	......	−43	−54	......	−54
Total—Office of Personnel Management	**4,659**	**1,582**	**3,077**	**54,714**	**17,920**	**36,794**	**52,218**	**16,623**	**35,596**
Small Business Administration:									
Public enterprise funds:									
Business loan fund	249	58	191	1,350	726	624	1,163	800	363
Disaster loan fund	186	38	148	[6]552	486	66	[6]403	515	−111
Other	1	2	(* *)	41	15	26	87	17	70
Other	−228	(* *)	−228	221	(* *)	221	225	(* *)	224
Total—Small Business Administration	**208**	**98**	**110**	**2,164**	**1,227**	**937**	**1,878**	**1,333**	**546**
Other independent agencies:									
Action	20	......	20	208	......	208	194	......	194
Board for International Broadcasting	31	......	31	246	......	246	210	......	210
Corporation for Public Broadcasting	......	......	......	319	......	319	327	......	327
District of Columbia:									
Federal payment	......	......	......	698	......	698	691	......	691
Other	−2	......	−2	1	160	−159	1	325	−324
Equal Employment Opportunity Commission	19	(* *)	19	218	1	218	209	......	209
Export-Import Bank of the United States	104	97	7	1,375	2,121	−747	1,996	2,115	−119
Federal Communications Commission	14	3	11	133	39	94	128	51	78
Federal Deposit Insurance Corporation:									
Bank insurance fund	152	516	−364	7,421	17,255	−9,834	19,254	15,588	3,666
Savings association insurance fund	4	5	−1	52	995	−943	12	304	−292
FSLIC resolution fund	96	117	−22	6,041	3,679	2,362	11,073	2,605	8,469
Affordable housing and bank enterprise	1	......	1	3	......	3	......	......	......
Federal Emergency Management Agency:									
Public enterprise funds	73	27	46	735	330	405	307	374	−67
Disaster relief	224	......	224	2,276	......	2,276	902	......	902
Emergency management planning and assistance	31	......	31	268	......	268	287	......	287
Other	24	......	24	303	......	303	283	......	283
Federal Trade Commission	−13	......	−13	64	......	64	71	......	71
Interstate Commerce Commission	3	......	3	41	......	41	40	......	40
Legal Services Corporation	41	......	41	389	......	389	329	......	329
National Archives and Records Administration	49	(* *)	49	269	(* *)	269	226	(* *)	225
National Credit Union Administration:									
Credit union share insurance fund	−13	9	−22	6	373	−367	280	513	−233
Central liquidity facility	5	5	......	89	89	(* *)	312	425	−114
Other	9	(* *)	9	42	46	−5	4	2	2

Table 5. Outlays of the U.S. Government, September 1993 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Other independent agencies:—Continued									
National Endowment for the Arts	17	......	17	174	......	174	170	......	170
National Endowment for the Humanities	17	......	17	169	......	169	162	......	162
National Labor Relations Board	17	......	17	171	......	171	155	......	155
National Science Foundation	246	......	246	2,452	......	2,452	2,249	......	2,249
Nuclear Regulatory Commission	40	115	-75	488	507	-19	539	489	50
Panama Canal Commission	41	45	-4	519	542	-23	512	509	3
Postal Service:									
Public enterprise funds (off-budget)	7,038	3,868	3,171	48,957	48,091	866	48,728	48,069	659
Payment to the Postal Service fund	......	......	......	161	......	161	511	......	511
Railroad Retirement Board:									
Federal windfall subsidy	23	......	23	289	......	289	305	......	305
Federal payments to the railroad retirement accounts	(* *)	......	(* *)	58	......	58	247	......	247
Regional rail transportation protective account	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Rail industry pension fund:									
Advances from FOASDI fund	-90	......	-90	-1,069	......	-1,069	-1,041	......	-1,041
OASDI certifications	90	......	90	1,069	......	1,069	1,041	......	1,041
Administrative expenses	5	......	5	71	......	71	70	......	70
Interest on refunds of taxes	(* *)	......	(* *)	5	......	5	2	......	2
Supplemental annuity pension fund	247	......	247	2,901	......	2,901	2,829	......	2,829
Other	1	......	1	10	......	10	9	......	9
Intrabudgetary transactions:									
Social Security equivalent benefit account	399	......	399	4,691	......	4,691	4,571	......	4,571
Payments from other funds to the railroad retirement trust funds	......	......	......	-3,435	......	-3,435	-3,206	......	-3,206
Other	......	......	......	193	......	193	15	......	15
Total—Railroad Retirement Board	676	......	676	4,782	......	4,782	4,843	......	4,843
Resolution Trust Corporation	1,270	1,288	-18	12,599	31,752	-19,153	41,750	50,684	-8,934
Securities and Exchange Commission	-19	......	-19	99	......	99	117	......	117
Smithsonian Institution	44	......	44	395	......	395	378	......	378
Tennessee Valley Authority	650	986	-336	8,371	6,742	1,629	5,579	4,110	1,469
United States Information Agency	114	(* *)	114	1,088	(* *)	1,088	1,052	2	1,050
Other	415	586	-170	1,613	1,142	472	1,085	153	932
Total—Other independent agencies	**11,437**	**7,666**	**3,772**	**103,234**	**113,865**	**-10,631**	**144,967**	**126,319**	**18,648**
Undistributed offsetting receipts:									
Other interest	......	......	......	......	(* *)	(* *)	......	(* *)	(* *)
Employer share, employee retirement:									
Legislative Branch:									
United States Tax Court:									
Tax court judges survivors annuity fund	......	......	......	(* *)	......	(* *)	(* *)	......	(* *)
Department of Defense—Civil:									
Military retirement fund	-1,125	......	-1,125	-13,179	......	-13,179	-16,314	......	-16,314
Department of Health and Human Services, except Social Security:									
Federal hospital insurance trust fund:									
Federal employer contributions	-205	......	-205	-1,914	......	-1,914	-1,800	......	-1,800
Postal Service employer contributions	......	......	......	-380	......	-380	-438	......	-438
Payments for military service credits	......	......	......	-81	......	-81	-86	......	-86
Department of Health and Human Services, Social Security (off-budget):									
Federal old-age and survivors insurance trust fund:									
Federal employer contributions	-494	......	-494	-5,489	......	-5,489	-5,181	......	-5,181
Payments for military service credits	......	......	......	-307	......	-307	-327	......	-327
Federal disability insurance trust fund:									
Federal employer contributions	-53	......	-53	-587	......	-587	-558	......	-558
Payments for military service credits	......	......	......	-33	......	-33	-35	......	-35
Department of State:									
Foreign Service retirement and disability fund	-13	......	-13	-111	......	-111	-95	......	-95
Office of Personnel Management:									
Civil service retirement and disability fund	-3,701	......	-3,701	-12,520	......	-12,520	-11,947	......	-11,947
Independent agencies:									
Court of veterans appeals retirement fund	......	......	......	(* *)	......	(* *)	(* *)	......	(* *)
Total—Employer share, employee retirement	-5,591	......	-5,591	-34,601	......	-34,601	-36,782	......	-36,782

Table 5. Outlays of the U.S. Government, September 1993 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Undistributed offsetting receipts:—Continued									
Interest received by trust funds:									
The Judiciary:									
Judicial survivors annuity fund	......	......	......	18	......	-18	-17	......	-17
Department of Defense—Civil:									
Corps of Engineers	-1	......	-1	-23	......	-23	-30	......	-30
Military retirement fund	58	......	58	-9,831	......	-9,831	-9,017	......	-9,017
Education benefits fund	(* *)	......	(* *)	-57	......	-57	-64	......	-64
Soldiers' and airmen's home permanent fund	-1	......	-1	-22	......	-22	-6	......	-6
Other	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Department of Health and Human Services, except Social Security:									
Federal hospital insurance trust fund	-12	......	-12	-10,581	......	-10,581	-10,054	......	-10,054
Federal supplementary medical insurance trust fund	-11	......	-11	-1,888	......	-1,888	-1,716	......	-1,716
Department of Health and Human Services, Social Security (off-budget):									
Federal old-age and survivors insurance trust fund	-41	......	-41	-25,822	......	-25,822	-22,557	......	-22,557
Federal disability insurance trust fund	-7	......	-7	-966	......	-966	-1,080	......	-1,080
Department of Labor:									
Unemployment trust fund	-11	......	-11	-2,546	......	-2,546	-3,649	......	-3,649
Department of State:									
Foreign Service retirement and disability fund	(* *)	......	(* *)	-546	......	-546	-514	......	-514
Department of Transportation:									
Highway trust fund	-13	......	-13	-1,560	......	-1,560	-1,655	......	-1,655
Airport and airway trust fund	-7	......	-7	-1,040	......	-1,040	-1,273	......	-1,273
Oil spill liability trust fund	(* *)	......	(* *)	-40	......	-40	-41	......	-41
Department of Veterans Affairs:									
National service life insurance fund	-1	......	-1	-1,085	......	-1,085	-1,071	......	-1,071
United States government life Insurance Fund	(* *)	......	(* *)	-11	......	-11	-12	......	-12
Environmental Protection Agency	(* *)	......	(* *)	-24	......	-24	-33	......	-33
National Aeronautics and Space Administration	(* *)	......	(* *)	-1	......	-1	-1	......	-1
Office of Personnel Management:									
Civil service retirement and disability fund	-28	......	-28	-25,155	......	-25,155	-23,721	......	-23,721
Independent agencies:									
Railroad Retirement Board	-39	......	-39	-889	......	-889	-1,054	......	-1,054
Other	-4	......	-4	-17	......	-17	-5	......	-5
Other	-3	......	-3	-154	......	-154	-260	......	-260
Total—Interest received by trust funds	-122	......	-122	-82,276	......	-82,276	-77,831	......	-77,831
Rents and royalties on the outer continental shelf lands	......	233	-233	......	2,785	-2,785	......	2,498	-2,498
Total—Undistributed offsetting receipts	**-5,712**	**233**	**-5,945**	**-116,877**	**2,785**	**-119,662**	**-114,612**	**2,498**	**-117,111**
Total outlays	**136,319**	**17,151**	**119,168**	**1,623,506**	**215,384**	**1,408,122**	**1,607,719**	**226,925**	**1,380,794**
Total on-budget	**104,316**	**13,277**	**91,038**	**1,309,397**	**167,287**	**1,142,110**	**1,307,310**	**178,855**	**1,128,455**
Total off-budget	**32,004**	**3,874**	**28,130**	**314,110**	**48,097**	**266,012**	**300,409**	**48,070**	**252,339**
Total surplus (+) or deficit			**+8,300**			**-254,948**			**-290,340**
Total on-budget			**+7,570**			**-300,869**			**-340,428**
Total off-budget			**+730**			**+45,922**			**+50,087**

MEMORANDUM

Receipts offset against outlays [$ millions]

	Current Fiscal Year to Date	Comparable Period Prior Fiscal Year
Proprietary receipts	44,560	40,844
Receipts from off-budget federal entities	......	......
Intrabudgetary transactions	233,920	217,045
Governmental receipts	1,953	6,707
Total receipts offset against outlays	280,432	264,596

[1]The special fund receipts for the Uranium Supply and Enrichment Activities, Departmental Admininistration, and the Federal Energy Regulatory Commission have been decreased by $1,313 million, $101 million, and $141 million respectively in FY 1992 and by $849 million, $262 million, and $159 million, respectively in FY 1993. The corresponding program outlays were reduced to reflect a reduction in funds appropriated to these accounts.

[2]Includes FICA and SECA tax credits, non-contributory military service credits, special benefits for the aged, and credit for unnegotiated OASI benefit checks.

[3]Includes a decrease in net outlays of $20 million for amortization.

[4]Includes a decrease of $548 million to reflect adjustments made by the Internal Revenue Service to the earned income credit.

[5]Outlays for the Medical Care Cost Recovery Fund (MCCR) have been decreased and the proprietary receipts have been correspondingly decreased in December 1992 to accurately reflect an annual transfer of excess receipts to the general fund of the Treasury previously recorded as outlays from the MCCR Fund instead of a reduction in unavailable receipts of the MCCR Fund.

[6]The outlays and the guaranteed loan financing for the Small Business Administration have been increased by $152 million in September 1992 and August 1993, respectively; and the outlays and guaranteed loan financing have been correspondingly decreased in August 1993 and September 1992, respectively; to correct agency reporting.

... No Transactions.

(* *) Less than $500,000.

Note: Details may not add to totals due to rounding.

Table 6. Means of Financing the Deficit or Disposition of Surplus by the U.S. Government, September 1993 and Other Periods

[$ millions]

Assets and Liabilities Directly Related to Budget Off-budget Activity	Net Transactions (−) denotes net reduction of either liability or asset accounts			Account Balances Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Liability accounts:						
Borrowing from the public:						
Public debt securities, issued under general Financing authorities:						
Obligations of the United States, issued by:						
United States Treasury	8,242	346,868	399,317	4,049,621	4,388,247	4,396,489
Federal Financing Bank	......	......	......	15,000	15,000	15,000
Total, public debt securities	8,242	346,868	399,317	4,064,621	4,403,247	4,411,489
Plus premium on public debt securities	−7	340	209	1,032	1,380	1,373
Less discount on public debt securities	15	4,580	−3,832	81,818	86,382	86,397
Total public debt securities net of Premium and discount	8,219	342,629	403,358	3,983,837	4,318,247	4,326,466
Agency securities, issued under special financing authorities (see Schedule B. for other Agency borrowing, see Schedule C)	218	6,652	280	18,030	24,464	24,682
Total federal securities	8,437	349,281	403,638	4,001,867	4,342,711	4,351,149
Deduct:						
Federal securities held as investments of government accounts (see Schedule D)	17,769	100,260	97,431	1,016,453	1,098,944	1,116,713
Less discount on federal securities held as investments of government accounts	−14	−402	4,491	13,178	12,789	12,776
Net federal securities held as investments of government accounts	17,783	100,663	92,940	1,003,275	1,086,155	1,103,938
Total borrowing from the public	−9,346	248,619	310,698	2,998,592	3,256,556	3,247,211
Accrued interest payable to the public	8,963	−394	2,186	44,212	34,856	43,819
Allocations of special drawing rights	53	−267	514	7,216	6,896	6,950
Deposit funds	58	−422	−1,732	6,422	5,942	6,000
Miscellaneous liability accounts (includes checks Outstanding etc.)	1,575	785	−1,494	2,143	1,352	2,928
Total liability accounts	**1,304**	**248,321**	**310,172**	**3,058,585**	**3,305,603**	**3,306,907**
Asset accounts (deduct)						
Cash and monetary assets:						
U.S. Treasury operating cash:[1]						
Federal Reserve account	9,314	−7,297	16,658	24,586	7,975	17,289
Tax and loan note accounts	2,399	1,014	646	34,203	32,818	35,217
Balance	11,713	−6,283	17,305	58,789	40,793	52,506
Special drawing rights:						
Total holdings	70	−2,908	1,389	12,111	9,133	9,203
SDR certificates issued to Federal Reserve banks	......	2,000	......	−10,018	−8,018	−8,018
Balance	70	−908	1,389	2,093	1,115	1,185
Reserve position on the U.S. quota in the IMF:						
U.S. subscription to International Monetary Fund:						
Direct quota payments	......	12,063	......	19,699	31,762	31,762
Maintenance of value adjustments	287	−828	1,879	6,692	5,577	5,864
Letter of credit issued to IMF	−108	−10,133	−336	−15,381	−25,406	−25,514
Dollar deposits with the IMF	2	−25	−13	−73	−100	−98
Receivable/Payable (−) for interim maintenance of value adjustments	−194	1,257	−858	−1,167	284	90
Balance	−13	2,333	672	9,770	12,116	12,103
Loans to International Monetary Fund	......	......	......	(* *)	(* *)	(* *)
Other cash and monetary assets	−2,281	−1,428	18,654	23,842	24,694	22,414
Total cash and monetary assets	9,490	−6,286	38,019	94,494	78,718	88,208
Net activity, guaranteed loan financing	−855	[2]-4,728	[2]-1,743	−1,743	−5,616	−6,471
Net activity, direct loan financing	769	3,780	3,052	3,052	6,063	6,832
Miscellaneous asset accounts	237	957	−19,234	−1,585	−864	−627
Total asset accounts	**9,641**	**−6,276**	**20,094**	**94,218**	**78,301**	**87,942**
Excess of liabilities (+) or assets (−)	**−8,337**	**+254,597**	**+290,078**	**+2,964,368**	**+3,227,302**	**+3,218,965**
Transactions not applied to current year's surplus or deficit (see Schedule a for Details)	37	351	263	......	314	351
Total budget and off-budget federal entities (financing of deficit (+) or disposition of surplus (−))	**−8,300**	**+254,948**	**+290,340**	**+2,964,368**	**+3,227,616**	**+3,219,315**

[1]Major sources of information used to determine Treasury's operating cash income include the Daily Balance Wires from Federal Reserve Banks, reporting from the Bureau of Public Debt, electronic transfers through the Treasury Financial Communication System and reconciling wires from Internal Revenue Centers. Operating cash is presented on a modified cash basis; deposits are reflected as received and withdrawals are reflected as processed.

[2]The outlays and the guaranteed loan financing for the Small Business Administration have been increased by $152 million in September 1992 and August 1993, respectively; and the outlays and guaranteed loan financing have been correspondingly decreased in August 1993 and September 1992, respectively; to correct agency reporting.

... No Transactions.

(* *) Less than $500,000

Note: Details may not add to totals due to rounding

Table 6. Schedule A—Analysis of Change in Excess of Liabilities of the U.S. Government, September 1993 and Other Periods

[$ millions]

Classification	This Month	Fiscal Year to Date	
		This Year	Prior Year
Excess of liabilities beginning of period:			
Based on composition of unified budget in preceding period	3,227,266	2,964,066	2,673,445
Adjustments during current fiscal year for changes in composition of unified budget:			
Reclassification of the Disaster Assistance Liquidating Account, FEMA, to a budgetary status	......	(* *)	......
Revisions by federal agencies to the prior budget results	36	128	716
Reclassification of Thrift Savings Plan Clearing Accounts to a non-budgetary status	......	(* *)	......
Reclassification of Deposit in Transit Differences (Suspense) Clearing Accounts to a budgetary status	......	174	129
Excess of liabilities beginning of period (current basis)	3,227,302	2,964,368	2,674,290
Budget surplus (−) or deficit:			
Based on composition of unified budget in prior fiscal yr	−8,300	254,948	290,340
Changes in composition of unified budget	......	......	......
Total surplus (−) or deficit (Table 2)	−8,300	254,948	290,340
Total-on-budget (Table 2)	−7,570	300,869	340,428
Total-off-budget (Table 2)	−730	−45,922	−50,087
Transactions not applied to current year's surplus or deficit:			
Seigniorage	−37	−351	−263
Profit on sale of gold	(* *)	(* *)	(* *)
Total-transactions not applied to current year's Surplus or deficit	−37	−351	−263
Excess of liabilities close of period	**3,218,965**	**3,218,965**	**2,964,368**

Table 6. Schedule B—Securities isued by Federal Agencies Under Special Financing Authorities, September 1993 and Other Periods

[$ millions]

Classification	Net Transactions (−) denotes net reduction of either Liability accounts			Account Balances Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Agency securities, issued under special financing authorities:						
Obligations of the United States, issued by:						
Export-Import Bank of the United States	......	......	......	(* *)	(* *)	(* *)
Federal Deposit Insurance Corporation:						
Bank insurance fund	......	......	−2	93	93	93
FSLIC resolution fund	−888	−194	−4,987	1,137	1,830	943
Obligations guaranteed by the United States, issued by:						
Department of Defense:						
Family housing mortgages	(* *)	(* *)	(* *)	7	7	7
Department of Housing and Urban Development:						
Federal Housing Administration	59	−88	−35	301	154	213
Department of the Interior:						
Bureau of Land Management	......	......	......	13	13	13
Department of Transportation:						
Coast Guard:						
Family housing mortgages	......	......	......	(* *)	(* *)	(* *)
Obligations not guaranteed by the United States, issued by:						
Legislative Branch:						
Architect of the Capitol	1	14	13	162	175	176
Department of Defense:						
Homeowners assistance mortgages	......	−1	−1	1	......	......
Independent agencies:						
National Archives and Records Administration	......	......	......	302	302	302
Postal Service	......	......	−220	......	......	......
Farm Credit System Financial Assistance Corporation	1,261	1,261	......	......	......	1,261
Tennessee Valley Authority	−215	5,660	5,512	16,015	21,890	21,675
Total, agency securities	**218**	**6,652**	**280**	**18,030**	**24,464**	**24,682**

... No Transactions.
(* *) Less than $500,000.
Note: Details may not add to totals due to rounding.

Table 6. Schedule C (Memorandum)—Federal Agency Borrowing Financed Through the Issue of Public Debt Securities, September 1993 and Other Periods

[$ millions]

Classification	Transactions			Account Balances Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Borrowing from the Treasury:						
Funds Appropriated to the President:						
International Security Assistance:						
Guaranty reserve fund	−28	348	......	......	376	348
Agency for International Development:						
Housing and other credit guaranty programs	......	......	−5	125	125	125
Overseas Private Investment Corporation	4	8	(* *)	(* *)	4	8
Department of Agriculture:						
Foreign assistance programs	23	123	70	70	171	193
Commodity Credit Corporation	2,315	7,464	−4,512	17,282	22,431	24,745
Farmers Home Administration:						
Agriculture credit insurance fund	−79	245	−6,464	5,526	5,850	5,771
Self-help housing land development fund	......	1	......	......	1	1
Rural housing insurance fund	131	921	−1,821	1,989	2,779	2,910
Rural Development Administration:						
Rural development insurance fund	25	135	−491	1,545	1,655	1,680
Rural development loan fund	1	5	(* *)	(* *)	4	5
Federal Crop Insurance Corporation:						
Federal crop insurance corporation fund	......	......	......	113	113	113
Rural Electrification Administration:						
Rural communication development fund	......	......	......	25	25	25
Rural electrification and telephone revolving fund	......	194	40	7,905	8,099	8,099
Rural Telephone Bank	......	40	4	763	802	802
Department of Commerce:						
Federal ship financing fund, NOAA	......	−2	−4	2	......	......
Department of Education:						
Guaranteed student loans	......	−32	2,090	2,090	2,058	2,058
College housing and academic facilities fund	−1	−1	19	156	156	154
College housing loans	−63	−63	−70	524	524	460
Department of Energy:						
Isotope production and distribution fund	......	4	9	9	13	13
Bonneville power administration fund	−44	426	234	1,906	2,376	2,332
Department of Housing and Urban Development:						
Housing programs:						
Federal Housing Administration	......	......	−7,323	......	......	......
Housing for the ederly and handicapped	......	185	1,316	8,774	8,959	8,959
Public and Indian housing:						
Low-rent public housing	10	60	50	50	100	110
Department of the Interior:						
Bureau of Reclamation Loans	1	3	2	2	4	5
Bureau of Mines, Helium Fund	......	......	......	252	252	252
Bureau of Indian Affairs:						
Revolving funds for loans	2	9	8	8	15	17
Department of Justice:						
Federal prison industries, incorporated	......	......	......	20	20	20
Department of State:						
Repatriation loans	(* *)	−1	1	1	(* *)	......
Department of Transportation:						
Federal Railroad Administration:						
Railroad rehabilitation and improvement financing funds	......	8	......	......	8	8
Settlements of railroad litigation	......	......	......	−39	−39	−39
Amtrak corridor improvement loans	......	1	2	2	2	2
Regional rail reorganization program	......	......	......	39	39	39
Federal Aviation Administration:						
Aircraft purchase loan guarantee program	(* *)	(* *)	−1	(* *)	(* *)	(* *)
Department of the Treasury:						
Federal Financing Bank revolving fund	713	−35,093	−29,812	149,422	113,616	114,329
Department of Veterans Affairs:						
Loan guaranty revolving fund	......	−61	921	921	860	860
Guaranty and indemnity fund	......	43	40	40	83	83
Direct loan revolving fund	......	−1,730	(* *)	1,730	1	1
Vocational rehabilitation revolving fund	......	1	1	1	2	2
Environmental Protection Agency:						
Abatement, control, and compliance loan program	3	11	1	1	9	12
Small Business Administration:						
Business loan and revolving fund	2,987	3,192	11	11	216	3,203

Table 6. Schedule C (Memorandum)—Federal Agency Borrowing Financed Through the Issue of Public Debt Securities, September 1993 and Other Periods—Continued

[$ millions]

Classification	Transactions			Account Balances Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Borrowing for the Treasury:—Continued						
Other independent agencies:						
Export-import of the United States	91	298	88	88	295	386
Federal Emergency Management Agency:						
National insurance development fund	12	24	−134	18	30	42
Pennsylvania Avenue Development Corporation:						
Land aquisition and development fund	......	3	7	73	76	76
Railroad Retirement Board:						
Railroad retirement account	......	......	......	2,128	2,128	2,128
Social Security equivalent benefit account	231	20	138	2,670	2,458	2,690
Smithsonian Institution:						
John F. Kennedy Center parking facilities	......	......	......	20	20	20
Tennessee Valley Authority	......	......	......	150	150	150
Total agency borrowing from the Treasury financed through public debt securities issued	**6,334**	**−23,214**	**−45,586**	**206,410**	**176,863**	**183,196**
Borrowing from the Federal Financing Bank:						
Funds Appropriated to the President:						
Foreign military sales	−47	−261	−256	4,344	4,131	4,083
Department of Agriculture:						
Rural Electrification Administration	−243	−490	−519	22,742	22,496	22,252
Farmers Home Administration:						
Agriculture credit insurance fund	......	−3,950	−5,510	12,858	8,908	8,908
Rural housing insurance fund	......	−410	−2,205	26,446	26,036	26,036
Rural development insurance fund	......	......	......	3,675	3,675	3,675
Department of Defense:						
Department of the Navy	......	......	......	1,624	1,624	1,624
Defense agencies	......	−48	−48	−48	−96	−96
Department of Education:						
Student Loan Marketing Association	......	−30	−30	4,820	4,790	4,790
Department of Health and Human Services, Except Social Security:						
Medical facilities guarantee and loan fund	......	−39	−18	124	85	85
Department of Housing and Urban Development:						
Low rent housing loans and other expenses	......	−52	−50	1,853	1,801	1,801
Community Development Grants	−2	−43	−30	174	133	131
Department of Interior:						
Territorial and international affairs	......	−28	−2	51	23	23
Department of Transportation:						
Federal Railroad Administration	(* *)	−2	−2	19	17	17
Department of the Treasury:						
Financial Management Service	......	−95	125	125	30	30
General Services Administration:						
Federal buildings fund	17	737	72	699	1,419	1,436
National Aeronautics and Space Administration:						
Space flight, control and data communications	......	......	−33	......	......	......
Small Business Administration:						
Business loan and investment fund	−8	−112	−159	782	678	670
Independent agencies:						
Export-Import Bank of the United States	−458	−1,898	−3,569	7,692	6,252	5,795
Federal Deposit Insurance Corporation:						
Bank insurance fund	......	−10,160	1,864	10,160	......	......
National Credit Union Administration	......	......	−114	......	......	......
Pennsylvania Avenue Development Corporation	6	72	45	78	144	150
Postal Service	−450	−172	1,703	9,903	10,182	9,732
Resolution Trust Corporation	2,600	−14,848	−16,346	46,536	29,088	31,688
Tennessee Valley Authority	−1,161	−3,267	−4,730	9,592	7,486	6,325
Washington Metropolitan Transit Authority	......	......	......	177	177	177
Total borrowing from the Federal Financing Bank	**252**	**−35,095**	**−29,812**	**164,427**	**129,079**	**129,332**

Note: This table includes lending by the Federal Financing Bank accomplished by the purchase of agency financial assets, by the acquisition of agency debt securities, and by direct loans on behalf of an agency. The Federal Financing Bank borrows from Treasury and issues its own securities and in turn may loan these funds to agencies in lieu of agencies borrowing directly through Treasury or issuing their own securities.

... No Transactions.
(* *) Less than $500,000
Note: Details may not add to totals due to rounding.

Table 6. Schedule D—Investments of Federal Government Accounts in Federal Securities, September 1993 and Other Periods

[$ millions]

Classification	Net Purchases or Sales (−)			Securities Held as Investments Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Federal funds:						
Department of Agriculture	−3	−5	−2	5	3	......
Department of Commerce	......	2	−1	8	10	10
Department of Defense—Military:						
Defense cooperation account	......	−2,023	−5,575	2,032	9	9
Department of Energy	102	568	489	3,513	3,979	4,081
Department of Housing and Urban Development:						
Housing programs:						
Federal housing administration fund:						
Public debt securities	−267	−644	−790	5,858	5,481	5,214
Government National Mortgage Association:						
Management and liquidating functions fund:						
Public debt securities	(* *)	2	3	6	9	9
Agency securities	......	−40	−5	60	20	20
Guarantees of mortgage-backed securities:						
Public debt securities	19	522	371	2,699	3,202	3,221
Agency securities	......	−61	−11	62	1	1
Other	49	−54	27	245	142	191
Department of the Interior:						
Public debt securities	−245	175	1,146	2,333	2,753	2,508
Department of Labor	210	1,110	5,114	15,480	16,381	16,590
Department of Transportation	2	100	10	781	879	881
Department of the Treasury	−25	2,311	955	3,462	5,799	5,773
Department of Veterans Affairs:						
Canteen service revolving fund	−2	−5	−6	43	40	38
Guaranty and indemnity fund	......	......	−385	......	......	......
Veterans reopened insurance fund	−4	9	6	509	522	518
Servicemen's group life insurance fund	−4	−48	7	198	154	150
Independent agencies:						
Export-Import Bank of the United States	−365	−12	−2	88	441	76
Federal Deposit Insurance Corporation:						
Bank insurance fund	307	−339	−1,443	4,664	4,018	4,325
Savings association insurance fund	1	943	292	340	1,282	1,283
FSLIC resolution fund:						
Public debt securities	78	−517	379	1,319	724	801
Federal Emergency Management Agency:						
National flood insurance fund	......	−471	160	543	71	71
National Credit Union Administration	13	372	232	2,392	2,752	2,764
Postal Service	−3,340	−1,653	1,340	4,679	6,366	3,027
Tennessee Valley Authority	......	1,213	−640	2,239	3,452	3,452
Other	75	88	14	765	778	853
Other	6	306	24	2,410	2,710	2,715
Total public debt securities	−3,393	1,950	1,726	56,611	61,955	58,562
Total agency securities	......	−102	−16	123	21	21
Total Federal funds	**−3,393**	**1,849**	**1,710**	**56,734**	**61,976**	**58,583**
Trust funds:						
Legislative Branch:						
Library of Congress	−3	......	......	1	4	1
United States Tax Court	......	(* *)	(* *)	4	4	4
Other	(* *)	(* *)	1	27	26	27
The Judiciary:						
Judicial retirement funds	......	19	20	193	212	212
Department of Agriculture	−8	−1	(* *)	6	12	5
Department of Commerce	(* *)	(* *)	(* *)	(* *)	(* *)	......
Department of Defense—Military:						
Voluntary separation incentive fund	−20	844	......	......	865	844
Other	−1	−9	152	160	152	151
Department of Defense—Civil:						
Military retirement fund	−1,206	8,937	11,698	87,753	97,896	96,690
Other	−456	115	103	1,098	1,668	1,213

Table 6. Schedule D—Investments of Federal Government Accounts in Federal Securities, September 1993 and Other Periods—Continued

[$ millions]

Classification	Net Purchases or Sales (−)			Securities Held as Investments Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Trust Funds—Continued						
Department of Health and Human Services, except Social Security:						
Federal hospital insurance trust fund:						
Public debt securities	84	5,432	11,320	120,647	125,995	126,078
Federal supplementary medical insurance trust fund	542	4,734	2,293	18,534	22,726	23,268
Other	−3	39	120	621	662	659
Department of Health and Human Services, Social Security:						
Federal old-age and survivors insurance trust fund:						
Public debt securities	4,038	48,986	50,967	306,524	351,472	355,510
Federal disability insurance trust fund	−151	−2,681	−187	12,918	10,388	10,237
Department of the Interior:						
Public debt securities	−29	−152	95	336	214	184
Department of Justice	−111	......	......	......	111	......
Department of Labor:						
Unemployment trust fund	−1,352	1,473	−12,436	35,133	37,959	36,607
Other	−7	1	−1	52	60	53
Department of State:						
Foreign Service retirement and disability fund	254	662	578	5,999	6,408	6,662
Other	38	38	(* *)	(* *)	(* *)	38
Department of Transportation:						
Highway trust fund	−1,141	1,042	1,573	20,962	23,145	22,004
Airport and airway trust fund	−414	−2,419	−103	15,090	13,085	12,672
Other	3	276	169	1,399	1,672	1,675
Department of the Treasury	6	26	55	184	203	209
Department of Veterans Affairs:						
General post fund, national homes	......	5	2	34	39	39
National service life insurance:						
Public debt securities	−62	356	160	11,310	11,728	11,666
United States government life Insurance Fund	−2	−10	−14	134	127	125
Veterans special life insurance fund	−7	56	49	1,406	1,469	1,462
Environmental Protection Agency	23	1,021	557	4,456	5,454	5,477
National Aeronautics and Space Administration	(* *)	(* *)	(* *)	16	16	16
Office of Personnel Management:						
Civil service retirement and disability fund:						
Public debt securities	20,993	27,275	25,881	284,430	290,712	311,705
Employees health benefits fund	191	801	424	5,993	6,604	6,794
Employees life insurance fund	9	1,084	1,141	12,604	13,680	13,688
Retired employees health benefits fund	(* *)	(* *)	(* *)	1	1	1
Independent agencies:						
Harry S. Truman memorial scholarship trust fund	4	5	−4	47	48	52
Japan-United States Friendship Commission	(* *)	(* *)	(* *)	17	17	17
Railroad Retirement Board	−49	433	1,094	11,527	12,010	11,961
Other	(* *)	20	16	104	124	125
Total public debt securities	21,163	98,412	95,722	959,719	1,036,968	1,058,131
Total trust funds	**21,163**	**98,412**	**95,722**	**959,719**	**1,036,968**	**1,058,131**
Grand total	**17,769**	**100,260**	**97,431**	**1,016,453**	**1,098,944**	**1,116,713**

... No Transactions
(* *) Less than $500,000

Note: Investments are in public debt securities unless otherwise noted.
Note: Details may not add to totals due to rounding.

Table 7. Receipts and Outlays of the U.S. Government by Month, Fiscal Year 1993

[$ millions]

Classification	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Fiscal Year To Date	Comparable Period Prior F.Y.
Receipts:														
Individual income taxes	37,285	33,094	51,168	73,704	23,789	27,772	56,041	17,805	56,445	37,483	39,440	55,653	509,680	475,964
Corporation income taxes	2,096	1,478	22,950	3,212	792	12,724	17,795	2,376	24,949	2,695	1,943	24,510	117,520	100,270
Social insurance taxes and contributions:														
Employment taxes and contributions	28,135	30,264	31,252	28,209	31,623	32,980	45,164	33,062	37,738	30,156	31,447	36,908	396,939	385,491
Unemployment insurance	1,034	2,270	245	844	2,259	240	3,581	8,849	301	1,709	4,810	413	26,556	23,410
Other retirement contributions	426	366	421	363	369	432	431	365	366	419	400	447	4,805	4,788
Excise taxes	3,670	4,082	4,014	3,307	3,342	4,514	4,168	3,502	4,565	4,214	4,295	4,385	48,057	45,569
Estate and gift taxes	1,027	954	959	888	822	977	1,898	1,009	900	944	1,150	1,049	12,577	11,143
Customs duties	1,666	1,503	1,539	1,310	1,347	1,598	1,544	1,419	1,642	1,761	1,828	1,646	18,802	17,359
Miscellaneous receipts	1,485	613	1,135	876	1,633	2,045	1,399	2,252	1,662	1,252	1,429	2,456	18,239	26,459
Total—Receipts this year	**76,824**	**74,625**	**113,683**	**112,712**	**65,975**	**83,284**	**132,021**	**70,640**	**128,568**	**80,633**	**86,741**	**127,469**	**1,153,175**	......
(On-budget)	**55,048**	**51,211**	**89,586**	**90,124**	**40,875**	**57,090**	**96,312**	**44,518**	**98,661**	**57,147**	**62,060**	**98,609**	**841,241**	......
(Off-budget)	**21,776**	**23,414**	**24,096**	**22,589**	**25,100**	**26,194**	**35,709**	**26,122**	**29,906**	**23,486**	**24,681**	**28,860**	**311,934**	......
Total—Receipts prior year	*78,065*	*73,095*	*103,636*	*104,031*	*62,747*	*72,127*	*138,351*	*62,184*	*120,878*	*79,050*	*78,101*	*118,189*	......	*1,090,453*
(On budget)	*57,213*	*50,799*	*80,146*	*79,877*	*38,980*	*45,562*	*103,326*	*36,807*	*91,396*	*55,947*	*55,318*	*92,657*	......	*788,027*
(Off budget)	*20,852*	*22,296*	*23,490*	*24,155*	*23,766*	*26,564*	*35,025*	*25,377*	*29,482*	*23,103*	*22,784*	*25,532*	......	*302,426*
Outlays														
Legislative Branch	204	211	193	221	195	196	233	159	187	202	206	198	2,406	2,677
The Judiciary	135	162	183	222	157	172	314	289	195	259	284	206	2,579	2,308
Executive Office of the President	18	22	14	21	12	14	21	12	13	23	13	12	194	186
Funds Appropriated to the President:														
International Security Assistance	334	3,393	521	414	137	245	285	391	459	486	441	216	7,322	7,203
International Development Assistance	629	260	218	368	242	283	396	275	238	459	336	151	3,856	4,029
Other	270	−27	74	168	483	−27	−315	234	86	−285	−707	396	349	−119
Department of Agriculture:														
Foreign assistance, special export programs and Commodity Credit Corporation	1,653	2,277	3,344	1,263	1,022	4,019	1,977	1,264	327	−297	−115	191	16,924	10,709
Other	5,397	3,347	3,301	3,253	3,367	4,144	4,195	3,812	4,102	3,828	3,537	3,935	46,219	45,727
Department of Commerce	290	285	228	231	202	94	321	165	184	254	228	317	2,798	2,567
Department of Defense:														
Military:														
Military personnel	9,210	3,613	9,118	4,385	5,656	6,192	8,682	3,541	6,449	9,159	3,602	6,296	75,904	81,171
Operation and maintenance	6,526	7,265	8,140	6,986	7,154	7,657	8,888	7,369	10,310	7,386	7,395	9,027	94,105	92,042
Procurement	5,698	5,327	6,974	5,027	5,736	6,179	5,551	5,630	7,917	4,708	5,706	5,482	69,936	74,881
Research, development, test, and evaluation	3,002	2,752	3,337	2,636	2,930	3,418	2,958	2,755	4,493	2,648	2,952	3,077	36,958	34,632
Military construction	393	427	500	333	251	400	373	410	401	388	422	534	4,831	4,262
Family housing	219	218	264	263	275	284	296	263	299	291	271	312	3,255	3,271
Revolving and management funds	905	109	676	559	93	−298	−652	−47	−6,023	287	129	−483	−4,745	3,117
Defense cooperation account	−30	−3	−3	−2	(* *)	−2	(* *)	(* *)	(* *)	(* *)	(* *)	(* *)	−40	−5,240
Other	32	238	−59	−1,250	−91	562	−59	−220	−151	35	−125	−539	−1,628	−1,504
Total Military	25,954	19,947	28,947	18,938	22,003	24,392	26,036	19,703	23,695	24,902	20,352	23,707	278,576	286,632
Civil	2,493	2,506	2,509	2,438	2,459	2,432	2,471	2,200	2,434	2,356	2,490	2,473	29,262	28,270
Department of Education	2,334	2,675	2,664	2,903	2,714	3,167	2,268	1,839	2,328	1,474	3,190	2,858	30,414	26,047
Department of Energy	1,714	1,391	1,549	780	1,266	1,542	1,434	1,101	1,618	1,349	1,364	1,693	16,801	15,439
Department of Health and Human Services, except Social Security:														
Public Health Service	1,438	1,476	1,573	1,348	1,546	1,633	1,806	1,407	1,785	1,509	1,566	1,779	18,865	17,447
Health Care Financing Administration:														
Grants to States for Medicaid	6,215	5,592	6,320	5,981	6,003	6,272	6,651	6,098	6,706	6,220	6,648	7,069	75,774	67,827
Federal hospital ins. trust fund	7,299	6,555	8,117	6,171	7,423	8,539	8,321	7,102	8,559	8,249	7,476	7,792	91,604	81,971
Federal supp. med. ins. trust fund	4,851	3,773	4,985	3,680	3,811	4,745	4,808	3,960	5,120	5,150	4,745	4,626	54,254	50,285
Other	3,247	3,270	7,723	529	3,746	4,069	3,638	3,721	3,760	3,673	3,708	3,738	44,820	39,282
Social Security Administration	4,691	386	3,483	1,874	2,049	2,025	5,038	582	1,923	5,268	329	2,033	29,679	26,401
Administration for children and families	2,178	2,132	2,507	2,536	2,626	2,394	2,213	2,521	1,939	2,297	2,402	2,054	27,798	27,248
Other	−4,271	−4,269	−9,901	−796	−5,079	−5,428	−5,050	−5,009	−5,087	−4,966	−5,097	−5,070	−60,020	−53,169
Department of Health and Human Services, Social Security:														
Federal old-age and survivors ins. trust fund	21,530	21,508	43,838	267	22,230	22,406	22,430	22,381	25,731	22,538	22,485	22,616	269,960	256,290
Federal disability ins. trust fund	2,771	2,638	5,145	465	2,840	2,880	2,994	2,910	2,994	3,029	2,966	3,010	34,641	31,295
Other	−1,523	−5	−21	−1,515	−9	−16	−1,535	−12	−7	−1,528	−9	−71	−6,252	−6,167

Table 7. Receipts and Outlays of the U.S. Government by Month, Fiscal Year 1993—Continued

[$ millions]

Classification	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Fiscal Year To Date	Comparable Period Prior F.Y.
Outlays—Continued														
Department of Housing and Urban Development	2,591	2,053	2,232	1,786	1,764	1,982	2,290	1,716	2,231	2,138	2,233	2,169	25,185	24,470
Department of the Interior	698	500	447	517	477	518	590	469	535	566	507	904	6,728	6,555
Department of Justice	1,215	913	849	794	677	880	975	705	731	853	689	916	10,197	9,802
Department of Labor:														
Unemployment trust fund	3,041	3,119	3,459	3,584	3,519	4,001	3,381	3,127	3,261	3,164	3,303	2,910	39,869	41,294
Other	626	−288	410	521	277	212	747	457	596	664	432	215	4,869	5,870
Department of State	900	365	529	371	247	405	329	658	382	481	344	375	5,384	5,007
Department of Transportation:														
Highway trust fund	1,479	1,486	1,320	1,061	852	1,165	878	1,188	1,586	1,655	1,785	1,954	16,409	15,329
Other	1,449	1,485	1,640	1,297	1,303	1,670	1,770	1,271	1,505	1,534	1,515	1,608	18,048	17,181
Department of the Treasury:														
Interest on the public debt	17,978	22,506	51,678	18,062	16,813	18,007	17,970	23,576	51,977	17,920	18,975	17,040	292,502	292,323
Other	131	−909	534	573	3,994	2,066	1,290	248	−344	98	−538	−934	6,209	641
Department of Veterans Affairs:														
Compensation and pensions	2,623	79	2,694	80	1,422	1,441	2,800	100	1,462	2,741	147	1,421	17,012	16,412
National service life	37	27	51	65	55	91	69	70	63	74	65	68	735	908
United States government life	1	1	2	2	1	2	1	2	2	2	1	2	20	26
Other	1,400	1,610	1,377	1,470	1,751	1,929	1,437	610	1,333	1,457	1,842	1,505	17,720	16,551
Environmental Protection Agency	439	511	510	437	383	581	518	399	553	482	512	600	5,925	5,932
General Services Administration	165	−478	734	−662	383	468	−604	259	509	−551	277	243	743	469
National Aeronautics and Space Administration	1,098	1,317	1,266	1,092	1,008	1,344	1,249	1,080	1,154	1,247	1,222	1,230	14,305	13,961
Office of Personnel Management	3,090	2,586	2,986	3,330	2,886	3,180	3,294	2,761	3,348	3,121	3,136	3,077	36,794	35,596
Small Business Administration	113	95	44	−1	41	154	33	103	30	72	144	110	937	546
Independent agencies:														
Fed. Deposit Ins. Corp.:														
Bank insurance funds	97	232	−848	−514	−3,035	−397	−381	−96	−200	−981	−3,347	−364	−9,834	3,666
Savings association fund	(* *)	1	−3	−26	−389	−6	−6	−2	21	−6	−526	−1	−943	−292
FSLIC resolution fund	−87	339	30	−102	779	123	−12	129	129	−180	1,235	−22	2,362	8,469
Postal Service:														
Public enterprise funds (off-budget)	−452	327	349	−677	−10	−504	−1,138	−315	−757	826	45	3,171	866	659
Payment to the Postal Service fund	69	......	......	30	......	......	30	......	......	30	......	......	161	511
Resolution Trust Corporation	−2,578	−3,628	−1,392	−566	−622	−967	−2,698	−1,880	−1,986	−2,192	−625	−18	−19,153	−8,934
Tennessee Valley Authority	271	307	115	140	72	140	217	206	133	210	155	−336	1,629	1,469
Other independent agencies	2,326	1,195	1,345	1,125	1,416	1,711	1,292	1,443	−1,644	1,485	1,248	1,341	14,281	13,101
Undistributed offsetting receipts:														
Employer share, employee retirement	−2,498	−2,511	−2,522	−2,624	−2,564	−2,560	−2,737	−2,580	−2,558	−3,067	−2,788	−5,591	−34,601	−36,782
Interest received by trust funds	−443	−4,952	−34,461	9	−530	−143	−403	−5,206	−35,365	−55	−606	−122	−82,276	−77,831
Rents and royalties on outer continental shelf lands	−12	−442	−261	−36	−245	−427	−198	1	−506	−27	−399	−233	−2,785	−2,498
Other	(* *)	(* *)	......	(* *)	......	......	(* *)	(* *)	(* *)	(* *)	(* *)	......	(* *)	(* *)
Totals this year:														
Total outlays	**125,616**	**107,351**	**152,629**	**82,896**	**114,172**	**127,258**	**123,930**	**107,603**	**117,469**	**120,211**	**109,819**	**119,168**	**1,408,122**	......
(On-budget)	**103,775**	**83,432**	**116,568**	**84,921**	**89,716**	**103,021**	**101,757**	**83,208**	**103,475**	**96,246**	**84,952**	**91,038**	**1,142,110**	......
(Off-budget)	**21,841**	**23,919**	**36,061**	**−2,025**	**24,456**	**24,237**	**22,174**	**24,395**	**13,994**	**23,964**	**24,867**	**28,130**	**266,012**	......
Total-surplus (+) or deficit (−)	**−48,792**	**−32,726**	**−38,947**	**+29,817**	**−48,197**	**−43,974**	**+8,091**	**−36,963**	**+11,099**	**−39,577**	**−23,078**	**+8,300**	**−254,948**	......
(On-budget)	**−48,727**	**−32,221**	**−26,982**	**+5,202**	**−48,842**	**−45,931**	**−5,445**	**−38,690**	**−4,813**	**−39,099**	**−22,893**	**+7,570**	**−300,869**	......
(Off-budget)	**−65**	**−505**	**−11,965**	**+24,614**	**+644**	**+1,957**	**+13,535**	**+1,727**	**+15,912**	**−478**	**−186**	**+730**	**+45,922**	......
Total borrowing from the public	**−1,552**	**61,969**	**21,078**	**−8,355**	**30,689**	**37,727**	**5,464**	**30,832**	**24,757**	**1,055**	**54,301**	**−9,346**	**248,619**	**310,698**
Total-outlays prior year	*114,659*	*117,779*	*106,170*	*119,699*	*111,927*	*122,839*	*123,748*	*108,957*	*117,096*	*122,197*	*102,843*	*112,879*	......	*1,380,794*
(On-budget)	*94,669*	*95,486*	*95,472*	*97,139*	*88,704*	*99,894*	*102,713*	*86,270*	*102,288*	*99,906*	*79,052*	*86,864*	......	*1,128,455*
(Off-budget)	*19,990*	*22,294*	*10,699*	*22,561*	*23,222*	*22,945*	*21,035*	*22,687*	*14,808*	*22,291*	*23,792*	*26,015*	......	*252,339*
Total-surplus (+) or deficit (−) prior year	*−36,594*	*−44,684*	*−2,534*	*−15,668*	*−49,180*	*−50,712*	*+14,603*	*−46,773*	*+3,782*	*−43,147*	*−24,742*	*+5,310*	......	*−290,340*
(On-budget)	*−37,457*	*−44,687*	*−15,326*	*−17,262*	*−49,724*	*−54,332*	*+614*	*−49,463*	*−10,892*	*−43,959*	*−23,734*	*+5,794*	......	*−340,428*
(Off-budget)	*+862*	*+3*	*+12,792*	*+1,594*	*+544*	*+3,619*	*+13,989*	*+2,690*	*+14,674*	*+812*	*−1,008*	*−484*	......	*+50,087*

... No transactions.
(* *) Less than $500,000.
Note: Details may not add to totals due to rounding.

Table 8. Trust Fund Impact on Budget Results and Investment Holdings as of September 30, 1993

[$ millions]

Classification	This Month			Fiscal Year to Date			Securities held as Investments Current Fiscal Year		
	Receipts	Outlays	Excess	Receipts	Outlays	Excess	Beginning of This Year	Beginning of This Month	Close of This Month
Trust receipts, outlays, and investments held:									
Airport	417	734	−317	4,302	6,589	−2,288	15,090	13,085	12,672
Black lung disability	396	417	−20	979	978	2	......	......	......
Federal disability insurance	2,863	3,010	−147	32,065	34,641	−2,576	12,918	10,388	10,237
Federal employees life and health	......	−249	249	......	−1,639	1,639	18,598	20,284	20,484
Federal employees retirement	24,029	2,978	21,052	63,301	35,329	27,972	290,626	297,337	318,583
Federal hospital insurance	8,038	7,792	246	95,297	91,604	3,693	120,647	125,995	126,078
Federal old-age and survivors insurance	26,663	22,616	4,048	319,325	269,960	49,364	306,524	351,472	355,510
Federal supplementary medical insurance	5,007	4,626	381	60,799	54,254	6,545	18,534	22,726	23,268
Highways	1,790	2,086	−297	19,599	17,959	1,639	20,962	23,145	22,004
Military advances	779	1,247	−468	13,239	13,162	78	......	......	......
Railroad retirement	349	653	−303	8,001	7,677	325	11,527	12,010	11,961
Military retirement	1,066	2,148	−1,082	35,284	25,708	9,576	87,753	97,896	96,690
Unemployment	1,650	2,910	−1,260	42,235	39,869	2,365	35,133	37,959	36,607
Veterans life insurance	33	109	−77	1,490	1,092	399	12,850	13,324	13,253
All other trust	488	1,071	−583	6,856	4,026	2,830	8,556	11,347	10,784
Total trust fund receipts and outlays and investments held from Table 6-D	**73,568**	**52,147**	**21,421**	**702,771**	**601,209**	**101,562**	**959,719**	**1,036,968**	**1,058,131**
Less: Interfund transactions	30,943	30,943	......	218,824	218,824	......			
Trust fund receipts and outlays on the basis of Tables 4 & 5	42,625	21,204	21,421	483,947	382,385	101,562			
Total Federal fund receipts and outlays	**87,589**	**100,709**	**−13,120**	**700,545**	**1,057,055**	**−356,510**			
Less: Interfund transactions	388	388	......	1,030	1,030	......			
Federal fund receipts and outlays on the basis of Table 4 & 5	87,201	100,321	−13,120	699,515	1,056,025	−356,510			
Less: offsetting proprietary receipts	2,357	2,357	......	30,287	30,287	......			
Net budget receipts & outlays	**127,469**	**119,168**	**8,300**	**1,153,175**	**1,408,122**	**−254,948**			

... No transactions.

Note: Interfund receipts and outlays are transactions between Federal funds and trust funds such as Federal payments and contributions, and interest and profits on investments in Federal securities. They have no net effect on overall budget receipts and outlays since the receipts side of such transactions is offset against bugdet outlays. In this table, Interfund receipts are shown as an adjustment to arrive at total receipts and outlays of trust funds respectively.

Note: Details may not add to totals due to rounding.

Table 9. Summary of Receipts by Source, and Outlays by Function of the U.S. Government, September 1993 and Other Periods

[$ millions]

Classification	This Month	Fiscal Year To Date	Comparable Period Prior Fiscal Year
RECEIPTS			
Individual income taxes	55,653	509,680	475,964
Corporation income taxes	24,510	117,520	100,270
Social insurance taxes and contributions:			
Employment taxes and contributions	36,908	396,939	385,491
Unemployment insurance	413	26,556	23,410
Other retirement contributions	447	4,805	4,788
Excise taxes	4,385	48,057	45,569
Estate and gift taxes	1,049	12,577	11,143
Customs	1,646	18,802	17,359
Miscellaneous	2,456	18,239	26,459
Total	**127,469**	**1,153,175**	**1,090,453**
NET OUTLAYS			
National defense	24,903	290,590	298,350
International affairs	1,556	17,175	16,107
General science, space, and technology	1,388	17,055	16,409
Energy	−276	4,445	4,499
Natural resources and environment	1,907	20,088	20,025
Agriculture	205	20,257	15,205
Commerce and housing credit	3,003	−23,532	10,118
Transportation	3,760	35,238	33,333
Community and Regional Development	1,168	10,395	6,838
Education, training, employment and social services	4,326	48,872	45,250
Health	9,080	99,249	89,497
Medicare	11,074	130,552	119,024
Income security	15,696	207,933	196,891
Social Security	25,623	304,585	287,585
Veterans benefits and services	3,010	35,715	34,133
Administration of justice	1,415	14,983	14,426
General government	1,712	13,039	12,945
Interest	15,440	198,870	199,439
Undistributed offsetting receipts	−5,823	−37,386	−39,280
Total	**119,168**	**1,408,122**	**1,380,794**

Note: Details may not add to totals due to rounding.

Explanatory Notes

1. Flow of Data Into Monthly Treasury Statement

The Monthly Treasury Statement (MTS) is assembled from data in the central accounting system. The major sources of data include monthly accounting reports by Federal entities and disbursing officers, and daily reports from the Federal Reserve banks. These reports detail accounting transactions affecting receipts and outlays of the Federal Government and off-budget Federal entities, and their related effect on the assets and liabilities of the U.S. Government. Information is presented in the *MTS* on a modified cash basis.

2. Notes on Receipts

Receipts included in the report are classified into the following major categories: (1) budget receipts and (2) offsetting collections (also called applicable receipts). Budget receipts are collections from the public that result from the exercise of the Government's sovereign or governmental powers, excluding receipts offset against outlays. These collections, also called governmental receipts, consist mainly of tax receipts (including social insurance taxes), receipts from court fines, certain licenses, and deposits of earnings by the Federal Reserve System. Refunds of receipts are treated as deductions from gross receipts.

Offsetting collections are from other Government accounts or the public that are of a business-type or market-oriented nature. They are classified into two major categories: (1) offsetting collections credited to appropriations or fund accounts, and (2) offsetting receipts (i.e., amounts deposited in receipt accounts). Collections credited to appropriation or fund accounts normally can be used without appropriation action by Congress. These occur in two instances: (1) when authorized by law, amounts collected for materials or services are treated as reimbursements to appropriations and (2) in the three types of revolving funds (public enterprise, intragovernmental, and trust); collections are netted against spending, and outlays are reported as the net amount.

Offsetting receipts in receipt accounts cannot be used without being appropriated. They are subdivided into two categories: (1) proprietary receipts—these collections are from the public and they are offset against outlays by agency and by function, and (2) intragovernmental funds—these are payments into receipt accounts from Governmental appropriation or funds accounts. They finance operations within and between Government agencies and are credited with collections from other Government accounts. The transactions may be intrabudgetary when the payment and receipt both occur within the budget or from receipts from off-budget Federal entities in those cases where payment is made by a Federal entity whose budget authority and outlays are excluded from the budget totals.

Intrabudgetary transactions are subdivided into three categories: (1) interfund transactions, where the payments are from one fund group (either Federal funds or trust funds) to a receipt account in the other fund group; (2) Federal intrafund transactions, where the payments and receipts both occur within the Federal fund group; and (3) trust intrafund transactions, where the payments and receipts both occur within the trust fund group.

Offsetting receipts are generally deducted from budget authority and outlays by function, by subfunction, or by agency. There are four types of receipts, however, that are deducted from budget totals as undistributed offsetting receipts. They are: (1) agencies' payments (including payments by off-budget Federal entities) as employers into employees retirement funds, (2) interest received by trust funds, (3) rents and royalties on the Outer Continental Shelf lands, and (4) other interest (i.e., interest collected on Outer Continental Shelf money in deposit funds when such money is transferred into the budget).

3. Notes on Outlays

Outlays are generally accounted for on the basis of checks issued, electronic funds transferred, or cash payments made. Certain outlays do not require issuance of cash or checks. An example is charges made against appropriations for that part of employees' salaries withheld for taxes or savings bond allotments — these are counted as payments to the employee and credits for whatever purpose the money was withheld. Outlays are stated net of offsetting collections (including receipts of revolving and management funds) and of refunds. Interest on the public debt (public issues) is recognized on the accrual basis. Federal credit programs subject to the Federal Credit Reform Act of 1990 use the cash basis of accounting and are divided into two components. The portion of the credit activities that involve a cost to the Government (mainly subsidies) is included within the budget program accounts. The remaining portion of the credit activities are in non-budget financing accounts. Outlays of off-budget Federal entities are excluded by law from budget totals. However, they are shown separately and combined with the on-budget outlays to display total Federal outlays.

4. Processing

The data on payments and collections are reported by account symbol into the central accounting system. In turn, the data are extracted from this system for use in the preparation of the *MTS.*

There are two major checks which are conducted to assure the consistency of the data reported:

1. Verification of payment data. The monthly payment activity reported by Federal entities on their Statements of Transactions is compared to the payment activity of Federal entities as reported by disbursing officers.
2. Verification of collection data. Reported collections appearing on Statements of Transactions are compared to deposits as reported by Federal Reserve banks.

5. Other Sources of Information About Federal Government Financial Activities

- *A Glossary of Terms Used in the Federal Budget Process, March 1981* (Available from the U.S. General Accounting Office, Gaithersburg, Md. 20760). This glossary provides a basic reference document of standardized definitions of terms used by the Federal Government in the budgetmaking process.

- *Daily Treasury Statement* (Available from GPO, Washington, D.C. 20402, on a subscription basis only). *The Daily Treasury Statement* is published each working day of the Federal Government and provides data on the cash and debt operations of the Treasury.

- *Monthly Statement of the Public Debt of the United States* (Available from GPO, Washington, D.C. 20402 on a subscription basis only). This publication provides detailed information concerning the public debt.

- *Treasury Bulletin* (Available from GPO, Washington, D.C. 20402, by subscription or single copy). Quarterly. Contains a mix of narrative, tables, and charts on Treasury issues, Federal financial operations, international statistics, and special reports.

- *Budget of the United States Government, Fiscal Year 19 __* (Available from GPO, Washington, D.C. 20402). This publication is a single volume which provides budget information and contains:

  -Appendix, The Budget of the United States Government, FY 19 __
  -The United States Budget in Brief, FY 19 __
  -Special Analyses
  -Historical Tables
  -Management of the United States Government
  -Major Policy Initiatives

- *United States Government Annual Report and Appendix* (Available from Financial Management Service, U.S. Department of the Treasury, Washington, D.C. 20227). This annual report represents budgetary results at the summary level. The appendix presents the individual receipt and appropriation accounts at the detail level.

Scheduled Release

The release date for the October 1993 Statement will be 2:00 pm EST November 22, 1993.

For sale by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402 (202) 783-3238. The subscription price is $27.00 per year (domestic), $33.73 per year (foreign).
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TREASURY NEWS

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JOINT STATEMENT BY TREASURY SECRETARY LLOYD BENTSEN AND OFFICE OF MANAGEMENT AND BUDGET DIRECTOR LEON PANETTA ON FISCAL YEAR 1993 BUDGET RESULTS

We are pleased to announce that the final figure for the Fiscal Year 1993 budget deficit is $254.9 billion, which is $26.1 billion lower than the Administration's estimate less than two months ago (in the Mid-Session Review). Moreover, the final 1993 deficit is $67 billion less than the estimate for 1993 in last April's budget.

The final 1993 deficit is also $35.4 billion below the record 1992 deficit of $290.3 billion. The 1993 deficit has declined significantly, after increasing for three consecutive years since 1989. Indeed during those three years, the deficit nearly doubled from its 1989 level of $152.5 billion.

The Administration is encouraged by these figures. And the reconciliation bill that Congress passed and that the President signed in August has put us on the right path toward lower deficits in the future.

In addition, this week the Administration are sending to the Congress proposals for an additional $33 billion in spending cuts over the next five years, (including $22 billion in reduced spending that results from our proposed Federal procurement reform).

Why is the final deficit so much lower than what was forecast in April? Even after factoring out the proposed stimulus package, which added $11 billion to the April deficit forecast, the deficit has dropped by the enormous sum of $56 billion since the April budget estimate.

Lower interest rates are responsible, either directly or indirectly **for about $19 billion or one-third of this $56 billion reduction.** Long-term interest rates are at record lows, in part because of the **announcement** of the Administration's economic and fiscal policies in February and their **enactment** in August.

More specifically, lower interest rates (and other favorable economic conditions) have reduced Federal deposit insurance spending for banks and thrifts by $16 billion. Lower

interest rates have made banks and thrifts more profitable, which has reduced the number of bank failures and the rate at which the Office of Thrift Supervision turns thrifts over to the Resolution Trust Corporation. With fewer failures, federal spending is lower. In addition, lower interest rates have raised sales prices for former bank and thrift assets sold by the federal government.

In addition, net interest expenditures of the federal government are $3 billion lower as a direct result of lower interest rates.

Together, these interest-rate-induced reductions lowered the deficit by $19 billion in 1993. Almost all of this $19 billion decline was reflected in the Mid-Session Review estimates.

Unlike the decreases resulting from lower interest rates, another cause of the decline in the final 1993 deficit (relative to the April budget estimate) was not related to any policy change, but rather was caused by an unfortunate timing shift. The April budget had assumed that the Resolution Trust Corporation (RTC) would receive additional funding through legislation by late spring. Since such legislation was not enacted, the RTC was able to close fewer thrifts in Fiscal Year 1993. This lowered RTC spending for 1993 by $15 billion but raised estimates of spending over the next several years.

The Final Figures For Fiscal Year 1993

The drop of $26 billion in the 1993 deficit between the Mid-Session review estimates and the final figures today comes from two broad sources for which the Administration does **not** seek to claim credit. Nonetheless, we are very happy to report these reductions.

The first source is a $9 billion increase in revenues relative to the estimates in the Mid-Session review, about two-thirds of which show up in the corporate receipts figures. The corporate receipt increase is due primarily to higher-than-forecast corporate profits. The level of corporate profits was found to be statistically higher when the GDP data were recalibrated in the annual revision to the National Income and Product Accounts in August. This recalibration occurred too late to be reflected in the Mid-Session Review.

The second source of the lower final deficit is a $17.1 billion decline in spending relative to the Mid-Session Review estimates. This decline, almost none of which is caused by changes in policy, was spread among a wide variety of federal programs, such as those for agriculture and transportation.

In conclusion, the Administration is very heartened that the 1993 deficit is $35 billion lower than last year's figure and is certainly pleased that it is $56 billion lower than the comparable estimate made in April. The deficit is still far too high, but with the legislation that was enacted in August and the further spending cuts we have proposed this week, we look forward to continued declines in the deficit in the future.