TREAS.
HJ
10
.A13P4
v.329

U.S. Department of the Treasury

PRESS RELEASES

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
SUBCOMMITTEE ON INTERNATIONAL DEVELOPMENT, FINANCE,
TRADE AND MONETARY POLICY
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
TUESDAY, NOVEMBER 9, 1993

Fair Trade in Financial Services

I am pleased to have this opportunity to testify on the Fair Trade in Financial Services Act of 1993 (H.R. 3248). 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 the bill 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."

LB-493

To compete, we need the tools to make the competition a fair one. Improved negotiating leverage through Fair Trade in Financial Services 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, a team of high level officials has been visiting several key emerging markets. The European Community also has sent officials for the same purpose.

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.

Discussion of Fair Trade in Financial Services

This brings me to the Fair Trade in Financial Services Act of 1993. 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.

H.R. 3248 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.

<u>Conclusion</u>

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 this bill 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.

AUCTION RESULTS
PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
November 9, 1993

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 66-DAY BILLS

Tenders for $14,102 million of 66-day bills to be issued November 15, 1993 and to mature January 20, 1994 were accepted today (CUSIP: 912794H56).

RANGE OF ACCEPTED COMPETITIVE BIDS:

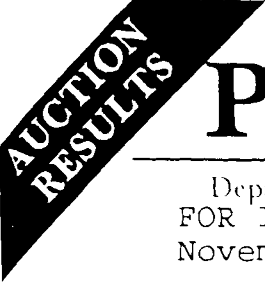
	Discount Rate	Investment Rate	Price
Low	3.09%	3.15%	99.434
High	3.10%	3.16%	99.432
Average	3.10%	3.16%	99.432

Tenders at the high discount rate were allotted 74%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$56,557,455	$14,102,235
Type		
Competitive	$56,557,000	$14,101,780
Noncompetitive	455	455
Subtotal, Public	$56,557,455	$14,102,235
Federal Reserve	0	0
Foreign Official Institutions	0	0
TOTALS	$56,557,455	$14,102,235

LB-494



PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
November 9, 1993

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 3-YEAR NOTES

Tenders for $17,008 million of 3-year notes, Series AB-1996, to be issued November 15, 1993 and to mature November 15, 1996 were accepted today (CUSIP: 912827M74).

The interest rate on the notes will be 4 3/8%. The range of accepted bids and corresponding prices are as follows:

	Yield	Price
Low	4.42%	99.875
High	4.46%	99.764
Average	4.44%	99.819

Tenders at the high yield were allotted 61%.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$33,494,208	$17,008,378

The $17,008 million of accepted tenders includes $923 million of noncompetitive tenders and $16,085 million of competitive tenders from the public.

In addition, $843 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $4,195 million of tenders was also accepted at the average price from Federal Reserve Banks for their own account in exchange for maturing securities.

LB-495

TREASURY NEWS

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

FOR RELEASE AT 2:30 P.M.
November 9, 1993

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $27,600 million, to be issued November 18, 1993. This offering will provide about $3,050 million of new cash for the Treasury, as the maturing 13-week and 26-week bills are outstanding in the amount of $24,561 million. In addition to the maturing 13-week and 26-week bills, there are $14,259 million of maturing 52-week bills. The disposition of this latter amount was announced last week.

Federal Reserve Banks hold $9,684 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 $3,409 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 $3,019 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-496

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED NOVEMBER 18, 1993

November 9, 1993

Offering Amount	$13,800 million	$13,800 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 H9 8	912794 K6 0
Auction date	November 15, 1993	November 15, 1993
Issue date	November 18, 1993	November 18, 1993
Maturity date	February 17, 1994	May 19, 1994
Original issue date	August 19, 1993	November 18, 1993
Currently outstanding	$12,211 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 Immediate Release
November 9, 1993

STATEMENT OF TREASURY SECRETARY LLOYD BENTSEN

I'm delighted at the strong support shown for the North American Free Trade Agreement today by the Ways and Means Committee. The vote clearly shows that the committee agrees that NAFTA is a winner for American workers. The additional endorsements by House members we received today, coupled with the 25-12 vote in Ways & Means, add strong momentum to our cause.

LB-497

TREASURY NEWS

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

Text as Prepared for Delivery
For Immediate Release
November 11, 1993

REMARKS OF TREASURY SECRETARY LLOYD BENTSEN
THE COMMONWEALTH CLUB
SAN FRANCISCO, CALIFORNIA

It's good to be back here. I checked my calendar and it was 19 years ago that I last spoke to the Commonwealth Club. You know the saying about the more things change, the more they stay the same? It's true, in spades. I looked up the message I gave back in 1974. Let me quote myself if I might: "I worry about our economy."

Talk about deja vu all over again.

I can't help but reflect that we have some similarities between when I was last at this podium and today. We'd just come off the shock of the oil embargo and were ramping down from Vietnam.

Transitions like this, particularly of the magnitude we are confronted with by the end of the Cold War, can be particularly trying. I know that is especially true in California.

It is precisely because this economy is in transition, and because it needs very careful attention, that Americans chose to put Bill Clinton in the White House.

Our economic goal is the kind of steady growth that gives Americans the kinds of jobs that let them enjoy a decent standard of living, educate their children, and retire without worry.

We've accomplished a lot already, but we're not done yet. We got deficit reduction through, and you can see its effects already. Take a look at interest rates, at auto sales and home sales, and at business investment.

Another approach is to invigorate trade, because the bottom line on trade is more jobs. That's what I want to concentrate on this afternoon -- trade. Specifically, the North American Free Trade Agreement. When I worry about the economy these days, this is one of the things I worry about.

LB-498

We've got the vote coming up next week. It's going to be close. But I believe it is winnable. If this were a secret ballot, we'd win this thing on the merits. No question about it. We're marking progress, picking up endorsements. The NAFTA bill came out of the Ways and Means Committee by a two-to-one margin. And the Vice President gave an excellent presentation of the facts the other night. And let me tell you, when the facts meet fear, the facts win every time.

Forty-one of the governors are for NAFTA. The former presidents are for NAFTA. The former secretaries of the Treasury and State are for NAFTA. Our Nobel-laureate economists are for NAFTA. They know, just as I do, that NAFTA is a plus for Americans.

There are some very significant gains that we'll get from passing NAFTA. California will be one of the major beneficiaries. The reverse is equally true. There will be a significant price to pay if we don't pass NAFTA.

The economists at the Treasury Department pile mounds of papers on my desk -- row after row of numbers and page after page of charts. I may have to get my glasses changed after all this reading. But I got a short note from one the other day about a study by a respected independent economic forecasting firm that gave me a jolt. In six short declarative sentences, it pointed out the economic dangers of not adopting NAFTA. I want to share that with you.

First, if we don't pass NAFTA, ten years from now there are likely to be half a million fewer jobs in the U.S. economy than we'd have with NAFTA, and 170,000 of those missing jobs will be in manufacturing. So much for the argument that jobs will rush south.

Second, our jobless rate will be 0.3 percent higher than it otherwise might be. That may not sound like much, but if you're out of work, your unemployment rate is 100 percent. Why anyone would pass up the chance to shave even one-tenth of a point off the unemployment rate is beyond me.

Third, if we don't pass NAFTA, in a decade our GDP will be $43 billion lower than it ought to be. That works out to $330 for every working American. Do you think they'd rather have that money in their pocket? You bet they would.

Two other quick points as regards Mexico. The study said that without NAFTA, undocumented Mexican migration to the United States will average 600,000 a year more for the next decade. It takes an enormous toll on the economies of California and other border states. I've seen estimates that California spends $3 billion a year because of illegal immigration. One of the best ways I know to control our border -- and believe me, I know a lot about that -- is to improve the Mexican economy.

Finally, that study told me that Mexico's economy will grow at less than half the expected rate if we don't adopt NAFTA, and that Mexico and its citizens will be 15 percent poorer in a decade without NAFTA. Mexico isn't going away. It's going to be there with or without NAFTA. We'd far prefer to see a Mexico with a healthy, stable economy than one growing progressively poorer.

That's the downside of not passing NAFTA. Now let me give you the good news about NAFTA.

One of the certain ways to make our economy grow is to expand trade. Trade creates jobs, makes us more productive and more competitive. NAFTA does that.

I don't think many people appreciate the degree to which our economy depends on trade. One job in every eight in this country depends on trade. Almost 75 percent of the economic growth in this country since 1988 has come from growing exports. About 190,000 jobs here in California depend directly on trade with just Mexico and Canada alone. Almost half the 90,000 jobs that depend on trade with Mexico have been created in the past five years. Anyone who tries to tell you that less trade is better for the economy, or that less trade means more jobs, well, he's probably knotted his tie too tight.

I suspect you've heard enough NAFTA speeches to be familiar with the figures and arguments by now. But I've learned in Washington over the years that you sometimes have to repeat something 42 times before people believe it. So bear with me for a few minutes.

Given California's strong position in trade with Mexico, locking in progress we have made already, and taking that even further, is an effective way to respond to the slump that has affected this economy.

We can encourage and assist defense conversion all we want, but you must have a market for the plowshares we're going to be making. We can retrain workers until everyone's ready for a new career designing or building microcomputers, but unless we have a place to sell these products, we accomplish absolutely nothing.

What NAFTA gives us is market access, without the barriers that have been in the way. It levels out a playing field that's been sharply tilted against us, and we give up very little. Right now, today, Mexico's tariffs on our goods going south are 2 1/2 times what ours are on their goods heading up here. We wipe that out with NAFTA. And tariffs will disappear only on our goods and Canadian goods, not those of Japan or Europe.

Despite recent voluntary progress in bringing down Mexican trade barriers by President Salinas, Mexico could jack its tariffs right back up as high as 50 percent without this agreement. Let me tell you, Mexicans are great customers. They're flocking to the new Wal-Mart in Mexico City to buy U.S. goods, even though our goods cost more now than they will with NAFTA. They buy 70 percent of their imports from us. It makes no sense to leave this market to our competition.

There are 700,000 jobs in this country dependent on trade with Mexico. Many of them would be in jeopardy in relatively short order without NAFTA. I think most people prefer to see our economy expanding and creating jobs.

NAFTA creates additional jobs -- 200,000 of them by our estimates, and better-paying ones at that. For those who are affected, we have an extensive worker adjustment program. And NAFTA phases in tariff cuts in our industries that could feel some impact from the agreement. Remember, if the worst fears of our opposition materialize, and I really doubt it, we have the right to walk away from NAFTA with six months' notice.

I've heard the arguments that NAFTA will be particularly hard on low-wage workers in America. Economists have looked into this extensively, and they can't find anything to validate that claim. In fact, the most comprehensive study I've seen says that unskilled urban workers and our rural workers will actually be slightly better off.

What else do we get with NAFTA? It gives us important protections in the area of intellectual property rights, and those are more important today than they've ever been. We've also included very stringent rules of origin to make certain that Japan or any other competitor can't, in effect, use the Mexican economy as a trampoline to slip goods into the United States duty free. We won't let that happen.

Beyond that, we will eliminate the kind of rules that forced American firms to move into Mexico -- and take jobs with them -- as the price of admission to the Mexican market.

Let's look at the auto business for a moment. Our Big Three manufacturers have only sold a few thousand vehicles a year down in Mexico, but they estimate they can sell 60,000 units the first year alone under NAFTA. That will support 15,000 jobs in the U.S. economy. There's a tremendous market in Mexico.

Let me say a final thing about what NAFTA does: It cleans up the environment. This is a landmark piece of environmental diplomacy.

This gets very personal for me. I was born and raised on the border. I have seen millions and millions of gallons of raw sewage headed for the Rio Grande. I went swimming in that river as a kid and it pains me to see what has happened to the border region over the years.

I know the importance of safe drinking water, adequate wastewater treatment and solid waste disposal. There are hundreds of thousands of households on both sides of the border who lack these basic needs. We have a chance to improve the quality of life and the quality of the environment -- be it in Tijuana or San Diego, or Reynosa across the river from my home in McAllen.

We've set up a special lending facility, the North American Development Bank, to leverage a small amount of U.S. and Mexican government money into $2 billion to $3 billion in lending authority for border environmental projects. In conjunction with other financing mechanisms in NAFTA -- which also rely on the private financial markets -- we expect it will be possible to meet the estimated $8 billion cost of cleaning up the border.

The NADBank also will make some loans for community adjustment and investment in communities affected by NAFTA.

If we don't have NAFTA, we don't have these important protections for the environment. Remember, NAFTA didn't create these problems, but it is an important part of the solution.

We must also view NAFTA in the context of global trade patterns. Japan is doing tremendous business in Asia. It's the fastest-growing economic region on the globe. Japan has quintupled its business in the region -- to $150 billion. It's only natural to be doing business with your neighbors. Look at Europe, banding together for trade.

We're in the unique position of being able to trade across both the Atlantic and Pacific, and having a huge market adjacent to us. Latin America is the second-fastest growing region. Free trade is breaking out all over. The question is, will we take advantage of it?

NAFTA does more than put us squarely into the Mexican market. It opens the door to creating a market of well over 700 million consumers -- count them, 733 million at the moment -- stretching from Alaska to Cape Horn. There's a combined buying power of almost $7.3 trillion there. We'd be foolish in the extreme to pass on this opportunity.

If it sounds like a campaign speech for NAFTA -- you're right. There is a tremendous opportunity here. I don't want to see America pass this up just because some people try to play on the natural and understandable concerns of Americans. That's what you do when you don't have the facts on your side. You resort to fear.

That is an inexcusable way to conduct a serious debate about a critical economic and foreign policy issue.

We have a window of opportunity to cement our relationship with Latin America, starting with Mexico. It's the best opportunity we've had since Franklin Roosevelt and the Good Neighbor policy. That was 60 years ago. That's how infrequently opportunities like this come along.

Our neighbors are ready to bring down the walls of protectionism, privatize industry, move to a market-driven economy, and democratize their political systems. Salinas, our next door neighbor, is leading the charge. If we haven't the courage to take yes for an answer, if we respond to xenophobia, we'll miss the chance to let Latin America view us as a trading partner rather than as a threatening goliath. If we do that, if we don't pass NAFTA, we may well see a return to the suspicions and antagonism of the past. And let me tell you, it will resonate all through Latin America.

Finally, I want to remind everyone that shortly after the NAFTA vote, President Clinton will go to Seattle to meet with Asian leaders. A major topic will be building a regional alliance to help open markets and trade. We want a closer relationship with those markets. It's in our interest both here in California and throughout our economy. And if NAFTA loses, our president will have just been told by Congress it wants to retreat, not compete.

Defeating NAFTA would signal that the United States is turning inward. Look down the road three more weeks while we're doing the final negotiations on the multilateral world trade agreement. The arguments against NAFTA -- as hollow and as spurious as they are -- can also be turned against the GATT. And here you'd have a president put at a tremendous disadvantage in asking the 110 countries of GATT to open their markets to U.S. goods and U.S. jobs.

What kind of a country have we become? Are we afraid to take on the world in trade. Today America has the most productive workers in the world. Our businesses are more competitive today than they've been in years. Our cost of capital is more favorable than it has been in years, particularly as compared to Europe and Asia. Our managers and employees have responded to the demands of customers for quality products -- which is why our goods are so sought after. And, our currency exchange rates are favorable.

Our economic future lies in fair trade, where we use our skills to compete. It does not lie cowering behind a wall of protectionism. It's time we get back to believing in America.

Thank you.

-30-

TREASURY NEWS

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

Text as Prepared for Delivery
For Immediate Release
November 12, 1993

REMARKS OF TREASURY SECRETARY LLOYD BENTSEN
GM HUGHES ELECTRONICS CORP. TOUR
LOS ANGELES, CALIFORNIA

When I give speeches around the country, one of the things I talk about is how many more jobs we have in this country just because Mexico has started liberalizing its trade rules. It's a fact that any time you take down a trading barrier, you can get more trade, and more trade leads to more jobs.

We started out back in 1986, when Mexico began its economic liberalization, with fewer than 300,000 Americans working at jobs based on trade with Mexico. In California today, we estimate there are 90,000 people whose jobs depend on trade with Mexico. Three quarters of these jobs are in Southern California, and half are in the Los Angeles area.

Nationwide, we have about 700,000 Americans, count them, 700,000, whose paychecks depend on it. We figure that in the next two years alone, we're going to be creating 200,000 more jobs in the United States with NAFTA.

We released a study today about the effects of NAFTA in Southern California, and I want to share some of that with you. The study tells us that if NAFTA passes, by the year 2010 this area will be doing about $15 billion in exports to Mexico. That much in exports is enough to support 200,000 jobs in Southern California. The reverse of that, however, says that without NAFTA, if trade were to fall back to 1987 levels, about 70,000 workers in California, three-quarters in Southern California, would lose their jobs. What concerns me is that with the current high level of structural unemployment, those Americans could have trouble finding new jobs, or ones that paid as well as these export jobs pay.

Trade with Mexico is a success story. We've turned our position around from a trade deficit of nearly $6 billion to a surplus of well over $5 billion. We're selling them more than $40 billion in goods and services a year.

LB-499

What concerns me is that if we don't do NAFTA, it will cost us some of the jobs we've seen created over the years because of Mexico being more open. I'm concerned about tariffs being jacked right back up. I'm concerned about what a failure to pass NAFTA means for our access in the rest of the Latin American market. I'm concerned that Japan and Europe will start pulling out contracts and heading for Mexico City.

It's clear that this better trading relationship with Mexico has been good for Hughes. The work you do is quite technical. I suspect it pays better than average. Every expert I talk to tells me that the kinds of jobs involved in building products for Mexico pay better than other kinds of work in this country.

So, what do we get with NAFTA, more jobs, and better paychecks. Sounds like a good deal to me.

Let me tell you, NAFTA's got a number of very important benefits for us here in the United States in our various industries.

But what really impressed me as I walked around looking at your work, is the horizons you're opening up for people all over the world.

The capabilities of the Solidaridad they're building here are tremendous. When I was coming along, satellites were the kinds of things you'd find in Buck Rogers. Look at what you are doing now -- cellular telephone service from anywhere in Mexico, television signals, and fax and data transmission.

Beyond the gee-whiz of the electronics, I'm impressed at what that's going to do for Mexican citizens. And I'm also impressed at how what you are doing here will help further transform Mexico's economy.

Look down the road at what a better Mexican economy is going to mean for us. They'll have even more money to spend on the goods we produce. As you know, they're a great customer. Seventy percent of everything they import comes from the United States. They buy more from us on a per capita basis than do the more affluent Europeans or Japanese.

That's nice to know when they're spending $8 billion -- a handsome piece of it right here I might note -- to improve their telecommunications system. Better they should do business with us than with someone else, right?

The benefits for our economy aren't just in telecommunications. Mexico is upgrading its energy production. NAFTA will help us get a piece of that business.

NAFTA also brings down the tariffs on the sorts of things California is famous for, like computers and computer parts and other electronic equipment.

The agreement has provisions to make certain Mexico's labor laws are enforced. In addition, and this is a big plus, it contains some landmark protections for our environment. We've made a deal with Mexico to get to work on cleaning up the border, and we've worked out a way to pay for it at a very, very low cost to either government. I must tell you, I am concerned about losing NAFTA because on top of everything else, that environmental agreement won't go into effect.

There's another benefit from NAFTA. By strengthening Mexico's economy, we begin to reduce the incentive for illegal immigration. One study I saw last week said that without NAFTA, illegal immigration could be 600,000 a year more than it is now. I know that this takes a toll on border states. Believe me, I'm from Texas and I know a lot about border issues.

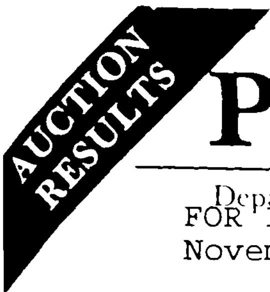
Let me wrap things up here by saying that I can't remember seeing a political debate like this. Every former president, every former secretary of the treasury and secretary of state, our Nobel-prize winning economists, 41 out of 50 governors, everyone is backing NAFTA.

What is it that we know and our opponents are mixed up on -- it's that NAFTA means more exports to Mexico and that means more jobs for Americans.

We are the most productive nation in the world. We have the world's best technology. We are more competitive than we've been in years. We're delivering quality products that the world wants. Our economic future lies in fair and open trade, and that's what we get with NAFTA.

Thank you.

-30-



PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
November 10, 1993

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 9-YEAR, 9-MONTH NOTES

Tenders for $12,074 million of 9-year, 9-month notes, Series B-2003, to be issued November 15, 1993 and to mature August 15, 2003 were accepted today (CUSIP: 912827L83).

The interest rate on the notes will be 5 3/4%. The range of accepted bids and corresponding prices are as follows:

	Yield	Price
Low	5.68%	100.499
High	5.69%	100.424
Average	5.69%	100.424

Tenders at the high yield were allotted 97%.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$27,542,281	$12,073,851

The $12,074 million of accepted tenders includes $449 million of noncompetitive tenders and $11,625 million of competitive tenders from the public.

In addition, $700 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $2,300 million of tenders was also accepted at the average price from Federal Reserve Banks for their own account in exchange for maturing securities.

The minimum par amount required for STRIPS is $800,000. Larger amounts must be in multiples of that amount.

Also, accrued interest of $14.37500 per $1,000 of par must be paid for the period August 15, 1993 to November 15, 1993.

LB-500

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
November 12, 1993

CONTACT: Michelle Smith
(202) 622-2960
CEA CONTACT: Sherman Robinson
(202) 395-3997

BENTSEN, TYSON RELEASE STUDY ON SOUTHERN CALIFORNIA AND NAFTA

Treasury Secretary Lloyd Bentsen and Council of Economic Advisers Chair Laura D'Andrea Tyson on Friday released a study which projected that Southern California will greatly benefit from expanded trade and reduced immigration as a result of passage of the North American Free Trade Agreement (NAFTA).

"Southern California will see more than its proportional share of the benefits from expanded trade with Mexico as a result of NAFTA," the study said.

Perhaps the most significant effect of NAFTA on the economy of Southern California will be reduced migration into California, according to the study. More jobs in Mexico -- as a result of NAFTA -- is the best way to reduce illegal immigration from Mexico.

Further, the study projected that failure to implement NAFTA would raise the Southern California unemployment rate by more than 0.3 percent on average over the next decade. Without NAFTA, the study predicted, employment in California would average 70,000 less over the next decade.

The study projected that without NAFTA the Southern California economy -- with its close links to Mexico -- would suffer particularly heavily. California exported $6.6 billion of products to Mexico in 1992 -- more than 15 percent of total U.S. exports.

California's export-related jobs were concentrated in high-tech, high-wage industries, such as electrical and electronic equipment, industrial machinery, transportation equipment (including aerospace), fabricated metal products and precision instruments (including scientific, medical and measuring instruments). As Mexico's industrialization proceeds under NAFTA, the study predicted Mexicans will buy even more products made by Californians.

-30-

LB-501

NAFTA and Southern California

Office of the Assistant Secretary for Economic Policy, U.S. Treasury
Council of Economic Advisers, Executive Office of the President

November 11, 1993

Summary

California's exports to Mexico amount to more than 15 percent of U.S. total exports to Mexico. The bulk of these exports come from southern California, which has extremely close economic ties with Mexico. Southern California will see more than its proportional share of the benefits from expanded trade with Mexico as a result of NAFTA. Perhaps the most significant effect of NAFTA on the economy will be realized through reduced migration into California. Expanded employment opportunities in Mexico as a result of NAFTA are the best way to reduce illegal immigration from Mexico. Such a reduction in potential labor competition could significantly raise the wages and improve the opportunities of low-wage southern Californians.

Southern California's Exports to Mexico

California firms and workers exported \$6.6 billion worth of products to Mexico in 1992. \$6.4 billion of these exports were manufactured goods. These exports represent a threefold increase compared to five years ago, when Mexico began its successful program of economic reform and trade liberalization.

California provides more than 15 percent of Mexico's purchases of U.S. goods. Southern California is a region very well-positioned to benefit from an expansion of trade with Mexico.

The Los Angeles area is the major manufacturing center of California and the nation: no county in the United States has more manufacturing jobs than Los Angeles county, which accounts for nearly half of California's manufacturing jobs.

Table 1: California's Top 10 Industries Exporting to Mexico in 1992

Industry	1992 Value (Millions)
Electric and Elect. Equipment	$1,497
Indus. Mach. and Computers	1,036
Transportation Equipment	390
Fabricated Metal Products	345
Primary Metal Industries	340
Food Products	315
Rubber and Plastic Products	296
Lumber and Wood Products	288
Scientific and Measuring Instruments	279
Refined Petroleum Products	276
Industries Not Shown	1,494
TOTAL	$6,557

The Administration has estimated that California's exports to Mexico support roughly 90,000 jobs. More than three quarters of the jobs supported by California exports to Mexico are in southern California, and more than half of these jobs are in Los Angeles county.

The jobs supported by exports to Mexico are for the most part in high-wage, high-skill, capital-intensive industries. According to the 1990 census, the seven of these industries that provided the largest net exports to Mexico employed more than 400,000 workers in the Los Angeles area:

- 106,111 in fabricated metals.
- 98,717 workers in industrial machinery.
- 63,700 workers in rubber.
- 62,764 workers in food processing.
- 35,704 workers in chemicals.
- 26,396 workers in steel and metals.
- 23,939 workers in paper.

In 1992 the net exports to Mexico of these industries amounted to $11 billion nationwide.

The expansion of trade with Mexico over the past five years has favorably shifted the demand for southern California's workers, increasing employment opportunities for workers in California.

Future Changes in Trade with Mexico

A failure to implement NAFTA could lead to a sharp drop in trade with Mexico, reducing exports and export-related employment.

In the absence of NAFTA, even if the Mexican government remains wholeheartedly committed to its policy of reform, Mexico will be unable to maintain its current pace of purchases from the United States. Without NAFTA, Mexicans will be unable to borrow at favorable terms on the world capital market. Their balance of trade will have to adjust. Their purchases of U.S. exports will fall.

The Wharton forecasting group has projected that failure to implement NAFTA will reduce U.S. annual exports to Mexico by $35 billion by 2003. According to their forecast, failure to implement NAFTA will raise the U.S. unemployment rate in 2003 by 0.3 percentage points.

Were trade with Mexico to shrink back to 1987 levels, 70,000 California workers—approximately three-quarters of them in southern California—would lose their jobs. Given the current high level of structural unemployment in southern California, many of these workers would have great difficulty finding other employment.

Those that did would be highly unlikely to find jobs that paid as well as those in the relatively high-wage manufacturing industries that make up the backbone of California's trade with Mexico. The rise in California's unemployment rate might well be significantly higher, and would certainly not be lower, than the 0.3 percentage point rise in the national unemployment rate projected by Wharton.

If NAFTA and President Salinas' other reforms succeed in boosting Mexican growth, and if under NAFTA the United States—and California—hold onto their share of the Mexican market, then by 2010 California producers would export approximately $20 billion a year to Mexico, of which over $15 billion would come from Los Angeles.

Such a flow of exports to Mexico would support approximately 200,000 jobs in southern California. It would amount to 2.3 percent of California's gross state product. And once again, such export-supported jobs would pay higher wages than alternative employment.

Los Angeles Apparel and NAFTA

Many critics of NAFTA fear that it will cause substantial job dislocation. Even though NAFTA will produce more and higher-wage

jobs in the United States, critics fear that those who benefit will be a different group from those who see their employment opportunities restricted as a result of Mexican competition.

This Administration is concerned with job dislocation and is investing substantial resources in labor-dislocation adjustment and through the creation of the North American Development Bank to ensure that economic change benefits all.

But more importantly, a number of considerations suggest that fears of large-scale job dislocation in southern California as a result of increased imports from Mexico are overblown.

Consider the apparel industry, a relatively low-wage industry and the largest non-durable manufacturing industry in southern California. Economists Raul Hinojosa (from UCLA), Sherman Robinson (from U.C. Berkeley), and Goetz Wolff (an economic consultant) have examined the likely impact of NAFTA on the apparel industry in Los Angeles in a study partially supported by the Southwest Voter Research Institute.[1] They find that the Southern California apparel industry—a relatively low-wage and labor-intensive industry—is unlikely to be a locus of U.S. job dislocation under NAFTA.

They find that the Los Angeles and Mexican segments of the apparel industry are complementary—as shipments of Mexican apparel to California have increased, so have shipments from California to Mexico: the industries appear to increase demand for each other's products rather than competing with each other.

The study showed that the quality of Los Angeles-area apparel was significantly better in Los Angeles than in Mexico. And the nature of the apparel industry in Los Angeles places a strong premium on its remaining in the United States: Los Angeles is the style and marketing center for the nation in the fast-changing women's sportswear and casual wear market segment.

Thus the Los Angeles apparel industry requires those close linkages between design, production, and marketing, which encourage the clustering of the industry in Los Angeles.

Note that the Los Angeles apparel industry now accounts for nearly ten percent of all apparel employment in the United States, and for 22 percent of employment in women's wear. Apparel is one of the largest industries in Los Angeles, accounting for almost 100,000 on-the-books employees and for nearly one-third of total non-durable manufacturing employment in Los Angeles.

California Electronics and NAFTA

The UCLA study also examined the southern California electronics industry, and concluded that there will be no significant change in the location of electronics production as a result of the NAFTA. There have been major structural shifts in electronics in the 1980s. The electronics industry employment segments that remain in the United States today are the high-wage, high-skill, high-value segments in which Mexico is relatively uncompetitive.

NAFTA will make locating in Mexico somewhat more attractive relative to trans-Pacific economies. Electronics jobs that migrate back across the Pacific to Mexico will boost high-wage electronics employment in the U.S. Electronic components assembled in Asia are likely to have been produced in

---

[1]In an October, 1992 study for UCLA's Lewis Center for Regional Policy Studies.

Japan, while components assembled in Mexico are much more likely to have been produced in the United States.

Migration and NAFTA

Southern California is the recipient of an extremely large flow of undocumented migrants from Mexico. Half of all Mexican migration to the United States is migration to California. The Tijuana-San Diego area is the source of the largest legal flow of cross-border traffic, and is the source of an estimated one-quarter of undocumented migration as well.

This continued inflow of migrants to California inescapably puts downward pressure on the wages of low-income Americans in southern California. With NAFTA, increased Mexican economic growth would diminish migration from Mexico and increase the employment rate and wages of a significant number of Californians with low incomes.

All studies indicate that NAFTA, by increasing growth in Mexico, will retard undocumented migration from Mexico to the United States in the long run.

In recent testimony, Raul Hinojosa reviewed the evidence and concluded that even in the short run "NAFTA-Plus" [with the side agreements attached] will reduce pressure for Mexicans to migrate illegally to the U.S. He testified that the defeat of NAFTA would be "the worst option in terms of increasing...pressure for undocumented migration to the United States."

The Wharton study cited earlier estimates that, if NAFTA is not implemented, gross undocumented migration will be higher by 594,000 in an average year over the next decade.

The fundamental reason that so many Mexicans have migrated to the United States over the past several decades is the lack of employment opportunities in Mexico.

The greatest impact of NAFTA will be to increase wages and economic growth in Mexico: the Wharton study estimates that Mexican real GDP and Mexican wage levels will be fifteen percent higher in a decade if NAFTA is implemented than if NAFTA is rejected.

A richer Mexico will reduce pressure on Mexicans to migrate. More attractive employment opportunities in Mexico will pull some migrants back across the border, and will make others decide not to move to the United States in the first place.

This will, in turn, increase the incomes of low-wage workers in the U.S. by reducing competition for jobs from undocumented immigrants. The effects of diminished migration are likely to be felt most strongly and immediately in southern California, and the increases in the incomes of low-wage Americans produced by a reduction of migration pressure will be greatest in southern California as well.

Note that NAFTA does nothing to relax or weaken U.S. immigration law or border immigration control policies. But we must recognize that it has been, and will continue to be, very difficult to stop undocumented migration across the 2,000 mile border.

The best way to reduce this undocumented immigration—and eliminate pressure on the wages of low-income Californians—is to increase the productivity of the Mexican economy through NAFTA.

TREASURY NEWS

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

Text as Prepared for Delivery
For Immediate Release
November 15, 1993

REMARKS OF DEPUTY SECRETARY ROGER ALTMAN
NATIONAL ELECTRICAL MANUFACTURERS' ASSOCIATION

I'm delighted to be here this morning to talk with you about President Clinton's health care program.

But first I need to take care of NAFTA business.

We seem to be specializing in tough votes. First the deficit package and now this. I think I'm a little grayer today than I was when I signed up for this job. NAFTA is a tough one, not because of what's in it. If that were it, we'd win in a minute. It's a difficult sell because there are irrational fears about what it will do.

Plain and simple, NAFTA is an important step in bringing down trade barriers. It will create jobs. It looks to our future and not to our past. It's a rejection of protectionism and an affirmation of fair trade. It's also an important step on the road to further opening markets in Latin America.

Virtually every segment of the U.S. economy stands to gain from NAFTA, yours included. The Commerce Department tells me that since 1987, the electric and electronic equipment segment of our economy has seen sales to Mexico grow by 122 percent. They're up from $3.2 billion to $7.1 billion. Even at the Treasury Department that's real money.

We have been working on a major education program as it regards NAFTA. We're beginning to see results, more endorsements, and we're picking up momentum. The vice president did a remarkable job with Ross Perot lasat week. I believe we can win, but it will be close.

NAFTA is one element in our overarching goal of restoring and strengthening our economy by getting back in the business of investing in America and improving our competitiveness. The framework talks with Japan and concluding the Uruguay Round are additional steps in the same direction. So is deficit reduction, so is health care.

Before I came over this morning I was looking over your position paper on health care. There's quite a bit we agree on, particularly on the economic side of the ledger.

LB-502

For instance, we agree that the competitive position of American manufacturers suffers because of skyrocketing health care costs. There is no question about that. We also agree with that employers who take a free ride on the system are penalizing all of us. I think we can also agree that the existing system is in serious need of repair.

There are, to be sure, very compelling social reasons to take on health care reform. There is an equally compelling economic case to be made.

Consider what it is we face. As a nation we spend a lavish 14 percent of our Gross Domestic Product on health care. No other industrialized country spends near that. For Japan the figure is seven percent; for Germany it is nine percent. As an example of how it drags at our competitive edge, there was a University of Michigan study recently that said our Big Three auto makers spend $1,100 per car for health car for their workers, but the Japanese, and the transplant operations, spent about $500. If that doesn't skew competition, I don't know what does. Ford Motor Company says it paid more for health care costs last year than it paid for steel from its outside suppliers.

Furthermore, if present trends continue by the year 2000 health care will consume more than 19 percent of our GDP, or one out of every $5. The existing system promotes an inefficient and worsening allocation of our nation's economic resources. Especially when you consider we don't have universal coverage.

Inflation in public and private health care spending is out of line with inflation in the rest of our economy. On the private side, it's three times the national average, and it is higher than that on the public side. Medicare and Medicaid are growing explosively. The Medicare program today costs $130 billion a year. In five years it will hit $213 billion. Medicaid is rising even more quickly. It doubled in the eight Reagan years, and doubled again in the Bush presidency. Despite what we've done with our deficit reduction program, the deficit will start climbing again beyond 1997 if we do nothing to get health care under control.

It would be nice if we got a little something for everything we're spending in excess of what our competitors spend. The problem is, the extra spending buys us nothing. Our competitors have longer life expectancy and lower rates of infant mortality. They spend less and they cover everyone. We are the only major industrialized country without universal coverage. Nearly 15 percent of our population -- more than 37 million Americans -- have no health insurance. About a third of those are children. Another 22 million are underinsured.

This is not just a problem for the uninsured or the underinsured. Every time someone without insurance, or without needed coverage, shows up at an emergency room and is treated, every one of us who has insurance foots the bill. Every time a business leaves its employees without insurance, those with insurance pay the price. You're well aware that your insurance premiums are higher than they need to be -- at least 10 percent higher by our calculations.

In addition, for too long now, rising health care costs have been a drag on both profits and wages. 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. When you, as employers, must devote more money to premiums, it drains away money that otherwise could go for investment, wages or profits.

Our existing health care system has another feature that amounts to a built-in brake on our economy. It's "job-lock." About 40 percent of our insurers won't cover pre-existing conditions for new policyholders. That discourages people from trading up on their jobs when they have the opportunity. Nearly one third of our workers report that they feel locked into their jobs because of the health insurance system. That effectively cuts down on worker mobility. Similarly, there are those in our society who want to work, but find it hard to do so because of the threat of losing Medicaid benefits.

Furthermore, we are spending significant sums -- $80 billion by some estimates -- to cover the costs of fraud and abuse. This serves as a huge drag on the economy. On top of that, we're spending $45 billion year for health care administration and paperwork, yet another area where we agree we have to move.

These are the reasons reform of the health care system is one of President Clinton's highest priorities and an integral part of his economic strategy. With the adoption of the President's plan, estimates indicate total business spending on the services covered will fall by $10 billion. That money could be used to hire more workers, to raise wages and benefits, to invest in plants, in equipment, in education or training or research. It could also go for increased dividends or lower prices. Every one of these alternatives stimulate the economy and create new jobs.

When we put this plan together we started with the premise that we don't need to re-invent the entire health care universe. Nine out of every 10 Americans with insurance receive it through work. That's why we used the work place as the vehicle for extending coverage to every American. This approach avoids major disruptions to the private sector.

Given the complexity of the problem we face, it is a fair question to ask how we think we're going to make this program work, how we can get the system under control. I have a straightforward answer to that -- by applying two old-fashioned principles -- competition and consumerism.

At the moment, we have too little competition. Most of the leverage is in the hands of the insurers and providers. All but our largest businesses are at a disadvantage when it comes to negotiating premiums. There's also too little consumerism. Too few Americans pay a meaningful share of their health care bills, so they don't shop around among providers.

To spur competition, each state will form one or more non-profit regional alliances, covering all workers and non-workers. In addition, large businesses with sufficient scale are free to form their own corporate alliances. These alliances 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 won't be allowed to differentiate prices based on age or existing health conditions. And workers will no longer be locked into jobs because of health coverage.

The result will be enormous public and private sector savings. Most businesses which provide coverage today will see their margins improve because the percentage of payroll devoted to health care will be limited to 7.9 percent.

Furthermore, small, low-wage businesses which have had trouble offering coverage will find it more affordable.

The discounts available are scaled, based on the size of the business and the average wage. But in no case will an employeer have to pay more than 7.9 percent of payroll for health coverage. In some cases -- for instance a firm with under 25 employees with average wages under $12,000, what you have to pay is as little as 3.5 percent of payroll. It can mean paying as little as 15-cents an hour to provide a low-wage worker with health coverage. When you consider the actual cost of the coverage, that's a great deal.

In broad terms, the discounts available to employers begin to take effect when the average wage is below $25,000, regardless of the size of the firm.

With financing accounted for, another of our goals is to help the self-employed better afford their contribution to health coverage. For this we propose that self-employed people be able to deduct 100 percent of the cost of the comprehensive benefit package.

Before getting into some of the specifics of the
Administration plan I want to make three general points.

First, our plan is the only comprehensive proposal that spells out exactly what benefits will be provided and how it will be financed. That is the only fiscally responsible thing to do. During the development of the plan the Administration consulted with the nation's best actuaries and health care experts. 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. The Health Security Act provides solid estimates of the federal costs for discounts provided to businesses and low-income families. And there is a 15 percent cushion to ensure sufficient funds are available.

And third, this plan will be phased in, which allows sufficient time to make adjustments should we find that modifications are needed.

The plan clearly spells out the costs to the federal government and how we are going to pay for them, including
discounts to eligible businesses and individuals, long-term care and the new Medicare drug benefit.

Funding for these, and for 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, 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.

Now let's talk about these specific items in the bill. In addition to increasing the excise tax on cigarettes, we also propose raising the excise tax on other tobacco products. This would promote better health, not just for adults, but more importantly, for children.

The assessment on our largest employers will go for, among other things, underwriting important work in health research from which every American benefits.

Another major revenue source in the package is the increased tax receipts that will result from controlling the rate of growth in health care costs. This comes to $23 billion. Increased competition, greater cost-consciousness on the part of both consumers and health care providers, and other cost containment measures will lower health insurance costs over time. Some of this has already started as the debate heats up. Hospitals are finding ways to cut the length of stays for patients and the cost of lab work. Standard revenue estimating rules assume that as tax-preferred employer health care costs go down, more compensation will be paid in the form of taxable wages. That will generate more income and payroll taxes, despite the increased numbers of workers
covered.

In addition we want to ensure that rural residents, and those who live in the inner cities, have adequate access to quality health care. The plan does that with tax incentives to encourage doctors and nurses to locate in underserved areas.

The Administration has offered a bold and comprehensive plan to give Americans health security and to take charge of health care costs. It has been carefully thought through every step of the way. We have tapped the best brains in the country in developing it, and there is wide support for it. This August Lou Harris took a poll about Health reform, and 84 percent of the 2,000 adults who were asked about it said the current system needs fundamental change or a complete rebuilding.

Next year alone, before we phase in our plan, our health care costs will approach $1 trillion. That's one dollar in every seven on our economy. You can see in every poll in every newspaper you pick up that Americans know our health care system needs a comprehensive overhaul. They are very concerned about what has become of our system of health care and they have every right to be. We're concerned, too, about the impact of all this spending on our economy, on our competitiveness, on our ability to invest.

There are now no fewer than half a dozen health care reform plans on the table. There is quite a bit of common ground among them. For example, all but one call for some form of competition. Every plan wants to get rid of exclusions for pre-existing conditions. Every plan offers a choice of health plans and providers. Each proposes reforms in our malpractice system. And most propose increasing the deduction for self-employed Americans.

But despite the similarities, only the President's plan is truly universal and comprehensive. It provides universal coverage, lifetime protection, builds on our existing system of obtaining insurance, contains a Medicare drug benefit, a long-term care benefit, cigarette taxes, a requirement that employers help pay for health insurance and a budget that is fiscally responsible.

President Clinton is committed to seeing that the quality of health care improves. He wants to reduce the paperwork burden on 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.

It's a comprehensive approach, and we think it's the right way to get this debate started.

Thank you.

-30-

TREASURY NEWS

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

Text as Prepared for Delivery
For Immediate Release
November 15, 1993

REMARKS OF TREASURY SECRETARY LLOYD BENTSEN
AMERICAN COUNCIL OF LIFE INSURANCE
WASHINGTON, D.C.

Twenty-two years ago when I left the insurance business to go into government work, I figured I'd never sell another policy again.

Well, it held true for 21 years, until I took this new job in January. If you think you've had problems selling life insurance policies in the last 10 months, try selling to Congress a budget deficit reduction policy, a health care reform policy, and this week we're closing the deal on a policy called NAFTA.

I've been on Capitol Hill so much this year, I think I'm the lowest paid lobbyist in town.

I want to talk NAFTA today, but let me start by saying a few things about the economy and something you're interested in -- the savings rate in this country.

I like to tell a story. I was 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 political and a military leader -- we remain the world's economic leader -- the engine of growth in the world.

We have the lowest interest rates in two decades and that's helping boost some of our more vital industries -- like autos and housing. You like paying 7 percent instead of 10 percent for a mortgage, don't you?

Consumer spending is up. Inflation is low -- 2.8 percent. Unemployment is down to 6.8 percent, from an average of 7.4 percent all last year.

And look at GDP, the growth rate. First quarter it was 0.8 percent. Second quarter 1.9 percent. Third quarter 2.8 percent. If you don't think that's steady, sound progress, look at Japan or Europe -- where it's negative.

LB-503

I have long argued for less spending by government and more spending by private enterprise, because that's when you have sustainable growth. You can't just have short-term progress. It has to be sustainable. And that's what I like about this one.

Federal spending is down. We haven't seen those kinds of cuts since the build-down after the Vietnam War. And business spending is up. And our companies are finally making those investments by borrowing money at interest rates competitive with the rates companies in Japan and Europe borrow at.

I think back just a short time ago when the Japanese had 1 percent interest rates and they'd have some warrants with some conversion privileges out there to a stock that was selling at 100 times earnings. Their cost of capital compared to what we were paying was an enormous disadvantage to our businesses.

Now, I know what's on your minds -- how do we get Americans to save more? It's been on my mind a long time. I thought about it when I was in your shoes, thought about it when I was in the Senate on the Finance Committee, and I haven't forgotten about it.

It's still on my mind when a typical American family saves half of what a family in Germany saves or one-third what a family in Japan saves.

My problem is, how do we do it without robbing the Treasury of revenues that we need. So I haven't forgotten, I just haven't figured out a way to make tax deduction savings vehicles that still let us meet our deficit-cutting targets.

Now, having said that, I want to emphasize that I have always recognized the importance of life insurance in providing for a family's financial security. The tax-free inside buildup within life insurance contracts provides a powerful savings incentive. I oppose any notion of taxing this inside buildup. It would discourage Americans from buying life insurance to protect their financial security.

What we have done -- my first priority as Treasury Secretary -- is to save money for the taxpayers. We had the deficit reduction plan. That will put $500 billion into the economy over five years.

Now let's talk about NAFTA. NAFTA is our way to let our companies -- including insurance companies -- compete globally on a level playing field. There's no better place to start competing than in this hemisphere.

Our competitors have plans. They've been heading to trading blocks. The European block. The Asian block.

Two decades ago, Latin America and the developing Asian markets were the same size. Now, the Asian block is four times larger. The winner has been Japan, because they went into Asia aggressively and grew their export business there.

NAFTA is our plan. We're going after a market in Mexico that is 90 million people, and growing twice as fast as this market. It's a market we do $40 billion in business a year in, and it can grow to $70 billion by the year 2000 with NAFTA.

In the last six years, our exports to Mexico have grown twice as fast our exports to the rest of the world. We've gone from a $6 billion trade deficit to a $5 billion surplus. Last year, each Mexican, on average, purchased more U.S.-made products than the average Japanese, German, or Canadian.

One thing they haven't purchased is life insurance. Latest numbers I saw, there were just 4 million individual life insurance policies in Mexico covering 1.5 million people -- out of a population of 90 million. I smell some market opportunities.

Today, per capita consumption of insurance is about $30 per year in Mexico. But with NAFTA, this would rise to about $430 in six years.

I've seen estimates that the market will grow from about $5 billion today to about $50 billion in six years. If that happens, Mexico will leap from the world's 27th to one of the world's top 10 largest insurance markets.

Right now the insurance industry is very concentrated. Mexico's four largest companies account for 58 percent of the total premiums. And it's a closed market. It hasn't been open to us in 50 years. If I still headed an insurance company, I'd be down there tomorrow recruiting agents.

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 more of our products, and that has already created 400,000 more jobs in this country.

But right now, in spite of liberalization, the entire financial market has remained virtually closed. With NAFTA, Mexico will have one of the most open systems in the world.

Right now the average product entering Mexico from the U.S. is slapped with a 10 percent tariff. 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 one.

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.

Now, back when I was selling insurance, I always told my customers two things. One, what the benefits were of the policy. Two, what the costs were. What will it cost them?

I've just told you the benefits of NAFTA. Let me tell you the costs.

If we let this go down the tubes, watch Europe and Asia move into Mexico. I bet they'd sign up in five minutes. One of the concerns is that Japan might use Mexico as a trampoline to jump goods into our market. We've taken care of that in NAFTA with strong rules of origin. But without NAFTA, we lose that protection.

And we're looking at more than our relationship with Mexico on this vote. We're looking at setting a trade pattern with the rest of the world.

We'd like 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. Mexico already negotiated a trade agreement with Chile. They're doing the same with Venezuela and Colombia. If somebody votes no to NAFTA, he or she will have contributed to a negative impact on the Latin America market.

And a "no" vote would have a negative impact on GATT -- where we want to lower barriers in 110 countries. How can we open up other nations around the world, if we can't even accept a "yes" for free trade from our own neighbor?

Look at those countries that have succeeded economically after World War II. Look at Japan. Look at Korea. They have built their prosperity on exports -- and we must do the same.

Here's another cost: the environment. For years as a Senator from Texas, I'd talk about the problems on the border and nobody wanted to address them. I've seen millions of gallons of raw sewage head to Rio Grande and babies born with birth defects. Finally, there's a green treaty with money from Mexico to clean it up. No NAFTA, and environmental problems won't get addressed.

And what about the illegal immigration issue. I just came back from California. It costs that state $3 billion a year to take care of illegal immigrants. California has 2 million illegal immigrants. They tell me about studies that show 600,000 more Mexicans will migrate to the U.S. every year without NAFTA. NAFTA will create jobs on both sides of the border. With jobs, more Mexicans will stay home.

And what about narcotics trafficking. People think it will go up, because of the increased traffic of products. NAFTA reduces tariffs. It helps customs efforts and law enforcement. Cooperation is crucial to reducing trafficking, and NAFTA increases cooperation. Ask any Customs inspector if he prefers the Salinas crowd or somebody else in power. He'll tell you Salinas.

The bottom line is jobs. The opposition argues that 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. Look who our biggest competitor is -- Japan, where wages are 30 percent higher.

We think that with NAFTA, 200,000 jobs will be created in this country.

I can't remember a political debate like this. President Clinton and all former Presidents support it. All former Treasury Secretaries support it.

It is a bi-partisan trade bill. Forty-one of 50 governors support it. And they know about jobs, because they get elected only if they create jobs.

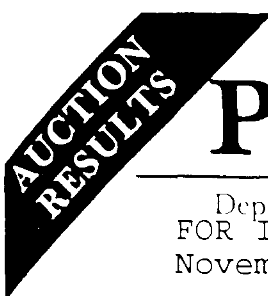
The vote is in two days -- and I think it's winnable. If it were a secret ballot it would win overwhelmingly. It comes at a critical time, just before the President's meeting with Asian leaders, and in the final weeks of our negotiations on the Uruguay Round. Just as we're doing more to look outward and develop better trading relationships elsewhere, it doesn't make sense to turn inward and reject NAFTA.

There's still some congressmen 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. Good for the insurance business. Good for the manufacturing sector. Good for the workers of this country. If this wasn't good for America -- I wouldn't be out here supporting it.

We have the most productive workers in the world. That's true in the service sector and it's true for manufacturing. Let's not retreat. Let's compete and help raise the standards of living for all of our people.

So, thank you very much. And if you're ever having a bad day -- can't find anybody to buy a policy -- just remember what I have to go through to sell Congress.

-30-



PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
November 15, 1993

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $13,925 million of 13-week bills to be issued November 18, 1993 and to mature February 17, 1994 were accepted today (CUSIP: 912794H98).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.10%	3.17%	99.216
High	3.11%	3.18%	99.214
Average	3.11%	3.18%	99.214

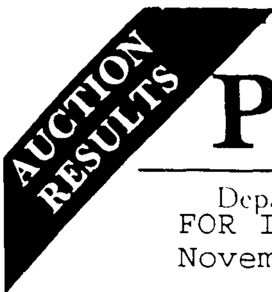
Tenders at the high discount rate were allotted 54%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$58,257,054	$13,925,137
Type		
Competitive	$52,115,753	$7,783,836
Noncompetitive	1,284,973	1,284,973
Subtotal, Public	$53,400,726	$9,068,809
Federal Reserve	2,883,885	2,883,885
Foreign Official Institutions	1,972,443	1,972,443
TOTALS	$58,257,054	$13,925,137

An additional $27,557 thousand of bills will be issued to foreign official institutions for new cash.

LB-504



PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
November 15, 1993

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $14,017 million of 26-week bills to be issued November 18, 1993 and to mature May 19, 1994 were accepted today (CUSIP: 912794K60).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.25%	3.35%	98.357
High	3.27%	3.37%	98.347
Average	3.26%	3.36%	98.352

Tenders at the high discount rate were allotted 17%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$59,696,971	$14,017,397
Type		
Competitive	$54,636,590	$8,957,016
Noncompetitive	926,524	926,524
Subtotal, Public	$55,563,114	$9,883,540
Federal Reserve	3,150,000	3,150,000
Foreign Official Institutions	983,857	983,857
TOTALS	$59,696,971	$14,017,397

An additional $13,843 thousand of bills will be issued to foreign official institutions for new cash.

LB-505

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

The United States of America and the Slovak Republic, desiring to further expand and facilitate mutual economic relations have resolved to conclude a convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and capital, and have agreed as follows:

ARTICLE 1

General Scope

1. This Convention shall apply to persons who are residents of one or both of the Contracting 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 Contracting State; or

b) by any other agreement between the Contracting States.

3. A Contracting State may tax its residents (as determined under Article 4 (Resident)) and its citizens, including former citizens, according to the laws of that State as if the Convention had not come into effect.

4. The provisions of paragraph 3 shall not affect:

a) the benefits conferred by a Contracting State under paragraph 2 of Article 9 (Associated Enterprises), under paragraphs 1(b) and 4 of Article 19 (Pensions, Annuities, Alimony, and Child Support), and under Articles 24 (Relief From Double Taxation), 25 (Non-Discrimination), and 26 (Mutual Agreement Procedure); and

b) the benefits conferred by a Contracting State under Articles 20 (Government Service), 21 (Students, Trainees, Teachers and Researchers), and 28 (Diplomatic

Agents and Consular Officers), upon individuals who are neither citizens of, nor lawful permanent residents in, that State.

ARTICLE 2

Taxes Covered

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

a) in the United States: the Federal income taxes imposed by the Internal Revenue Code (but excluding the accumulated earnings tax, the personal holding company tax, and social security taxes), and the excise taxes imposed with respect to the investment income of private foundations (hereafter referred to as "U.S. tax");

b) in Slovakia: the income taxes imposed by the income tax law, and the tax on immovable property (real property tax) (hereafter referred to as "Slovak tax").

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 Contracting States shall notify each other of any significant changes which have been made in their respective taxation laws and of any official published material

concerning the application of the Convention, including explanations, regulations, rulings, or judicial decisions.

ARTICLE 3

General Definitions

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

a) the term "Contracting State" means either the United States or Slovakia as the context requires;

b) 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. When used in a geographical sense, the term "United States" includes the territorial sea and the seabed and subsoil of the adjacent area over which the United States may exercise rights in accordance with international law and in which the laws relating to U.S. tax are in force;

c) the term Slovakia means the Slovak Republic.

d) the term "person" includes an individual, an estate, a trust, a partnership, 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 a Contracting State" and "enterprise of the other Contracting State" mean, respectively, an enterprise carried on by a resident of a Contracting State and an enterprise carried on by a resident of the other Contracting State;

g) the term "international traffic" means any transport by a ship or aircraft, except when such transport is solely between places in the other Contracting State;

h) the term "competent authority" means:

(i) in the United States, the Secretary of the Treasury or his delegate; and

(ii) in the case of Slovakia, the Minister of Finance or his authorized representative.

2. As regards the application of the Convention by a Contracting State 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 26 (Mutual Agreement Procedure), have the meaning which it has under the laws 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 a Contracting State" 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.

2. a) However, the term "resident of a Contracting State" does not include any person who is liable to tax in that State in respect only of income from sources in that State or capital situated therein;

b) In the case of income derived or paid by a partnership, estate, or trust, this term applies only to the extent that the income derived by such partnership, estate, or trust is subject to tax in that State as the income of a resident, either in its hands or in the hands of its partners or beneficiaries; and

c) Slovakia shall consider a United States citizen or an alien lawfully admitted for permanent residence (a green card holder) to be a resident of the United States only if such person has a substantial presence, permanent home, or habitual abode in the United States.

3. The term "resident of a Contracting State" includes:

a) that State, a political subdivision, or a local authority thereof, and any agency or instrumentality of any such State, subdivision or authority; and

b) a pension trust or any other organization that is constituted and operated exclusively to provide

pension benefits or for religious, charitable, scientific, artistic, cultural or educational purposes and that is a resident of that State according to the laws of that State, notwithstanding that all or part of its income may be exempt from income tax under the domestic law of that State.

4. Where by reason of the provisions of paragraph 1, an individual is a resident of both Contracting 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 (center of vital interests);

b) if the State in which he has his center of vital interests cannot be determined, or if he does not have 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

Contracting States shall settle the question by mutual agreement.

5. Where by reason of the provisions of paragraph 1 a company is a resident of both Contracting States, if it is created under the laws of a Contracting State or a political subdivision thereof, it shall be deemed to be a resident of that State.

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

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. The term, "permanent establishment" also includes:

a) a building site or construction or installation project, or an installation or drilling rig or ship used for the exploration or exploitation of natural resources, but only if it lasts more than 12 months; and

b) the furnishing of services, including consultancy services, by an enterprise through employees or other personnel, but only if activities of that nature continue (for the same or a connected project) within the country for a period or periods aggregating more than 9 months within any 12 month period.

A permanent establishment shall not exist in any taxable year in which the activity described in subparagraph a) or b) of this paragraph, respectively, continues for a period or periods aggregating not more than 30 days in that taxable year.

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).

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 a Contracting State 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 a Contracting State 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 a Contracting State controls or is controlled by a company which is a resident of the other Contracting 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.

ARTICLE 6

Income From Real Property (Immovable Property)

1. Income derived by a resident of a Contracting State from real property (including income from agriculture or

forestry) situated in the other Contracting 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 Contracting 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, [~~buildings,~~] usufruct of real property and rights to variable or fixed payments as consideration for the working of, or the right to work, mineral deposits and other natural resources; ships, boats 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 a Contracting State who is liable to tax in the other Contracting State on income from real property situated in the other Contracting State may compute the tax on such income on a net basis as if such income were attributable to a permanent establishment in such other State. In the case of the United States tax, an election to

apply the preceding sentence shall be binding for the taxable year of the election and all subsequent taxable years unless the competent authority of the United States agrees to terminate the election.

ARTICLE 7

Business Profits

1. The business profits of an enterprise of a Contracting State shall be taxable only in that State unless the enterprise carries on or has carried on business in the other Contracting State through a permanent establishment situated therein. If the enterprise carries on or has carried on business as aforesaid, the business 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 a Contracting State carries on or has carried on business in the other Contracting State through a permanent establishment situated therein, there shall in each Contracting State be attributed to that permanent establishment the business profits which it might be expected to make if it were a distinct and independent enterprise engaged in the same or similar activities under the same or similar conditions.

3. In determining the business profits of a permanent establishment, there shall be allowed as deductions expenses that are incurred for the purposes of the permanent establishment, including a reasonable allocation of research and development expenses, interest, and other similar expenses and executive and general and administrative expenses, whether incurred in the State in which the permanent establishment is situated or elsewhere.

4. No business 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 this Convention, the business 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. Nothing in this Article shall affect the application of any law of a Contracting State relating to the determination of the tax liability of a person in cases where the information available to the competent authority of that State is inadequate to determine the profits to be attributed to a permanent establishment, provided that, on the basis of the available information, the determination of

the profits of the permanent establishment is consistent with the principles stated in this Article.

7. For the purposes of the Convention, the term "business profits" means income derived from any trade or business. It includes, for example, profits from manufacturing, mercantile, fishing, transportation, communication, or extractive activities, and from the furnishing of the personal services of another person, including the furnishing by a corporation of the personal services of its employees. It does not include income received by an individual for his performance of personal services either as an employee or in an independent capacity.

8. Where business 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.

ARTICLE 8

Shipping and Air Transport

1. Profits of an enterprise of a Contracting State from the operation of ships or aircraft in international traffic shall be taxable only in that State.

2. For the purposes of this Article, the term "profits from the operation of ships or aircraft in international

traffic" includes profits derived from the rental of ships or aircraft on a full (time or voyage) basis. It also includes profits derived from the rental of ships or aircraft on a bareboat basis by an enterprise engaged in the operation of ships or aircraft in international traffic, if such rental activities are incidental to the activities described in paragraph 1.

3. Profits of an enterprise of a Contracting State from the use, maintenance, or rental of containers (including trailers, barges, and related equipment for the transport of containers) used in international traffic shall be taxable only in that State.

4. The provisions of paragraph 1 shall also apply to profits from participation in a pool, a joint business, or an international operating agency.

ARTICLE 9

Associated Enterprises

1. Where:

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

b) the same persons participate directly or indirectly in the management, control, or capital of an

enterprise of a Contracting State and an enterprise of the other Contracting 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 profits which, but for those conditions, would 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.

2. Where a Contracting State includes in the profits of an enterprise of that State, and taxes accordingly, profits on which an enterprise of the other Contracting 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 paid to the other provisions of this Convention and the competent authorities of the Contracting States shall if necessary consult each other.

3. The provisions of paragraph 2 shall not apply in the case of fraud, gross negligence, or willful default.

ARTICLE 10

Dividends

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

2. However, such dividends may also be taxed in the Contracting 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 Contracting 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 owns at least 10 percent of the voting shares of the company paying the dividends;

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

This paragraph shall not affect the taxation of the company in respect of the profits out of which the dividends are paid.

3. Subparagraph a) of paragraph 2 shall not apply in the case of dividends paid by a United States Regulated Investment Company or a Real Estate Investment Trust. Subparagraph b) of paragraph 2 shall apply in the case of dividends paid by a Regulated Investment Company. In the

case of dividends paid by a Real Estate Investment Trust, subparagraph b) of paragraph 2 shall apply if the beneficial owner of the dividends is an individual holding a less than 10 percent interest in the Real Estate Investment Trust; otherwise the rate of withholding applicable under domestic law shall apply.

4. The term "dividends" as used in this Article means income from shares or other rights, not being debt-claims, 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. The term "dividends" also includes income from arrangements, including debt obligations, carrying the right to participate in profits, to the extent so characterized under the law of the Contracting State in which the income arises.

5. The provisions of paragraph 2 shall not apply if the beneficial owner of the dividends, being a resident of a Contracting State, carries on or has carried on business in the other Contracting State, of which the company paying the dividends is a resident, through a permanent establishment situated therein, or performs or has performed in that other State independent personal services from a fixed base situated therein, and the dividends are attributable to such permanent establishment or fixed base. In such case the provisions of Article 7 (Business Profits) or Article 14

(Independent Personal Services), as the case may be, shall apply.

6. A corporation which is a resident of a Contracting State may be subject in the other State to a tax in addition to the tax allowable under the other provisions of this Convention. Such tax, however, may not exceed 5 percent of the income of the corporation that is attributable to a permanent establishment in that other State or subject to tax on a net basis in that other State under Article 6 (Income from Real Property (Immovable Property)) or Article 13 (Gains), after deducting the taxes on profits imposed thereon in that other State and after adjustment for increases or decreases in the assets, net of liabilities, of the corporation connected with the permanent establishment or the trade or business. Such tax may only be applied if under the laws of that other State such tax applies with respect to any permanent establishment in that other State that is maintained by any corporation not resident in that other State.

7. Where a company that is a resident of a Contracting State derives profits or income from the other Contracting 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 a fixed base situated in that other State, even if the dividends paid consist wholly or partly of profits or income arising in such other State.

ARTICLE 11

Interest

1. Interest arising in a Contracting State and beneficially owned by a resident of the other Contracting State shall be taxable only in that other State.

2. Notwithstanding the provisions of paragraph 1, the United States may tax an excess inclusion with respect to a residual interest in a Real Estate Mortgage Investment Conduit in accordance with its domestic law.

3. The term "interest" as used in this Convention means income from debt-claims of every kind, whether or not secured by mortgage and, subject to paragraph 4 of Article 10 (Dividends), whether or not carrying a right to participate in the debtor's profits, and in particular, income from government securities, and income from bonds or debentures, including premiums or prizes attaching to such securities, bonds, or debentures, as well as all other income that is treated as income from money lent by the taxation law of the Contracting State in which the income arises.

4. The provisions of paragraph 1 shall not apply if the beneficial owner of the interest, being a resident of a Contracting State, carries on or has carried on business in the other Contracting State, in which the interest arises, through a permanent establishment situated therein, or performs or has performed in that other State independent personal services from a fixed base situated therein, and the interest is attributable to such permanent establishment or fixed base. In such case the provisions of Article 7 (Business Profits) or Article 14 (Independent Personal Services), as the case may be, shall apply.

5. Interest shall be deemed to arise in a Contracting State when the payer is a resident of that State. Where, however, the person paying the interest, whether he is a resident of a Contracting State or not, has in a Contracting State a permanent establishment or a fixed base, and such interest is borne by such permanent establishment or fixed base, then such interest shall be deemed to arise in the State in which the permanent establishment or fixed base is situated.

6. 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 Contracting State, due regard being had to the other provisions of the Convention.

ARTICLE 12

Royalties

1. Royalties arising in a Contracting State and beneficially owned by a resident of the other Contracting State may be taxed in that other State.

2. Royalties described in subparagraph a) of paragraph 3 and beneficially owned by a resident of a Contracting State may be taxed only in that State. Royalties described in subparagraph b) of paragraph 3 may also be taxed in the Contracting State in which they arise and according to the laws of that State, but if the beneficial owner is a resident of the other Contracting State, the tax so charged shall not exceed 10 percent of the gross amount of the royalties.

3. 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:

a) any copyright of literary, artistic or scientific work, including cinematographic films or

films or tapes and other means of image or sound reproduction;

b) any patent, trademark, design or model, plan, secret formula or process, or other like right or property, or for industrial, commercial, or scientific equipment, or for information concerning industrial, commercial, or scientific experience.

The term "royalties" also includes payments derived from the disposition of any such right or property which are contingent on the productivity, use or further disposition thereof.

4. The provisions of paragraphs 1 and 2 shall not apply if the beneficial owner of the royalties, being a resident of a Contracting State, carries on or has carried on business in the other Contracting State, in which the royalties arise, through a permanent establishment situated therein, or performs or has performed 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 14 (Independent Personal Services), as the case may be, shall apply.

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 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 Contracting State, due regard being had to the other provisions of the Convention.

6. For purposes of this Article:

a) Royalties shall be treated as arising in a Contracting State when the payer is that State itself or a political subdivision or local authority of that State or a person who is a resident of that State for purposes of its tax. Where, however, the person paying the royalties, whether he is a resident of one of the Contracting States or not, has in a Contracting State a permanent establishment or fixed base in connection with which the liability to pay the royalties was incurred, and the royalties are borne by the permanent establishment or fixed base, then the royalties shall be deemed to arise in the State in which the permanent establishment or fixed base is situated.

b) Where subparagraph a) does not operate to treat royalties as arising in a Contracting State, royalties paid for the use of, or the right to use, in a Contracting State any property or right described in

paragraph 3 shall be treated as arising in that State.

ARTICLE 13

Gains

1. Gains derived by a resident of a Contracting State from the alienation of real property situated in the other Contracting State may be taxed in that other State.

2. For the purposes of this Article the term "real property situated in the other Contracting State" includes real property referred to in Article 6 which is situated in that other State. It also includes shares of stock of a company the property of which consists at least 50 percent of property situated in the other Contracting State, and an interest in a partnership, trust or estate to the extent that its assets consist of real property situated in the other State.

3. Gains from the alienation of personal (movable) property which are attributable to a permanent establishment which an enterprise of a Contracting State has or had in the other Contracting State, or which are attributable to a fixed base which is or was available to a resident of a Contracting State in the other Contracting State for the purpose of performing independent personal services, and gains from the alienation of such a permanent establishment

(alone or with the whole enterprise) or such a fixed base, may be taxed in that other State.

4. Gains derived by an enterprise of a Contracting State from the alienation of ships, aircraft, or containers used in international traffic shall be taxable only in that State.

5. Payments described in paragraph 3 of Article 12 (Royalties) shall be taxable only in accordance with the provisions of Article 12.

6. Gains from the alienation of any property other than property referred to in paragraphs 1 through 5 shall be taxable only in the Contracting State of which the alienator is a resident.

ARTICLE 14

Independent Personal Services

1. Income derived by an individual who is a resident of a Contracting State from the performance of personal services in an independent capacity shall be taxable only in that State, unless such services are performed or were performed in the other Contracting State and:

a) the income is attributable to a fixed base regularly available to the individual in that other State for the purpose of performing his activities; in such a case, the income attributable to that fixed base may be taxed in that other State; or

b) the individual is present in the other Contracting State for a period or periods exceeding in the aggregate 183 days in any twelve month period.

2. The term "personal services" 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 15

Dependent Personal Services

1. Subject to the provisions of Articles 16 (Directors' Fees), 19 (Pensions, Annuities, Alimony, and Child Support), 20 (Government Service), and 21 (Students, Trainees, Teachers, and Researchers), salaries, wages, and other similar remuneration derived by a resident of a Contracting State in respect of an employment shall be taxable only in that State unless the employment is exercised in the other Contracting 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 a Contracting State in respect of an employment exercised in the other Contracting 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 any twelve month period;

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 in respect of an employment as a member of the regular complement of a ship or aircraft operated by an enterprise of a Contracting State in international traffic may be taxed only in that Contracting State.

ARTICLE 16

Directors' Fees

Directors' fees and similar payments derived by a resident of a Contracting State for services rendered in the other Contracting State in his capacity as a member of the board of directors or another similar organ of a company which is a resident of the other Contracting State may be taxed in that other State.

ARTICLE 17

Limitation on Benefits

1. A person that is a resident of a Contracting State and derives income from the other Contracting State shall be entitled under this Convention to relief from taxation in that other Contracting State only if such person is:

a) an individual;

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

c) 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 the income derived from the other Contracting State is derived in connection with, or is incidental to, that trade or business;

d) a company in whose principal class of shares there is substantial and regular trading on a recognized securities exchange, or which is wholly owned, directly or indirectly, by a resident of that Contracting State in whose principal class of shares there is such substantial and regular trading on a recognized securities exchange;

e) an entity that is a not-for-profit organization (including a pension fund or private foundation) and

that, by virtue of that status, is generally exempt from income taxation in its Contracting State of residence, provided that more than half of the beneficiaries, members or participants, if any, in such organization are entitled, under this Article, to the benefits of this Convention; or

f) a person that satisfies both of the following conditions:

i) more than 50 percent of the beneficial interest in such person (or in the case of a company, more than 50 percent of the number of shares of each class of the company's shares) is owned, directly or indirectly, by persons entitled to the benefits of this Convention under subparagraphs a), b), d) or e); and

ii) not more than 50 percent of the gross income of such person is used directly or indirectly, to meet liabilities (including liabilities for interest or royalties) to persons not entitled to the benefits of this Convention under subparagraph a), b), d) or e).

2. A person which is not entitled to the benefits of the Convention pursuant to the provisions of paragraph 1 may, nevertheless, be granted the benefits of the Convention if the competent authority of the State in which the income arises so determines.

3. For purposes of subparagraph d) of paragraph 1, the term "recognized securities exchange" means:

a) the NASDAQ System owned by the National Association of Securities Dealers, Inc. and any stock exchange registered with the Securities and Exchange Commission as a national securities exchange for purposes of the Securities Exchange Act of 1934;

b) the Slovak stock exchange (Burza Cennych Papierov Bratislava, A.S.) and any other stock exchange approved by the State authorities; and

c) any other stock exchange located in a Contracting State and agreed upon by the competent authorities.

4. For purposes of subparagraph f(ii) of paragraph 1, the term "gross income" means gross receipts, or where an enterprise is engaged in a business which includes the manufacture or production of goods, gross receipts reduced by the direct costs of labor and materials attributable to such manufacture or production and paid or payable out of such receipts.

ARTICLE 18

<u>Artistes and Sportsmen</u>

1. Notwithstanding the provisions of Articles 14 (Independent Personal Services) and 15 (Dependent Personal Services), income derived by a resident of a Contracting

State as an entertainer, such as a theater, motion picture, radio, or television artiste, or a musician, or as a sportsman, from his personal activities as such exercised in the other Contracting State, may be taxed in that other State, except where the amount of the gross receipts derived by such entertainer or sportsman, including expenses reimbursed to him or borne on his behalf, from such activities does not exceed twenty thousand United States dollars ($20,000) or its equivalent in Slovak crowns for the taxable year concerned. Such tax may be imposed by withholding upon the entire amount of all gross receipts derived by such entertainer or sportsman at any time during the taxable year concerned, provided that such entertainer or sportsman is entitled to receive a refund of such taxes when there is no tax liability for such taxable year in accordance with the provisions of this Convention.

2. Where income in respect of activities exercised by an entertainer or a sportsman in his capacity as such accrues not to the entertainer or sportsman but to another person, that income of that other person may, notwithstanding the provisions of Articles 7 (Business Profits) and 14 (Independent Personal Services), be taxed in the Contracting State in which the activities of the entertainer or sportsman are exercised, unless it is established that neither the entertainer or sportsman nor persons related thereto participate directly or indirectly

in the profits of that other person in any manner, including the receipt of deferred remuneration, bonuses, fees, dividends, partnership distributions, or other distributions.

3. Notwithstanding the provisions of paragraphs 1 and 2, income derived by a resident of a Contracting State as an entertainer or sportsman shall be exempt from tax by the other Contracting State if the visit to that other State is substantially supported by public funds of the first-mentioned State or a political subdivision or local authority thereof or is made pursuant to a specific arrangement agreed to by the Governments of the Contracting States.

ARTICLE 19

Pensions, Annuities, Alimony, and Child Support

1. Subject to the provisions of Article 20 (Government Service):

a) pensions and other similar remuneration derived and beneficially owned by a resident of a Contracting State in consideration of past employment by that individual or another individual resident of the same Contracting State shall be taxable only in that State; and

b) social security benefits and other public pensions paid by a Contracting State to a resident of the other Contracting State or a citizen of the United States shall be taxable only in the first-mentioned State.

2. Annuities derived and beneficially owned by a resident of a Contracting State shall be taxable only in that State. The term "annuities" as used in this paragraph means a stated sum paid periodically at stated times during a specified number of years, under an obligation to make the payments in return for adequate and full consideration (other than services rendered).

3. Alimony paid to a resident of a Contracting State 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, which payments are taxable to the recipient under the laws of the State of which he is a resident.

4. Nondeductible alimony and periodic payments for the support of a child made pursuant to a written separation agreement or a decree of divorce, separate maintenance, or compulsory support, paid by a resident of a Contracting State to a resident of the other Contracting State, shall not be taxable in that other State.

ARTICLE 20

Government Service

Remuneration, including a pension, paid from the public funds of a Contracting State or a political subdivision or local authority thereof to a citizen of that State in respect of services rendered in the discharge of functions of a governmental nature shall be taxable only in that State. However, the provisions of Article 14 (Independent Personal Services), Article 15 (Dependent Personal Services) or Article 18 (Artistes and Sportsmen), as the case may be, shall apply, and the preceding sentence shall not apply, to remuneration paid from the public funds of a Contracting State or a political subdivision or local authority thereof in respect of services rendered in connection with a business carried on by that State, political subdivision, or local authority.

ARTICLE 21

Students, Trainees, Teachers, and Researchers

1. a) An individual who is a resident of a Contracting State at the beginning of his visit to the other Contracting State and who is temporarily present in that other Contracting State for the primary purpose of:

i) studying at a university or other accredited educational institution in that other Contracting State, or

ii) securing training required to qualify him to practice a profession or professional specialty, or

iii) studying or doing research as a recipient of a grant, allowance, or award from a governmental, religious, charitable, scientific, literary, or educational organization,

shall be exempt from tax by that other Contracting State with respect to the amounts described in subparagraph (b) of this paragraph for a period not exceeding five years from the date of his arrival in that other Contracting State.

b) The amounts referred to in subparagraph (a) of this paragraph are:

i) payments from abroad, other than compensation for personal services, for the purpose of his maintenance, education, study, research, or training;

ii) the grant, allowance, or award; and

iii) income from personal services performed in that other Contracting State in an aggregate amount not in excess of 5,000 United States dollars ($5,000) or its equivalent in Slovak crowns for any taxable year.

2. An individual who is a resident of a Contracting State at the beginning of his visit to the other Contracting State and who is temporarily present in that other Contracting State as an employee of, or under contract with, a resident of the first- mentioned Contracting State, for the primary purpose of:

a) acquiring technical, professional, or business experience from a person other than that resident of the first-mentioned Contracting State, or

b) studying at a university or other accredited educational institution in that other Contracting State,

shall be exempt from tax by that other Contracting State for a period of 12 consecutive months with respect to his income from personal services in an aggregate amount not in excess of 8,000 United States dollars ($8,000) or its equivalent in Slovak crowns.

3. An individual who is a resident of one of the Contracting States at the time he becomes temporarily present in the other Contracting State and who is temporarily present in the other Contracting State for a period not exceeding 1 year, as a participant in a program sponsored by the Government of that other Contracting State, for the primary purpose of training, research, or study, shall be exempt from tax by that other Contracting State with respect to his income from personal services in respect

of such training, research, or study performed in that other Contracting State in an aggregate amount not in excess of 10,000 United States dollars (USD 10,000) or its equivalent in Slovak crowns.

4. The competent authorities of the Contracting States may agree to change the amounts specified in paragraphs 1(b)(iii), 2(b) and 3 of this Article to reflect significant changes in price levels.

5. An individual who visits a Contracting State for the primary purpose of teaching or conducting research at a university, college, school or other accredited educational or research institution in the other Contracting State, and who is, or immediately before such visit was, a resident of the other Contracting State shall be exempt from tax in the first-mentioned Contracting State for a period not exceeding two years in respect of remuneration for such teaching or research. The benefits provided in this paragraph shall not be granted to an individual who, during the immediately preceding period enjoyed the benefits of one of the preceding paragraphs of this Article. An individual shall be entitled to the benefits of this paragraph only once.

6. 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

Other Income

1. Items of income of a resident of a Contracting State, 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 (Immovable Property)), if the beneficial owner of the income, being a resident of a Contracting State, carries on or has carried on business in the other Contracting State through a permanent establishment situated therein, or performs or has performed 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 14 (Independent Personal Services), as the case may be, shall apply.

ARTICLE 23

Capital

1. Capital represented by real property referred to in Article 6 (Income from Real Property (Immovable Property)), owned by a resident of a Contracting State and situated in

the other Contracting State, may be taxed in that other State.

2. Capital represented by personal (movable) property forming part of the business property of a permanent establishment which an enterprise of a Contracting State has in the other Contracting State, or by personal property pertaining to a fixed base available to a resident of a Contracting State in the other Contracting State for the purpose of performing independent personal services, may be taxed in that other State.

3. Capital represented by ships, aircraft, and containers owned by a resident of a Contracting State and operated in international traffic, and by personal property pertaining to the operation of such ships, aircraft, and containers shall be taxable only in that State.

4. All other elements of capital of a resident of a Contracting State shall be taxable only in that State.

ARTICLE 24

Relief From Double Taxation

1. 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 citizen of the United States as a credit against

the United States tax on income the income tax paid to Slovakia by or on behalf of such resident or citizen.

2. In Slovakia, double taxation will be avoided in the following manner:

Slovakia, when imposing taxes on its residents, may include in the tax base upon which such taxes are imposed the items of income which according to the provisions of this Convention may also be taxed in the United States, but shall allow as a deduction from the amount of tax computed on such a base an amount equal to the tax paid in the United States (other than solely on the basis of citizenship). Such deduction shall not, however, exceed that part of the Slovakia tax, as computed before the deduction is given, which is appropriate to the income which, in accordance with the provisions of this Convention, may be taxed in the United States (other than solely on the basis of citizenship).

3. In the case of an individual who is a citizen of the United States and a resident of Slovakia, income which may be taxed by the United States solely by reason of citizenship in accordance with paragraph 3 of Article 1 (General Scope) shall be deemed to arise in Slovakia to the extent necessary to avoid double taxation, provided that in no event will the tax paid to the United States be less than the tax that would be paid if the individual were not a citizen of the United States.

ARTICLE 25

Non-discrimination

1. Nationals of a Contracting State shall not be subjected in the other Contracting 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 apply to persons who are not residents of one or both of the Contracting States. However, for the purposes of United States taxation, United States nationals who are subject to tax on a worldwide basis are not in the same circumstances as Slovak nationals who are not residents of the United States.

2. The term "nationals" means:

a) all individuals possessing the nationality of a Contracting State;

b) all legal persons, partnerships and associations deriving their status as such from the laws in force in a Contracting State.

3. The taxation on a permanent establishment which an enterprise of a Contracting State has in the other Contracting State shall not be less favorably 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 a Contracting State to

grant to residents of the other Contracting 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.

4. Nothing in this Article shall be construed as preventing either Contracting State from imposing a tax as described in paragraph 6 of Article 10 (Dividends).

5. Except where the provisions of paragraph 1 of Article 9 (Associated Enterprises), paragraph 4 of Article 11 (Interest), or paragraph 5 of Article 12 (Royalties) apply, interest, royalties, and other disbursements paid by a resident of a Contracting State to a resident of the other Contracting 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. Similarly, any debts of a resident of a Contracting State to a resident of the other Contracting State shall, for the purposes of determining the taxable capital of the first-mentioned resident, be deductible under the same conditions as if they had been contracted to a resident of the first-mentioned State.

6. Enterprises of a Contracting State, the capital of which is wholly or partly owned or controlled, directly or indirectly, by one or more residents of the other Contracting 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.

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 a Contracting State or a political subdivision or local authority thereof.

ARTICLE 26

Mutual Agreement Procedure

1. Where a person considers that the actions of one or both of the Contracting 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 Contracting State of which he is a resident or national. The case must be presented within three years from the first notification of the action resulting in taxation not in accordance with the provisions of the Convention.

2. The competent authority shall endeavor, 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 Contracting 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 Contracting States.

3. The competent authorities of the Contracting States shall endeavor to resolve by mutual agreement any difficulties or doubts arising as to the interpretation or application 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 Contracting States may communicate with each other directly for the purpose of reaching an agreement in the sense of the preceding paragraphs.

ARTICLE 27

Exchange of Information and Administrative Assistance

1. The competent authorities of the Contracting States shall exchange such information as is necessary for carrying out the provisions of this Convention or of the domestic laws of the Contracting States concerning taxes covered by the Convention insofar as the taxation thereunder is not contrary to the Convention. The exchange of information is not restricted by Article 1 (General Scope). Any

information received by a Contracting State 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 assessment, collection, or administration of, the enforcement or prosecution in respect of, or the determination of appeals in relation to, the 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.

2. In no case shall the provisions of paragraph 1 be construed so as to impose on a Contracting State the obligation:

a) to carry out administrative measures at variance with the laws and administrative practice of that or of the other Contracting 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 Contracting 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 (ordre public).

3. If information is requested by a Contracting State in accordance with this Article, the other Contracting 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 that other State. If specifically requested by the competent authority of a Contracting State, the competent authority of the other Contracting State shall 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.

4. For the purposes of this Article, the Convention shall apply, notwithstanding the provisions of Article 2 (Taxes Covered), to taxes of every kind imposed by a Contracting State.

ARTICLE 28

Diplomatic Agents and Consular Officers

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.

ARTICLE 29

Entry Into Force

1. This Convention shall be subject to ratification in accordance with the applicable procedures of each Contracting State and instruments of ratification shall be exchanged at Washington, D.C. as soon as possible.

2. The Convention shall enter into force upon the exchange of instruments of ratification and its provisions shall have effect:

a) in respect of taxes withheld at source, for amounts paid or credited on or after the first day of the second month next following the date on which the Convention enters into force;

b) in respect of other taxes, for taxable periods beginning on or after the first day of January of the year in which the Convention enters into force.

ARTICLE 30

Termination

1. This Convention shall remain in force until terminated by a Contracting State. Either Contracting State may terminate the Convention at any time after 5 years from the date on which the Convention enters into force, provided that at least 6 months prior notice of termination has been given through diplomatic channels. In such event, the Convention shall cease to have effect:

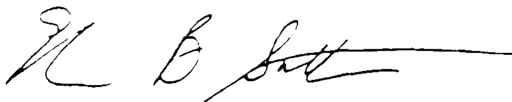
a) in respect of taxes withheld at source, for amounts paid or credited on or after the first day of January next following the expiration of the 6 month period;

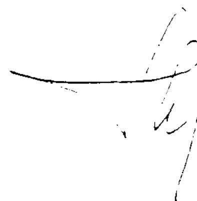
b) in respect of other taxes, for taxable periods beginning on or after the first day of January next following the expiration of the 6 month period.

IN WITNESS WHEREOF, the undersigned, being duly authorized thereto, have signed this Convention.

DONE at Bratislava, in duplicate, in the English and Slovak languages, both texts being equally authentic, this 8th day of October, 1993.

FOR THE UNITED STATES OF AMERICA: FOR THE SLOVAK REPUBLIC:





TREASURY NEWS

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

Text as Prepared for Delivery
For Immediate Release
November 16, 1993

TESTIMONY OF TREASURY SECRETARY LLOYD BENTSEN
HOUSE WAYS AND MEANS COMMITTEE

Chairman Rostenkowski, Congressman Archer, members of the committee: It is a pleasure to discuss the President's comprehensive health reform plan with you today. I have a longer statement for the record, which I'd like to summarize.

I have a deep personal interest in this topic. I'm sure you recall we've worked closely over the years when I was chairman of the Senate Finance Committee on many of these issues.

Reforming the nation's health care system is one of President Clinton's highest priorities. I think it would be a good idea to look at why reform is necessary before I take us through some of the details of the approach we have chosen.

First, there are inefficiencies and inequities in our system that raise health care costs to those who pay the bills. Getting sick can mean that the cost of your coverage escalates beyond reason, or that insurers decide to drop a person or even an entire group from coverage. Our system doesn't engender security, it fosters insecurity about having health insurance. That's wrong.

We are the only nation in the industrialized world without universal coverage. That's wrong. Fifteen percent of all Americans -- 37 million of them, between one-quarter and one-third of them children -- don't have the security of health insurance. Twenty-two million more have inadequate protection. That's wrong.

Furthermore, our system contains a built-in brake on the economy which we want to eliminate. It's called job-lock. Almost two-fifths of the insurers in this nation exclude pre-existing conditions of new policyholders. Surveys show that nearly one-third of the workers in this country say they feel locked into their job because of health insurance.

A third problem we must resolve is the issue of affordability. Millions and millions of Americans go without insurance, many because they can't afford it, even if they do have a job. Recent estimates indicate that by next year there will be about $25 billion in what we call "uncompensated care," all of it picked up by those who have insurance. I know of two hospitals in Texas which together had about $80 million in uncompensated care just last year.

LB-506

Because of this cost-shifting problem, those who have insurance pay the cost of care for those who do not have the coverage. And, according to some studies, that cost-shift drives up insurance premiums for all Americans more than 10 percent.

This nation pays far too much for health care. We spend about 14 percent of our Gross Domestic Product on health care. But the state of our health is no better than that of other industrialized nations that spend no more than 10 percent of their GDP on health care. In fact, we're behind in some areas.

The cost of health care is rising far faster than inflation. If we don't get this under control, the portion of our GDP devoted to health care costs will be more than 19 percent by the turn of the century. That's unacceptable.

What this unrelenting increase is doing is eating up the pay of working Americans. If insurance costs had stayed at the same share of payroll for the past 20 years, our workers could be making an extra $1,000 each a year. Some projections show that if nothing is done, every bit and more of projected wage increases in the coming decade could be consumed by health care costs. Talk about going backwards!

Finally, there are serious inefficiencies in our system, excess capacity, and waste. We've seen studies showing that we're losing about $80 billion a year to fraud and abuse. We could sure put that money to better use. We spent roughly $45 billion last year -- on paperwork. We have more hospital beds than we can fill, and prices keep going up.

It is not a pretty picture. For our economy to function at its best, we must make this system more efficient and more cost-effective. If we do that, we will make available the resources we need to provide universal coverage.

Mr. Chairman, when you announced these hearings, you said you wanted to look at what effect President Clinton's program will have on the economy. I'd like to address that point.

What I believe will happen is that many businesses will see their expenses for health coverage fall. As everyone is brought into the system, and as we control costs, we project that by the end of the decade business will be spending about $10 billion less per year on health services.

That money will probably go mostly for better wages and benefits for current or new employees, but a portion may also be invested in plant and equipment that will improve productivity, be paid out to shareholders, or even be used to lower prices. Each option contributes in a meaningful way to stimulating the economy.

There are also going to be some important benefits for our small businesses. Those who do provide coverage for their employees -- and about two thirds do right now -- will see their insurance administrative costs come down. There is no reason they should be spending up to 40 percent for administration. Furthermore, as free riders throughout the system are eliminated, premiums for those already providing coverage to their workers will be lowered. And they'll benefit from being part of health alliances that can negotiate prices for them.

Lastly, getting rid of health-related job lock and welfare lock will add efficiency to the economy over the long-term.

In our view, Mr. Chairman, the key to the success of any health reform program is universal coverage. Lawton Chiles discovered that when he became governor of Florida. He thought you had to control costs first, then extend coverage to everyone. He was back before the Finance Committee within a year saying he'd changed his mind. Universal coverage ends the cost-shifting, and thus is critical to controlling costs.

If I might, I'd like now to discuss how President Clinton's program is structured and how the revenue will be obtained.

To avoid major disruptions, the new system will be financed primarily like the current system. The key to making this plan effective is to build on the system of insuring individuals through their employers. Most businesses, small and large, already cover their workers. Nine of every 10 Americans with private health insurance get it through work. Just as they do today, employer and individual health insurance premiums will pay for the bulk of health coverage.

In general, employers will be required to pay 80 percent of the average premium. Requiring a contribution from the employer minimizes the disruption to our current system. However, to help ease firms into the new system, the plan limits to 7.9 percent the percentage of payroll that would be devoted to health care premiums for coverage obtained through regional alliances. Small low-wage firms and individuals of modest means would be provided special discounts. And, through the bargaining power of health alliances, premium rates can be lowered.

Before I deal with some of the specific revenue issues, there are four general points I want to make.

First, our plan is the only comprehensive proposal that spells out exactly what benefits will be provided and how it will be financed. This is the only fiscally responsible thing to do. During the development of the plan, the administration consulted with the nation's best actuaries and health care experts. I feel confident we have approached the difficult and complex 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.

Third, this plan will be phased in to allow sufficient time to make adjustments should we find that modifications are needed.

And fourth, there are plenty of plans out there, and some people have asked me why we didn't set up a system with just one payer, like the Canadian system. The President decided he didn't want to create a big, new government program, but rather wanted to build on what we have. I agree. We have faith in the markets. What we've done should free our insurers from having to resort to practices such as cherry-picking to stay in business.

Our plan clearly spells out the costs to the federal government and how we are going to pay for them, including discounts to eligible businesses and individuals, long term care and the new Medicare drug benefit. Funding for these, and for program improvements will come largely 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.

As to the excise tax on cigarettes, we would raise it from the current 24-cents-per-pack to 99 cents. The administration also proposes to increase the federal excise tax rates on all other tobacco products.

As members on both sides of the aisle in this committee have been saying for years, increases in tobacco taxes will promote better health -- not just among adults, but very importantly among our children. I am particularly concerned about the use of tobacco products by adolescents.

The health security plan also contains a 1 percent payroll assessment on large employers who opt to form their own health alliances. That will contribute, among other things, to underwriting important work in health research from which every American benefits.

Another major revenue source in the package is the tax receipts that will result. This accounts for about $23 billion over the estimating period. As health costs fall and employers devote the savings to taxable wages, more personal income and payroll tax revenue will be generated.

There are other tax provisions in the President's health plan to 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. And we have tax incentives to encourage doctors, nurses and other health professionals to work in our rural areas and inner cities.

Furthermore, we propose to modify the current tax treatment of long-term care expenses and insurance.

And we propose basing Medicare Part B premiums on income, with additional premiums being paid by single taxpayers with incomes above $90,000, and married couples with incomes above $115,000.

The administration has offered a bold and comprehensive plan to give Americans health security and take charge of health care costs. Next year alone, before we can fully phase in our plan, our nation's health care bill will exceed $1 trillion. That's one dollar of every seven in our economy.

There has been a sea change in public opinion about health care. Americans recognize that our health care system needs a comprehensive overhaul.

It is clear to me that we are going to do something this Congress. You need only look at the legislative landscape to figure that out. There are no fewer than half a dozen plans on the table. There is quite a bit of similarity among many of them. For example, all but one call for some form of competition. Every plan gets rid of exclusions for pre-existing conditions. Every one offers a choice of health plans and providers. Several call for the creation of a national health board. And many propose increasing the deduction for self-employed Americans.

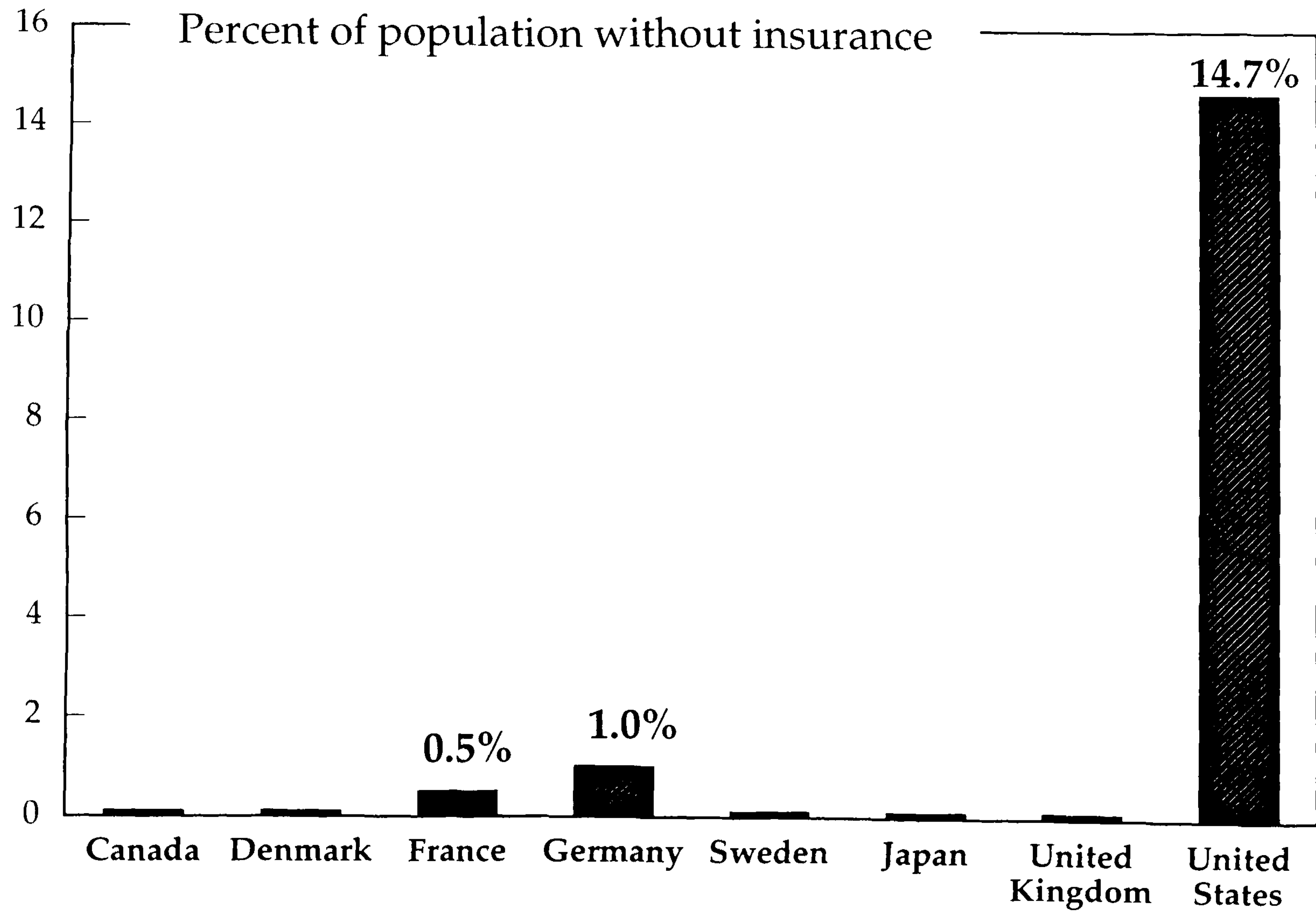
We have a significant amount of common ground here. But only the President's plan is truly universal and comprehensive. It provides universal coverage, builds on our existing system of obtaining insurance, contains a Medicare drug benefit, a long term care benefit, cigarette taxes, a requirement that employers help pay for health insurance, and, while it is designed to encourage managed competition, it also has a backup mechanism to ensure savings.

I've been waiting a long time for a president willing to take the lead on this issue. The health care problem will cripple our economy if we don't act. I'm proud to be part of an administration willing to seize this opportunity.

The President wants a bipartisan solution to this problem. It is an American issue, not a partisan one. The President and I look forward to working with each of you on this committee, and others in Congress, to enact a comprehensive and lasting reform of our health care system.

-30-

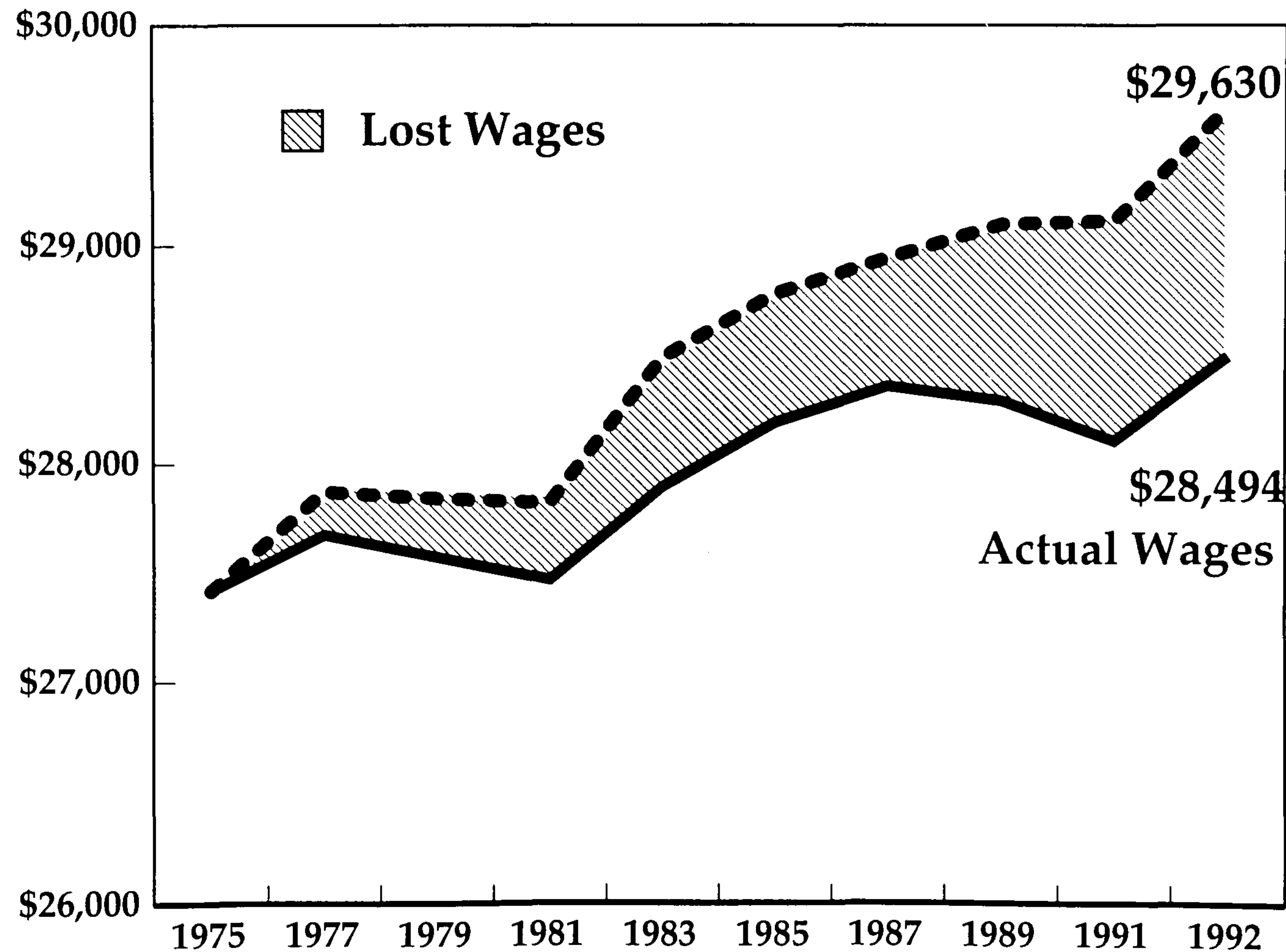
More Americans Lack Health Security



Source: Organization of Economic Cooperation and Development

Workers are Losing Wages to Rising Health Costs

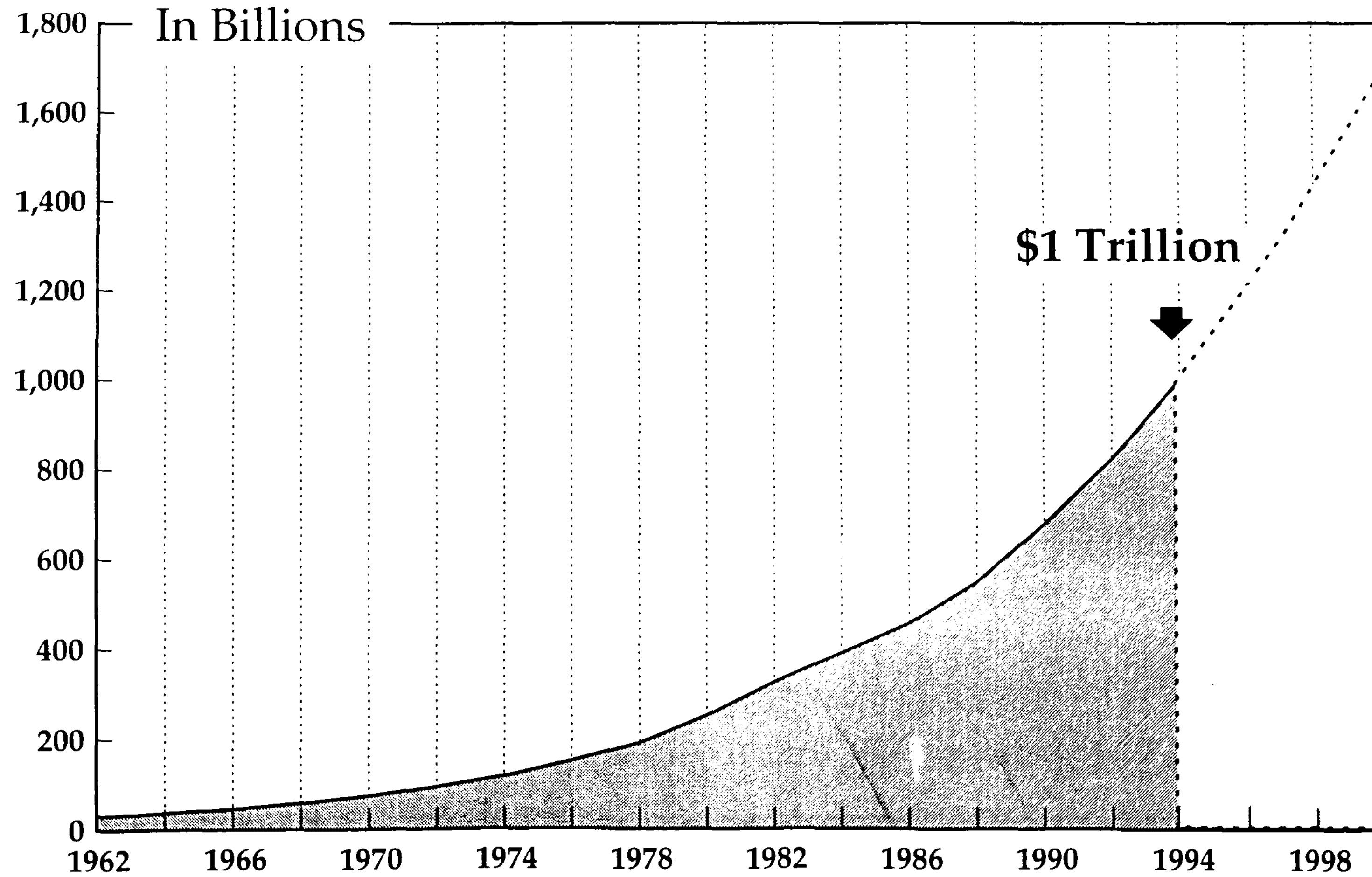
If health care had been reformed in 1975, American workers would have over $1,000 in extra wages every year



Source: Commerce Department, Office of Management and Budget

National Health Spending

The U.S. will have a $1 trillion health care bill next year



Source:CBO Forecasts

TREASURY NEWS

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

RECORD TESTIMONY OF TREASURY SECRETARY LLOYD BENTSEN
BEFORE THE
HOUSE WAYS AND MEANS COMMITTEE
NOVEMBER 16, 1993

Chairman Rostenkowski, Congressman Archer, members of the committee: It is a pleasure to have the opportunity to discuss the President's comprehensive health reform plan with you today.

I have a deep personal interest in this topic. I'm sure you recall we've worked closely over the years when I was chairman of the Senate Finance Committee on many of these issues.

Reforming the nation's health care system is one of President Clinton's highest priorities. I think it would be a good idea to look at why reform is necessary before I take us through some of the details of the approach we have chosen.

First, there are inefficiencies and inequities in our system that raise health care costs to those who pay the bills. Getting sick can mean that the cost of your coverage escalates beyond reason, or that insurers decide to drop a person or even an entire group from coverage. Our system doesn't engender security, it fosters insecurity about having health insurance. That's wrong.

We are the only nation in the industrialized world without universal coverage. That's wrong. Fifteen percent of all Americans -- 37 million of them, one third of them children -- don't have the security of health insurance. Twenty-two million more have inadequate protection. That's wrong.

Furthermore, our system contains a built-in brake on the economy which we want to eliminate. It's called job-lock. Almost two-fifths of the insurers in this nation exclude pre-existing conditions of new policyholders. Surveys show that nearly one-third of the workers in this country say they feel locked into their job because of health insurance.

We have a relatively mobile work-force, far more mobile than that of Europe. Eliminating this particular problem could improve that mobility, free more workers to upgrade their jobs and improve their standard of living.

A third problem we must resolve is the issue of affordability. Millions and millions of Americans go without insurance, many because they can't afford it, even if they do have a job. Recent estimates indicate that by next year there will be about $25 billion in what we call "uncompensated care," all of it picked up by those who have insurance. I know of two hospitals in Texas which together had about $80 million in uncompensated care just last year.

Because of this cost-shifting problem, those who have insurance pay the cost of care for those who do not have the coverage. And, according to some studies, that cost-shift drives up insurance premiums for all Americans more than 10 percent.

This nation also pays far too much for health care. We spend about 14 percent of our Gross Domestic Product on health care, and the state of our health is no better than that of other industrialized nations that spend no more than 10 percent of their GDP on health care. In fact, we're behind in some areas.

We've seen some moderation in the rate of inflation in the health field of late, but it's still going up three times the rate of overall consumer price inflation. If we don't get this issue under control, the percentage of our GDP devoted to health care costs will be more than 19 percent by the turn of the century. That's unacceptable.

What this unrelenting increase is doing is eating up the pay of working Americans. If insurance costs had stayed at the same share of payroll for the past 20 years, our workers could be making an extra $1,000 each a year. Some projections show that if nothing is done, every bit and more of projected wage increases in the coming decade could be consumed by health care costs. Talk about going backwards!

Finally, there are serious inefficiencies in our system, excess capacity, and waste. We've seen studies showing that we're losing about $80 billion a year to fraud and abuse -- that's about 8 percent of our total spending. We could sure put that money to better use. We spent more than 5 percent of our total health budget -- or roughly $45 billion last year -- on paperwork. We have more hospital beds than we can fill, and prices keep going up.

It is not a pretty picture. For our economy to function at its best, we must make this system more efficient and more cost-effective. If we do that, we will make available the resources we need to provide universal coverage.

Mr. Chairman, when you announced these hearings, you said you wanted to look at what effect President Clinton's program will have on the economy. I'd like to address that point.

What I think will happen is that many businesses will see their expenses for health coverage fall. As everyone is brought into the system, and as we cut costs, we project that by the end of the decade business will be spending about $10 billion less per year on health services.

That money will probably go mostly for better wages and benefits, but a portion may also be invested in plant and equipment that will improve productivity, be paid out to shareholders, or even be used to lower prices. Every one of those options contributes in a meaningful way to stimulating the economy.

There are also going to be some important benefits for the small businesses in this nation. Those who do provide coverage for their employees -- and about two thirds do right now -- will see their insurance administrative costs come down. There is no reason they should be spending up to 40 percent for administration. Furthermore, as free riders throughout the system are eliminated, premiums for those already providing coverage to their workers will be lowered. And they'll benefit from being part of health alliances that can negotiate prices for them.

Lastly, and I mentioned this a bit earlier, getting rid of health-related job lock and welfare lock will add efficiency to the economy over the long-term.

In our view, Mr. Chairman, the key to the success of any health reform program is universal coverage. You recall when Lawton Chiles was chairman of the Budget Committee in the Senate. He was convinced that it was necessary to control health care costs before extending coverage to everyone. Lawton left the Senate and became governor of Florida. Within less than a year he was back telling the Finance Committee that he had changed his mind. Having universal coverage ends the cost-shifting, and is critical to controlling costs.

If I might, I'd like now to discuss how President Clinton's program is structured and how the revenue will be obtained.

To avoid major disruptions, the new system will be financed primarily like the current system. The key to making this plan effective is to build on the system of insuring individuals through their employers. Most businesses, small and large, already cover their workers. Nine of every 10 Americans with private health insurance get it through work. Just as they do today, employer and individual health insurance premiums will pay for the bulk of health coverage.

In general, employers will be required to pay 80 percent of the average premium. Requiring a contribution from the employer minimizes the disruption to our current system. However, to help ease firms into the new system, the plan limits to 7.9 percent the percentage of payroll that would be devoted to health care premiums. Small low-wage firms and individuals of modest means would be provided special discounts. And, through the bargaining power of health alliances, premium rates can be lowered.

Before I deal with some of the specific revenue issues, there are four general points I want to make.

First, our plan is the only comprehensive proposal that spells out exactly what benefits will be provided and how it will be financed. This is the only fiscally responsible thing to do. During the development of the plan, the administration consulted with the nation's best actuaries and health care experts. I feel confident we have approached a difficult and complex 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.

Third, this plan will be phased in, which allows sufficient time to make adjustments should we find that modifications are needed.

And fourth, there are plenty of plans out there, and some people have asked me why we didn't set up a system with just one payer, like the Canadian system. The President decided from the early days that he didn't want to create a big, new government program, but rather wanted to build on what we have. I agree with him. We have faith in the markets. What we've done should free our insurers from having to resort to practices such as cherry-picking to stay in business. A market-based approach will encourage them to compete on the basis of quality and price, without competitors skimming off only the healthy population, the cream of the insurance business.

Our plan clearly spells out the costs to the federal government and how we are going to pay for them, including discounts to eligible businesses and individuals, long term care and the new Medicare drug benefit. Funding for these, and for program improvements will come largely 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.

Now, as to some specific revenue items in the bill. Our proposal contains a number of provisions that have been of particular interest to this committee over the years.

As you know, the 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.

As members on both sides of the aisle in this committee have been saying for years, increases in tobacco taxes will promote better health -- not just among adults, but very importantly among our children. I am particularly concerned about the use of tobacco products by adolescents.

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 that non-smokers will bear some of the increased health costs of smokers. This proposal helps make up for that.

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 male high school students use this type of tobacco, and it presently is taxed at a disproportionately low rate in comparison to cigarettes.

The health security plan also contains a 1 percent payroll assessment on large employers who opt to form their own health alliances. That will contribute, among other things, to underwriting important work in health research from which every American benefits.

Another major revenue source in the package is the tax receipts that will result. This accounts for about $23 billion over the estimating period. Let me explain. Increased competition, greater cost-consciousness on the part of both consumers and providers, and other cost containment measures will lower health insurance costs. Standard revenue estimating rules assume that as tax-preferred employer health care costs go down, more worker compensation will come in the form of taxable wages. That will generate more income and payroll taxes, despite the increased number 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. Members of both parties on this committee have been trying to get that done for years. It's time we got it done. We propose that a self-employed taxpayer could claim the full 100 percent deduction once the state of residence establishes a regional alliance. Until then, the 25 percent health insurance deduction for self-employed workers will continue.

In addition, I know that many of you here are very interested in making certain our rural residents, and those who live in the inner cities, have adequate access to quality health care. This plan does that with incentives that encourage doctors and nurses to locate in underserved areas.

We are proposing two tax incentives to encourage adequate medical care in all areas of the country. A physician who starts working full-time 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. Other health care providers doing the same in these areas can receive a tax credit of up to $500 per month. In addition, all physicians who work in these areas will be able to expense an additional $10,000 for medical equipment each year.

There are other ways the tax system will be used to achieve other objectives of the health plan. For example, we encourage through the tax system private long term care insurance.

The plan proposes to modify the current tax treatment of long-term care expenses and insurance. 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.

There is another point that many on this committee have been discussing for some time. This legislation will base the Medicare Part B premiums on income, for high-income enrollees. Many members have supported this proposal. High-income taxpayers who enroll in part B will see their premiums gradually increased from about 25 percent of program costs to up to 75 percent of program costs. The additional premiums will be paid by single taxpayers with income above $90,000, and married couples with income above $115,000. We anticipate this will affect about 2.5 percent of beneficiaries.

Lastly, there have been some concerns raised about whether employers will be able to shift their work force to independent contractor status to avoid any responsibility for financial support of health reform. We're are intent that this will not be permitted to happen.

Under the Act, a worker's status is to be determined under the same rules that apply for employment tax purposes under the Internal Revenue Code. We believe that following the existing employment tax rules will not impose additional administrative burden on employers and is preferable to developing a new set of rules that would apply only for health care purposes.

We are aware that in some cases the employment tax rules are not clear. The subjective nature of the common law test on which those rules are based makes it difficult both for taxpayers to be certain they are correctly classifying their workers and for the government to achieve even-handed administration. Because the stakes are increased significantly by health care reform, the Act includes provisions that are intended to ensure that anti-abuse rules can be developed to prevent gaming of the employer mandate and premium discounts. Let me emphasize, however, that we do not foresee these new rules as substantially departing from the current law or resulting in significant reclassification of workers. Rather, we would strive to develop clearer and more objective standards on which employers can rely.

We realize that worker classification issues are difficult and that others have sought solutions to these issues in the past. We want to open a dialogue between the administration,

Congress and employers on how these goals can be achieved. Over the past several years, for example, the IRS has worked with several industry groups as part of its Compliance 2000 initiative to develop standards for worker classification in those particular industries. Representatives of those industry groups have confirmed to us that these efforts have been productive, and we intend to build on that work. In addition, we anticipate and look forward to guidance from Congress as this legislation proceeds.

CONCLUSION

The administration has offered a bold and comprehensive plan to give Americans health security and take charge of health care costs. Next year alone, before we can fully phase in our plan, our nation's health care bill will exceed $1 trillion. That's one dollar of every seven in our economy.

The plan we have drafted accomplishes everything many of us tried to do in the last Congress, and much more. You may recall, Mr. Chairman, that last year we worked together to fashion several proposals that, taken together, would have made important but incremental progress in extending health coverage to low income families. I helped develop some of those bills because at the time it was as far as I thought we could go in achieving reform of the health care system.

Things have changed. It has, in fact, been a sea change. Americans recognize that our health care system needs a comprehensive overhaul. You can see that reflected in every poll in every newspaper you pick up. Americans are concerned about what's become of our system of health care, and they have a right to be.

It is clear to me that we are going to do something this Congress. You need only look at the legislative landscape to figure that out. There are no fewer than half a dozen plans on the table. There is quite a bit of similarity among many of them. For example, all but one call for some form of competition. Every plan wants to get rid of exclusions for pre-existing conditions. Every plan offers a choice of health plans and providers. Several call for creation of a national health board. And many propose increasing the deduction for self-employed Americans.

We have a significant amount of common ground here. But only the President's plan is truly universal and comprehensive. It provides universal coverage, builds on our existing system of obtaining insurance, contains a Medicare drug benefit, a long term care benefit, cigarette taxes, a requirement that employers help pay for health insurance, and, while it is designed to encourage managed competition, it also has a backup mechanism to ensure savings.

I've been waiting a long time for a president willing to take the lead on this issue. The health care problem will cripple our economy if we don't act. I'm proud to be part of an administration willing to seize this opportunity.

President Clinton is committed to universal coverage and comprehensive benefits, with lifetime coverage, and cost protections for every American. He is committed to choice in health care.

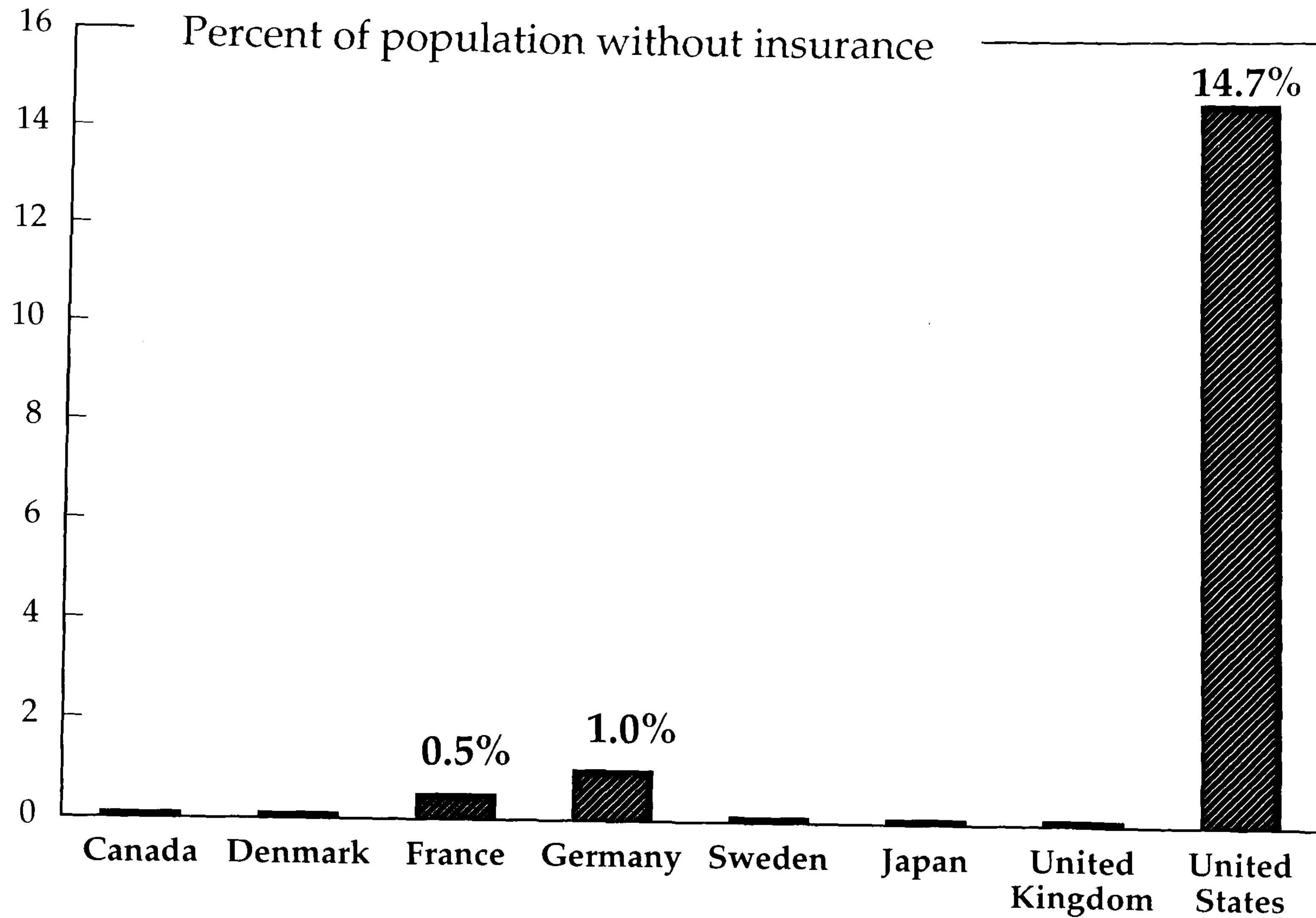
Furthermore, President Clinton is intent on seeing that the quality of health care improves. He wants to reduce the paperwork burden for individuals and employers. He wants to make everyone responsible for health care. And, he is intent on financing the Health Security plan in a responsible manner. This plan does all of that with minimal government intrusion.

The President wants a bipartisan solution to this problem. It is an American issue, not a partisan one. The President and I look forward to working with each of you on this committee, and others in Congress, to enact a comprehensive and lasting reform of our health care system.

Thank you.

-30-

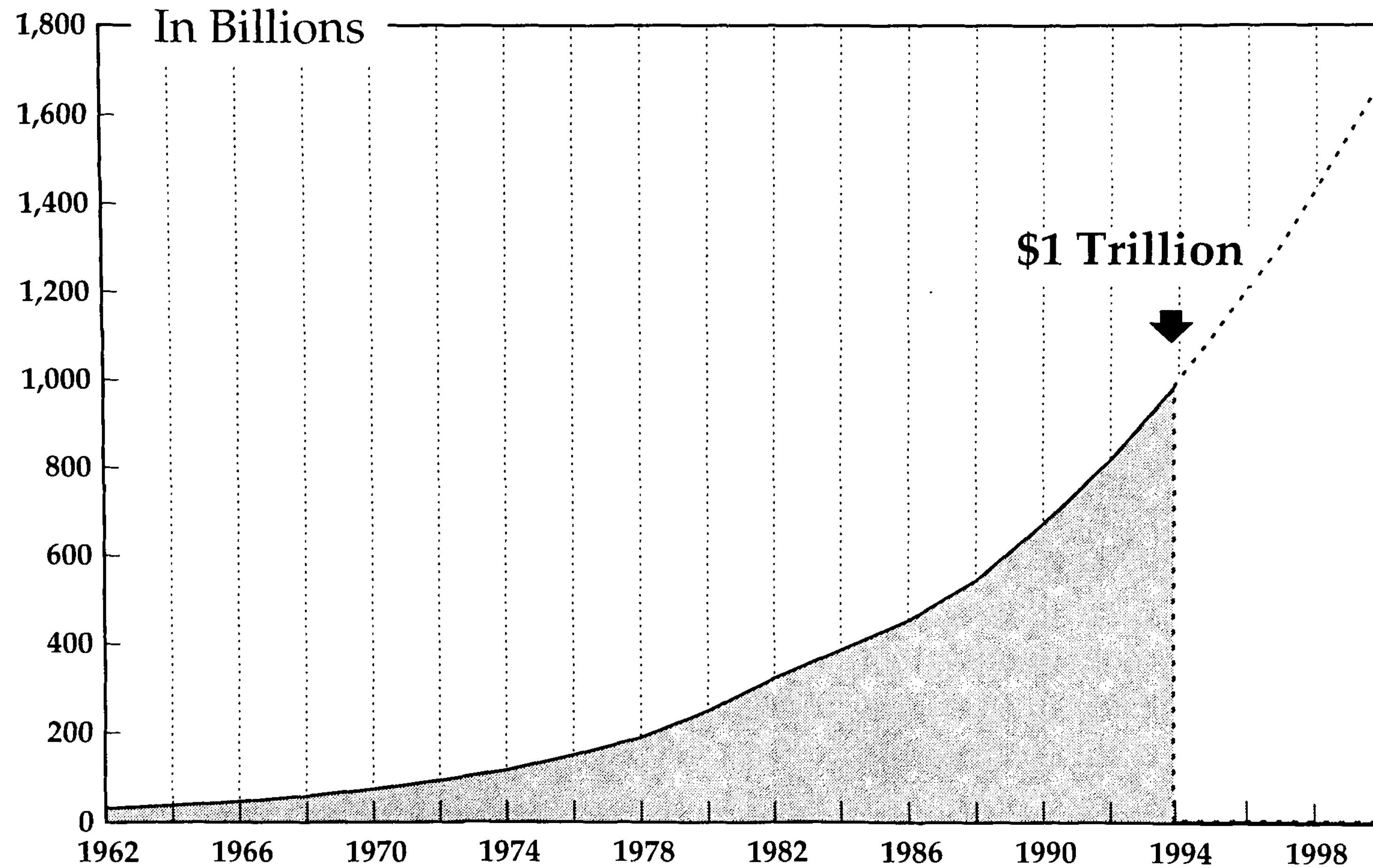
More Americans Lack Health Security



Source: Organization of Economic Cooperation and Development

National Health Spending

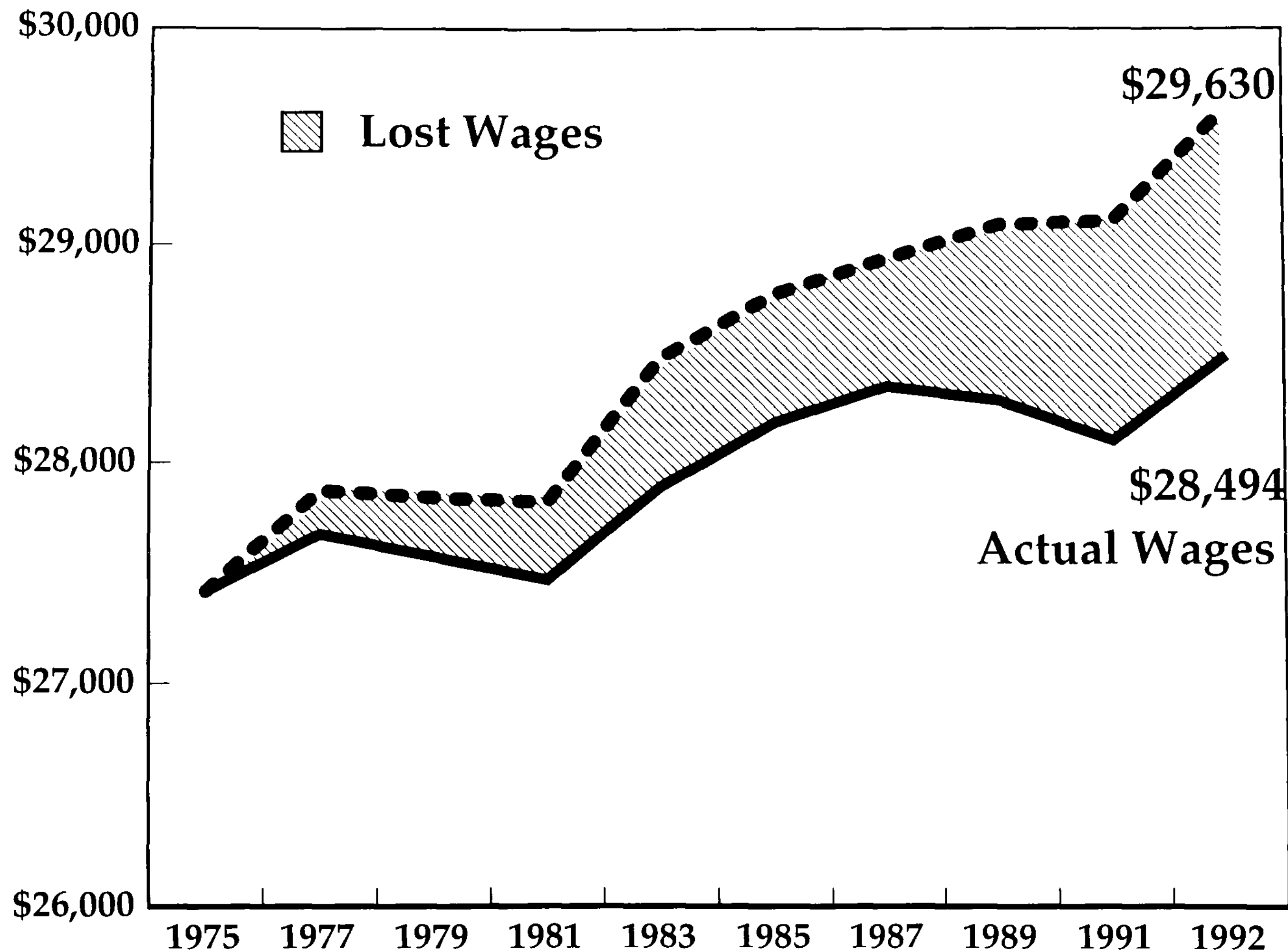
The U.S. will have a $1 trillion health care bill next year



Source:CBO Forecasts

Workers are Losing Wages to Rising Health Costs

If health care had been reformed in 1975, American workers would have over $1,000 in extra wages every year



Source: Commerce Department, Office of Management and Budget

TREASURY NEWS

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

Text As Prepared for Delivery

REMARKS OF LAWRENCE H. SUMMERS
UNDER SECRETARY FOR INTERNATIONAL AFFAIRS
U.S. TREASURY
delivered at
INTERAMERICAN DEVELOPMENT BANK
NOVEMBER 10, 1993

Thank you very much. I'm delighted to be here to represent the United States at this historic event. What you have heard makes one very important part of the case for NAFTA. You know there are agonizingly difficult issues of international economic policy. I would suggest to you that NAFTA is not one of them. It is as close to a free lunch that economists will ever find. NAFTA is good for the United States. NAFTA is good for Canada, and NAFTA is good for Mexico. NAFTA is progress in this hemisphere.

In a real sense, the NAFTA debate is a test of us as a people in the United States. Are we a people who are governed by fear or a people who are guided by hope? Of course, there are things to be concerned about: exiting foreign investment, low wages, environmental problems. One thing is certain: if NAFTA goes down, none of these problems are going to get any better. But a vote for NAFTA is a vote for the continuation of strong economic reform in Mexico and in the rest of Latin America that will raise wages. A vote for NAFTA is a vote for a more competitive Western Hemisphere against the real competitors this country faces in Europe and in Asia. A vote for NAFTA is an endorsement of strong new agreements and strong new financing to provide for environment improvements. The issue isn't whether worries are valid or not. Of course worries are valid. The question is whether you try to put up walls and lock in the not-so-great world that was yesterday, or whether we try to bring down barriers, be guided by hope and create a much better world for tomorrow.

NAFTA isn't just a test of us as a people. It is a test of us as a nation and what kind of role we want to have in the world. Are we the kind of nation that fears a country like Mexico? Are we the kind of nation that is unwilling to compete? Are we the kind of nation that doesn't want to embrace the change, the opportunity that an agreement like NAFTA would bring? If we answer those questions yes, what can the rest of the world, the parts of the world that don't share a 2,000 mile border with us, the parts of the world that haven't yet undertaken bold programs of economic reform, the parts of the world that still look for major trading opportunities -- what can those countries think of the United States if we are unwilling to go ahead with Latin America?

LB-508

You know, the Cold War is the third war that ended in this century. After World War I, the United States wasn't prepared to lead. Tariffs went up. We sought refuge at home. We didn't create new international institutions. And what followed was 20 years of slow down: stagnation, depression, and ultimately, the second World War. After World War II, the United States was prepared to lead. We sought to bring down barriers, we created new international institutions, and we saw the most prosperous, rapidly growing and peaceful past century in the history of the world.

Now the Cold War is over. And the choice is before us. Henry Kissinger said, speaking at the White House the other day, that the vote on NAFTA is the most important vote in foreign policy that the Congress will cast, not in this year, but in this decade. And he's right, because it speaks to what kind of a nation we're going to be. Are we going to fail as we did after World War I, or are we going to lead as we did after World War II? I have no doubt that the United States is going to be prepared to lead and cooperate in Latin America and it sill benefit us all. It's damn close to a free lunch. Thank you very much.

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
November 15, 1993

CONTACT: Peter O'Brien
(202) 622-2960

TREASURY ANNOUNCES PENALTY AGAINST UNITED MISSISSIPPI BANK

The Department of the Treasury on Monday announced the United Mississippi Bank has paid a civil money penalty of $40,000 for failing to file currency transaction reports as required by the Bank Secrecy Act (BSA).

The violations at the Natchez, Miss. bank, which occurred from 1990 to 1991, were identified by the Internal Revenue Service's Detroit Computing Center Compliance Review Group.

"This penalty represents a complete settlement of the bank's civil liability for these violations and should encourage all financial institutions to implement effective BSA compliance programs," Ronald Noble, Assistant Secretary for Enforcement, said.

Noble said Treasury appreciated the assistance of United States Attorney George Phillips and Assistant United States Attorney Robert Anderson, both of the Southern District of Mississippi.

The BSA requires banks and other financial institutions to keep certain records, file currency transaction reports with Treasury on cash 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's efforts in combatting money laundering as well as for use in civil, tax, regulatory and other criminal investigations.

-30-

TREASURY NEWS

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

FOR RELEASE AT 2:30 P.M.
November 16, 1993

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $27,600 million, to be issued November 26, 1993. This offering will provide about $3,025 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $24,579 million.

Federal Reserve Banks hold $6,173 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 $2,921 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.

oOo

Attachment

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED NOVEMBER 26, 1993

November 16, 1993

Offering Amount	$13,800 million	$13,800 million
Description of Offering:		
Term and type of security	90-day bill	181-day bill
CUSIP number	912794 J2 1	912794 K7 8
Auction date	November 22, 1993	November 22, 1993
Issue date	November 26, 1993	November 26, 1993
Maturity date	February 24, 1994	May 26, 1994
Original issue date	August 26, 1993	November 26, 1993
Currently outstanding	$12,241 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

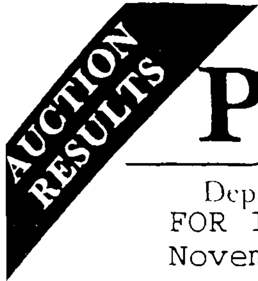
Maximum Award . . . . 35% of public offering

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



PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
November 16, 1993

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 52-WEEK BILLS

Tenders for $16,150 million of 52-week bills to be issued November 18, 1993 and to mature November 17, 1994 were accepted today (CUSIP: 912794L93).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.42%	3.56%	96.542
High	3.43%	3.57%	96.532
Average	3.43%	3.57%	96.532

Tenders at the high discount rate were allotted 63%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$53,932,175	$16,149,975
Type		
Competitive	$49,618,000	$11,835,800
Noncompetitive	429,175	429,175
Subtotal, Public	$50,047,175	$12,264,975
Federal Reserve	3,650,000	3,650,000
Foreign Official Institutions	235,000	235,000
TOTALS	$53,932,175	$16,149,975

LB-511

// TREASURY NEWS

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

November 16, 1993

STATEMENT OF
MAURICE B. FOLEY
DEPUTY TAX LEGISLATIVE COUNSEL (TAX LEGISLATION)
DEPARTMENT OF THE TREASURY
BEFORE THE
WAYS AND MEANS SUBCOMMITTEE ON SELECT REVENUE MEASURES
U.S. HOUSE OF REPRESENTATIVES

Mr. Chairman and Members of the Subcommittee:

I am pleased to have this opportunity to present the views of the Administration on H.R. 429 (the "Taxpayer Debt Buy-Down Act").

I. Background

Before turning to the views of the Administration, I would like to provide the Subcommittee with background information regarding the Presidential Election Campaign Fund check-off, which is the only analogous federal program.[1]

Presidential Election Campaign Fund. Section 9006 of the Internal Revenue Code establishes the Presidential Election Campaign Fund (the "Campaign Fund"). Each individual whose federal income tax liability for a taxable year is at least $1 may designate, by checking the appropriate box on his or her tax return, that $1 be paid into the Campaign Fund. Pursuant to the Omnibus Budget Reconciliation Act of 1993 (OBRA '93), individuals will be able to designate $3 of their tax liability beginning next year. The amount designated for the Campaign Fund does not affect the taxpayer's tax liability.

Monies in the Campaign Fund are used for three purposes: (1) payments to the national committee of each major and minor political party for its nominating convention; (2) payments to the eligible candidates of a political party for President and Vice-President; and (3) payments to eligible candidates seeking the nomination of a political party to be President.

For calendar year 1992, 20.5 million returns, or 18 percent of the total number of individual income tax returns, designated a total of $29.6 million in contributions to the Campaign Fund. A total of $32.3 million in contributions was designated for calendar year

---

[1] A number of states provide check-offs on income tax forms to permit taxpayers to fund state electoral campaigns, private charitable organizations, and state governmental programs.

1991. The main cost of administering this provision consists of the labor cost of transcribing data at the Internal Revenue Service (IRS) service centers when the returns are processed.

II. Overview of H.R. 429

H.R. 429 would provide individual taxpayers with the ability to designate on their federal income tax returns between one and ten percent of their tax liability to be earmarked for reducing the public debt. The Treasury Department would estimate on May 1 the total amount earmarked on returns filed for the preceding calendar year, and would transfer that amount into a "Public Debt Reduction Trust Fund" (the "Trust Fund").[2] The amounts in the Trust Fund would be used to retire or purchase outstanding Treasury securities, and therefore could not be used to fund federal programs.

H.R. 429 also mandates a corresponding decrease in federal spending. This decrease, if not done legislatively through reductions in discretionary appropriations and direct spending, would be achieved through an essentially across-the-board sequestration. Social security payments, net interest payments on federal debt, and funding for certain insurance funds established to resolve the savings and loan problem (e.g., the Resolution Trust Corporation; Federal Deposit Insurance Corporation, Bank Insurance Fund; National Credit Union Administration, credit union share insurance fund, etc.) are exempted from sequestration under the bill.

Sequestration updates released under the Balanced Budget and Emergency Deficit Control Act of 1985 by the Office of Management and Budget would be expanded to include the Treasury estimate of the amount earmarked to the Trust Fund. These reports would also contain an estimate of the amount of the percentage reduction in programs that would be required as a result of the transfers to the Trust Fund. The final reports, issued within 15 days of the end of a Congressional session, would provide the actual amounts required to be sequestered. Budget authority (appropriations in the case of discretionary spending) for the new fiscal year would be cut by the "sequestration percentage" (i.e., the total amount earmarked by taxpayers for debt reduction divided by all government spending programs which are not explicitly exempted). Any increases in budget authority would be subject to pay-go restrictions.

The provisions of H.R. 429 would remain in effect until the entire outstanding public debt is retired.

---

[2] The IRS would tabulate the actual amounts designated, but this tabulation could not be completed by the May 1 deadline provided in the bill.

III. Administration's Position

We recognize that the objective of H.R. 429 is to impose discipline on spending by the federal government and, in doing so, reduce the amount of outstanding federal debt. This Administration has a strong commitment to deficit reduction, as reflected in our efforts to pass OBRA '93. OBRA '93 will reduce the deficit by nearly $500 billion over five years. Through the National Performance Review, a new rescission package, and our proposal to limit the growth of Medicare and Medicaid through comprehensive health care reform, we have presented plans to further restrain the growth of government spending and reduce the deficit. In addition, the Bipartisan Commission on Entitlement Reform, which is chaired by Senators Kerry and Danforth, will come forward with suggestions on controlling entitlement costs and other serious budget reforms.

The Administration opposes H.R. 429, however, because of the potentially adverse effects it could have on the legislative process, the budget process, and the economy. In addition, the bill would pose numerous administrative problems.

Impact on the political process. By providing a blunt instrument, which would result in across-the-board spending cuts, H.R. 429 could disrupt the orderly development of a federal budget and discourage the Administration and Congress from setting priorities through difficult budgetary choices. Under our system of government, members of Congress choose the spending programs to be funded and determine the amount of funding for each program. H.R. 429 would allow certain individuals effectively to override those choices by extending to those designating a transfer to the Trust Fund the right to permanently reduce the level of federal spending -- a right not enjoyed by every citizen. The bill would dilute the ability of Congress to determine overall levels of funding. In turn, the ranking of priorities would be made much more difficult. For example, supporters of particular programs may seek to offset anticipated sequestrations of unknown amounts by proposing levels of funding that exceed the amount necessary to accomplish their objectives. This would further complicate the task of setting priorities in the budget process.

By incorporating a "one dollar, one vote" concept into the budgetary process, H.R. 429 could undermine the fundamental "one person, one vote" tenet of our political system. The bill would allow citizens who incur significant tax liabilities to have a potentially greater voice in the way federal funds are spent than those who incur little or no tax liability. In addition, approximately 48 million potential taxpayers who in 1991 had no income tax liability would, in a sense, be disenfranchised, even though these individuals pay payroll, excise, and other federal taxes. In essence, this would give a limited number of taxpayers a disproportionately large impact on the budget process and allow them to circumvent the normal political process.

H.R. 429 provides taxpayers with only the ability to reduce the overall level of spending, but not the ability to increase spending or re-allocate the amounts spent on different programs. The role of government in society, and the way in which federal monies

are raised and spent, clearly are questions which deserve to be addressed by all citizens. These fundamental issues should be decided through the voting process, not through the tax system, where those low-income Americans who are likely to be affected the most by the outcome are effectively disenfranchised.[3]

The check-off for the Campaign Fund does not raise these process concerns because the designations to the Campaign Fund do not trigger, through sequestration, budget cuts in other programs. In addition, the dollar amounts involved are much smaller. Even assuming 100 percent participation in Campaign Fund designations, the maximum annual amount of contributions would be approximately $345 million. By contrast, the midsession review of the budget projected fiscal year 1994 individual income taxes at somewhat less than $550 billion. Thus, the potential FY 1994 reduction in federal spending pursuant to H.R. 429 could exceed $50 billion.

Budget considerations. By allowing taxpayers to elect to designate up to 10 percent of their current year's income tax liability to a deficit trust fund, H.R. 429 does not simply reduce Congressional budget authority for the following fiscal year. Rather, it permanently reduces future budget authority by the amount designated each year, so that designations in successive years would result in significant cumulative reductions. Thus, if the bill were enacted this year, and all taxpayers were to designate the full 10 percent on their 1993 and future tax returns, Congressional budget authority would be reduced by approximately $50 billion in fiscal year 1995, $100 billion in fiscal year 1996, $150 billion in fiscal year 1997, etc.

It is important to understand that the resulting spending cuts, which are required to be spread equally across nearly all federal programs, would quickly have a major deleterious impact on these programs. For example, since projected outlays for the expenditures subject to H.R. 429 total approximately one trillion dollars, these programs would have to be reduced from their baseline levels by roughly 5 percent in fiscal year 1995, 10 percent in fiscal year 1996, 15 percent in fiscal year 1997, etc., if all taxpayers elected the maximum amounts allowed under H.R. 429. Even if only a small fraction of taxpayers elected the maximum amount, and only a moderate fraction elected to designate any portion of their tax liability to deficit reduction, these cutbacks could, over time, result in significant reductions in many programs, such as Medicare, Medicaid, guaranteed student loans, veterans programs, job training programs, Headstart, highway spending programs, defense, outlays associated with the earned income tax credit, food stamps, and unemployment compensation. Moreover, some of these programs are designed to provide a "safety net" for those most in need of federal assistance and are restricted or exempted from cuts under the current budget rules for sequesters (e.g., Medicare, Medicaid, food stamps, and unemployment compensation).

---

[3] The Presidential Election Campaign Fund does not raise this distributional concern because every taxpayer who participates contributes the same amount.

Economic considerations. H.R. 429 would require an undetermined and unpredictable amount of spending cuts to reduce the public debt and, as a consequence, would severely limit the government's ability to prevent mild recessions from turning into severe economic downturns. Similarly, during a modest economic upswing, such as we are currently experiencing, the unanticipated spending cuts pursuant to this bill could jeopardize economic recovery.

In addition, the sequestration provisions of H.R. 429 would remain in effect until the first fiscal year during which there is no public debt outstanding. Given that the outstanding public debt currently exceeds $4 trillion, the federal government would be required to run significant budget surpluses for years (once the deficit is eliminated) before all outstanding debt could be retired. It would take many years to accomplish this goal. As a result, H.R. 429 would constrain discretionary budget policies and cause economic disruptions for an extended period of time.

Administrative considerations. In addition to the broader policy concerns, H.R. 429 would pose significant administrative burdens. Any check-off system would further complicate tax returns and instructions. By requiring information that does not directly relate to the determination of an individual's tax liability, the proposal could also complicate electronic filing. Proposals such as this frustrate the objective of reducing the paperwork burden and complexity of tax forms. Moreover, space on the income tax form is already allocated to maximize compliance. Mandating additional items could displace items crucial to the proper reporting and collection of tax. This could reduce compliance, limit the ability of the IRS to properly enforce the tax laws, and thus reduce tax receipts.

There are also a number of processing concerns presented by this bill. Unlike the Campaign Fund, taxpayers would be able to designate different amounts, based on their particular tax liabilities. Thus, the IRS would be required to devote significant resources to transcribing these designations. Amounts to be sequestered would be based upon estimates made by the Treasury Department of the aggregate amounts designated by taxpayers for the last taxable year ending before the beginning of that session of Congress. Given the May 1 deadline, these estimates would, by necessity, be imprecise (especially in the early years). In any particular fiscal year, the sequestration might exceed or be below the actual amounts designated by taxpayers. This would require adjustments to sequestrations to correct discrepancies between the estimates (and the sequestration based on those estimates) and actual designations.

In addition, some taxpayers are likely to make computational errors in determining the amount they wish to designate, potentially resulting in additional communications between those taxpayers and the IRS. Further complications would arise if the individual's tax liability is subsequently adjusted, potentially requiring changes to the sequestration percentage.

* * *

This concludes my prepared remarks. I would be pleased to respond to your questions.

TREASURY NEWS

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

EMBARGOED UNTIL 10:00 A.M.
November 17, 1993

STATEMENT OF
LESLIE B. SAMUELS
ASSISTANT SECRETARY (TAX POLICY)
DEPARTMENT OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON COMMERCE, CONSUMER AND MONETARY AFFAIRS
COMMITTEE ON GOVERNMENT OPERATIONS
U.S. HOUSE OF REPRESENTATIVES

Mr. Chairman and distinguished Members of the Subcommittee:

You asked for our views on certain legislative initiatives outlined in a recent report by the Internal Revenue Service (the Service) entitled "Final Recommendations of the Service Center Organization Study," as amended in April 1993 (the Report). You also requested that we discuss additional legislative proposals that we believe are needed to facilitate the Report's findings or the Service's Tax Systems Modernization (TSM) as a whole.

The Report was prepared by a Service task force. In general terms, its goal was to support TSM by improving the way in which the Service interacts with taxpayers and collects and processes data. As your letter indicates, the Report's recommendations do not necessarily represent the official position of the Service or Treasury.

I. The Report's Legislative Recommendations

The Report (at page 124) lists the following seven legislative proposals:

1. Resolve signature issues
2. Allow credit card payments
3. Mandate electronic filing by preparers
4. Mandate electronic filing/EFT for business returns
5. Annualize 941 and 720 returns
6. Allow up-front assessment of tax for selected issues
7. Accelerate IRP filing requirements

Although the Report does not describe the proposals in great detail, additional explanations on four of them (items 1, 2, 3 and 4, above) are provided in a more recent document prepared by

the Service in support of the National Performance Review, entitled "Internal Revenue Service Legislative Proposals in Support of the National Performance Review," dated October 20, 1993 (the NPR Proposals). The NPR Proposals modify recommendations 3 and 4, above, by requesting that the Secretary of the Treasury (the Secretary) be given broad regulatory authority to require that returns be filed electronically, instead of the more targeted authority to mandate electronic filing by certain preparers and for certain business returns. As described more fully below, we generally support recommendations 1, 2, 3 and 4, as modified by the NPR Proposals.

The Service is still evaluating whether the last three of the Report's recommendations (items 5, 6 and 7) adequately take into account certain compliance effects and technological capabilities. We believe that it would be premature for Treasury to take a position on these last three recommendations until the Service has completed its evaluations.

II. The Report's Legislative Recommendations, as Modified by the Service's NPR Proposals

A. Regulatory authority to prescribe alternative methods for verifying signatures on returns

Under current law, an individual must sign any return, statement or other document that is required to be submitted to the IRS under penalties of perjury. Taxpayers who file returns electronically must submit a written signed jurat (i.e., a certification) to the Service after the electronic filing verifying that the submission was the taxpayer's and affirming the accuracy of its contents. Numerous other documents filed with returns also require taxpayer or third party signatures.

In its NPR Proposals, the Service recommends that the Internal Revenue Code of 1986 (the Code) be amended to explicitly recognize the authority of the Secretary to issue regulations providing "for alternative methods of verifying, signing, and subscribing" returns and other documents. The proposal would eliminate the need for a separate signature form for electronic filing and the current substantial processing, storage and retrieval costs connected with the separate signature form.

A similar proposal was in section 4933 of H.R. 11, the Revenue Act of 1992, which was passed by both Houses of Congress, but vetoed by the prior Administration. Section 4933 would have given the Secretary the authority to prescribe alternative methods of verifying returns on a trial basis for 1993, 1994 and 1995 and would have imposed a number of reporting requirements. We believe that the broader grant of authority in the NPR Proposals is more supportive of the Service's long-range

modernization goals than the more narrow trial-basis grant in H.R. 11.

B. Regulatory authority to permit payment of taxes by any commercially acceptable means, including credit cards

The Code permits taxes to be paid by stamps, checks or money orders. Under the Service's proposal, the Secretary would be authorized to accept tax payments by any commercially acceptable means to the extent prescribed by Treasury regulations. This would include payment by credit or debit cards.

We believe this legislation is an important part of the Service's strategy to shift from a paper-based remittance processing system to an information processing system. An identical proposal was contained in H.R. 11 (section 4122) and in H.R. 13, the Tax Simplification Act of 1993 (section 122). Like the signature proposal, the credit card proposal in H.R. 11 was not enacted, because it was in a tax bill vetoed by the prior Administration. Work on H.R. 13 was postponed pending consideration of H.R. 2264, the Omnibus Budget Reconciliation Act of 1993. The credit card proposal is now part of H.R. 3419, the Tax Simplification and Technical Corrections Act of 1993, which was introduced by Chairman Rostenkowski of the House Ways and Means Committee on November 1, 1993.

C. Regulatory authority to require that returns be filed electronically or by magnetic media

The Code does not specifically authorize the Secretary to require that tax returns be filed electronically. The Code does authorize the Secretary to issue regulations requiring that certain returns be filed on magnetic media or in other machine-readable form. These are returns (other than income tax returns for individuals, trusts or estates) filed by a person who is required to file at least 250 returns during a calendar year. The regulations must take into account (among other factors) the cost of complying with magnetic media filing requirements.

The Service has proposed that the Secretary be given regulatory authority to require that tax returns be filed other than in paper form, including electronically or by magnetic media. This authority would extend to all tax returns, including income tax returns for individuals, trusts and estates. The Service envisions that the conversion to non-paper filings would be phased in by various groups of taxpayers and returns, taking into account the relative costs and other burdens associated with converting to an electronic filing system.

Broad regulatory authority to require that returns be filed other than in paper form is appropriate and essential to the Service's ability to modernize its systems, streamline its

operations and, in general, deliver quality services at the least cost. However, in view of the potential burdens on taxpayers and preparers in complying with electronic or magnetic media filing requirements, we currently are considering whether legislative refinements to this proposal may be necessary to clarify the intended scope and timing of the conversion to a non-paper based system.

III. Additional Legislative Proposals

There are a number of additional legislative proposals that we believe are important to modernize the tax collection and administrative process. For example, among the Service's NPR Proposals is a new proposal that would authorize the Secretary to prescribe alternative methods of submitting written declarations, statements, or other documents required by statute to be attached to returns. This proposal supplements the related proposal to permit alternative signature methods and would facilitate conversion to a paperless electronic filing system. As another example, prior tax bills, as well as the Service's NPR Proposals, include a provision authorizing the Service to treat reproductions from digital images as original documents. In addition, we are carefully reviewing all of the legislative recommendations outlined in the Service's NPR Proposals.

We appreciate your panel's interest in revamping the Service's organizational structure and look forward to continuing to work with you in addressing this important issue.

TREASURY NEWS

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

FOR RELEASE AT 2:30 P.M.
November 17, 1993

CONTACT: Office of Financing
202/219-3350

TREASURY TO AUCTION 2-YEAR AND 5-YEAR NOTES TOTALING $28,000 MILLION

The Treasury will auction $17,000 million of 2-year notes and $11,000 million of 5-year notes to refund $14,483 million of publicly-held securities maturing November 30, 1993, and to raise about $13,525 million new cash.

In addition to the public holdings, Federal Reserve Banks hold $1,146 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 $1,284 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.

oOo

Attachment

LB-514

HIGHLIGHTS OF TREASURY OFFERINGS TO THE PUBLIC OF
2-YEAR AND 5-YEAR NOTES TO BE ISSUED NOVEMBER 30, 1993

November 17, 1993

Offering Amount	$17,000 million	$11,000 million
Description of Offering:		
Term and type of security	2-year notes	5-year notes
Series	Series AD-1995	Series U-1998
CUSIP number	912827 M9 0	912827 N2 4
Auction date	November 22, 1993	November 23, 1993
Receipt of Tenders (Eastern Standard time):		
Noncompetitive tenders	Prior to 11:00 a.m.	Prior to 12:00 noon
Competitive tenders	Prior to 11:30 a.m.	Prior to 1:00 p.m.
Issue date	November 30, 1993	November 30, 1993
Dated date	November 30, 1993	November 30, 1993
Maturity date	November 30, 1995	November 30, 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	May 31 and November 30	May 31 and November 30
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

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

EMBARGOED FOR RELEASE
UPON DELIVERY
(APPROXIMATELY 2:00 p.m.)
TEXT AS PREPARED
FOR DELIVERY

Statement of Susan B. Levine
Deputy Assistant Secretary of the Treasury
International Development, Debt and Environment
Before the
Committee on Banking, Finance, and Urban Affairs Subcommittee on
International Development, Finance, Trade and Monetary Policy
U.S. House of Representatives

November 18, 1993

Introduction

Mr. Chairman. Members of the Committee. I appreciate your invitation to testify on procurement opportunities for U.S. firms with the multilateral development banks. This is an extremely important issue for Treasury.

In testimony last spring, Secretary Bentsen made it clear that increasing business development and exports would be one of this Administration's most important objectives in the multilateral development banks. The U.S. already does well in this area, better as you might imagine, than any other G-7 country. Nevertheless, improving U.S. performance in this area is a key item on this Administration's agenda for change in the multilateral development banks.

Other agencies will clearly have major roles to play in this process. The Department of Commerce and the Trade and Development Agency are particularly valuable sources of support and technical expertise. I am pleased that representatives of these two agencies are here this afternoon.

We are working closely with both of these agencies to advance our commercial interests in the multilateral development banks. Our basic objectives are to assure that U.S. firms

(1) are made aware of business opportunities from the multilateral development banks as early as possible in the project cycle and

(2) that they have a full and fair chance to compete successfully with firms from other countries for this increasingly important business.

LB 515

The International Context

We also need to look at this issue in a much broader context. Last year, the United States exported more than $619 billion in goods and services. Between 1987 and 1991, U.S. exports were the primary engine of growth in our domestic economy, accounting for 39 percent of the increase in our gross domestic product over that period.

As President Clinton has said, the United States cannot afford to retreat from the international economy. For our own selfish reasons, we need to help create a freer and more open international trading system within which the global economy can grow more rapidly. This approach will pay dividends on the home front. It is, in fact, the only way in which we can assure our nation's economic future and begin to create greater economic opportunities for our own people.

Our efforts to increase global growth are crucial at a time when economic growth has been negative or extremely slow in other industrial countries. Each percentage point increase in growth in other G-7 countries will result in more than $10 billion in U.S. exports each year. Under the Uruguay Round, lower tariff and non-tariff barriers to manufactured goods could increase world output by more than $5 trillion over the next ten years and U.S. output by more than $1 trillion.

Developing counties will also be affected. These countries have been the most rapidly expanding export market for U.S. merchandise exports over the past five years. U.S. exports to them went from just under $109 billion in 1987 to more than $181 billion in 1992. That was an increase of more than sixty-six percent, more than twice the rate of increase for our trade with other industrial countries. Under the Uruguay Round, we believe that full participation of developing counties in the global trading system could increase U.S. exports by an additional $200 billion over the next ten years.

The Reach of the Multilateral Development Banks

The Administration's approach to the multilateral development banks is part and parcel of our overall approach to international economic issues. The multilateral development banks play a central role in the international economic system. They encourage their borrowers to adopt policies that promote more rapid economic growth and more open trading practices. They have a financial reach that extends far beyond the capability of any single donor, including the United states.

This year, development bank loan commitments to developing countries will amount to more than $45 billion. Most of this

money has come from funds that are raised in private capital markets and at no cost to the U.S. Government.

These loan commitments are a catalyst that increases the flow of private investment to developing countries. This further enhances the prospects for economic growth in those countries and creates even larger and more rapidly expanding demand for exports of U.S. goods and services.

Multilateral development bank loan commitments have gone to more than 100 borrowing countries in Asia, Africa, Latin America and in Central and Eastern Europe and the former Soviet Union. Many of the countries that have received these loans such as Argentina, Mexico and Pakistan have become important customers for U.S. exports. In many instances, the largest MDB borrowers are also the most important Export-Import Bank customers.

The multilateral development banks make loan commitments in many economic sectors. Their loans identify potential customers for a broad range of U.S. goods and services. The World Bank's sectoral distribution of lending for its most recent fiscal year presents a good example of the diversity of this market: agricultural and rural development $3.3 billion or 13.8 percent of total lending; transportation $3.2 billion or 13.4 percent; education $2.0 billion or 8.5 percent; urban development $2.0 billion or 8.5 percent; and population, health and nutrition $1.8 billion or 7.6 percent. This is a large market of great diversity that we cannot afford to stay out of.

Measuring U.S. Performance

As I indicated at the outset, the most recent statistical data that we have show that the United states is the most successful of the G-7 countries in terms of contracts awarded or disbursements made. The first chart at the end of my statement shows the U.S. at the top with an estimated $2.2 billion over the most recent fiscal years.

We do not have estimates for other countries in either the African Development Bank or the European Bank. However, in the other three banks for which we do have statistics, Germany and Japan come next after the United States, with each of them getting approximately $1.1 billion. Even in the Asian Development Bank, the U.S. received procurement of $210 million, marginally ahead of Japan with $206 million for calendar year 1992.

Also of note is how effective some of the developing countries have become at winning contracts on multilateral development bank projects. A second chart at the end of my statement ranks the top eleven recipients in each of the banks for which we have statistics. It shows India, Mexico and China in second, third and

fourth places respectively in the World Bank with Germany, Japan and France in fifth, sixth and seventh places. The United Kingdom shows up in ninth place after Brazil.

Assessing the Impact

Behind the overall figures I have just cited lie a multitude of individual cases in which U.S. firms have won contract awards from MDB financed projects. These firms come from every part of the country. They include large international firms with extensive experience on major projects as well as small and medium-sized firms with more limited areas of expertise and experience. Taken together, these firms provide a very broad array of U.S. goods and services for MDB financed projects.

A few specific examples will show what I mean. McDermott International of New Orleans, Louisiana is a large firm with extensive international experience. In 1989, it led an international consortium which won a $407 million contract to develop the Oso off-shore oil condensate project in Nigeria. Of that amount, $265 million has come directly to the United States over the past three years to pay for compressors, generators, piping, steel tubing and other goods and services needed to complete the project.

The award of this contract has had a very positive impact on the economy of New Orleans where McDermott's international headquarters are located. We understand that four hundred people have worked on the contract there. Thirty other people have worked on site in Nigeria and still more were engaged in transporting barges and other equipment needed at the site.

The positive impact from the project was also felt in other parts of the country through the activities of subcontractors hired by McDermott. The compressors for the project came from Dresser Industries in New York. The turbine generators came from General Electric in California. Other important equipment came from Crowley Machinery in the State of Washington.

Other Large Disbursements

Other U.S. firms that have received relatively large disbursements on World bank projects during the past year include American Cast Iron Pipe from Birmingham, Alabama ($11 million); U.S. Chemical Resources from Tampa, Florida ($9.8 million); Caterpillar from Peoria, Illinois ($12.9 million); Cargill Incorporated from Minneapolis, Minnesota ($9.9 million); General Electric from New York ($10.5 million); Kellogg Overseas Corporation from Dallas, Texas ($17.3 million); and Sprint

International Communication Corporation from Reston, Virginia ($5.5 million).

A number of awards have also gone to consulting engineering firms that prepare the feasibility and prefeasibility studies which are the essential first steps in the project cycle. These firms also provide other important services such as preparation of final designs and project management and supervision.

A quick review of World Bank procurement data over the past year shows the following firms which have received disbursements on contracts of this type: Morrison-Knudsen of San Francisco, California; Stokes Engineering Company of Weston Connecticut; Deleuw Cather of Chicago, Illinois; Harza Engineering of Chicago, Illinois; Camp, Dresser and McKee of Boston, Massachusetts; Black and Veatch of Kansas City, Missouri; Louis Berger of East Orange, New Jersey; and Stone and Webster of New York.

U.S. accounting firms, management consulting firms, and other U.S. companies and organizations that provide specialized services have also done well in the MDBS. Last year, for example, the list of U.S. companies winning MDB contracts included Deloitte, Haskins, and Sells; Ernst and Young; Peat Marwick; Arthur D. Little; Booz, Allen, and Hamilton; and Price Waterhouse. U.S. universities have also done well. Last year's listing includes: the Midwest University Consortium, the University of Connecticut, Tulane University, Harvard University, Northeastern University, and the University of Wisconsin.

We do not have separate statistics on minority and women-owned firms, but last March, the African Development Bank's Board of Directors approved a project for $2.3 million which resulted in a contract being awarded to Theragen Incorporated of Capital Heights, Maryland. The contract is part of the bank's private sector development program. It supports a joint venture between Theragen and the Swaziland Investment Trust in the development of a pharmaceutical company in Swaziland. In recent years, two U.S. minority-owned investment banks -- Pryor McClendon and Courts and Doley Securities -- have served as co-managing underwriters for African Development Bank yankee bond offerings.

Financial services and the Environment

Let me turn now to the financial services industry, one with which I am quite familiar. Since 1989, the MDBs have raised more than $62 billion in public bond offerings. Of this amount, nearly $50 billion or 78 percent was either managed or co-managed by U.S. firms.

The environmental services industry is another key area which stands to derive significant benefits from the MDBs' greatly

increased emphasis on environmental work. This work includes environmental impact assessment and monitoring and mitigation measures. U.S. firms have a strong technological lead vis-a-vis other countries in many important areas. It is one of the most promising areas for potential growth in the future. That is one of the benefits we expect to get from our participation in the Global Environment Facility.

MDB Reporting Systems and Procurement Policies

The procurement benefits I have just outlined are only the tip of the MDB iceberg. On average, MDB financing has represented about forty percent of the total costs of individual projects. The rest of the financing has come from other sources such as export promotion agencies and even more has come from the borrowing countries themselves. This additional financing is shown in the third chart at the end of my statement. It is directly related to MDB lending activity and, in many cases, gives U.S. suppliers an important opportunity for further business which is not reflected in the MDB reporting systems.

Other methodological issues arise with the reporting systems. MDB statistics do not always capture procurement benefits accruing to the United States. This is the case when U.S. firms bid through their foreign subsidiaries or as part of a joint venture or sub-contracting arrangement with foreign firms. For example, Caterpillar, one of the larger U.S. firms benefitting from MDB business, has indicated there are specific instances in which World Bank statistics did not fully capture the amount of business that had accrued to their firm.

We are continuing to work with the MDBs to improve the accuracy and comparability of information generated through their reporting systems. We also want to develop additional information on the importance of total project costs and subcontracting. Our overall view, however, is that the information reported to us by the MDBs is accurate and responsive to our needs.

There will always be some degree of distortion in any complex statistical process. From our point of view, it is most useful to focus on improving our outreach to the U.S. business community and on assuring that U.S. firms are treated fairly in the awarding of MDB contracts.

We believe that MDB procurement policies and practices must remain fair. Contracts above certain specific levels, which have varied among the MDBS, must continue to be awarded on the basis of international competitive bidding. This is a time-consuming and expensive process. It requires preparation of detailed and specific requests for tender, public announcements of the requests, and public opening of bids that are submitted.

But we believe that this system is necessary in order to maintain our competitive advantage. In several important respects, MDB bidding requirements are similar to those of the U.S. Government. Overall, we believe that the MDBs emphasis on international competitive bidding has served U.S. interests well.

Sometimes problems arise in the bidding process, and procedures are in place, both within the banks and within the U.S. Government, to deal with them. When we believe there is a possibility that U.S. firms have not been treated fairly, we have pursued those exceptions aggressively.

In some cases, we have been successful in reversing the awards of contracts and in bringing about a new round of international competitive bidding or in the cancellation of the loan amounts in question when the borrower is unwilling to make amends. For example, the World Bank cancelled $50 million of a loan to Turkey for highway construction when that country was unwilling to reverse an award.

Increasing U.S. Business

As I mentioned at the outset, we have a mandate to increase the commercial benefits of U.S. participation in the multilateral development banks. Our Executive Directors and Alternates are instructed to make business development and exports one of their highest priorities within the MDBS. We do not intend to treat this issue as a purely technical issue. In all of the banks, either the Director or the Alternate, with strong support from staff, will take primary responsibility for business development and procurement issues.

Within Treasury, we have created a new position: Assistant Director for Business Development and Exports. This position has been filled by a senior career official. He has overall responsibility within the office of Multilateral Development Banks for enhancing business outreach and for assuring that procurement policy issues are resolved. He will take a broad approach to these issues and seek to relate them more effectively to our other important policy objectives within the MDBS. We now have two professional staff members working on these types of issues at Treasury.

The Inter-Agency Process

We are also working to improve inter-agency support for MDB business matters. We rely heavily on the Commerce Department and the Trade and Development Agency in our efforts to improve U.S. commercial performance in the MDBS. Treasury has been a full participant in the Trade Promotion Coordination Committee.

Secretary Bentsen, Under-Secretary Summers, Assistant Secretary Shafer, and I have all participated in this process.

We are pleased with the results of that process as they relate to increasing our share of MDB business. Commerce has already assigned an additional commercial service officer to work with the office of the U.S. Executive Director at the African Development Bank and an additional environmental procurement officer is now in the office of the U.S. Executive Director at the Asian Development Bank. Additional commercial service staff are expected at the other banks in the near future. The concept of one-stop shopping for the MDBs has also been adopted at the Commerce Department in order to facilitate the assistance provided to U.S. business.

We are working closely with the Trade and Development Agency to support U.S. consulting engineers and other management consultants at the earliest stages of the project cycle. Both agencies-- Commerce and TDA-- will speak more to the specific details of their own programs in the MDBS. I simply wanted to emphasize how integral we believe their efforts are to the overall success of our program in the MDBs. We cannot succeed without their continuing and active involvement in encouraging a larger share of business for U.S. firms.

Enhancing Outreach to U.S. Business

Since the beginning of 1993, the multilateral development banks and the U.S. Government have sponsored or participated in more than 150 seminars or conferences designed to encourage participation of U.S. firms in the work of the multilateral development banks. Some of these seminars have been regularly scheduled monthly or quarterly meetings held by the MDBs to acquaint firms generally with the nature of their work and the possibilities for doing business. Others have been targeted at geographical areas within the United states or at MDB activities in certain borrowing countries or in specific economic sectors such as the environment or energy.

Earlier this month the Asian Development Bank concluded a series of seminars for U.S. firms in Boston, Milwaukee, Portland, and Honolulu. In June, a seminar on MDB work in the electric power sector was held here in Washington with the participation of approximately 150 U.S. firms including major contracting firms, engineers and consultants, private bankers and other financial services firms. Similar conferences have been held previously for the telecommunications, agricultural, and environmental sectors.

We believe these conferences and seminars have been very useful in promoting U.S. business. We plan to continue them in the future. We are very interested, however, in developing new mechanisms for involving the private sector more actively in our work at the MDBs

and in refining our approach to different sectors of the U.S. business community.

For example, we are making preliminary plans now for a seminar targetted at small and medium-sized businesses with a special focus on minority and women-owned firms that we hope will take place in Chicago in the first quarter of next year. We believe that these types of firms that have been active in international activities may benefit from an approach that is specifically tailored to their concerns.

Conclusion

My statement today has focused on the commercial aspects of our national interest in the multilateral development banks. I do not want to leave you with the idea that we are in any way deemphasizing economic, political, strategic or humanitarian objectives that we have pursued in these international institutions. We will continue to work toward these and other important foreign policy goals that we have within the banks.

What we are doing within Treasury is putting much more emphasis on the commercial aspect of our participation in the banks. We intend to work more closely with other government agencies and with all members of the U.S. business community in this effort.

Frankly, in some cases, the most useful thing we can do is to get out of the way and let the other government agencies and U.S. business firms do the jobs they know how to do much better than we do. In other cases, we believe we will be able to provide a perspective or additional push that can help advance our commercial interests in the MDBs and we are very committed to doing that more effectively.

The final point I want to make is that we must also act to meet our financial obligations to the MDBS. At this time, we have arrearages in excess of $818 million. These arrearages interfere with the achievement of all our important policy objectives within the MDBS. This includes our long-term ability to generate greater commercial opportunities. It is important that we begin to reduce our arrearages over the next several years.

U.S. FIRMS GET LARGEST SHARE OF MDB G-7 PROCUREMENT *

World Bank/IDA: WBFY 1993 (to June 30, 1993)
(disbursements by address of payment)

United States	1393	8.0%
Germany	846	4.9%
Japan	846	4.9%
France	743	4.3%
U.K. (includes Hong Kong)	727	4.2%
Italy	386	2.2%
Canada	192	1.1%

Inter-American Development Bank: CY 1992
(disbursements by origin of goods – convertible currency only)

United States	577	21.0%
Germany	133	4.8%
Japan	78	2.8%
Italy	65	2.4%
France	52	1.9%
United Kingdom	52	1.9%
Canada	45	1.6%

International Finance Corporation
(private sector operations)
U.S. companies have participated as underwriters, company managers, equity investors, capital goods suppliers, lenders, technical partners, & providers of technical assistance.

African Development Bank Group: CY 1992
(disbursements by address of payment)

$66 million (estimated) to U.S. addresses.

Asian Development Bank Group: CY 1992
(contract awards by country of procurement/origin of goods)

United States	210	7.7%
Japan	206	7.5%
Germany	134	4.9%
U.K.	82	3.0%
Italy	72	2.6%
Canada	34	1.2%
France	21	0.8%

European Bank For Reconstruction & Development
(mixed information base)

Consulting: U.S. received 15 % of contract awards in CY 1992.
Merchant banking: U.S. companies have participated in 38% of merchant banking deals (6/91 to 9/93).

Development banking: no meaningful data available as yet.

* MDB Procurement: G-7 Shares of Total Procurement. Public data, for the most recent year available. (in US$ millions and in percent).

11/93

U.S. LARGEST -- BUT DEVELOPING COUNTRIES ARE IMPORTANT *

World Bank/IDA: WBFY 1993 (to June 30, 1993)
(disbursements by address of payment)

Country	US$ millions	Percent
United States	1393	8.0%
India	1279	7.4%
Mexico	1132	6.5%
China (ex. Taiwan/ H.Kong)	1089	6.3%
Germany	846	4.9%
Japan	846	4.9%
France	743	4.3%
Brazil	815	4.7%
U.K. (includes Hong Kong)	727	4.2%
Indonesia	727	4.2%
Argentina	567	3.3%

Inter-American Development Bank: CY 1992
(disbursements by origin of goods – convertible currency only)

Country	US$ millions	Percent
United States	577	21.0%
Brazil	303	11.0%
Mexico	259	9.4%
Chile	176	6.4%
Argentina	153	5.6%
Venezuela	139	5.1%
Germany	133	4.8%
Ecuador	118	4.3%
Colombia	90	3.3%
Japan	78	2.8%
Italy	65	2.4%

Asian Development Bank Group: CY 1992
(contract awards by country of procurement/origin of goods)

Country	US$ millions	Percent
Indonesia	292	10.7%
Pakistan	246	9.0%
United States	210	7.7%
Japan	206	7.5%
Philippines	172	6.3%
India	171	6.2%
China	152	5.5%
Bangladesh	144	5.3%
Korea	135	4.9%
Germany	134	4.9%
U.K.	82	3.0%

African Development Bank Group: CY 1992
(disbursements by address of payment)

$66 million (estimated) to U.S. addresses.

European Bank For Reconstruction & Development
(mixed information base)

Consulting: U.S. received 15% of contract awards in CY 1992.
Merchant banking: U.S. companies have participated in 38% of merchant banking deals (6/91 – 9/93).

Development banking: no meaningful data available as yet.

* MDB Procurement: Relative Shares Of Top 11 – public data for the most recent year available.
(in US$ millions and in percent). (percentages are of total procurement and include project and adjustment lending).

U.S. BUSINESS OPPORTUNITIES GO BEYOND MDB SHARE OF PROJECT COSTS.

WB & IDA – Total Project Costs: WBFY 1993. *

(in US$ millions and in percent of total project costs)

	Total	Percent
All Projects		
Total Project Costs	$58,692.6	100%
IBRD/IDA	$23,695.9	40%
Local Contribution	$24,970.8	43%
Cofinancing	$10,025.9	17%
Other Multilateral	$3,194.8	5%
Bilateral	$3,654.5	6%
Export Credit	$1,218.1	2%
Private	$1,958.5	3%

* Financing plans at the time of Board Approval.
Additional cofinancing may appear during project implementation.

11/93

TREASURY NEWS

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

Embargoed until after NAFTA vote
November 17, 1993

STATEMENT OF TREASURY SECRETARY LLOYD BENTSEN

I am gratified that the House has chosen the course of fair trade over protectionism. This is an important victory, not only for President Clinton, but also for Americans who want the better jobs that trade provides. Beyond improved access to Mexico's market and a level playing field, this agreement holds the promise of even stronger trading ties -- and more jobs -- throughout this hemisphere.

This administration will continue working to expand trade, through the GATT negotiations, through our talks with Japan, and through new ties with Asia, because trade is a critical element in sustaining solid and steady growth in the U.S. economy.

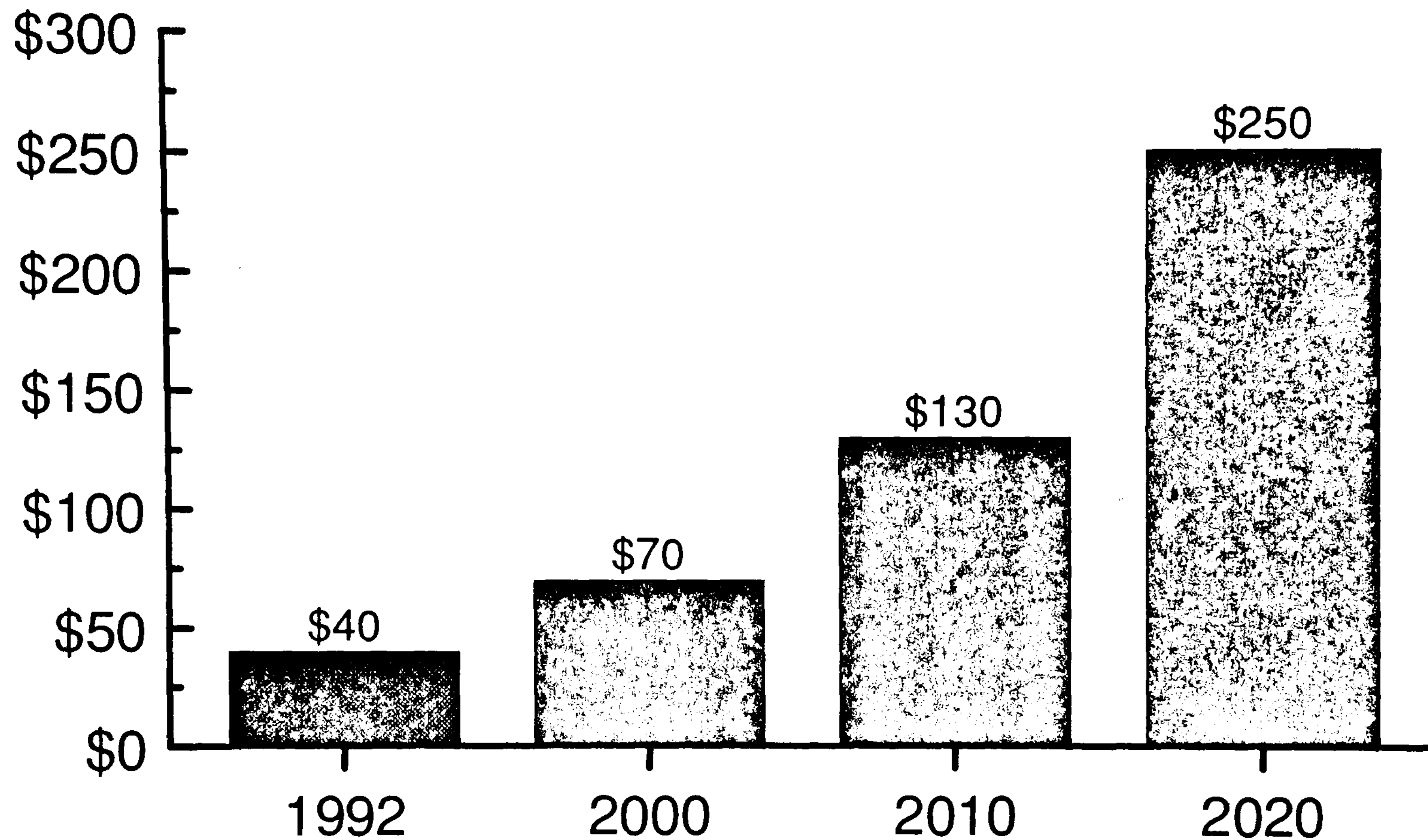
This was a long and difficult campaign. It produced unusual alliances. Even friends disagree now and then. With NAFTA behind us, we look forward to working with our friends on the other issues on the American agenda, such as comprehensive health care reform. Our goal is to strengthen the standard of living in this country, and there is work to be done.

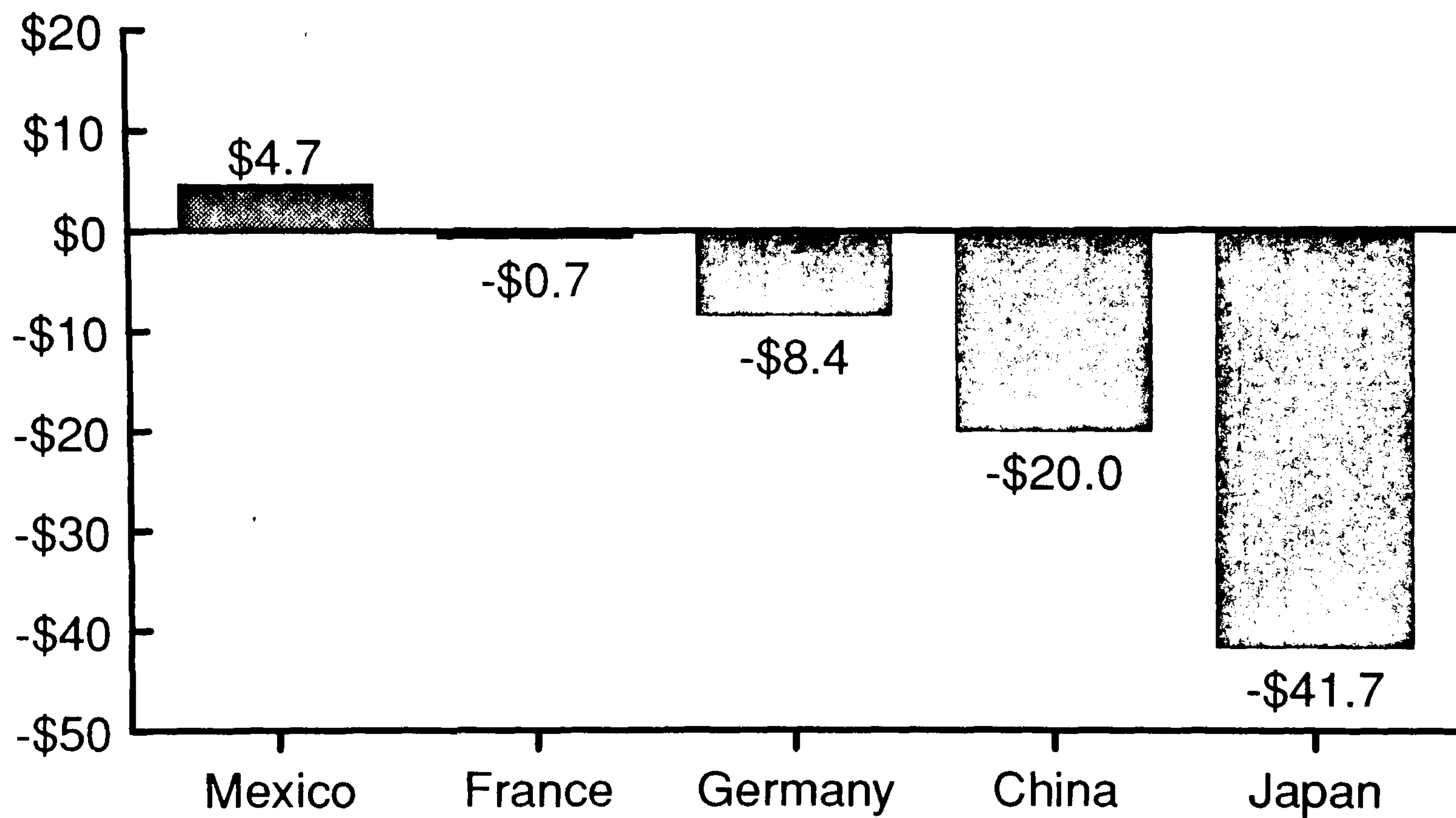
-30-

LB-516

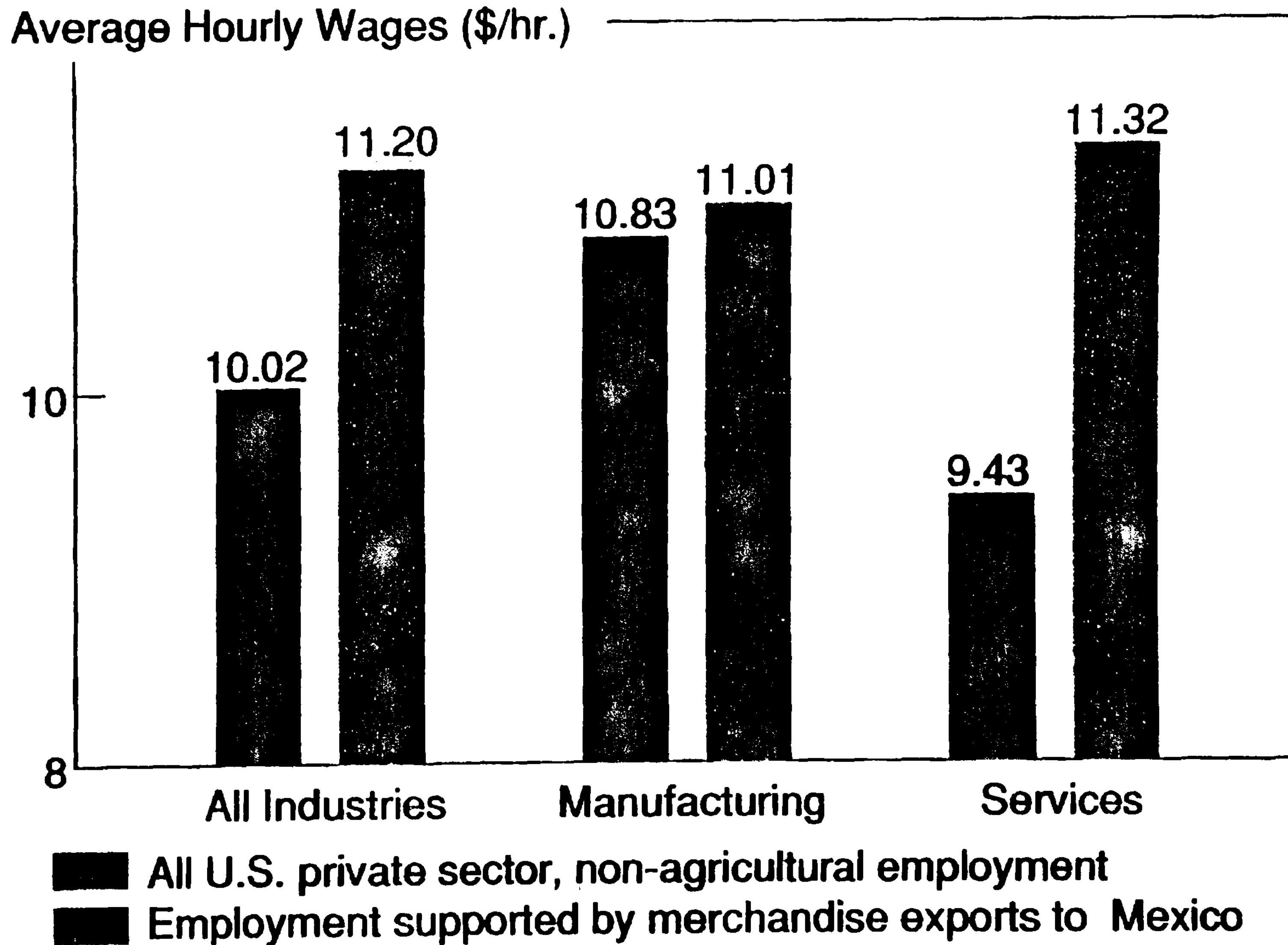
Forecast U.S. Exports to Mexico: "Post-NAFTA Pro-Growth" Scenario

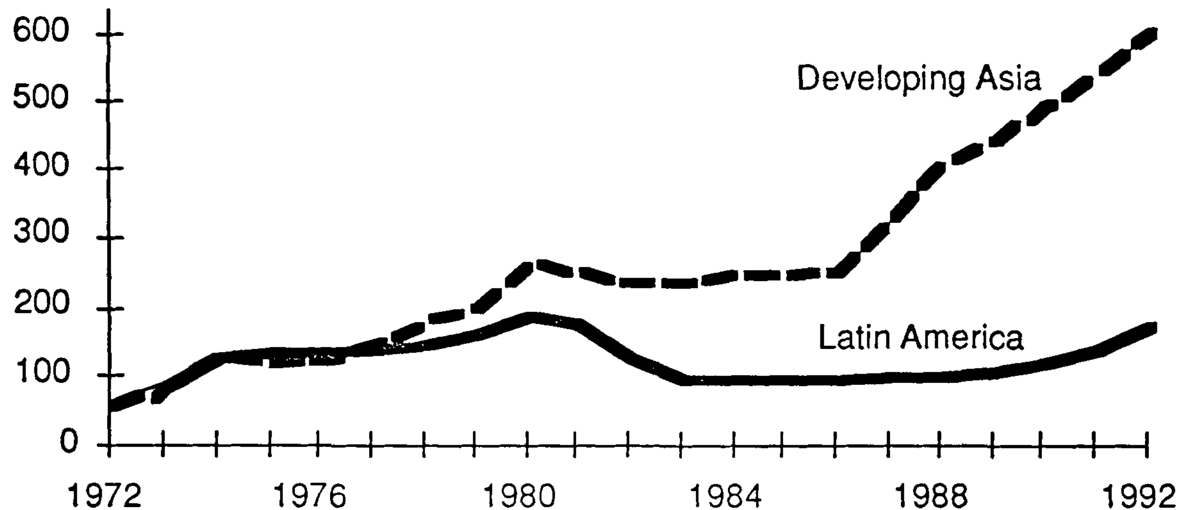
Billions of 1992 Dollars




U.S. Trade Balance with Selected Countries, 1992
Billions of Dollars
$20
$10
$0
-$10
-$20
-$30
-$40
-$50
$4.7
-$0.7
-$8.4
-$20.0
-$41.7
Mexico
France
Germany
China
Japan

U.S. Jobs Supported by Exports to Mexico Pay More Than Other U.S. Jobs





- In the early 1970s the Latin American and the developing Asian markets were equally large.

- Today the trade of Asian developing countries is four times Latin American trade. Developing Asia's demand for imports has multiplied tenfold since 1972.

- The principal beneficiary of the growth of developing Asia has been Japan: a $12-$15 billion a year market in 1972 is a $120-$150 billion a year market today.

- The principal beneficiary from a Latin American economic take-off would be the United States. NAFTA would help spark such an acceleration of growth, and would cement U.S. producers' position as the preferred source of First World products in Mexico and the rest of Latin America.

TREASURY NEWS

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

Text as Prepared for Delivery
For Immediate Release
November 18, 1993

STATEMENT OF R. RICHARD NEWCOMB
DIRECTOR, OFFICE OF FOREIGN ASSETS CONTROL
UNITED STATES DEPARTMENT OF THE TREASURY
BEFORE THE
HOUSE FOREIGN AFFAIRS COMMITTEE

THE CUBAN DEMOCRACY ACT AND U.S. TRAVEL TO CUBA

I. Introduction

Chairmen Torricelli, Gejdenson, and Berman; members of the subcommittees.

I am pleased to be here today to discuss the Cuban Democracy Act ("CDA"), the embargo against Cuba, and travel related financial restrictions under the embargo. As you know, the Treasury Department's Office of Foreign Assets Control ("FAC") is responsible for implementing and enforcing economic embargoes and sanctions programs.

In performing its mission, FAC relies principally on the President's broad powers under the Trading With the Enemy Act ("TWEA") and the International Emergency Economic Powers Act ("IEEPA") to prohibit or regulate commercial or financial transactions involving specific foreign countries. FAC has policy, enforcement, regulatory and operational responsibilities. These include rulemaking, licensing, criminal enforcement, civil penalties, compliance, the blocking of foreign assets in the United States, and the authority to require recordkeeping and reporting.

In developing, implementing, administering, and enforcing economic sanctions and embargo programs, FAC maintains a close working relationship with numerous other federal departments and agencies to ensure that the FAC mandate is properly implemented and effectively enforced. Among these agencies are: the State Department for foreign policy guidance in promulgating regulations and on sensitive cases; the Commerce Department on issues regarding exports; the National Security Council staff on significant policy questions and regulatory changes; the Customs Service for assistance in the many enforcement matters involving exports, imports, transportation,

and travel; and the bank regulatory agencies to assure bank compliance with financial restrictions.

II. The Provisions of the Cuban Democracy Act

The Cuba embargo, as it existed before the CDA, prohibited all commercial, financial, and trade transactions by all persons subject to U.S. jurisdiction, which includes U.S. citizens and permanent residents, wherever they are located, all people and organizations physically located in the U.S., and all branches and subsidiaries of U.S. organizations throughout the world.

The Cuban Assets Control Regulations ("CACR" ; the "Regulations") which implement the embargo contained certain limited licenses or exemptions for specified types of transactions in the following areas: limited family remittances, certain travel transactions, trade in informational materials, and trade by U.S. foreign subsidiaries. It is within this context that the CDA was enacted. The original program remains in effect, as altered by the provisions of the CDA.

Today I would like to discuss the changes effected by the CDA regarding exports of food and medicine, offshore trade by U.S. subsidiaries, and telecommunications.

a. Food

Section 1705(b) of the CDA provides that nothing in the Act, or any other law, shall prohibit donations of food to nongovernmental organizations or individuals in Cuba. Although donations of food to non-governmental organizations and individuals are now exempt from the embargo, they continue to be monitored by the Commerce Department.

b. Medicines and Medical Supplies

Under section 1705(c) of the CDA, exports of medicines and medical supplies are allowed, subject to certain licensing requirements provided in subsection (d)(2). All exports of medicine and medical supplies, without exception, require a specific license from the Commerce Department if exported from the U.S.; or from FAC (and potentially Commerce) if exported from a third country by a person subject to U.S. jurisdiction. Both commercial sales and humanitarian donations can be licensed. For medical exports to be licensed, the following four provisions must be met:

- the item(s) being donated would be permitted under section 203(b)(2) of IEEPA, which restricts the misuse of such donations;

- there is a reasonable likelihood that the item(s) to be exported will not be used

for torture or human rights abuses;

- there is a reasonable likelihood that the item(s) to be exported will not be re-exported; and

- the item(s) to be exported could not be used in the production of any biotechnological product.

Commercial shipments of medicine and medical supplies to Cuba, in addition to satisfying the four requirements listed above, must also satisfy requirements for U.S. Government verification that the exported goods will be used for the purpose for which they were exported and that they will be used for the benefit of the Cuban people. There is no requirement for verification on donations of medicines to non-governmental organizations; only the four criteria listed above are applicable to such donations.

I should add that the language of the CDA includes no exceptions for shipments of small amounts of medicines to individuals, which used to be authorized for inclusion in gift packages. This may have been a legislative oversight, and warrants the Subcommittee's review for potential technical amendment. Accordingly, all shipments of medicines, even those to relatives and even if valued under the limit for generally licensed gift packages, must be specifically licensed.

So that all interested parties can have easily understood information, we plan to incorporate a section on making humanitarian donations into our existing brochure titled "Cuba: What You Need to Know About the U.S. Embargo."

c. Offshore Trade by U.S. Subsidiaries

Section 1706(a) of the CDA prohibits the issuance of licenses (pursuant to section 515.559 of the Regulations) allowing offshore transactions with Cuba by foreign subsidiaries of U.S. firms. The prohibition against issuing licenses is softened slightly in that the CDA provides that the prohibition "shall not affect" contracts entered into before the date of enactment of the CDA. Most such situations were brought to our attention within weeks of passage of the CDA and licenses to allow completion of a pre-CDA contract have been issued where appropriate.

Total trade licensed under section 515.559 had risen from $332 million in 1989 to $705 million in 1990 to $718 million in 1991. In 1992 trade had fallen to $336 million and in 1993, reflecting the prohibitions of the CDA, to just $1.6 million.

The governments of Canada and the UK, which have normal trade relations with Cuba, have issued blocking orders which prohibit companies organized under their laws from complying with U.S. law with regard to prohibitions on trade with Cuba. In

addition, the Canadian order requires a Canadian company to report any instruction, directive, or advice it receives from its parent corporation concerning trade with Cuba to the Canadian government. Despite these measures that affect foreign subsidiaries of U.S. companies in these countries, we intend to implement U.S. law as it is written and hold firms subject to U.S. jurisdiction responsible for complying with the embargo. We have entered into discussions with regulators in Canada and the UK to attempt to minimize disputes arising from these conflicting legal requirements.

d. Telecommunications

An area of great interest has been telecommunications between the U.S. and Cuba. Prior to the enactment of the CDA, telecommunications service, including phone service, telexes, and telegraph service, was authorized on a highly regulated and restricted basis by licenses issued by FAC. These licenses insured that the vast majority of payments owed to Cuba would be placed in blocked accounts in the United States. Service and transfers of new telecommunications technology have also been limited consistent with the purposes of the embargo.

The CDA provision dealing with telecommunications directs the Government to address telecommunications issues outside the prior system of laws and regulations that make up the Cuban embargo. The CDA permits telecommunications services between Cuba and the United States, notwithstanding other restrictions on transactions with Cuba.

This broad authorization for services is coupled with some limitations on the facilities that may be used in providing services to Cuba. The "quality and quantity" of facilities are authorized as may be necessary "to provide efficient and adequate" services. In implementing this mandate from Congress, the President, through the Executive Branch, has determined what constitutes "efficient and adequate" service. After a review conducted by the State Department in consultation with the Federal Communications Commission ("FCC"), Treasury, and other agencies, as well as discussions with telecommunications companies, State sent a policy guidance letter to the FCC outlining the scope of new services to be allowed.

State's policy guidance specifies that new service proposals must be capable of full implementation within a year; must be limited to equipment and services necessary to deliver a signal to an international telecommunications gateway in Cuba; and new modes of service (e.g., fiber optic cable) must be approved in advance. The letter contains some technical requirements as well.

The CDA specifically provides that payments to Cuba will be made pursuant to a license. We have published regulations establishing the procedures for securing such a license. The CDA states that payments may be licensed for full or partial current settlement with Cuba; however, the CDA does not provide for payments from blocked

accounts. As required by the statute, we will ensure that the CDA is implemented in a manner consistent with the public interest. Under section 1710, I might add, the Secretary of the Treasury must ensure that activities to support the Cuban people, newly permitted under the CDA, are carried out only for the purposes set forth in the Act, and not for the purpose of the accumulation by the Cuban Government of excessive amounts of U.S. currency or the accumulation of excessive profits by any person or entity.

As a first step in implementing the CDA telecommunications policy, we have issued licenses to telecommunications companies authorizing transactions incident to their travel to Cuba for the purpose of negotiating to provide for telecommunications services between the United States and Cuba.

III. Travel

As you may know, travel related transactions are authorized by general license for individuals who are:

- Visiting close relatives residing in Cuba;
- Traveling on official government business for the U.S. or a foreign government;
- Traveling for the purpose of news gathering; and
- Doing professional research of a noncommercial academic nature, specifically related to Cuba, where the product of the research is likely to be disseminated.

In addition, an individual may travel to Cuba "fully hosted or sponsored". That is, all of the traveler's expenses in Cuba are paid for by a non-U.S. entity. A fully hosted or sponsored traveler may not spend any money, except for exempt items, in Cuba nor provide any services to Cuba, or a Cuban national, during the visit.

Travel may also be authorized by specific license from FAC, on a case-by-case basis, for humanitarian reasons, for participation in public events held in Cuba, for representatives of recognized human rights groups, for clearly defined educational or religious activities, and for activities involving the import or export of informational materials, or the transmission of information.

In keeping with this specific licensing policy, FAC has authorized travel transactions by representatives of several donating organizations. Representatives of various religious groups often travel as the fully hosted guests of their church members in Cuba or sponsored by an affiliate church group in a third country. We have also recently

licensed a seller of political and artistic posters to travel to Cuba to facilitate the import and export of posters, which are exempt informational material.

The Supreme Court upheld restrictions on travel-related transactions with Cuba in Regan v. Wald, 468 U.S. 111 (1984). The Court held that TWEA provides an adequate statutory basis for the 1982 amendment to the CACR restricting the scope of permissible travel-related transactions with Cuba and Cuban nationals. The Court rejected the argument that such a regulation violates the right to travel guaranteed by the Due Process Clause of the Fifth Amendment to the Constitution. It held that, given the traditional deference given to executive judgment in the realm of foreign policy, the Fifth Amendment right to travel did not overcome the foreign policy justifications supporting the President's decision to curtail the flow of currency to Cuba by restricting financial transactions relating to travel to Cuban travel. The Court rejected the respondents' argument that a restriction on travel was inappropriate because, in their view, there was no "emergency" at the time with respect to Cuba and that the relations between Cuba and the United States were then subject to "`onlythe "normal" tensions inherent in contemporary international affairs."' 468 U.S. at 242. The Court declined to second-guess the Executive branch on this foreign policy issue. Id.

IV. Challenges to the Cuba Embargo

We have recently faced organized challenges to the embargo from two groups. These challenges have taken the form of protests involving unlicensed travel transactions and the unlicensed export of goods.

An organization of ministers has sponsored and organized two vehicle caravans in a protest of the Cuba sanctions. Having collected donations throughout the United States for "humanitarian export to Cuba," the group attempted to cross into Mexico at Laredo, Texas, in November 1992, and again July 1993, bound for Cuba. Statements made by the group indicated that it did not intend to obtain prior authorization for the export of goods to Cuba. Treasury officials met with members of the organization before both actions in an effort to assist in lawful and orderly exportation of goods, but the group refused to apply for a license for their exports. Nevertheless, upon having ascertained that some of the items were qualified to be exported to Cuba, FAC provided a letter authorizing the export of those articles for use by the group's intended recipient, the Martin Luther King Memorial Center. The articles included school supplies, clothing, bicycles (and bicycle parts), manual typewriters and other office equipment, nonprescription medications, and various common medical supplies. The export of these goods to the King Center was determined to be consistent with the CDA and current U.S. policy with respect to Cuba.

The organization also attempted to cross the border with unauthorized prescription medicines and other goods requiring a license. These were seized by the Customs Service and later licensed, consistent with provisions of the CDA, and shipped

to Cuba.

We are advised that the organization is planning another protest this month, by organizing a group to assist in a "construction brigade" which will help to build housing in Cuba. They are also planning their third caravan, for February 1994, which will again attempt to cross into Mexico at Laredo, Texas, with unauthorized goods destined for Cuba.

Separately, a coalition of groups based in San Francisco organized approximately 170 U.S. citizens to travel to Cuba in protest of U.S. policy. The coalition chartered a Cuban aircraft in Cancun, Mexico, and flew to Cuba on October 10, 1993. We believe the majority of the travelers' transactions were in direct violation of the CACR and TWEA.

The travel challengers returned to Cancun from Cuba on October 17, 1993, with many continuing their travel to their respective home destinations within the next three days. Approximately 120 participants in this travel challenge were identified upon their return to the U.S. Some travelers may have been authorized by general license to engage in travel-related financial transactions, such as individuals traveling for journalistic activity or to visit close family relatives, and were not questioned further. Other travelers were identified as suspected violators of the sanctions. The matter is under discussion with the Justice Department, and it would be improper for me to discuss it further at this stage of the investigation.

V. Conclusion

We shall continue to work to ensure that all interested parties are aware of the requirements of the embargo, the new provisions of the CDA, and the seriousness with which we approach our task of enforcing this embargo -- fully and effectively, but also fairly and impartially. We in the Treasury Department are available to answer questions from the public, to assist in ensuring compliance with the embargo, and to continue full enforcement of existing requirements until such time as Cuba begins to build a new democratic government and the U.S. Government lifts the sanctions.

Thank you.

TREASURY NEWS

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

For Immediate Release November 18, 1993

Monthly Release of U.S. Reserve Assets

The Treasury Department today released U.S. reserve assets data for the month of October 1993.

As indicated in this table, U.S. reserve assets amounted to $74,550 million at the end of October 1993, down from $75,835 million in September 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					
September	75,835	11,057	9,203	43,474	12,101
October	74,550	11,056	9,038	42,548	11,908

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-518

TREASURY NEWS

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

Text As Prepared for Delivery
For Immediate Release
November 19, 1993

REMARKS OF TREASURY SECRETARY LLOYD BENTSEN
FEDERAL LAW ENFORCEMENT OFFICERS ASSOCIATION
ARLINGTON, VIRGINIA

Yesterday, I was asking some of our people who was the last Treasury Secretary to be at one of these, and somebody has a good sense of humor. They told me it was Alexander Hamilton.

I guess it's been a while since you've seen a Treasury Secretary, so I'm very glad to be here.

In fact, I've been looking forward to this, because I want to tell all of you something I don't think you hear often enough these days.

Thank you.

Thank you for the tough job you do every day. I appreciate it, and so does every American.

I was in office about a month when they bombed the World Trade Center, and then four brave ATF agents died in Waco, and a few months later three Customs agents died in Georgia looking for drug smugglers. I can't describe for you the effect those deaths have had on me.

I look around, and I read the headlines every day. The crime, the violence, the drugs destroying our communities, the guns in the schools, the broken families, the kids who wind up in the gutters.

And I ask myself: "What on earth happened to America?"

There's a great irony in all of this. As we see all these problems on the street, our country is becoming a role model to the world.

I was 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."

LB-519

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

At Treasury, I wear two hats.

I worry about law enforcement, and I want to talk more about that one. And I worry about our economy.

The two are related. In a perfect world, where everyone has great jobs and lots of money and the economy is booming, there would be no excuses for many crimes.

We've seen progress on the economy. We're seeing steady, solid growth.

The lowest interest rates in two decades. Inflation is low. Unemployment is down. The private sector has created more than a million jobs since January.

Are they all great and high paying? Not all of them.

Are they all in the middle of the cities, where the unemployment is high and people need jobs? Not all of them.

I watch a lot of those big companies with a billion dollars to invest build their plants in places you never heard of -- where their neighbors are cows, and cows don't commit crimes.

Detroit, with a population of 1 million people, has just two auto assembly factories. Marysville, Ohio, with a population of 10,000, also has two.

I see a proud city like Detroit, with mile after mile of neighborhoods with burned out doors and windows cracked by bullets.

I see a proud city like Washington. In fact, three blocks from the Treasury Building where I work, people sleep at a Metro station wrapped in dirty blankets with their heads covered by the morning newspaper.

Is that the standard of living you'd expect in an industrialized nation? Or, is that the standard you'd expect in a third-world country?

We're asking law enforcement officers to do a lot. To tackle problems of our society that you shouldn't have to deal with. That you can't solve alone.

I don't know how to say this any other way -- but you're going to have to keep dealing with them. We're here to talk about re-inventing law enforcement, but until we re-invent some of our societal standards, we can't fix our country.

I know Treasury law enforcement people understand that. After they put their 40 or 50 or 60 hours in, I hear the stories of hundreds of them going back to the communities they serve as volunteers -- as part of our Department's Project Outreach program.

They mentor and they become role models to some of the unluckier kids who have no father or mother at home. I encourage everyone of you to join programs like that because we have to help children, one child at a time.

But look at the big picture. I've seen a lot of numbers on how much crime costs our economy. One report has it at $100 billion a year. Another at $200 billion. Pick which ever you want -- it's too much.

It's too much when our industry loses $60 billion a year to foreign producers of counterfeit goods, or we lose thousands of jobs because of unlawful textile and apparel transshipment.

So let me tell you how we're re-inventing law enforcement at Treasury under Ron Noble's leadership.

We have a lot of tactics we're employing, because the criminals have a lot of new tactics they're employing. I'll mention five of them.

The first doesn't take money. I never met a law enforcement officer who didn't tell me they needed more money, more resources, more men or women. But this tactic is called cooperation.

We want to work to minimize turf battles between federal law enforcement bureaus. By the way, bonds that are built up at conferences like these are important.

I understand the importance of independence. I understand the importance of free standing units. But I don't understand why we'd ever want to pick fights with one another, rather than picking off the criminals on the street.

I intend to work with Attorney General Reno to minimize turf battles between Justice and Treasury agencies, and to have Treasury agencies keep sharing our expertise with state and local police as well.

A second tactic, and along these lines, is to take a task force approach to dealing with organized criminal groups. I'm not just talking about fighting the drug groups. I mean the terrorists, the counterfeiters, and the gun dealers.

Their wealth and power is too much to combat alone. We have to combine our skills and resources -- and we're going to do more of that.

Third, we want to take steps to reduce the easy access of weapons of all kinds. I was giving health care testimony on the Hill this week, and they asked me if I was for taxing ammunition. And I said the Administration needs to consider it. I am for anything that restricts the easy access to weapons of destruction.

There are over a quarter of a million gun dealers in the United States. Under current laws ATF issues 1,000 new licenses every week. We charge $10 per license. It costs more to buy a pepperoni pizza than to get a license. In some jurisdictions, it appears to be easier to get a gun dealers license than it is to legitimately purchase a target rifle.

Now I'm not optimistic that steps to bring this under control will reduce the gang problem, but it is a beginning, and we must begin.

Fourth, we're stepping up our anti-money laundering activities.

At Treasury, we're in the money business. We make it at Engraving and Printing. We borrow it to pay our bills. We collect it in the form of taxes at IRS -- and we see a lot of tax cheats, but that's another speech. We regulate it at the financial institutions, and we investigate financial crimes at the Secret Service.

But we sure have to do a better job of worrying about the illegal money. Gang leaders and drug dealers don't stray from their money. Maybe the Cartel leader doesn't have to see the drugs, but he sure checks the flow of cash.

We will be following the flow. We have set up a Money Laundering Review Task Force from all entities at Treasury (you'll hear a lot more about that one). And we're going to be expanding access to the data that Treasury collects on currency transactions.

Money laundering is an international problem, and it really hit home a couple of months ago. I was getting ready for a meeting with my Mexican counterparts, and, of course, our people prep me with everything you ever wanted to know about how Mexico was curbing inflation, and strengthening the Peso, and privatizing its economy.

Well, I went to the meeting and the Mexican Finance Minister told me the most important issue he wanted to work on was strengthening our common money laundering activities. An extraordinary priority -- and one that I believe deserves that level of attention.

Fifth, and finally, Treasury will help in addressing the gang problem by providing effective and timely training. We believe the most important tools law enforcement officers have aren't the ones they carry or load. It's the one between their ears. Training, intelligence, and data support systems are critical in dealing with mobile and sophisticated criminal enterprises.

A high priority of our Department will be the training provided at the Federal Law Enforcement Training Center, as well as the specialized training available through our bureaus.

Let me end with this. There is something very special to me about working with law enforcement officers. I look at you, and I see men and women who put duty to our country first.

It's a tough profession. One in which you can burn out and get disillusioned with real fast. I've held a lot of jobs in my life. I used to own an insurance company, and I'll tell you -- it's a lot easier to sell life insurance than it is to worry about money laundering and gangsters and illegal immigrants.

I asked a question at the beginning: What on earth happened to America?

No, the more important question we all should be asking right now is: How can we make America better -- and safer?

I wasn't there, but I think that's what Alexander Hamilton talked to your enforcement ancestors about 200 years ago when they were inventing our government.

Let's work together to re-invent it.

-30-

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
November 22, 1993

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 2-YEAR NOTES

Tenders for $17,013 million of 2-year notes, Series AD-1995, to be issued November 30, 1993 and to mature November 30, 1995 were accepted today (CUSIP: 912827M90).

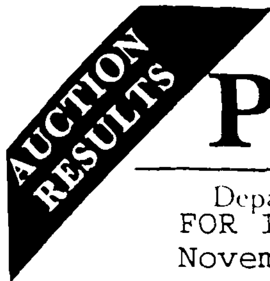
The interest rate on the notes will be 4 1/4%. All competitive tenders at yields lower than 4.27% were accepted in full. Tenders at 4.27% were allotted 47%. All noncompetitive and sucessful competitive bidders were allotted securities at the yield of 4.27%, with an equivalent price of 99.962. The median yield was 4.25%; that is, 50% of the amount of accepted competitive bids were tendered at or below that yield. The low yield was 4.20%; that is, 5% of the amount of accepted competitive bids were tendered at or below that yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$46,584,445	$17,013,294

The $17,013 million of accepted tenders includes $585 million of noncompetitive tenders and $16,428 million of competitive tenders from the public.

In addition, $967 million of tenders was awarded at the high yield to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $596 million of tenders was also accepted at the high yield from Federal Reserve Banks for their own account in exchange for maturing securities.



PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
November 22, 1993

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $13,979 million of 13-week bills to be issued November 26, 1993 and to mature February 24, 1994 were accepted today (CUSIP: 912794J21).

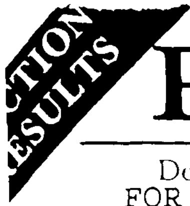
RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.12%	3.19%	99.220
High	3.14%	3.21%	99.215
Average	3.14%	3.21%	99.215

Tenders at the high discount rate were allotted 24%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$51,864,871	$13,979,152
Type		
Competitive	$46,635,592	$8,749,873
Noncompetitive	1,203,115	1,203,115
Subtotal, Public	$47,838,707	$9,952,988
Federal Reserve	2,973,164	2,973,164
Foreign Official Institutions	1,053,000	1,053,000
TOTALS	$51,864,871	$13,979,152



PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
November 22, 1993

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $14,056 million of 26-week bills to be issued November 26, 1993 and to mature May 26, 1994 were accepted today (CUSIP: 912794K78).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.28%	3.38%	98.351
High	3.30%	3.40%	98.341
Average	3.30%	3.40%	98.341

Tenders at the high discount rate were allotted 20%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$56,547,321	$14,055,997
Type		
Competitive	$51,331,426	$8,840,102
Noncompetitive	874,195	874,195
Subtotal, Public	$52,205,621	$9,714,297
Federal Reserve	3,200,000	3,200,000
Foreign Official Institutions	1,141,700	1,141,700
TOTALS	$56,547,321	$14,055,997

Monthly Treasury Statement

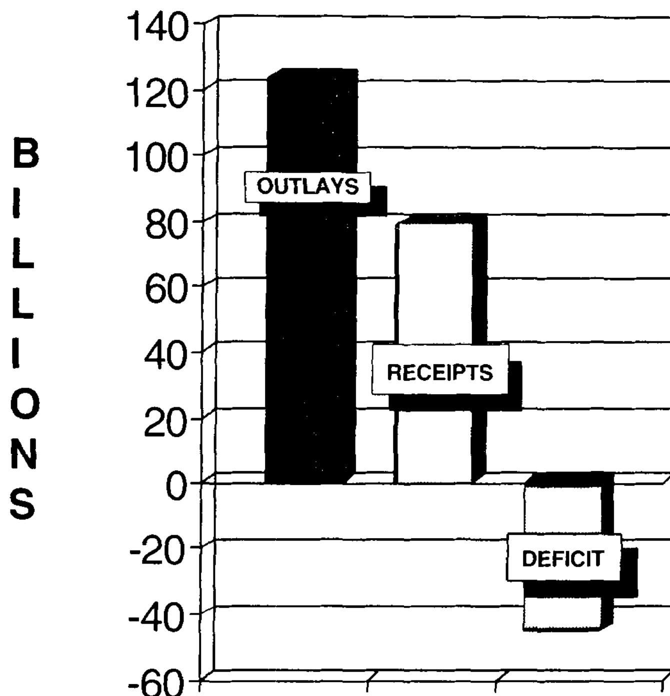
of Receipts and Outlays
of the United States Government

For Fiscal Year 1994 Through **October 31, 1993,** and Other Periods

Highlight

This issue includes budget estimates for full fiscal years 1994 and 1995, 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.

RECEIPTS, OUTLAYS, AND SURPLUS/DEFICIT THROUGH OCTOBER 1993



Contents

Summary, page 2

Receipts, page 6

Outlays, page 7

Means of financing, page 20

Receipts/outlays by month, page 26

Federal trust funds/securities, page 28

Receipts by source/outlays by function, page 29

Explanatory notes, page 30

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 1993 and 1994, by Month

[$ millions]

Period	Receipts	Outlays	Deficit/Surplus (−)
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	109,819	23,078
September	127,469	119,168	−8,300
Year-to-Date	**1,153,175**	**1,408,122**	**254,948**
FY 1994			
October	78,669	124,013	45,343
Year-to-Date	**78,669**	**124,013**	**45,343**

Note: Details may not add to totals due to rounding.

Table 2. Summary of Budget and Off-Budget Results and Financing of the U.S. Government, October 1993 and Other Periods

[$ millions]

Classification	This Month	Current Fiscal Year to Date	Budget Estimates Full Fiscal Year[1]	Prior Fiscal Year to Date (1993)	Budget Estimates Next Fiscal Year (1995)[1]
Total on-budget and off-budget results:					
Total receipts	78,669	78,669	1,241,312	76,824	1,329,334
On-budget receipts	55,865	55,865	903,425	55,048	974,096
Off-budget receipts	22,804	22,804	337,888	21,776	355,238
Total outlays	124,013	124,013	1,500,061	125,616	1,536,259
On-budget outlays	100,490	100,490	1,219,390	103,775	1,243,698
Off-budget outlays	23,523	23,523	280,671	21,841	292,561
Total surplus (+) or deficit (−)	−45,343	−45,343	−258,748	−48,792	−206,925
On-budget surplus (+) or deficit (−)	−44,625	−44,625	−315,965	−48,727	−269,602
Off-budget surplus (+) or deficit (−)	−719	−719	+57,217	−65	+62,677
Total on-budget and off-budget financing	45,343	45,343	258,748	48,792	206,925
Means of financing:					
Borrowing from the public	4,255	4,255	265,244	−1,552	212,679
Reduction of operating cash, increase (−)	33,646	33,646	......	39,420	......
By other means	7,442	7,442	−6,496	10,925	−5,754

[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 1993 and 1994

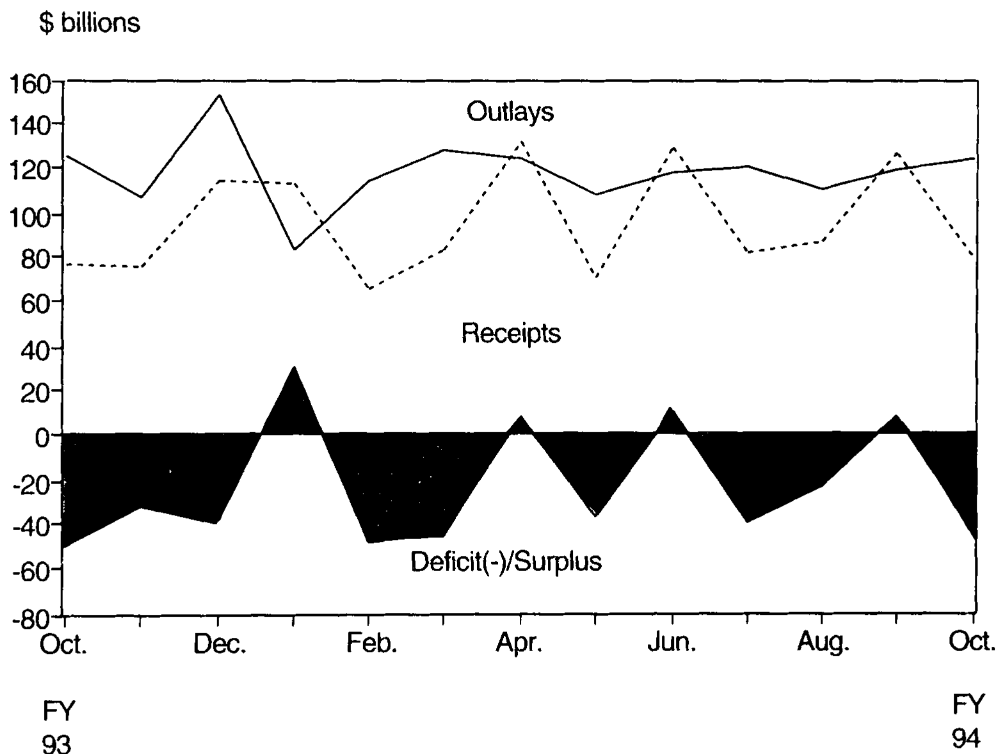


Figure 2. Monthly Receipts of the U.S. Government, by Source, Fiscal Years 1993 and 1994

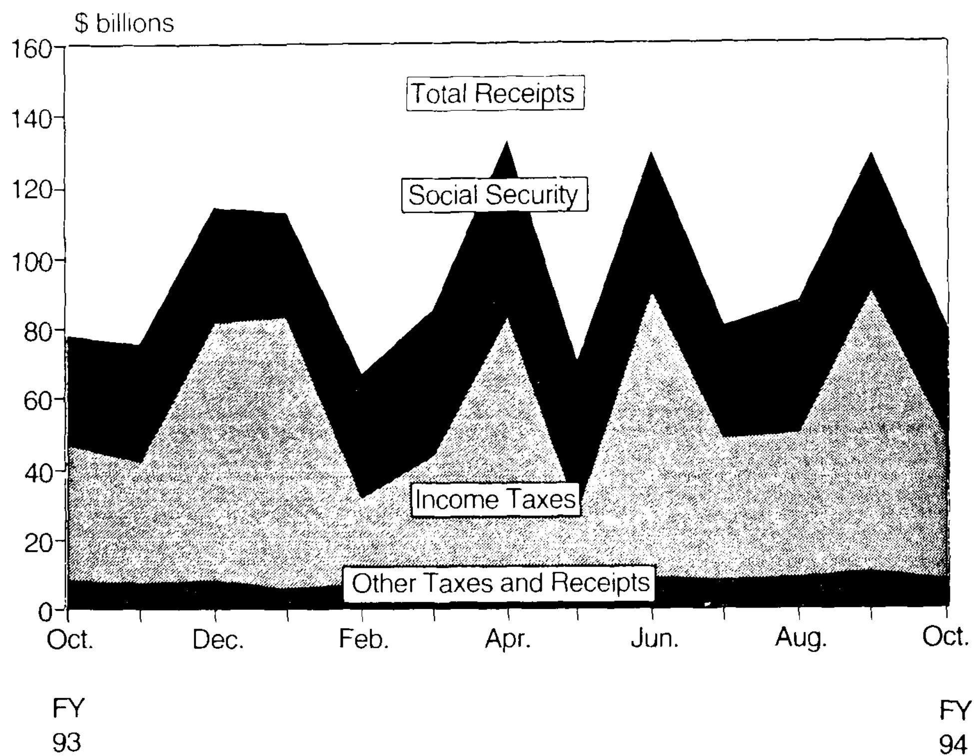


Figure 3. Monthly Outlays of the U.S. Government, by Function, Fiscal Years 1993 and 1994

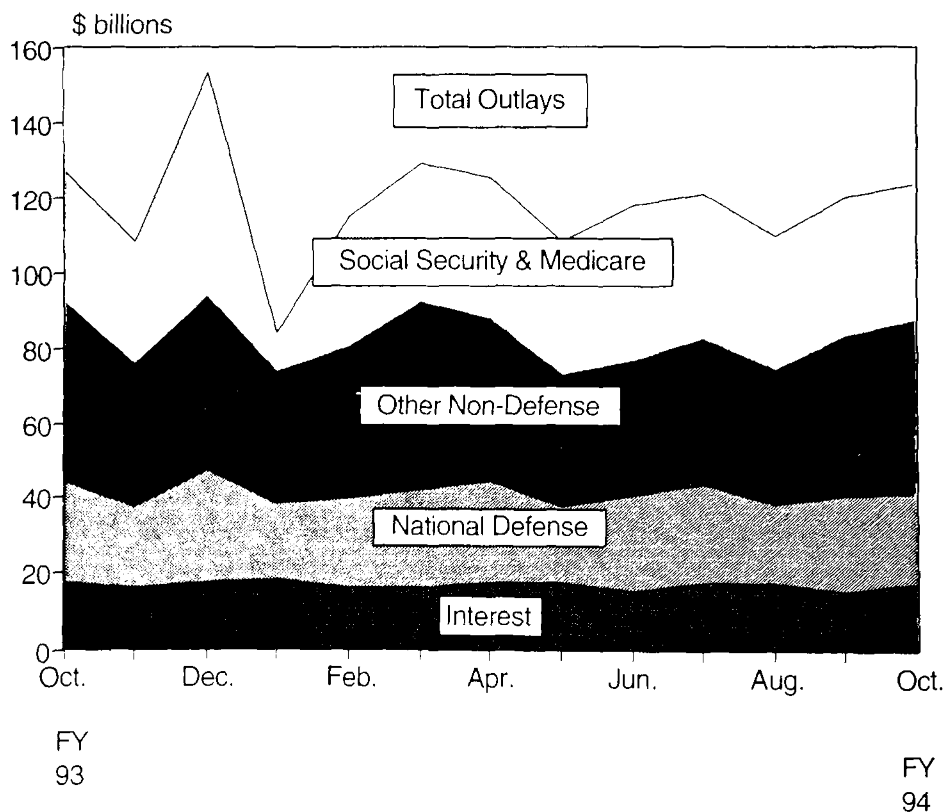


Table 3. Summary of Receipts and Outlays of the U.S. Government, October 1993 and Other Periods

[$ millions]

Classification	This Month	Current Fiscal Year to Date	Comparable Prior Period	Budget Estimates Full Fiscal Year[1]
Budget Receipts				
Individual income taxes	37,680	37,680	37,285	548,215
Corporation income taxes	2,158	2,158	2,096	120,842
Social insurance taxes and contributions:				
Employment taxes and contributions (off-budget)	22,804	22,804	21,776	337,888
Employment taxes and contributions (on-budget)	6,636	6,636	6,359	94,807
Unemployment insurance	1,046	1,046	1,034	27,272
Other retirement contributions	343	343	426	4,676
Excise taxes	3,597	3,597	3,670	54,512
Estate and gift taxes	990	990	1,027	12,691
Customs duties	1,708	1,708	1,666	20,374
Miscellaneous receipts	1,708	1,708	1,485	20,035
Total Receipts	**78,669**	**78,669**	**76,824**	**1,241,312**
(On-budget)	**55,865**	**55,865**	**55,048**	**903,425**
(Off-budget)	**22,804**	**22,804**	**21,776**	**337,888**
Budget Outlays				
Legislative Branch	378	378	204	3,134
The Judiciary	158	158	135	3,138
Executive Office of the President	20	20	18	186
Funds Appropriated to the President	3,993	3,993	1,232	12,297
Department of Agriculture	4,893	4,893	7,051	66,603
Department of Commerce	264	264	290	3,181
Department of Defense—Military	23,147	23,147	25,954	264,144
Department of Defense—Civil	2,550	2,550	2,493	30,545
Department of Education	1,805	1,805	2,334	30,992
Department of Energy	1,710	1,710	1,714	16,931
Department of Health and Human Services, except Social Security	25,432	25,432	25,649	320,180
Department of Health and Human Services, Social Security	24,562	24,562	22,778	315,266
Department of Housing and Urban Development	2,645	2,645	2,591	26,986
Department of the Interior	527	527	698	7,325
Department of Justice	751	751	1,215	10,322
Department of Labor	3,362	3,362	3,667	36,640
Department of State	843	843	900	5,538
Department of Transportation	3,151	3,151	2,928	36,773
Department of the Treasury:				
Interest on the Public Debt	17,638	17,638	17,978	303,161
Other	−102	−102	131	9,779
Department of Veterans Affairs	2,806	2,806	4,061	38,038
Environmental Protection Agency	430	430	439	6,552
General Services Administration	239	239	165	836
National Aeronautics and Space Administration	1,079	1,079	1,098	14,670
Office of Personnel Management	3,335	3,335	3,090	38,872
Small Business Administration	14	14	113	762
Other independent agencies:				
Resolution Trust Corporation	7	7	−2,578	5,231
Other	1,330	1,330	2,224	23,279
Undistributed offsetting receipts:				
Interest	−359	−359	−443	−86,125
Other	−2,593	−2,593	−2,510	−45,175
Total outlays	**124,013**	**124,013**	**125,616**	**1,500,061**
(On-budget)	**100,490**	**100,490**	**103,775**	**1,219,390**
(Off-budget)	**23,523**	**23,523**	**21,841**	**280,671**
Surplus (+) or deficit (−)	**−45,343**	**−45,343**	**−48,792**	**−258,748**
(On-budget)	**−44,625**	**−44,625**	**−48,727**	**−315,965**
(Off-budget)	**−719**	**−719**	**−65**	**+57,217**

[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.

Note: Details may not add to totals due to rounding.

Table 4. Receipts of the U.S. Government, October 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	34,284			34,284			34,513		
Presidential Election Campaign Fund	27			27			(* *)		
Other	4,053			4,053			3,583		
Total—Individual income taxes	**38,364**	**684**	**37,680**	**38,364**	**684**	**37,680**	**38,095**	**811**	**37,285**
Corporation income taxes	**4,269**	**2,111**	**2,158**	**4,269**	**2,111**	**2,158**	**4,291**	**2,194**	**2,096**
Social insurance taxes and contributions:									
Employment taxes and contributions:									
Federal old-age and survivors ins. trust fund:									
Federal Insurance Contributions Act taxes	20,597	......	20,597	20,597	......	20,597	19,678	......	19,678
Self-Employment Contributions Act taxes	......	......	......	......	......	......	......	......	......
Deposits by States	(* *)	......	(* *)	(* *)	......	(* *)	-11	......	-11
Other	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Total—FOASI trust fund	20,597	......	20,597	20,597	......	20,597	19,667	......	19,667
Federal disability insurance trust fund:									
Federal Insurance Contributions Act taxes	2,207	......	2,207	2,207	......	2,207	2,109	......	2,109
Self-Employment Contributions Act taxes	......	......	......	......	......	......	......	......	......
Receipts from railroad retirement account	......	......	......	......	......	......	......	......	......
Deposits by States	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Other	......	......	......	......	......	......	......	......	......
Total—FDI trust fund	2,207	......	2,207	2,207	......	2,207	2,109	......	2,109
Federal hospital insurance trust fund:									
Federal Insurance Contributions Act taxes	6,328	......	6,328	6,328	......	6,328	6,057	......	6,057
Self-Employment Contributions Act taxes	......	......	......	......	......	......	......	......	......
Receipts from Railroad Retirement Board	......	......	......	......	......	......	......	......	......
Deposits by States	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Total—FHI trust fund	6,328	......	6,328	6,328	......	6,328	6,057	......	6,057
Railroad retirement accounts:									
Rail industry pension fund	173	(* *)	173	173	(* *)	173	172	7	165
Railroad Social Security equivalent benefit	135	......	135	135	......	135	137	......	137
Total—Employment taxes and contributions	29,440	(* *)	29,440	29,440	(* *)	29,440	28,142	7	28,135
Unemployment insurance:									
State taxes deposited in Treasury	804	......	804	804	......	804	780	......	780
Federal Unemployment Tax Act taxes	241	4	238	241	4	238	249	7	242
Railroad unemployment taxes	5	......	5	5	......	5	10	......	10
Railroad debt repayment	(* *)	......	(* *)	(* *)	......	(* *)	2	......	2
Total—Unemployment insurance	1,050	4	1,046	1,050	4	1,046	1,040	7	1,034
Other retirement contributions:									
Federal employees retirement – employee contributions	338	......	338	338	......	338	418	......	418
Contributions for non-federal employees	5	......	5	5	......	5	8	......	8
Total—Other retirement contributions	343	......	343	343	......	343	426	......	426
Total—Social insurance taxes and contributions	**30,832**	**4**	**30,828**	**30,832**	**4**	**30,828**	**29,608**	**14**	**29,594**
Excise taxes:									
Miscellaneous excise taxes[1]	1,716	31	1,685	1,716	31	1,685	1,844	35	1,809
Airport and airway trust fund	439	......	439	439	......	439	397	......	397
Highway trust fund	1,420	1	1,419	1,420	1	1,419	1,412	1	1,411
Black lung disability trust fund	55	......	55	55	......	55	54	......	54
Total—Excise taxes	**3,630**	**32**	**3,597**	**3,630**	**32**	**3,597**	**3,706**	**36**	**3,670**
Estate and gift taxes	**1,015**	**25**	**990**	**1,015**	**25**	**990**	**1,044**	**17**	**1,027**
Customs duties	**1,798**	**90**	**1,708**	**1,798**	**90**	**1,708**	**1,736**	**70**	**1,666**
Miscellaneous Receipts:									
Deposits of earnings by Federal Reserve banks	1,524	......	1,524	1,524	......	1,524	1,148	......	1,148
All other	185	1	184	185	1	184	337	(* *)	337
Total — Miscellaneous receipts	**1,709**	**1**	**1,708**	**1,709**	**1**	**1,708**	**1,485**	**(* *)**	**1,485**
Total — Receipts	**81,617**	**2,948**	**78,669**	**81,617**	**2,948**	**78,669**	**79,966**	**3,142**	**76,824**
Total — On-budget	**58,813**	**2,948**	**55,865**	**58,813**	**2,948**	**55,865**	**58,190**	**3,142**	**55,048**
Total — Off-budget	**22,804**	......	**22,804**	**22,804**	......	**22,804**	**21,776**	......	**21,776**

[1]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, October 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	37	(* *)	37	37	(* *)	37	35	(* *)	35
House of Representatives	61	1	60	61	1	60	58	1	57
Joint items	8	......	8	8	......	8	7	......	7
Congressional Budget Office	2	......	2	2	......	2	2	......	2
Architect of the Capitol	20	1	20	20	1	20	24	1	23
Library of Congress	198	......	198	198	......	198	36	......	36
Government Printing Office:									
Revolving fund (net)	13	......	13	13	......	13	−13	......	−13
General fund appropriations	3	......	3	3	......	3	7	......	7
General Accounting Office	35	......	35	35	......	35	43	......	43
United States Tax Court	2	......	2	2	......	2	2	......	2
Other Legislative Branch agencies	3	......	3	3	......	3	4	......	4
Proprietary receipts from the public	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)	(* *)
Intrabudgetary transactions	−1	......	−1	−1	......	−1	(* *)	......	(* *)
Total—Legislative Branch	**379**	**2**	**378**	**379**	**2**	**378**	**206**	**2**	**204**
The Judiciary:									
Supreme Court of the United States	1	......	1	1	......	1	1	......	1
Courts of Appeals, District Courts, and other judicial services	151	(* *)	151	151	(* *)	151	133	(* *)	133
Other	6	......	6	6	......	6	1	......	1
Total—The Judiciary	**158**	**(* *)**	**158**	**158**	**(* *)**	**158**	**135**	**(* *)**	**135**
Executive Office of the President:									
Compensation of the President and the White House Office	4	......	4	4	......	4	3	......	3
Office of Management and Budget	5	......	5	5	......	5	5	......	5
Other	10	......	10	10	......	10	9	......	9
Total—Executive Office of the President	**20**	**......**	**20**	**20**	**......**	**20**	**18**	**......**	**18**
Funds Appropriated to the President:									
International Security Assistance:									
Guaranty reserve fund	52	10	41	52	10	41	60	13	47
Foreign military financing grants	1,865	......	1,865	1,865	......	1,865	178	......	178
Economic support fund	1,400	......	1,400	1,400	......	1,400	117	......	117
Military assistance	3	......	3	3	......	3	(* *)	......	(* *)
Peacekeeping Operations	......	......	......	......	......	......	1	......	1
Other	2	......	2	2	......	2	2	......	2
Proprietary receipts from the public	......	9	−9	......	9	−9	......	12	−12
Total—International Security Assistance	3,322	20	3,302	3,322	20	3,302	358	25	334
International Development Assistance:									
Multilateral Assistance:									
Contribution to the International Development Association	194	......	194	194	......	194	186	......	186
International organizations and programs	9	......	9	9	......	9	45	......	45
Other	129	......	129	129	......	129	137	......	137
Total—Multilateral Assistance	331	......	331	331	......	331	369	......	369
Agency for International Development:									
Functional development assistance program	130	......	130	130	......	130	135	......	135
Sub-Saharan Africa development assistance	46	......	46	46	......	46	83	......	83
Operating expenses	48	......	48	48	......	48	39	......	39
Payment to the Foreign Service retirement and disability fund	......	......	......	......	......	......	......	......	......
Other	34	7	26	34	7	26	38	3	36
Proprietary receipts from the public	......	38	−38	......	38	−38	......	39	−39
Intrabudgetary transactions	......	......	......	......	......	......	......	......	......
Total—Agency for International Development	257	46	212	257	46	212	295	41	254
Peace Corps	14	......	14	14	......	14	18	......	18
Overseas Private Investment Corporation	2	12	−9	2	12	−9	4	19	−15
Other	9	(* *)	9	9	(* *)	9	3	(* *)	3
Total—International Development Assistance	614	57	557	614	57	557	690	61	629
International Monetary Programs	218	......	218	218	......	218	443	......	443
Military Sales Programs:									
Special defense acquisition fund	46	(* *)	46	46	(* *)	46	35	40	−5
Foreign military sales trust fund	1,035	......	1,035	1,035	......	1,035	1,025	......	1,025
Kuwait civil reconstruction trust fund	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Proprietary receipts from the public	......	1,166	−1,166	......	1,166	−1,166	......	1,197	−1,197
Other	(* *)	......	(* *)	(* *)	......	(* *)	3	......	3
Total—Funds Appropriated to the President	**5,236**	**1,243**	**3,993**	**5,236**	**1,243**	**3,993**	**2,555**	**1,323**	**1,232**

Table 5. Outlays of the U.S. Government, October 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	56	......	56	56	......	56	76	......	76
Cooperative State Research Service	33	......	33	33	......	33	36	......	36
Extension Service	33	......	33	33	......	33	32	......	32
Animal and Plant Health Inspection Service	33	......	33	33	......	33	49	......	49
Food Safety and Inspection Service	38	......	38	38	......	38	51	......	51
Agricultural Marketing Service	110	1	109	110	1	109	64	......	64
Soil Conservation Service:									
Watershed and flood prevention operations	26	......	26	26	......	26	22	......	22
Conservation operations	39	......	39	39	......	39	59	......	59
Other	6	......	6	6	......	6	9	......	9
Agricultural Stabilization and Conservation Service:									
Conservation programs	507	......	507	507	......	507	1,631	......	1,631
Other	47	......	47	47	......	47	36	......	36
Farmers Home Administration:									
Credit accounts:									
Agricultural credit insurance fund	247	101	146	247	101	146	211	145	65
Rural housing insurance fund	254	259	-5	254	259	-5	272	275	-3
Other	......	......	......	......	......	......	......	......	......
Salaries and expenses	46	......	46	46	......	46	64	......	64
Other	6	......	6	6	......	6	8	......	8
Total—Farmers Home Administration	552	359	193	552	359	193	556	420	135
Foreign assistance programs	-51	......	-51	-51	......	-51	-140	......	-140
Rural Development Administration:									
Rural development insurance fund	107	43	64	107	43	64	121	33	88
Rural water and waste disposal grants	26	......	26	26	......	26	24	......	24
Other	6	1	5	6	1	5	6	(* *)	6
Rural Electrification Administration	58	292	-234	58	292	-234	92	190	-98
Federal Crop Insurance Corporation	151	72	80	151	72	80	92	65	27
Commodity Credit Corporation:									
Price support and related programs	1,358	408	950	1,358	408	950	2,062	265	1,796
National Wool Act Program	(* *)	......	(* *)	(* *)	......	(* *)	-3	......	-3
Food and Nutrition Service:									
Food stamp program	2,053	......	2,053	2,053	......	2,053	1,951	......	1,951
State child nutrition programs	439	......	439	439	......	439	571	......	571
Women, infants and children programs	239	......	239	239	......	239	245	......	245
Other	34	......	34	34	......	34	139	......	139
Total—Food and Nutrition Service	2,766	......	2,766	2,766	......	2,766	2,905	......	2,905
Forest Service:									
National forest system	122	......	122	122	......	122	101	......	101
Forest service permanent appropriations	9	......	9	9	......	9	13	......	13
Other	102	......	102	102	......	102	162	......	162
Total—Forest Service	233	......	233	233	......	233	275	......	275
Other	47	2	45	47	2	45	58	3	55
Proprietary receipts from the public	......	111	-111	......	111	-111	......	86	-86
Intrabudgetary transactions	(* *)	......	(* *)	(* *)	......	(* *)	......	......	......
Total—Department of Agriculture	**6,181**	**1,288**	**4,893**	**6,181**	**1,288**	**4,893**	**8,112**	**1,062**	**7,051**
Department of Commerce:									
Economic Development Administration	22	1	21	22	1	21	20	1	19
Bureau of the Census	34	......	34	34	......	34	50	......	50
Promotion of Industry and Commerce	22	......	22	22	......	22	31	......	31
Science and Technology:									
National Oceanic and Atmospheric Administration	164	(* *)	163	164	(* *)	163	162	(* *)	162
Patent and Trademark Office	-3	......	-3	-3	......	-3	3	......	3
National Institute of Standards and Technology	23	......	23	23	......	23	19	......	19
Other	11	3	7	11	3	7	10	3	7
Total—Science and Technology	194	4	191	194	4	191	194	3	191
Other	9	......	9	9	......	9	8	......	8
Proprietary receipts from the public	......	12	-12	......	12	-12	......	10	-10
Intrabudgetary transactions	......	......	......	......	......	......	......	......	......
Offsetting governmental receipts	......	......	......	......	......	......	......	......	......
Total—Department of Commerce	**280**	**16**	**264**	**280**	**16**	**264**	**304**	**14**	**290**

Table 5. Outlays of the U.S. Government, October 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	2,204	......	2,204	2,204	......	2,204	3,519	......	3,519
Department of the Navy	2,241	......	2,241	2,241	......	2,241	3,045	......	3,045
Department of the Air Force	2,190	......	2,190	2,190	......	2,190	2,646	......	2,646
Total—Military personnel	6,634	......	6,634	6,634	......	6,634	9,210	......	9,210
Operation and maintenance:									
Department of the Army	1,519	......	1,519	1,519	......	1,519	2,032	......	2,032
Department of the Navy	1,599	......	1,599	1,599	......	1,599	1,305	......	1,305
Department of the Air Force	1,694	......	1,694	1,694	......	1,694	1,720	......	1,720
Defense agencies	1,601	......	1,601	1,601	......	1,601	1,468	......	1,468
Total—Operation and maintenance	6,413	......	6,413	6,413	......	6,413	6,526	......	6,526
Procurement:									
Department of the Army	749	......	749	749	......	749	1,047	......	1,047
Department of the Navy	2,116	......	2,116	2,116	......	2,116	2,487	......	2,487
Department of the Air Force	1,998	......	1,998	1,998	......	1,998	1,834	......	1,834
Defense agencies	269	......	269	269	......	269	330	......	330
Total—Procurement	5,131	......	5,131	5,131	......	5,131	5,698	......	5,698
Research, development, test, and evaluation:									
Department of the Army	462	......	462	462	......	462	480	......	480
Department of the Navy	506	......	506	506	......	506	581	......	581
Department of the Air Force	1,337	......	1,337	1,337	......	1,337	1,257	......	1,257
Defense agencies	682	......	682	682	......	682	684	......	684
Total—Research, development, test and evaluation	2,987	......	2,987	2,987	......	2,987	3,002	......	3,002
Military construction:									
Department of the Army	53	......	53	53	......	53	50	......	50
Department of the Navy	91	......	91	91	......	91	80	......	80
Department of the Air Force	95	......	95	95	......	95	126	......	126
Defense agencies	166	......	166	166	......	166	136	......	136
Total—Military construction	404	......	404	404	......	404	393	......	393
Family housing:									
Department of the Army	75	......	75	75	......	75	66	......	66
Department of the Navy	64	......	64	64	......	64	81	......	81
Department of the Air Force	82	......	82	82	......	82	67	......	67
Defense agencies	8	3	5	8	3	5	5	(* *)	5
Revolving and management funds:									
Department of the Army	−99	......	−99	−99	......	−99	41	......	41
Department of the Navy	−17	......	−17	−17	......	−17	15	......	15
Department of the Air Force	......	......	......	......	......	......	......	......	......
Defense agencies:									
Defense business operations fund	1,697	......	1,697	1,697	......	1,697	858	......	858
Other	−12	1	−13	−12	1	−13	−8	(* *)	−8
Trust funds:									
Department of the Army	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	(* *)	(* *)
Department of the Navy	9	1	8	9	1	8	6	2	4
Department of the Air Force	1	1	(* *)	1	1	(* *)	6	5	1
Defense agencies	49	......	49	49	......	49	4	......	4
Proprietary receipts from the public:									
Department of the Army	......	118	−118	......	118	−118	......	26	−26
Department of the Navy	......	129	−129	......	129	−129	......	137	−137
Department of the Air Force	......	106	−106	......	106	−106	......	94	−94
Defense agencies	......	191	−191	......	191	−191	......	239	−239
Intrabudgetary transactions:									
Department of the Army	123	......	123	123	......	123	123	......	123
Department of the Navy	11	......	11	11	......	11	793	......	793
Department of the Air Force	90	......	90	90	......	90	15	......	15
Defense agencies:									
Defense cooperation account	(* *)	......	(* *)	(* *)	......	(* *)	−5	......	−5
Voluntary separation incentive fund	......	......	......	......	......	......	......	......	......
Other	47	......	47	47	......	47	−412	......	−412
Offsetting governmental receipts:									
Department of the Army	......	......	......	......	......	......	......	......	......
Defense agencies:									
Defense cooperation account	......	......	......	......	......	......	......	25	−25
Total—Department of Defense—Military	**23,696**	**550**	**23,147**	**23,696**	**550**	**23,147**	**26,484**	**530**	**25,954**

Table 5. Outlays of the U.S. Government, October 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	80	......	80	80	......	80	94	......	94
Operation and maintenance, general	87	......	87	87	......	87	122	......	122
Other	164	......	164	164	......	164	196	......	196
Proprietary receipts from the public	......	9	-9	......	9	-9	......	22	-22
Total—Corps of Engineers	332	9	322	332	9	322	411	22	390
Military retirement:									
Payment to military retirement fund	11,908	......	11,908	11,908	......	11,908	12,273	......	12,273
Retired pay	......	......	......	......	......	......	......	......	......
Military retirement fund	2,218	......	2,218	2,218	......	2,218	2,088	......	2,088
Intrabudgetary transactions	-11,908	......	-11,908	-11,908	......	-11,908	-12,273	......	-12,273
Education benefits	8	......	8	8	......	8	13	......	13
Other	2	(* *)	2	2	(* *)	2	3	(* *)	2
Proprietary receipts from the public	......	1	-1	......	1	-1	......	1	-1
Total—Department of Defense—Civil	**2,560**	**10**	**2,550**	**2,560**	**10**	**2,550**	**2,516**	**23**	**2,493**
Department of Education:									
Office of Elementary and Secondary Education:									
Compensatory education for the disadvantaged	387	......	387	387	......	387	527	......	527
Impact aid	6	......	6	6	......	6	29	......	29
School improvement programs	117	......	117	117	......	117	139	......	139
Chicago litigation settlement	1	......	1	1	......	1	1	......	1
Indian education	6	......	6	6	......	6	7	......	7
Other	......	......	......	......	......	......	......	......	......
Total—Office of Elementary and Secondary Education	516	......	516	516	......	516	702	......	702
Office of Bilingual Education and Minority Languages Affairs	15	......	15	15	......	15	17	......	17
Office of Special Education and Rehabilitative Services:									
Special education	224	......	224	224	......	224	199	......	199
Rehabilitation services and disability research	183	......	183	183	......	183	149	......	149
Special institutions for persons with disabilities	6	......	6	6	......	6	10	......	10
Office of Vocational and Adult Education	71	......	71	71	......	71	130	......	130
Office of Postsecondary Education:									
College housing loans	......	11	-11	......	11	-11	......	13	-13
Student financial assistance	703	......	703	703	......	703	708	......	708
Federal family education loans	-35	......	-35	-35	......	-35	229	......	229
Higher education	65	......	65	65	......	65	112	......	112
Howard University	7	......	7	7	......	7	19	......	19
Other	-2	......	-2	-2	......	-2	-2	......	-2
Total—Office of Postsecondary Education	738	11	727	738	11	727	1,066	13	1,053
Office of Educational Research and Improvement	34	......	34	34	......	34	31	......	31
Departmental management	34	......	34	34	......	34	45	......	45
Proprietary receipts from the public	......	4	-4	......	4	-4	......	2	-2
Total—Department of Education	**1,821**	**15**	**1,805**	**1,821**	**15**	**1,805**	**2,349**	**16**	**2,334**
Department of Energy:									
Atomic energy defense activities	1,083	......	1,083	1,083	......	1,083	1,139	......	1,139
Energy programs:									
General science and research activities	120	......	120	120	......	120	132	......	132
Energy supply, R and D activities	300	......	300	300	......	300	269	......	269
Uranium supply and enrichment activities	3	......	3	3	......	3	126	......	126
Fossil energy research and development	31	......	31	31	......	31	29	......	29
Energy conservation	33	......	33	33	......	33	30	......	30
Strategic petroleum reserve	16	......	16	16	......	16	17	......	17
Nuclear waste disposal fund	27	......	27	27	......	27	34	......	34
Other	29	(* *)	28	29	(* *)	28	41	(* *)	41
Total—Energy programs	558	(* *)	558	558	(* *)	558	677	(* *)	677
Power Marketing Administration	167	89	78	167	89	78	193	103	91
Departmental administration	29	......	29	29	......	29	48	......	48
Proprietary receipts from the public	......	58	-58	......	58	-58	......	221	-221
Intrabudgetary transactions	22	......	22	22	......	22	-17	......	-17
Offsetting governmental receipts	......	2	-2	......	2	-2	......	1	-1
Total—Department of Energy	**1,860**	**149**	**1,710**	**1,860**	**149**	**1,710**	**2,040**	**325**	**1,714**

Table 5. Outlays of the U.S. Government, October 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	60	(* *)	60	60	(* *)	60	60	(* *)	60
Health Resources and Services Administration	131	......	131	131	......	131	137	......	137
Indian Health Service	136	......	136	136	......	136	152	......	152
Centers for Disease Control	98	......	98	98	......	98	116	......	116
National Institutes of Health	781	......	781	781	......	781	692	......	692
Substance Abuse and Mental Health Services Administration	200	......	200	200	......	200	226	......	226
Agency for Health Care Policy and Research	10	......	10	10	......	10	−7	......	−7
Assistant secretary for health	51	......	51	51	......	51	63	......	63
Total—Public Health Service	1,467	(* *)	1,467	1,467	(* *)	1,467	1,438	(* *)	1,438
Health Care Financing Administration:									
Grants to States for Medicaid	7,394	......	7,394	7,394	......	7,394	6,215	......	6,215
Payments to health care trust funds	3,765	......	3,765	3,765	......	3,765	3,198	......	3,198
Federal hospital insurance trust fund:									
Benefit payments	7,338	......	7,338	7,338	......	7,338	7,215	......	7,215
Administrative expenses and construction	94	......	94	94	......	94	84	......	84
Interest on normalized tax transfers	......	......	......	......	......	......	......	......	......
Quinquennial transfers to the general fund from FHI	......	......	......	......	......	......	......	......	......
Total—FHI trust fund	7,432	......	7,432	7,432	......	7,432	7,299	......	7,299
Federal supplementary medical insurance trust fund:									
Benefit payments	4,520	......	4,520	4,520	......	4,520	4,748	......	4,748
Administrative expenses and construction	129	......	129	129	......	129	103	......	103
Total—FSMI trust fund	4,650	......	4,650	4,650	......	4,650	4,851	......	4,851
Other	18	......	18	18	......	18	49	......	49
Total—Health Care Financing Administration	23,259	......	23,259	23,259	......	23,259	21,613	......	21,613
Social Security Administration:									
Payments to Social Security trust funds	977	......	977	977	......	977	1,523	......	1,523
Special benefits for disabled coal miners	69	......	69	69	......	69	67	......	67
Supplemental security income program	1,924	......	1,924	1,924	......	1,924	3,101	......	3,101
Total—Social Security Administration	2,970	......	2,970	2,970	......	2,970	4,691	......	4,691
Administration for children and families:									
Family support payments to States	1,446	......	1,446	1,446	......	1,446	1,436	......	1,436
Low income home energy assistance	453	......	453	453	......	453	208	......	208
Refugee and entrant assistance	38	......	38	38	......	38	17	......	17
Community Services Block Grant	42	......	42	42	......	42	39	......	39
Payments to States for afdc work programs	42	......	42	42	......	42	36	......	36
Interim assistance to States for legalization	38	......	38	38	......	38	13	......	13
Payments to States for child care assistance	59	......	59	59	......	59	7	......	7
Social services block grant	138	......	138	138	......	138	109	......	109
Children and families services programs	285	......	285	285	......	285	285	......	285
Payments to States for foster care and adoption assistance	255	......	255	255	......	255	28	......	28
Other	......	......	......	......	......	......	......	......	......
Total—Administration for children and families	2,797	......	2,797	2,797	......	2,797	2,178	......	2,178
Administration on aging	43	......	43	43	......	43	......	......	......
Office of the Secretary	16	......	16	16	......	16	64	......	64
Proprietary receipts from the public	......	1,354	−1,354	......	1,354	−1,354	......	1,137	−1,137
Intrabudgetary transactions:									
Quinquennial transfers to the general fund From FHI, FOASI, and FDI	......	......	......	......	......	......	......	......	......
Payments for health insurance for the aged:									
Federal hospital insurance trust fund	......	......	......	......	......	......	......	......	......
Federal supplementary medical insurance trust fund	−3,765	......	−3,765	−3,765	......	−3,765	−3,198	......	−3,198
Payments for tax and other credits:									
Federal hospital insurance trust fund	......	......	......	......	......	......	......	......	......
Other	......	......	......	......	......	......	......	......	......
Total—Department of Health and Human Services, except Social Security	**26,786**	**1,355**	**25,432**	**26,786**	**1,355**	**25,432**	**26,786**	**1,137**	**25,649**

Table 5. Outlays of the U.S. Government, October 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, Social Security (off-budget):									
Federal old-age and survivors insurance trust fund:									
Benefit payments	22,407	......	22,407	22,407	......	22,407	21,389	......	21,389
Administrative expenses and construction	139	......	139	139	......	139	141	......	141
Payment to railroad retirement account	......	......	......	......	......	......	......	......	......
Interest expense on interfund borrowings	......	......	......	......	......	......	......	......	......
Interest on normalized tax transfers	......	......	......	......	......	......	......	......	......
Quinquennial transfers to the general fund from FOASI	......	......	......	......	......	......	......	......	......
Total—FOASI trust fund	22,546	......	22,546	22,546	......	22,546	21,530	......	21,530
Federal disability insurance trust fund:									
Benefit payments	2,926	......	2,926	2,926	......	2,926	2,711	......	2,711
Administrative expenses and construction	66	......	66	66	......	66	60	......	60
Payment to railroad retirement account	......	......	......	......	......	......	......	......	......
Interest on normalized tax transfers	......	......	......	......	......	......	......	......	......
Quinquennial transfers to the general fund from FDI	......	......	......	......	......	......	......	......	......
Total—FDI trust fund	2,992	......	2,992	2,992	......	2,992	2,771	......	2,771
Proprietary receipts from the public	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)	(* *)
Intrabudgetary transactions[1]	−977	......	−977	−977	......	−977	−1,523	......	−1,523
Total—Department of Health and Human Services, Social Security(off-budget)	**24,562**	**(* *)**	**24,562**	**24,562**	**(* *)**	**24,562**	**22,778**	**(* *)**	**22,778**
Department of Housing and Urban Development:									
Housing programs:									
Public enterprise funds	13	5	8	13	5	8	8	6	2
Credit accounts:									
Federal housing administration fund	525	374	151	525	374	151	570	440	130
Housing for the elderly or handicapped fund	384	59	326	384	59	326	409	51	359
Other	42	(* *)	42	42	(* *)	42	21	(* *)	21
Rent supplement payments	5	......	5	5	......	5	4	......	4
Homeownership assistance	9	......	9	9	......	9	6	......	6
Rental housing assistance	55	......	55	55	......	55	59	......	59
Rental housing development grants	(* *)	......	(* *)	(* *)	......	(* *)	7	......	7
Low-rent public housing	37	......	37	37	......	37	38	......	38
Public housing grants	266	......	266	266	......	266	213	......	213
College housing grants	1	......	1	1	......	1	1	......	1
Lower income housing assistance	886	......	886	886	......	886	998	......	998
Section 8 contract renewals	257	......	257	257	......	257	160	......	160
Other	3	......	3	3	......	3	2	......	2
Total—Housing programs	2,483	438	2,045	2,483	438	2,045	2,497	496	2,001
Public and Indian Housing programs:									
Low-rent public housing—Loans and other expenses	5	15	−9	5	15	−9	11	14	−3
Payments for operation of low-income housing projects	217	......	217	217	......	217	188	......	188
Community Partnerships Against Crime	14	......	14	14	......	14	9	......	9
Total—Public and Indian Housing programs	236	15	221	236	15	221	208	14	194
Government National Mortgage Association:									
Management and liquidating functions fund	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)	(* *)
Guarantees of mortgage-backed securities	133	181	−48	133	181	−48	97	127	−29
Total—Government National Mortgage Association	133	181	−48	133	181	−48	97	127	−29
Community Planning and Development:									
Community Development Grants	300	......	300	300	......	300	298	......	298
Other	73	15	59	73	15	59	36	9	27
Total—Community Planning and Development	374	15	359	374	15	359	335	9	325
Management and Administration	77	......	77	77	......	77	114	......	114
Other	2	......	2	2	......	2	4	......	4
Proprietary receipts from the public	−11	......	−11	−11	......	−11	−18	......	−18
Other	......	......	......	......	......	......	......	......	......
Offsetting governmental receipts	......	......	......	......	......	......	......	......	......
Total—Department of Housing and Urban Development	**3,293**	**649**	**2,645**	**3,293**	**649**	**2,645**	**3,237**	**646**	**2,591**

Table 5. Outlays of the U.S. Government, October 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 Interior:									
Land and minerals management:									
Bureau of Land Management:									
Management of lands and resources	45	......	45	45	......	45	57	......	57
Fire protection	7	......	7	7	......	7	17	......	17
Other	17	......	17	17	......	17	15	......	15
Minerals Management Service	69	......	69	69	......	69	67	......	67
Office of Surface Mining Reclamation and Enforcement	24	......	24	24	......	24	32	......	32
Total—Land and minerals management	161	......	161	161	......	161	188	......	188
Water and science:									
Bureau of Reclamation:									
Construction program	24	......	24	24	......	24	22	......	22
Operation and maintenance	19	......	19	19	......	19	31	......	31
Other	36	11	24	36	11	24	38	4	33
Geological Survey	42	......	42	42	......	42	68	......	68
Bureau of Mines	15	3	12	15	3	12	18	2	16
Total—Water and science	135	14	121	135	14	121	177	7	171
Fish and wildlife and parks:									
United States Fish and Wildlife Service	78	......	78	78	......	78	98	......	98
National Park Service	103	......	103	103	......	103	142	......	142
Total—Fish and wildlife and parks	182	......	182	182	......	182	240	......	240
Bureau of Indian Affairs:									
Operation of Indian programs	95	......	95	95	......	95	77	......	77
Indian tribal funds	9	......	9	9	......	9	8	......	8
Other	19	(* *)	19	19	(* *)	19	49	(* *)	48
Total—Bureau of Indian Affairs	124	(* *)	123	124	(* *)	123	134	(* *)	134
Territorial and international affairs	100	......	100	100	......	100	121	......	121
Departmental offices	3	......	3	3	......	3	4	......	4
Proprietary receipts from the public	......	147	−147	......	147	−147	......	158	−158
Intrabudgetary transactions	−16	......	−16	−16	......	−16	(* *)	......	(* *)
Offsetting governmental receipts	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)	(* *)
Total—Department of the Interior	**688**	**161**	**527**	**688**	**161**	**527**	**863**	**165**	**698**
Department of Justice:									
Legal activities	190	......	190	190	......	190	613	......	613
Federal Bureau of Investigation	173	......	173	173	......	173	195	......	195
Drug Enforcement Administration	67	......	67	67	......	67	65	......	65
Immigration and Naturalization Service	102	......	102	102	......	102	105	......	105
Federal Prison System	169	10	159	169	10	159	179	7	172
Office of Justice Programs	61	......	61	61	......	61	61	......	61
Other	21	......	21	21	......	21	39	......	39
Intrabudgetary transactions	(* *)	......	(* *)	(* *)	......	(* *)	−2	......	−2
Offsetting governmental receipts	......	22	−22	......	22	−22	......	33	−33
Total—Department of Justice	**783**	**31**	**751**	**783**	**31**	**751**	**1,255**	**40**	**1,215**
Department of Labor:									
Employment and Training Administration:									
Training and employment services	345	......	345	345	......	345	353	......	353
Community Service Employment for Older Americans	29	......	29	29	......	29	30	......	30
Federal unemployment benefits and allowances	9	......	9	9	......	9	7	......	7
State unemployment insurance and employment service operations	16	......	16	16	......	16	26	......	26
Payments to the unemployment trust fund	......	......	......	......	......	......	590	......	590
Advances to the unemployment trust fund and other funds	959	......	959	959	......	959	250	......	250

Table 5. Outlays of the U.S. Government, October 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	2,317	......	2,317	2,317	......	2,317	2,746	......	2,746
State administrative expenses	285	......	285	285	......	285	266	......	266
Federal administrative expenses	90	......	90	90	......	90	12	......	12
Veterans employment and training	11	......	11	11	......	11	10	......	10
Repayment of advances from the general fund	......	......	......	......	......	......	......	......	......
Railroad unemployment insurance	5	......	5	5	......	5	6	......	6
Other	2	......	2	2	......	2	1	......	1
Total—Unemployment trust fund	2,710	......	2,710	2,710	......	2,710	3,041	......	3,041
Other	8	......	8	8	......	8	6	......	6
Total—Employment and Training Administration	4,075	......	4,075	4,075	......	4,075	4,303	......	4,303
Pension Benefit Guaranty Corporation	67	[2]50	17	67	50	17	63	-36	98
Employment Standards Administration:									
Salaries and expenses	15	......	15	15	......	15	16	......	16
Special benefits	87	......	87	87	......	87	-29	......	-29
Black lung disability trust fund	48	......	48	48	......	48	49	......	49
Other	14	......	14	14	......	14	15	......	15
Occupational Safety and Health Administration	19	......	19	19	......	19	23	......	23
Bureau of Labor Statistics	11	......	11	11	......	11	27	......	27
Other	38	......	38	38	......	38	19	......	19
Proprietary receipts from the public	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)	(* *)
Intrabudgetary transactions	-963	......	-963	-963	......	-963	-855	......	-855
Total—Department of Labor	**3,412**	**50**	**3,362**	**3,412**	**50**	**3,362**	**3,631**	**-36**	**3,667**
Department of State:									
Administration of Foreign Affairs:									
Salaries and expenses	190	......	190	190	......	190	268	......	268
Acquisition and maintenance of buildings abroad	37	......	37	37	......	37	59	......	59
Payment to Foreign Service retirement and disability fund	......	......	......	......	......	......	......	......	......
Foreign Service retirement and disability fund	33	......	33	33	......	33	31	......	31
Other	9	......	9	9	......	9	4	......	4
Total—Administration of Foreign Affairs	269	......	269	269	......	269	363	......	363
International organizations and Conferences	554	......	554	554	......	554	486	......	486
Migration and refugee assistance	10	......	10	10	......	10	34	......	34
International narcotics control	5	......	5	5	......	5	9	......	9
Other	5	......	5	5	......	5	9	......	9
Proprietary receipts from the public	......	......	......	......	......	......	......	......	......
Intrabudgetary transactions	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Offsetting governmental receipts	......	......	......	......	......	......	......	......	......
Total—Department of State	**843**	**......**	**843**	**843**	**......**	**843**	**900**	**......**	**900**
Department of Transportation:									
Federal Highway Administration:									
Highway trust fund:									
Federal-aid highways	1,770	......	1,770	1,770	......	1,770	1,472	......	1,472
Other	4	......	4	4	......	4	6	......	6
Other programs	31	......	31	31	......	31	19	......	19
Total—Federal Highway Administration	1,805	......	1,805	1,805	......	1,805	1,497	......	1,497
National Highway Traffic Safety Administration	20	......	20	20	......	20	17	......	17
Federal Railroad Administration:									
Grants to National Railroad Passenger Corporation	58	......	58	58	......	58	104	......	104
Other	21	1	20	21	1	20	17	1	16
Total—Federal Railroad Administration	79	1	78	79	1	78	121	1	120

Table 5. Outlays of the U.S. Government, October 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	192	......	192	192	......	192	101	......	101
Discretionary grants	113	......	113	113	......	113	81	......	81
Other	19	......	19	19	......	19	34	......	34
Total—Federal Transit Administration	324	......	324	324	......	324	216	......	216
Federal Aviation Administration:									
Operations	369	......	369	369	......	369	241	......	241
Airport and airway trust fund:									
Grants-in-aid for airports	132	......	132	132	......	132	228	......	228
Facilities and equipment	79	......	79	79	......	79	101	......	101
Research, engineering and development	13	......	13	13	......	13	15	......	15
Operations	......	......	......	......	......	......	95	......	95
Total—Airport and airway trust fund	224	......	224	224	......	224	439	......	439
Other	(* *)	(* *)	(* *)	(* *)	(* *)	(* *)	(* *)	(* *)	(* *)
Total—Federal Aviation Administration	593	(* *)	593	593	(* *)	593	680	(* *)	680
Coast Guard:									
Operating expenses	200	......	200	200	......	200	269	......	269
Acquisition, construction, and improvements	12	......	12	12	......	12	22	......	22
Retired pay	32	......	32	32	......	32	41	......	41
Other	7	(* *)	6	7	(* *)	6	11	(* *)	10
Total—Coast Guard	252	(* *)	251	252	(* *)	251	343	(* *)	343
Maritime Administration	62	14	49	62	14	49	40	10	30
Other	19	(* *)	19	19	(* *)	19	35	1	34
Proprietary receipts from the public	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)	(* *)
Intrabudgetary transactions	13	......	13	13	......	13	−3	......	−3
Offsetting governmental receipts	......	(* *)	(* *)	......	(* *)	(* *)	......	7	−7
Total—Department of Transportation	**3,167**	**16**	**3,151**	**3,167**	**16**	**3,151**	**2,947**	**19**	**2,928**
Department of the Treasury:									
Departmental offices:									
Exchange stabilization fund	−17	1	−18	−17	1	−18	96	1	95
Other	33	......	33	33	......	33	39	......	39
Financial Management Service:									
Salaries and expenses	13	......	13	13	......	13	19	......	19
Payment to the Resolution Funding Corporation	587	......	587	587	......	587	587	......	587
Claims, judgements, and relief acts	51	......	51	51	......	51	18	......	18
Other	11	......	11	11	......	11	7	......	7
Total—Financial Management Service	663	......	663	663	......	663	632	......	632
Federal Financing Bank	−114	......	−114	−114	......	−114	−114	......	−114
Bureau of Alcohol, Tobacco and Firearms:									
Salaries and expenses	23	......	23	23	......	23	37	......	37
Internal revenue collections for Puerto Rico	16	......	16	16	......	16	15	......	15
United States Customs Service	128	......	128	128	......	128	142	......	142
Bureau of Engraving and Printing	−1	......	−1	−1	......	−1	6	......	6
United States Mint	[3]-11	......	−11	−11	......	−11	18	......	18
Bureau of the Public Debt	13	......	13	13	......	13	20	......	20
Internal Revenue Service:									
Processing tax returns and assistance	97	......	97	97	......	97	136	......	136
Tax law enforcement	265	......	265	265	......	265	352	......	352
Information systems	60	......	60	60	......	60	96	......	96
Payment where earned income credit exceeds liability for tax	17	......	17	17	......	17	18	......	18
Health insurance supplement to earned income credit	2	......	2	2	......	2	1	......	1
Refunding internal revenue collections, interest	395	......	395	395	......	395	182	......	182
Other	13	......	13	13	......	13	−4	......	−4
Total—Internal Revenue Service	850	......	850	850	......	850	781	......	781

Table 5. Outlays of the U.S. Government, October 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	36	......	36	36	......	36	51	......	51
Comptroller of the Currency	29	8	21	29	8	21	38	5	33
Office of Thrift Supervison	15	2	13	15	2	13	26	10	15
Interest on the public debt:									
Public issues (accrual basis)	17,429	......	17,429	17,429	......	17,429	17,283	......	17,283
Special issues (cash basis)	209	......	209	209	......	209	694	......	694
Total—Interest on the public debt	17,638	......	17,638	17,638	......	17,638	17,978	......	17,978
Other	5	......	5	5	......	5	2	......	2
Proprietary receipts from the public	......	347	−347	......	347	−347	......	−122	122
Receipts from off-budget federal entities	......	......	......	......	......	......	......	......	......
Intrabudgetary transactions	−1,356	......	−1,356	−1,356	......	−1,356	−1,713	......	−1,713
Offsetting governmental receipts	......	56	−56	......	56	−56	......	51	−51
Total—Department of the Treasury	**17,949**	**413**	**17,536**	**17,949**	**413**	**17,536**	**18,053**	**−56**	**18,109**
Department of Veterans Affairs:									
Veterans Health Administration:									
Medical care	1,097	......	1,097	1,097	......	1,097	1,073	......	1,073
Other	18	21	−3	18	21	−3	49	19	31
Veterans Benefits Administration:									
Public enterprise funds:									
Guaranty and indemnity fund	36	54	−18	36	54	−18	20	37	−17
Loan guaranty revolving fund	111	40	70	111	40	70	161	44	117
Other	38	35	4	38	35	4	25	23	2
Compensation and pensions	1,400	......	1,400	1,400	......	1,400	2,623	......	2,623
Readjustment benefits	73	......	73	73	......	73	90	......	90
Post-Vietnam era veterans education account	7	......	7	7	......	7	15	......	15
Insurance funds:									
National service life	96	......	96	96	......	96	69	......	69
United States government life	2	......	2	2	......	2	1	......	1
Veterans special life	9	3	6	9	3	6	8	4	4
Other	−13	......	−13	−13	......	−13	−9	......	−9
Total—Veterans Benefits Administration	1,758	132	1,626	1,758	132	1,626	3,002	108	2,895
Construction	51	(* *)	51	51	(* *)	51	50	(* *)	49
Departmental administration	88	......	88	88	......	88	98	......	98
Proprietary receipts from the public:									
National service life	......	30	−30	......	30	−30	......	32	−32
United States government life	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)	(* *)
Other	......	16	−16	......	16	−16	......	50	−50
Intrabudgetary transactions	−7	......	−7	−7	......	−7	−3	......	−3
Total—Department of Veterans Affairs	**3,004**	**198**	**2,806**	**3,004**	**198**	**2,806**	**4,269**	**208**	**4,061**
Environmental Protection Agency:									
Program and research operations	67	......	67	67	......	67	47	......	47
Abatement, control, and compliance	73	......	73	73	......	73	110	......	110
Water infrastructure financing	153	......	153	153	......	153	157	......	157
Hazardous substance superfund	124	......	124	124	......	124	104	......	104
Other	36	(* *)	36	36	(* *)	36	31	1	31
Proprietary receipts from the public	......	22	−22	......	22	−22	......	10	−10
Intrabudgetary transactions	......	......	......	......	......	......	......	......	......
Offsetting governmental receipts	......	1	−1	......	1	−1	......	......	......
Total—Environmental Protection Agency	**453**	**23**	**430**	**453**	**23**	**430**	**450**	**11**	**439**
General Services Administration:									
Real property activities	284	......	284	284	......	284	261	......	261
Personal property activities	−46	......	−46	−46	......	−46	−37	......	−37
Information Resources Management Service	−17	......	−17	−17	......	−17	−71	......	−71
Federal property resources activities	2	......	2	2	......	2	1	......	1
General activities	16	......	16	16	......	16	14	......	14
Proprietary receipts from the public	......	(* *)	(* *)	......	(* *)	(* *)	......	3	−3
Total—General Services Administration	**240**	**(* *)**	**239**	**240**	**(* *)**	**239**	**169**	**3**	**165**

Table 5. Outlays of the U.S. Government, October 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	539	......	539	539	......	539	462	......	462
Space flight, control, and data communications	385	......	385	385	......	385	466	......	466
Construction of facilities	28	......	28	28	......	28	43	......	43
Research and program management	126	......	126	126	......	126	126	......	126
Other	1	......	1	1	......	1	1	......	1
Total—National Aeronautics and Space Administration	**1,079**	......	**1,079**	**1,079**	......	**1,079**	**1,098**	......	**1,098**
Office of Personnel Management:									
Government payment for annuitants, employees health and life insurance benefits	266	......	266	266	......	266	248	......	248
Payment to civil service retirement and disability fund	......	......	......	......	......	......	......	......	......
Civil service retirement and disability fund	2,985	......	2,985	2,985	......	2,985	2,788	......	2,788
Employees health benefits fund	1,244	1,146	98	1,244	1,146	98	1,176	1,192	−16
Employees life insurance fund	110	129	−19	110	129	−19	209	127	82
Retired employees health benefits fund	1	1	(* *)	1	1	(* *)	1	1	(* *)
Other	7	......	7	7	......	7	−7	......	−7
Intrabudgetary transactions:									
Civil service retirement and disability fund:									
General fund contributions	......	......	......	......	......	......	......	......	......
Other	−3	......	−3	−3	......	−3	−4	......	−4
Total—Office of Personnel Management	**4,610**	**1,275**	**3,335**	**4,610**	**1,275**	**3,335**	**4,410**	**1,320**	**3,090**
Small Business Administration:									
Public enterprise funds:									
Business loan fund	48	54	−6	48	54	−6	118	84	33
Disaster loan fund	19	34	−15	19	34	−15	69	37	31
Other	5	2	3	5	2	3	4	1	3
Other	33	(* *)	32	33	(* *)	32	45	(* *)	45
Total—Small Business Administration	**104**	**89**	**14**	**104**	**89**	**14**	**235**	**123**	**113**
Other independent agencies:									
Action	13	......	13	13	......	13	18	......	18
Board for International Broadcasting	12	......	12	12	......	12	35	......	35
Corporation for Public Broadcasting	275	......	275	275	......	275	319	......	319
District of Columbia:									
Federal payment	52	......	52	52	......	52	698	......	698
Other	7	......	7	7	......	7	5	24	−20
Equal Employment Opportunity Commission	13	(* *)	13	13	(* *)	13	14	......	14
Export-Import Bank of the United States	25	135	−110	25	135	−110	56	146	−90
Federal Communications Commission	9	3	7	9	3	7	13	3	10
Federal Deposit Insurance Corporation:									
Bank insurance fund	328	277	52	328	277	52	942	845	97
Savings association insurance fund	3	8	−5	3	8	−5	2	2	(* *)
FSLIC resolution fund	348	348	(* *)	348	348	(* *)	46	133	−87
Affordable housing and bank enterprise	1	......	1	1	......	1	......	......	......
Federal Emergency Management Agency:									
Public enterprise funds	73	17	56	73	17	56	23	101	−78
Disaster relief	141	......	141	141	......	141	262	......	262
Emergency management planning and assistance	17	......	17	17	......	17	20	......	20
Other	13	......	13	13	......	13	-1	......	−1
Federal Trade Commission	6	......	6	6	......	6	6	......	6
Interstate Commerce Commission	3	......	3	3	......	3	3	......	3
Legal Services Corporation	1	......	1	1	......	1	59	......	59
National Archives and Records Administration	3	(* *)	3	3	(* *)	3	15	(* *)	15
National Credit Union Administration:									
Credit union share insurance fund	48	10	38	48	10	38	20	26	−6
Central liquidity facility	10	10	......	10	10	......	17	17	......
Other	−7	(* *)	−8	−7	(* *)	−8	−5	(* *)	−5

Table 5. Outlays of the U.S. Government, October 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	20	......	20	20	......	20	16	......	16
National Endowment for the Humanities	11	......	11	11	......	11	11	......	11
National Labor Relations Board	11	......	11	11	......	11	16	......	16
National Science Foundation	222	......	222	222	......	222	181	......	181
Nuclear Regulatory Commission	40	47	-6	40	47	-6	30	89	-59
Panama Canal Commission	47	45	2	47	45	2	42	41	2
Postal Service:									
Public enterprise funds (off-budget)	3,616	[4]4,125	-509	3,616	4,125	-509	3,849	4,301	-452
Payment to the Postal Service fund	61	......	61	61	......	61	69	......	69
Railroad Retirement Board:									
Federal windfall subsidy	23	......	23	23	......	23	25	......	25
Federal payments to the railroad retirement accounts	12	......	12	12	......	12	16	......	16
Regional rail transportation protective account	......	......	......	......	......	......	(* *)	......	(* *)
Rail industry pension fund:									
Advances from FOASDI fund	-91	......	-91	-91	......	-91	-87	......	-87
OASDI certifications	90	......	90	90	......	90	87	......	87
Administrative expenses	5	......	5	5	......	5	6	......	6
Interest on refunds of taxes	(* *)	......	(* *)	(* *)	......	(* *)	5	......	5
Supplemental annuity pension fund	239	......	239	239	......	239	241	......	241
Other	1	......	1	1	......	1	1	......	1
Intrabudgetary transactions:									
Social Security equivalent benefit account	385	......	385	385	......	385	384	......	384
Payments from other funds to the railroad retirement trust funds	......	......	......	......	......	......	......	......	......
Other	-12	......	-12	-12	......	-12	-16	......	-16
Total—Railroad Retirement Board	653	......	653	653	......	653	662	......	662
Resolution Trust Corporation	1,211	1,204	7	1,211	1,204	7	3,320	5,898	-2,578
Securities and Exchange Commission	10	......	10	10	......	10	6	......	6
Smithsonian Institution	20	......	20	20	......	20	28	......	28
Tennessee Valley Authority	984	878	106	984	878	106	831	561	271
United States Information Agency	87	(* *)	87	87	(* *)	87	97	(* *)	97
Other	169	114	55	169	114	55	110	4	107
Total—Other independent agencies	**8,558**	**7,221**	**1,337**	**8,558**	**7,221**	**1,337**	**11,836**	**12,190**	**-354**
Undistributed offsetting receipts:									
Other interest	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)	(* *)
Employer share, employee retirement:									
Legislative Branch:									
United States Tax Court:									
Tax court judges survivors annuity fund	......	......	......	......	......	......	(* *)	......	(* *)
The Judiciary:									
Judicial survivors annuity fund	......	......	......	......	......	......	......	......	......
Department of Defense—Civil:									
Military retirement fund	-1,081	......	-1,081	-1,081	......	-1,081	-1,055	......	-1,055
Department of Health and Human Services, except Social Security:									
Federal hospital insurance trust fund:									
Federal employer contributions	-195	......	-195	-195	......	-195	-151	......	-151
Postal Service employer contributions	......	......	......	......	......	......	-38	......	-38
Payments for military service credits	......	......	......	......	......	......	......	......	......
Department of Health and Human Services, Social Security (off-budget):									
Federal old-age and survivors insurance trust fund:									
Federal employer contributions	-425	......	-425	-425	......	-425	-402	......	-402
Payments for military service credits	......	......	......	......	......	......	......	......	......
Federal disability insurance trust fund:									
Federal employer contributions	-46	......	-46	-46	......	-46	-43	......	-43
Payments for military service credits	......	......	......	......	......	......	......	......	......
Department of State:									
Foreign Service retirement and disability fund	-9	......	-9	-9	......	-9	-11	......	-11
Office of Personnel Management:									
Civil service retirement and disability fund	-816	......	-816	-816	......	-816	-798	......	-798
Independent agencies:									
Court of veterans appeals retirement fund	......	......	......	......	......	......	......	......	......
Total—Employer share, employee retirement	-2,572	......	-2,572	-2,572	......	-2,572	-2,498	......	-2,498

Table 5. Outlays of the U.S. Government, October 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	......	......	......	......	......	......	......	......	......
Department of Defense—Civil:									
Corps of Engineers	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Military retirement fund	-169	......	-169	-169	......	-169	-158	......	-158
Education benefits fund	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Soldiers' and airmen's home permanent fund	-3	......	-3	-3	......	-3	-4	......	-4
Other	(* *)	......	(* *)	(* *)	......	(* *)	......	......	......
Department of Health and Human Services, except Social Security:									
Federal hospital insurance trust fund	-7	......	-7	-7	......	-7	-12	......	-12
Federal supplementary medical insurance trust fund	-13	......	-13	-13	......	-13	-18	......	-18
Department of Health and Human Services, Social Security (off-budget):									
Federal old-age and survivors insurance trust fund	-44	......	-44	-44	......	-44	-30	......	-30
Federal disability insurance trust fund	-15	......	-15	-15	......	-15	-11	......	-11
Department of Labor:									
Unemployment trust fund	-11	......	-11	-11	......	-11	-26	......	-26
Department of State:									
Foreign Service retirement and disability fund	-1	......	-1	-1	......	-1	(* *)	......	(* *)
Department of Transportation:									
Highway trust fund	-19	......	-19	-19	......	-19	-6	......	-6
Airport and airway trust fund	-1	......	-1	-1	......	-1	-5	......	-5
Oil spill liability trust fund	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Department of Veterans Affairs:									
National service life insurance fund	-2	......	-2	-2	......	-2	-1	......	-1
United States government life Insurance Fund	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Environmental Protection Agency	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
National Aeronautics and Space Administration	(* *)	......	(* *)	(* *)	......	(* *)	......	......	......
Office of Personnel Management:									
Civil service retirement and disability fund	-3	......	-3	-3	......	-3	-3	......	-3
Independent agencies:									
Railroad Retirement Board	-36	......	-36	-36	......	-36	-166	......	-166
Other	-1	......	-1	-1	......	-1	(* *)	......	(* *)
Other	-35	......	-35	-35	......	-35	-1	......	-1
Total—Interest received by trust funds	-359	......	-359	-359	......	-359	-443	......	-443
Rents and royalties on the outer continental shelf lands	......	21	-21	......	21	-21	......	12	-12
Sale of major assets	......	......	......	......	......	......	......	......	......
Total—Undistributed offsetting receipts	**-2,931**	**21**	**-2,952**	**-2,931**	**21**	**-2,952**	**-2,941**	**12**	**-2,953**
Total outlays	**138,790**	**14,778**	**124,013**	**138,790**	**14,778**	**124,013**	**144,695**	**19,079**	**125,616**
Total on-budget	**111,143**	**10,653**	**100,490**	**111,143**	**10,653**	**100,490**	**118,553**	**14,778**	**103,775**
Total off-budget	**27,648**	**4,125**	**23,523**	**27,648**	**4,125**	**23,523**	**26,142**	**4,301**	**21,841**
Total surplus (+) or deficit			**-45,343**			**-45,343**			**-48,792**
Total on-budget			**-44,625**			**-44,625**			**-48,727**
Total off-budget			**-719**			**-719**			**-65**

MEMORANDUM

Receipts offset against outlays [$ millions]

	Current Fiscal Year to Date	Comparable Period Prior Fiscal Year
Proprietary receipts	3,894	3,394
Receipts from off-budget federal entities	......	......
Intrabudgetary transactions	21,665	22,040
Governmental receipts	127	206
Total receipts offset against outlays	25,686	25,640

[1]Includes FICA and SECA tax credits, non-contributory military service credits, special benefits for the aged, and credit for unnegotiated OASI benefit checks.
[2]Includes a decrease in net outlays of $34 million for amortization of zero coupon bonds.
[3]Prior month adjustment.

[4]The Postal Service accounting is composed of 28-day accounting periods. To conform with the MTS calendar-month reporting basis utilized by all other Federal agencies, the MTS reflects USPS results through 10/15 and estimates for $863 million through 10/31.
... 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, October 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	11,023	11,023	2,708	4,396,489	4,396,489	4,407,511
Federal Financing Bank	......	......	......	15,000	15,000	15,000
Total, public debt securities	11,023	11,023	2,708	4,411,489	4,411,489	4,422,511
Plus premium on public debt securities	–8	–8	–5	1,373	1,373	1,365
Less discount on public debt securities	–455	–455	–442	86,397	86,397	85,942
Total public debt securities net of Premium and discount	11,470	11,470	3,145	4,326,466	4,326,466	4,337,936
Agency securities, issued under special financing authorities (see Schedule B. for other Agency borrowing, see Schedule C)	47	47	152	24,682	24,682	24,730
Total federal securities	11,517	11,517	3,298	4,351,149	4,351,149	4,362,666
Deduct:						
Federal securities held as investments of government accounts (see Schedule D)	7,242	7,242	4,902	1,116,713	1,116,713	1,123,956
Less discount on federal securities held as investments of government accounts	–20	–20	52	12,776	12,776	12,755
Net federal securities held as investments of government accounts	7,263	7,263	4,850	1,103,938	1,103,938	1,111,200
Total borrowing from the public	4,255	4,255	–1,552	3,247,211	3,247,211	3,251,466
Accrued interest payable to the public	9,245	9,245	9,281	43,819	43,819	53,064
Allocations of special drawing rights	–125	–125	–328	6,950	6,950	6,825
Deposit funds	1,051	1,051	–172	6,000	6,000	7,051
Miscellaneous liability accounts (includes checks Outstanding etc.)	–5,359	–5,359	–708	2,928	2,928	–2,431
Total liability accounts	**9,067**	**9,067**	**6,521**	**3,306,907**	**3,306,907**	**3,315,974**
Asset accounts (deduct):						
Cash and monetary assets:						
U.S. Treasury operating cash:[1]						
Federal Reserve account	–11,257	–11,257	–20,173	17,289	17,289	6,032
Tax and loan note accounts	–22,389	–22,389	–19,247	35,217	35,217	12,828
Balance	–33,646	–33,646	–39,420	52,506	52,506	18,860
Special drawing rights:						
Total holdings	–165	–165	–550	9,203	9,203	9,038
SDR certificates issued to Federal Reserve banks	......	......	......	–8,018	–8,018	–8,018
Balance	–165	–165	–550	1,185	1,185	1,020
Reserve position on the U.S. quota in the IMF:						
U.S. subscription to International Monetary Fund:						
Direct quota payments	......	......	......	31,762	31,762	31,762
Maintenance of value adjustments	–676	–676	–1,199	5,864	5,864	5,188
Letter of credit issued to IMF	23	23	–75	–25,514	–25,514	–25,491
Dollar deposits with the IMF	–7	–7	2	–98	–98	–105
Receivable/Payable (–) for interim maintenance of value adjustments	458	458	755	90	90	547
Balance	–202	–202	–516	12,103	12,103	11,901
Loans to International Monetary Fund	......	......	......	(* *)	(* *)	(* *)
Other cash and monetary assets	2,678	2,678	–82	22,414	22,414	25,091
Total cash and monetary assets	–31,336	–31,336	–40,568	88,208	88,208	56,872
Net activity, guaranteed loan financing	–180	–180	–171	–6,471	–6,471	–6,651
Net activity, direct loan financing	365	365	311	6,832	6,832	7,197
Miscellaneous asset accounts	–5,074	–5,074	–1,817	–627	–627	–5,701
Total asset accounts	**–36,225**	**–36,225**	**–42,245**	**87,942**	**87,942**	**51,717**
Excess of liabilities (+) or assets (–)	**+45,292**	**+45,292**	**+48,766**	**+3,218,965**	**+3,218,965**	**+3,264,257**
Transactions not applied to current year's surplus or deficit (see Schedule a for Details)	51	51	26	......	......	51
Total budget and off-budget federal entities (financing of deficit (+) or disposition of surplus (–))	**+45,343**	**+45,343**	**+48,792**	**+3,218,965**	**+3,218,965**	**+3,264,308**

[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 the 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.

... 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, October 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	3,218,965	3,218,965	2,964,066
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	......	......	128
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
Excess of liabilities beginning of period (current basis)	3,218,965	3,218,965	2,964,368
Budget surplus (−) or deficit:			
Based on composition of unified budget in prior fiscal yr	45,343	45,343	48,792
Changes in composition of unified budget	......	......	......
Total surplus (−) or deficit (Table 2)	45,343	45,343	48,792
Total-on-budget (Table 2)	44,625	44,625	48,727
Total-off-budget (Table 2)	719	719	65
Transactions not applied to current year's surplus or deficit:			
Seigniorage	−51	−51	−26
Total-transactions not applied to current year's Surplus or deficit	−51	−51	−26
Excess of liabilities close of period	**3,264,257**	**3,264,257**	**3,013,133**

Table 6. Schedule B—Securities isued by Federal Agencies Under Special Financing Authorities, October 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	......	......	......	93	93	93
FSLIC resolution fund	......	......	......	943	943	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	30	30	8	213	213	243
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	1	1	176	176	178
Independent agencies:						
Farm Credit System Financial Assistance Corporation	......	......	......	1,261	1,261	1,261
National Archives and Records Administration	......	......	......	302	302	302
Postal Service	......	......	......	......	......	......
Tennessee Valley Authority	16	16	143	21,675	21,675	21,691
Total, agency securities	**47**	**47**	**152**	**24,682**	**24,682**	**24,730**

... 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, October 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	......	......	......	348	348	348
Agency for International Development:						
Housing and other credit guaranty programs	......	......	......	125	125	125
Overseas Private Investment Corporation	......	......	......	8	8	8
Department of Agriculture:						
Foreign assistance programs	......	......	(* *)	193	193	193
Commodity Credit Corporation	1,323	1,323	-9,253	24,745	24,745	26,068
Farmers Home Administration:						
Agriculture credit insurance fund	-2,385	-2,385	36	5,771	5,771	3,386
Self-help housing land development fund	......	......	......	1	1	1
Rural housing insurance fund	......	......	-196	2,910	2,910	2,910
Rural Development Administration:						
Rural development insurance fund	-10	-10	-13	1,680	1,680	1,670
Rural development loan fund	......	......	(* *)	5	5	5
Federal Crop Insurance Corporation:						
Federal crop insurance corporation fund	......	......	......	113	113	113
Rural Electrification Administration:						
Rural communication development fund	31	31	......	25	25	55
Rural electrification and telephone revolving fund	......	......	7	8,099	8,099	8,099
Rural Telephone Bank	......	......	......	802	802	802
Department of Commerce:						
Federal ship financing fund, NOAA	......	......	-2	......	......	......
Department of Education:						
Guaranteed student loans	......	......	......	2,058	2,058	2,058
College housing and academic facilities fund	13	13	......	154	154	168
College housing loans	......	......	......	460	460	460
Department of Energy:						
Isotope production and distribution fund	......	......	......	13	13	13
Bonneville power administration fund	58	58	200	2,332	2,332	2,390
Department of Housing and Urban Development:						
Housing programs:						
Housing for the ederly and handicapped	-475	-475	-45	8,959	8,959	8,484
Public and Indian housing:						
Low-rent public housing	......	......	......	110	110	110
Department of the Interior:						
Bureau of Reclamation Loans	......	......	(* *)	5	5	5
Bureau of Mines, Helium Fund	......	......	......	252	252	252
Bureau of Indian Affairs:						
Revolving funds for loans	......	......	(* *)	17	17	17
Department of Justice:						
Federal prison industries, incorporated	......	......	......	20	20	20
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	......	......	......	2	2	2
Regional rail reorganization program	......	......	......	39	39	39
Federal Aviation Administration:						
Aircraft purchase loan guarantee program	......	......	......	(* *)	(* *)	(* *)
Department of the Treasury:						
Federal Financing Bank revolving fund	-1,981	-1,981	-4,523	114,329	114,329	112,348
Department of Veterans Affairs:						
Loan guaranty revolving fund	......	......	-678	860	860	860
Guaranty and indemnity fund	......	......	8	83	83	83
Direct loan revolving fund	......	......	(* *)	1	1	1
Vocational rehabilitation revolving fund	......	......	(* *)	2	2	2
Environmental Protection Agency:						
Abatement, control, and compliance loan program	......	......	1	12	12	12
Small Business Administration:						
Business loan and revolving fund	......	......	......	3,203	3,203	3,203

Table 6. Schedule C (Memorandum)—Federal Agency Borrowing Financed Through the Issue of Public Debt Securities, October 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 Bank of the United States	813	813	7	386	386	1,199
Federal Emergency Management Agency:						
National insurance development fund	......	......	4	42	42	42
Pennsylvania Avenue Development Corporation:						
Land aquisition and development fund	......	......	(* *)	76	76	76
Railroad Retirement Board:						
Railroad retirement account	......	......	......	2,128	2,128	2,128
Social Security equivalent benefit account	231	231	245	2,690	2,690	2,921
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	**−2,381**	**−2,381**	**−14,201**	**183,196**	**183,196**	**180,815**
Borrowing from the Federal Financing Bank:						
Funds Appropriated to the President:						
Foreign military sales	−6	−6	−6	4,083	4,083	4,077
Department of Agriculture:						
Rural Electrification Administration	−93	−93	29	22,252	22,252	22,160
Farmers Home Administration:						
Agriculture credit insurance fund	......	......	......	8,908	8,908	8,908
Rural housing insurance fund	......	......	......	26,036	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	......	......	......	−96	−96	−96
Department of Education:						
Student Loan Marketing Association	−30	−30	−30	4,790	4,790	4,760
Department of Health and Human Services, Except Social Security:						
Medical facilities guarantee and loan fund	......	......	......	85	85	85
Department of Housing and Urban Development:						
Low rent housing loans and other expenses	......	......	......	1,801	1,801	1,801
Community Development Grants	−8	−8	−4	131	131	123
Department of Interior:						
Territorial and international affairs	......	......	......	23	23	23
Department of Transportation:						
Federal Railroad Administration	......	......	......	17	17	17
Department of the Treasury:						
Financial Management Service	−30	−30	−21	30	30	......
General Services Administration:						
Federal buildings fund	35	35	114	1,436	1,436	1,471
Small Business Administration:						
Business loan and investment fund	−7	−7	−14	670	670	663
Independent agencies:						
Export-Import Bank of the United States	......	......	......	5,795	5,795	5,795
Pennsylvania Avenue Development Corporation	7	7	5	150	150	157
Postal Service	......	......	......	9,732	9,732	9,732
Resolution Trust Corporation	−1,849	−1,849	−4,449	31,688	31,688	29,839
Tennessee Valley Authority	......	......	−147	6,325	6,325	6,325
Washington Metropolitan Transit Authority	......	......	......	177	177	177
Total borrowing from the Federal Financing Bank	**−1,981**	**−1,981**	**−4,523**	**129,332**	**129,332**	**127,351**

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, October 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	3	−2	......	......	3
Department of Commerce	−2	−2	......	10	10	8
Department of Defense—Military:						
Defense cooperation account	......	......	−840	9	9	9
Department of Energy	−10	−10	6	4,081	4,081	4,071
Department of Housing and Urban Development:						
Housing programs:						
Federal housing administration fund:						
Public debt securities	31	31	−121	5,214	5,214	5,245
Government National Mortgage Association:						
Management and liquidating functions fund:						
Public debt securities	(* *)	(* *)	(* *)	9	9	8
Agency securities	......	......	......	20	20	20
Guarantees of mortgage-backed securities:						
Public debt securities	17	17	26	3,221	3,221	3,238
Agency securities	......	......	......	1	1	1
Other	22	22	3	191	191	213
Department of the Interior:						
Public debt securities	143	143	199	2,508	2,508	2,651
Department of Labor	−50	−50	−49	16,590	16,590	16,540
Department of Transportation	16	16	9	881	881	897
Department of the Treasury	(* *)	(* *)	283	5,773	5,773	5,773
Department of Veterans Affairs:						
Canteen service revolving fund	......	......	−2	38	38	38
Veterans reopened insurance fund	−2	−2	−2	518	518	516
Servicemen's group life insurance fund	......	......	......	150	150	150
Independent agencies:						
Export-Import Bank of the United States	118	118	104	76	76	194
Federal Deposit Insurance Corporation:						
Bank insurance fund	−9	−9	−42	4,325	4,325	4,316
Savings association insurance fund	−6	−6	(* *)	1,283	1,283	1,278
FSLIC resolution fund:						
Public debt securities	560	560	115	801	801	1,362
Federal Emergency Management Agency:						
National flood insurance fund	−71	−71	......	71	71	......
National Credit Union Administration	−30	−30	12	2,764	2,764	2,734
Postal Service	702	702	404	3,027	3,027	3,729
Tennessee Valley Authority	−65	−65	−70	3,452	3,452	3,387
Other	5	5	−10	853	853	858
Other	−155	−155	40	2,715	2,715	2,561
Total public debt securities	1,219	1,219	61	58,562	58,562	59,781
Total agency securities	......	......	......	21	21	21
Total Federal funds	**1,219**	**1,219**	**61**	**58,583**	**58,583**	**59,802**
Trust funds:						
Legislative Branch:						
Library of Congress	4	4	5	1	1	6
United States Tax Court	......	......	......	4	4	4
Other	(* *)	(* *)	......	27	27	27
The Judiciary:						
Judicial retirement funds	−1	−1	(* *)	212	212	212
Department of Agriculture	(* *)	(* *)	(* *)	5	5	5
Department of Commerce	(* *)	(* *)	......	......	......	(* *)
Department of Defense—Military:						
Voluntary separation incentive fund	20	20	......	844	844	864
Other	4	4	(* *)	151	151	155
Department of Defense—Civil:						
Military retirement fund	10,823	10,823	10,014	96,690	96,690	107,513
Other	−3	−3	56	1,213	1,213	1,210

Table 6. Schedule D—Investments of Federal Government Accounts in Federal Securities, October 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	−974	−974	−1,276	126,078	126,078	125,104
Federal supplementary medical insurance trust fund	602	602	−281	23,268	23,268	23,870
Other	10	10	10	659	659	670
Department of Health and Human Services, Social Security:						
Federal old-age and survivors insurance trust fund:						
Public debt securities	−569	−569	−63	355,510	355,510	354,940
Federal disability insurance trust fund	−635	−635	−524	10,237	10,237	9,602
Department of the Interior:						
Public debt securities	−11	−11	−23	184	184	174
Department of Justice	106	106	......	......	......	106
Department of Labor:						
Unemployment trust fund	−676	−676	−1,023	36,607	36,607	35,930
Other	−8	−8	−8	53	53	45
Department of State:						
Foreign Service retirement and disability fund	−82	−82	−22	6,662	6,662	6,579
Other	......	......	......	38	38	38
Department of Transportation:						
Highway trust fund	−780	−780	−160	22,004	22,004	21,224
Airport and airway trust fund	273	273	−181	12,672	12,672	12,944
Other	−4	−4	21	1,675	1,675	1,671
Department of the Treasury	−24	−24	−33	209	209	186
Department of Veterans Affairs:						
General post fund, national homes	......	......	......	39	39	39
National service life insurance:						
Public debt securities	−61	−61	−33	11,666	11,666	11,606
Agency securities	......	......	......	......	......	......
United States government life Insurance Fund	−2	−2	−1	125	125	123
Veterans special life insurance fund	−6	−6	−4	1,462	1,462	1,456
Environmental Protection Agency	4	4	43	5,477	5,477	5,481
National Aeronautics and Space Administration	(* *)	(* *)	......	16	16	16
Office of Personnel Management:						
Civil service retirement and disability fund:						
Public debt securities	−1,857	−1,857	−1,523	311,705	311,705	309,848
Employees health benefits fund	−47	−47	−22	6,794	6,794	6,747
Employees life insurance fund	25	25	−82	13,688	13,688	13,713
Retired employees health benefits fund	(* *)	(* *)	......	1	1	1
Independent agencies:						
Harry S. Truman memorial scholarship trust fund	......	......	(* *)	52	52	52
Japan-United States Friendship Commission	(* *)	(* *)	(* *)	17	17	16
Railroad Retirement Board	−112	−112	−49	11,961	11,961	11,849
Other	3	3	1	125	125	128
Total public debt securities	6,023	6,023	4,841	1,058,131	1,058,131	1,064,153
Total trust funds	**6,023**	**6,023**	**4,841**	**1,058,131**	**1,058,131**	**1,064,153**
Grand total	**7,242**	**7,242**	**4,902**	**1,116,713**	**1,116,713**	**1,123,956**

... 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 1994

[$ 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	37,680												37,680	37,285
Corporation income taxes	2,158												2,158	2,096
Social insurance taxes and contributions:														
Employment taxes and contributions	29,440												29,440	28,135
Unemployment insurance	1,046												1,046	1,034
Other retirement contributions	343												343	426
Excise taxes	3,597												3,597	3,670
Estate and gift taxes	990												990	1,027
Customs duties	1,708												1,708	1,666
Miscellaneous receipts	1,708												1,708	1,485
Total—Receipts this year	**78,669**												**78,669**	......
(On-budget)	**55,865**												**55,865**	......
(Off-budget)	**22,804**												**22,804**	......
Total—Receipts prior year	*76,824*												......	*76,824*
(On budget)	*55,048*												......	*55,048*
(Off budget)	*21,776*												......	*21,776*
Outlays														
Legislative Branch	378												378	204
The Judiciary	158												158	135
Executive Office of the President	20												20	18
Funds Appropriated to the President:														
International Security Assistance	3,302												3,302	334
International Development Assistance	557												557	629
Other	133												133	270
Department of Agriculture:														
Foreign assistance, special export programs and Commodity Credit Corporation	900												900	1,653
Other	3,993												3,993	5,397
Department of Commerce	264												264	290
Department of Defense:														
Military:														
Military personnel	6,634												6,634	9,210
Operation and maintenance	6,413												6,413	6,526
Procurement	5,131												5,131	5,698
Research, development, test, and evaluation	2,987												2,987	3,002
Military construction	404												404	393
Family housing	226												226	219
Revolving and management funds	1,568												1,568	905
Defense cooperation account	(* *)												(* *)	−30
Other	−217												−217	32
Total Military	23,147												23,147	25,954
Civil	2,550												2,550	2,493
Department of Education	1,805												1,805	2,334
Department of Energy	1,710												1,710	1,714
Department of Health and Human Services, except Social Security:														
Public Health Service	1,467												1,467	1,438
Health Care Financing Administration:														
Grants to States for Medicaid	7,394												7,394	6,215
Federal hospital ins. trust fund	7,432												7,432	7,299
Federal supp. med. ins. trust fund	4,650												4,650	4,851
Other	3,783												3,783	3,247
Social Security Administration	2,970												2,970	4,691
Administration for children and families	2,797												2,797	2,178
Other	−5,060												−5,060	−4,271
Department of Health and Human Services, Social Security:														
Federal old-age and survivors ins. trust fund	22,546												22,546	21,530
Federal disability ins. trust fund	2,992												2,992	2,771
Other	−977												−977	−1,523

Table 7. Receipts and Outlays of the U.S. Government by Month, Fiscal Year 1994—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	2,645												2,645	2,591
Department of the Interior	527												527	698
Department of Justice	751												751	1,215
Department of Labor:														
Unemployment trust fund	2,710												2,710	3,041
Other	652												652	626
Department of State	843												843	900
Department of Transportation:														
Highway trust fund	1,774												1,774	1,479
Other	1,377												1,377	1,449
Department of the Treasury:														
Interest on the public debt	17,638												17,638	17,978
Other	−102												−102	131
Department of Veterans Affairs:														
Compensation and pensions	1,400												1,400	2,623
National service life	66												66	37
United States government life	2												2	1
Other	1,338												1,338	1,400
Environmental Protection Agency	430												430	439
General Services Administration	239												239	165
National Aeronautics and Space Administration	1,079												1,079	1,098
Office of Personnel Management	3,335												3,335	3,090
Small Business Administration	14												14	113
Independent agencies:														
Fed. Deposit Ins. Corp.:														
Bank insurance funds	52												52	97
Savings association fund	−5												−5	(* *)
FSLIC resolution fund	(* *)												(* *)	−87
Postal Service:														
Public enterprise funds (off-budget)	−509												−509	−452
Payment to the Postal Service fund	61												61	69
Resolution Trust Corporation	7												7	−2,578
Tennessee Valley Authority	106												106	271
Other independent agencies	1,626												1,626	2,326
Undistributed offsetting receipts:														
Employer share, employee retirement	−2,572												−2,572	−2,498
Interest received by trust funds	−359												−359	−443
Rents and royalties on outer continental shelf lands	−21												−21	−12
Other	(* *)												(* *)	(* *)
Totals this year:														
Total outlays	**124,013**												**124,013**	......
(On-budget)	**100,490**												**100,490**	......
(Off-budget)	**23,523**												**23,523**	......
Total-surplus (+) or deficit (−)	**−45,343**												**−45,343**	......
(On-budget)	**−44,625**												**−44,625**	......
(Off-budget)	**−719**												**−719**	......
Total borrowing from the public	**4,255**												**4,255**	**−1,552**
Total-outlays prior year	*125,616*												......	*125,616*
(On-budget)	*103,775*												......	*103,775*
(Off-budget)	*21,841*												......	*21,841*
Total-surplus (+) or deficit (−)														
Prior year	*−48,792*												......	*−48,792*
(On-budget)	*−48,727*												......	*−48,727*
(Off-budget)	*−65*												......	*−65*

... 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 October 31, 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	439	224	215	439	224	215	12,672	12,672	12,944
Black lung disability	55	48	7	55	48	7	......	......	......
Federal disability insurance	2,344	2,992	−648	2,344	2,992	−648	10,237	10,237	9,602
Federal employees life and health	......	106	−106	......	106	−106	20,484	20,484	20,462
Federal employees retirement	1,193	3,019	−1,826	1,193	3,019	−1,826	318,583	318,583	316,644
Federal hospital insurance	6,594	7,432	−838	6,594	7,432	−838	126,078	126,078	125,104
Federal old-age and survivors insurance	21,966	22,546	−580	21,966	22,546	−580	355,510	355,510	354,940
Federal supplementary medical insurance	5,069	4,650	419	5,069	4,650	419	23,268	23,268	23,870
Highways	1,437	1,902	−464	1,437	1,902	−464	22,004	22,004	21,224
Military advances	1,166	1,035	131	1,166	1,035	131	......	......	......
Railroad retirement	356	629	−274	356	629	−274	11,961	11,961	11,849
Military retirement	13,158	2,218	10,940	13,158	2,218	10,940	96,690	96,690	107,513
Unemployment	2,017	2,710	−692	2,017	2,710	−692	36,607	36,607	35,930
Veterans life insurance	32	104	−72	32	104	−72	13,253	13,253	13,185
All other trust	361	347	14	361	347	14	10,784	10,784	10,886
Total trust fund receipts and outlays and investments held from Table 6-D	**56,188**	**49,963**	**6,225**	**56,188**	**49,963**	**6,225**	**1,058,131**	**1,058,131**	**1,064,153**
Less: Interfund transactions	20,595	20,595	......	20,595	20,595	......			
Trust fund receipts and outlays on the basis of Tables 4 & 5	35,594	29,369	6,225	35,594	29,369	6,225			
Total Federal fund receipts and outlays	**45,935**	**97,504**	**−51,568**	**45,935**	**97,504**	**−51,568**			
Less: Interfund transactions	215	215	......	215	215	......			
Federal fund receipts and outlays on the basis of Table 4 & 5	45,720	97,289	−51,568	45,720	97,289	−51,568			
Less: offsetting proprietary receipts	2,645	2,645	......	2,645	2,645	......			
Net budget receipts & outlays	**78,669**	**124,013**	**−45,343**	**78,669**	**124,013**	**−45,343**			

... 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, October 1993 and Other Periods

[$ millions]

Classification	This Month	Fiscal Year To Date	Comparable Period Prior Fiscal Year
RECEIPTS			
Individual income taxes	37,680	37,680	37,285
Corporation income taxes	2,158	2,158	2,096
Social insurance taxes and contributions:			
Employment taxes and contributions	29,440	29,440	28,135
Unemployment insurance	1,046	1,046	1,034
Other retirement contributions	343	343	426
Excise taxes	3,597	3,597	3,670
Estate and gift taxes	990	990	1,027
Customs	1,708	1,708	1,666
Miscellaneous	1,708	1,708	1,485
Total	**78,669**	**78,669**	**76,824**
NET OUTLAYS			
National defense	24,281	24,281	27,133
International affairs	4,732	4,732	2,131
General science, space, and technology	1,421	1,421	1,410
Energy	345	345	607
Natural resources and environment	1,911	1,911	3,341
Agriculture	1,442	1,442	2,255
Commerce and housing credit	377	377	−2,262
Transportation	3,133	3,133	2,928
Community and Regional Development	898	898	952
Education, training, employment and social services	3,586	3,586	3,774
Health	9,315	9,315	8,021
Medicare	10,729	10,729	11,019
Income security	17,342	17,342	18,334
Social Security	25,538	25,538	24,301
Veterans benefits and services	2,819	2,819	4,078
Administration of justice	1,011	1,011	1,120
General government	640	640	2,526
Interest	17,082	17,082	16,457
Undistributed offsetting receipts	−2,593	−2,593	−2,510
Total	**124,013**	**124,013**	**125,616**

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 November 1993 Statement will be 2:00 pm EST December 21, 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).
No single copies are sold.

TREASURY NEWS

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

For Immediate Release
November 23, 1993

STATEMENT OF TREASURY SECRETARY LLOYD BENTSEN
BANK REGULATORY CONSOLIDATION

I strongly support this approach to regulatory consolidation.

First, let me lay out a bit of the rationale of what we want to do. It just makes no sense to have four separate agencies involved in regulating our financial institutions.

Right now we have a system where the regulation is scattered all over. It was designed for another time. And let me tell you, that time has long since passed. What we have now slows up our economy by making it difficult and confusing for our financial community to get its work done. And it creates friction within the government. We need to straighten this out.

That's why we settled on the idea of a single agency. The leaders of the House and Senate Banking Committees have done quite a bit of work on this issue, and they've come up with the same approach. I think it's the best way to tackle this problem. I'm looking forward to working with Congress in getting this legislation through. We expect to send our plan up to the Hill in January.

I might also note that it's rare that you'll find a government agency willingly giving up some of its authority.

But that makes my second point, which is that one of the aims of the Clinton administration is to reinvent government -- get rid of what's old and outmoded and install modern systems. We have to get rid of these inefficiencies in our economy to make it function at its best, and this is one way to do that. We have other initiatives in the works here at Treasury on that front.

As we bring about this change in our system for regulating financial institutions, we will preserve the basic functions of the FDIC and the Federal Reserve. That's because we're restructuring the system around three basic jobs -- supervision and regulation, insuring deposits, and operating a central bank.

The final point I would make is that we will ensure that nothing we do raises any question about the safety and security of our financial system.

-30-

LB-523

Consolidating the Federal Bank Regulatory Agencies

The Honorable Frank N. Newman
Under Secretary of the Treasury

Proposal Requested by the
Committee on Banking, Housing, and Urban Affairs
United States Senate

November 23, 1993

Table of Contents

Pages

Summary of the Administration's Proposal to Consolidate the Bank Regulatory Agencies 1

The Administration's Proposal to Consolidate the Bank Regulatory Agencies 3

I. Introduction 3
II. Previous reform proposals 4
III. Rationale for consolidation 5
IV. Objectives for effective agency restructuring 6
V. The Administration's proposal 7
VI. Benefits of consolidation 9
  Efficiency 10
  Accountability 10
  Consistency 10
  Benefits to customers and the economy 10
  Eliminating potential conflicts of interest 11
VII. Conclusion 11
Appendices 12

Summary of the Administration's Proposal to Consolidate the Bank Regulatory Agencies

- The proposal would establish a Federal Banking Commission, an independent agency that would regulate all FDIC-insured depository institutions and their holding companies and other affiliates.

- The Commission would have all the depository institution regulatory functions currently exercised by:

  - the Comptroller of the Currency (as charterer and regulator of national banks);

  - the Federal Reserve Board (as primary federal regulator of bank holding companies and of state-chartered banks that are members of the Federal Reserve System);

  - the Federal Deposit Insurance Corporation (as primary federal regulator of state-chartered banks that are not members of the Federal Reserve System); and

  - the Office of Thrift Supervision (as charterer and regulator of federal savings associations, and primary federal regulator of savings and loan holding companies and state-chartered savings associations).

- The Commission would have five members:

  - a Chairperson appointed by the President and confirmed by the Senate, serving a four-year term (both as a member and as Chairperson) expiring on the last day of March following a Presidential election;

  - the Secretary of the Treasury (or the Secretary's designee);

  - a member of the Federal Reserve Board, designated by the Board; and

    - two members appointed by the President and confirmed by the Senate, serving staggered five-year terms.

- The FDIC would continue to insure deposits at all federally insured banks and savings associations. It would resolve failed or failing institutions. It would retain its current statutory authority as deposit insurer (e.g., to grant and withdraw deposit insurance; conduct special examinations of insured institutions to protect the deposit insurance fund; take "back-up" enforcement action to stop risky practices at such institutions if the Federal Banking Commission failed to do so; and help determine whether a critically undercapitalized institution should remain open).

- The Federal Reserve, as the nation's central bank, would continue to conduct monetary policy, administer the payment system, and provide liquidity to financial markets through the discount window.

- The FDIC and Federal Reserve, in carrying out their respective responsibilities, would have access to all records of the Federal Banking Commission relating to depository institutions or their holding companies, including all data and examination reports.

- The states would remain the primary regulators of the banks they charter, thus preserving the integrity of the dual banking system. Moreover, the Federal Banking Commission would use state examinations as appropriate, consistent with the statute requiring periodic examinations.

- The consolidation of regulatory functions would occur on a date set by the Secretary of the Treasury, preferably within ten months after the proposal became law. The Secretary would, however, have discretion to allow an additional five months.

The Administration's Proposal to Consolidate the Federal Bank Regulatory Agencies

I. Introduction

The need to restructure the federal bank and thrift regulatory system has steadily increased over the past several decades, as distinctions among depository institutions have blurred and the regulatory system has grown more costly and complex. The time has come for bold comprehensive action.

The current federal regulatory structure is needlessly disjointed and convoluted. Four different agencies regulate depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). The Office of the Comptroller of the Currency (OCC) charters and regulates national banks. The Federal Reserve Board, in addition to conducting monetary policy, regulates bank holding companies (i.e., companies that control banks) and state-chartered banks that are members of the Federal Reserve System. The Federal Reserve Board also has overlapping responsibilities for regulating foreign banks' U.S. operations and U.S. banks' foreign operations. The FDIC, in addition to insuring deposits, regulates state-chartered banks that are not members of the Federal Reserve System. The Office of Thrift Supervision (OTS) charters and regulates federal savings associations, and also regulates savings and loan holding companies (i.e., companies that control savings associations) and state-chartered savings associations. In addition, the FDIC has back-up authority to stop unsafe practices at any FDIC-insured institution if the institution's primary federal regulator fails to do so. (Appendix A depicts the current federal regulatory structure.)

This structure did not result from any well-thought-out plan. Indeed, as Senate Banking Committee Chairman Riegle has observed, "no thoughtful person would ever design such a system from scratch." Instead, the structure arose over time as the Federal Government, in response to crises and changing needs, established new agencies and expanded existing agencies' responsibilities without ever significantly rationalizing and simplifying the structure.

Congress created the OCC in 1863 to help finance the Civil War. It established the Federal Reserve System in 1913 to stabilize the national economy after a series of banking panics. It created the FDIC in 1933, after

the banking system collapsed during the Great Depression. The following year, it extended federal regulation and deposit insurance to the thrift industry through the Federal Home Loan Bank Board, which became the OTS in 1989, and the now-defunct Federal Savings and Loan Insurance Corporation. It instituted holding company regulation in 1956 for banks and in 1968 for savings associations. It applied federal regulation to foreign banks in 1978.

Each new layer of the bank and thrift regulatory system achieved some measure of success, but the system -- considered as a system -- makes little sense. It is a crazyquilt: a patchwork lacking any coherent overall design. (An excellent chart published by the Federal Reserve Bank of New York, entitled "Depository Institutions and Their Regulators," uses 12 columns, 17 lines, and 31 footnotes to explain which regulator handles what.)

To address the practical problems inherent in this system, Congress in 1979 created the Federal Financial Institutions Examination Council (FFIEC) to coordinate examination policies and procedures among the federal banking agencies. Unfortunately, despite the progress achieved under the FFIEC's auspices, the FFIEC has fallen far short of solving these large and complex problems.

Our balkanized regulatory system also reflects a bygone era in which commercial banks, savings banks, savings associations, and other financial institutions operated largely within their own specialized market niches. But these distinctions have eroded over time in the face of such forces as new information technology, financial innovation, deregulation, increasing consumer sophistication, and global competition. These developments have exposed the system's latent and glaring faults.

II. Previous Reform Proposals

Many proposals to consolidate depository institution regulation have emerged over the past half-century. Their proponents have included a task force of the Commission on Organization of the Executive Branch of Government, commonly known as the Hoover Commission, 1949; the Commission on Money and Credit, 1961; House Banking Committee Chairman Wright Patman, 1965; the Hunt Commission, 1971; the House Banking Committee's Study of Financial Institutions in the Nation's Economy, 1975;

Senate Banking Committee Chairman Proxmire, 1975; the Private Sector Survey on Cost Control, commonly known as the Grace Commission, 1983; Vice President Bush's Task Group on Regulation of Financial Services, 1984; and the Bush Administration, 1991.

Each of these studies and proposals has called for some form of regulatory consolidation, yet consolidation has remained an elusive goal. We have studied enough. Now it is time to act.

III. Rationale for Consolidation

Under the current bank and thrift regulatory system, each of the federal banking agencies has its own team of examiners, its own bureaucracy, and its own regulations. This overlap and confusion generates needless expense and endless confusion for the nation's insured depository institutions. Coordination is an inherently time-consuming process that yields only limited results. Even identical regulations are implemented and interpreted differently.

Further, current trends in the financial services industry provide a strong rationale for consolidating the bank and thrift regulatory system and rationalizing our fragmented supervisory system. Competition from other providers of financial services is shrinking profit margins in banking, making it increasingly important for banks and thrifts to minimize non-interest expenses. The cost of supporting multiple regulators is becoming increasing unaffordable.

The OTS's current budgetary constraints give impetus to merging federal bank and thrift regulators as soon as possible. The OTS funds itself through assessments on OTS-regulated institutions. A shrinking thrift industry means a shrinking assessment base, and the OTS's assessment base has fallen by more than 30 percent since 1990. In response, the OTS has cut its staff by one-third, frozen senior managers' salaries, limited staff merit-pay increases, consolidated its 12 district offices into 5 regional offices and cut total operating expenses by more than 25 percent. Yet even after all these economies, the OTS will have great difficulty meeting its current expenses from its assessment base. This difficulty is just one reflection of the continually changing markets for financial services. A consolidated agency could better adapt to such changes by redeploying resources.

Consolidation in the banking industry is increasing the number of banking organizations with subsidiaries that operate under different charters. Consider the case of a bank holding company with national bank, state nonmember bank, and savings association subsidiaries, as depicted in Appendix B. This company must deal with four separate primary federal regulators. This problem affects a large segment of the industry. As illustrated in Appendix C, 47 percent of total bank and thrift assets are held by banking organizations with three or four federal regulators.

We now have an historic opportunity to rationalize the structure of federal banking regulation. The Chairmen of the Senate and House Banking Committees have advanced well-considered and similar proposals based on the principle of unitary regulation. Today the Administration joins that effort with an approach that incorporates many of the highly constructive elements of H.R. 1214 (Chairman Gonzalez and 12 other Members of the House Banking Committee) and S. 1633 (Chairman Riegle and Senator D'Amato).

IV. Objectives for Effective Agency Restructuring

Under the National Performance Review, the Vice President has challenged us to reinvent government, rather than to adhere to past ways of governing that may no longer serve the needs of the public. The principles formulated in the National Performance Review -- cutting red tape and governing efficiently -- provided the framework within which we developed our proposal. In light of these principles, we have identified the following goals as necessary for successfully restructuring the federal banking agencies:

- First, regulations and policies for comparable activities should be consistent, regardless of charter.

- Second, the restructured system should implement those regulations and policies consistently.

- Third, a successful restructuring should improve the overall efficiency and quality of supervision by regulating banking organizations as a unit and eliminating time-consuming interagency rulemakings.

- Fourth, the new system should define clear roles and functions for the remaining agencies to eliminate redundancies and assure that the agencies work cooperatively.

- And finally, the new regulator must have appropriate independence, balanced with responsibility to the electorate through a continuing Executive Branch role.

V. The Administration's Proposal

We can best achieve these objectives by realigning the bank and thrift regulators along the lines of their core functions: deposit insurance, central banking, and safety and soundness regulation. The FDIC would insure deposits. The Federal Reserve Board would conduct monetary policy, administer the payment system, and provide liquidity through the discount window. And a new agency, the Federal Banking Commission, would supervise all FDIC-insured depository institutions. The Administration's proposal would leave the core functions of the FDIC and the Federal Reserve undisturbed. (Appendix D depicts the proposed new federal regulatory structure.)

The Federal Banking Commission would regulate all federally insured banks and thrifts, all bank and thrift holding companies, U.S. banks' foreign operations, and foreign banks' U.S. operations. It would also charter national banks and federal savings associations. The Commission would thus carry out all the functions currently exercised by the OCC and OTS, as well as the FDIC's functions as primary federal regulator of state nonmember banks and the Federal Reserve's functions as primary federal regulator of bank holding companies, state member banks, and foreign banks. This consolidation of authority would ensure consistent and efficient supervision of each banking organization (holding company and its depository institutions) as a unit.

The states would remain the primary regulators of the banks they charter, thus preserving the integrity of the dual banking system. Moreover, the Federal Banking Commission would use state examinations as appropriate, consistent with the statute requiring periodic examinations.

The new Commission would have five members: the Secretary of the Treasury (or the Secretary's designee); a member of the Federal Reserve Board, designated by the Board; and three members appointed by the President and confirmed by the Senate. One of the three appointed members would be specifically appointed and confirmed as Chairperson of the Commission, and would serve a four-year term (both as a member and as Chairperson) expiring on the last day of March following a Presidential election. The two other appointed members would serve staggered five-year terms. One of these two members must be from another political party. We believe that this governing structure would properly balance the need for independence in regulatory action with the need of any Administration for an appropriate and effective voice in policies relating to the functions and structure of the banking system.

Under this framework, the FDIC would continue to insure deposits at all federally insured banks and thrifts. It would resolve failed or failing institutions. It would grant, suspend, and terminate deposit insurance. It could conduct special examinations of insured institutions to protect the deposit insurance fund. It could take back-up enforcement action to stop risky practices at such institutions if the Federal Banking Commission failed to do so. It would retain its current role as deposit insurer in carrying out the prompt corrective action statute (e.g., helping determine whether a critically undercapitalized institution should remain open).

This authority would fully enable the FDIC to perform its core functions. In fact, the FDIC testified in 1991 before both Congressional Banking Committees that "the important issue is not necessarily who the primary federal regulator is but that the FDIC have back-up examination and enforcement authority over all insured depository institutions."

The Federal Reserve, as the nation's central bank, would continue to conduct monetary policy, administer the payment system, and provide liquidity through the discount window. The Federal Reserve would retain authority to set standards for, and examine activities related to, the payment system and discount window. In addition, the Federal Reserve could participate in the Federal Banking Commission's examinations of a limited number of banking organizations most significant to the payment system. Nothing in the Administration's proposal would in any way affect the Federal Reserve System's independence in performing its core functions.

To make this new framework effective, the FDIC and Federal Reserve would have full access to bank supervisory information in order to make independent judgments on matters most directly bearing on their core functions. The Commission would be required to provide the FDIC and Federal Reserve timely and accurate information on the condition of the banking and thrift industries and on individual depository institutions.

The Commission would surely need the skills and experience of OCC, Federal Reserve, FDIC, and OTS staff members, who have carried out their regulatory responsibilities professionally and have cooperated as best they could within the current needlessly complex system.

We want to get this process moving quickly, and we believe the basic time plan outlined in S. 1633 makes good sense. Under that approach, consolidation of the regulatory functions would occur on a date set by the Secretary of the Treasury, preferably within 10 months after the proposal became law, but with the Secretary having discretion to allow an additional five months to ensure a smooth transition.

VI. Benefits of Consolidation

Secretary Bentsen, in his October 25 address to the Center for National Policy, outlined the benefits of regulatory consolidation:

> "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, interagency 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."

In short, consolidating the federal banking agencies, properly accomplished, would benefit banks, thrifts, consumers, and the economy in general.

Efficiency

Reorganization framed around core regulatory functions would improve the efficiency of depository institution regulation. A single regulator would be responsible for the entire banking organization: the depository institutions, their holding company, and affiliates. The current system of fragmented regulatory decision making, duplicative rulemaking, and delayed supervisory action would end.

Accountability

Consolidation into a single agency would fix accountability for regulating depository institutions and provide a focal point for Administration, Congressional, and public concerns regarding regulatory policy. The current system necessitates extensive interagency coordination and negotiation to bridge policy differences. Further, even with interagency policy agreements, implementation varies among the agencies. We have had to navigate through these very problems in developing and implementing the President's credit availability and Community Reinvestment Act reform initiatives.

Consistency

Consolidation would eliminate interagency inconsistencies in regulation. It would facilitate more timely and decisive action against problem institutions and more rapid processing of healthy institutions' applications to expand or engage in new activities. No bank or thrift would suffer, or benefit, from the differential application of enforcement standards or closure policies of different agencies. Thus consolidation would eradicate the current opportunities for charter-shopping and other competition in laxity. It would also provide a comprehensive, uniform, and coordinated mechanism for enforcing applicable laws and regulations.

Benefits to Customers and the Economy

Bank customers, and the economy generally, should benefit from eliminating needless compliance costs through regulatory consolidation. Customers would also benefit from uniform application and enforcement of laws and regulations designed to ensure that institutions deal fairly with their

customers. And finally, this simplified structure would mean that customers would know (or could readily ascertain) who regulates their bank. If they have a problem with an insured depository institution, they would know with whom to register their complaint.

Eliminating Potential Conflicts of Interest

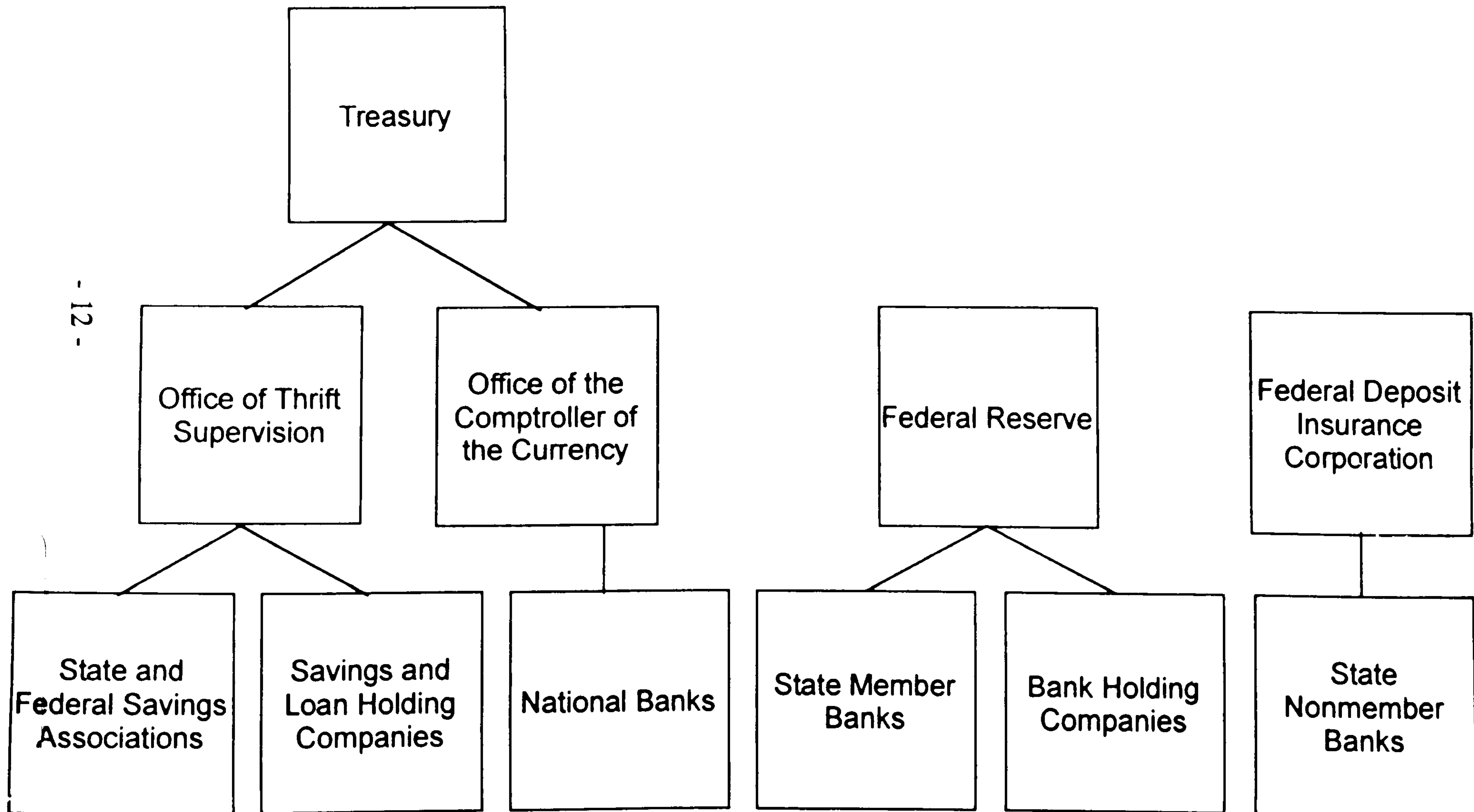
Reorganizing the bank and thrift regulatory system would also eliminate conflicts of interest and focus that could arise when an agency handles more than one core function. Under the current structure, the insurer, the central bank, and the supervisor all face such potential conflicts. The insurer has incentives to resist banking innovations if the insurance fund is solvent. On the other hand, if the insurance fund nears insolvency, the insurer has incentives to forbear. Similarly, a central bank that also has primary regulatory responsibility for specific banking institutions might be diverted from its focus on overall monetary policy. (Many countries have chosen to separate central banking from bank supervision.) Furthermore, a bank supervisor that shares supervisory authority with the other regulators might incline toward leniency, in order to maintain a constituency of institutions to supervise. The new function-based regulatory structure would eliminate these conflicts.

VII. Conclusion

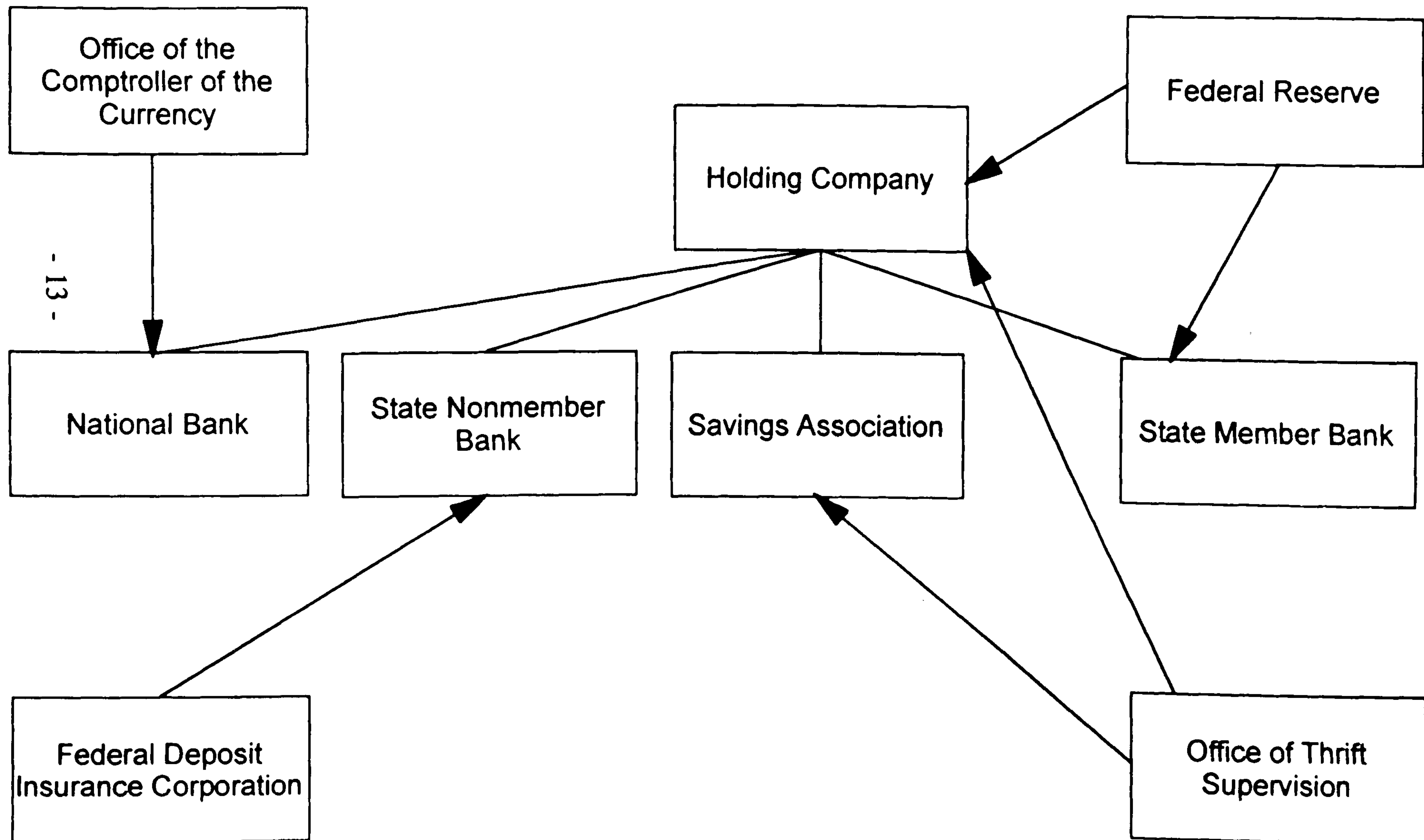
Reforming our nation's bank regulatory structure is one of the most significant steps we can take to reduce the regulatory burden on insured depository institutions. It would allow those institutions to compete more effectively and provide better service to consumers. Moreover, it would advance the Administration's overall agenda of reinventing government.

We intend to send Congress early next year legislative language to effectuate the regulatory-consolidation proposal outlined here. We look forward to working with both Banking Committees and other Members of Congress on this important issue.

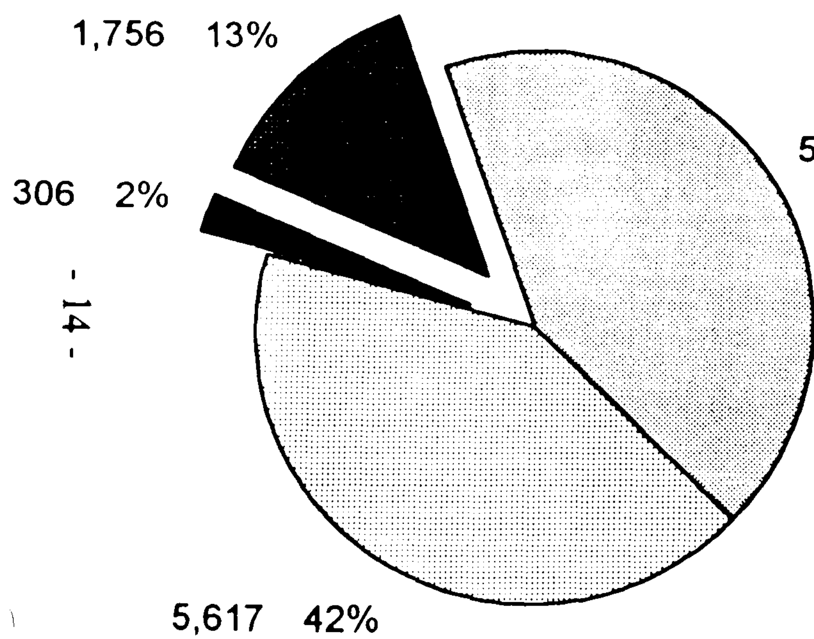
Appendix A: The Current Federal Structure for Supervising FDIC-Insured Depository Institutions and Their Holding Companies



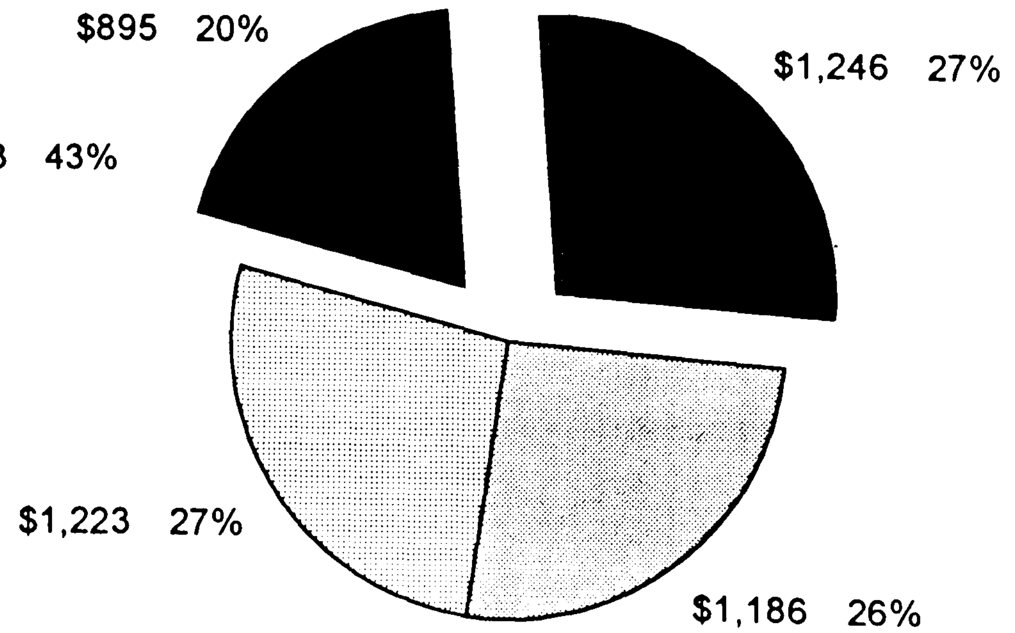
Appendix B: Consider the Case of a Bank Holding Company with National Bank, State Member Bank, State Nonmember Bank, and Savings Association Subsidiaries



Appendix C: Most Banking Organizations Have 2, 3, or Even 4 Primary Federal Regulators

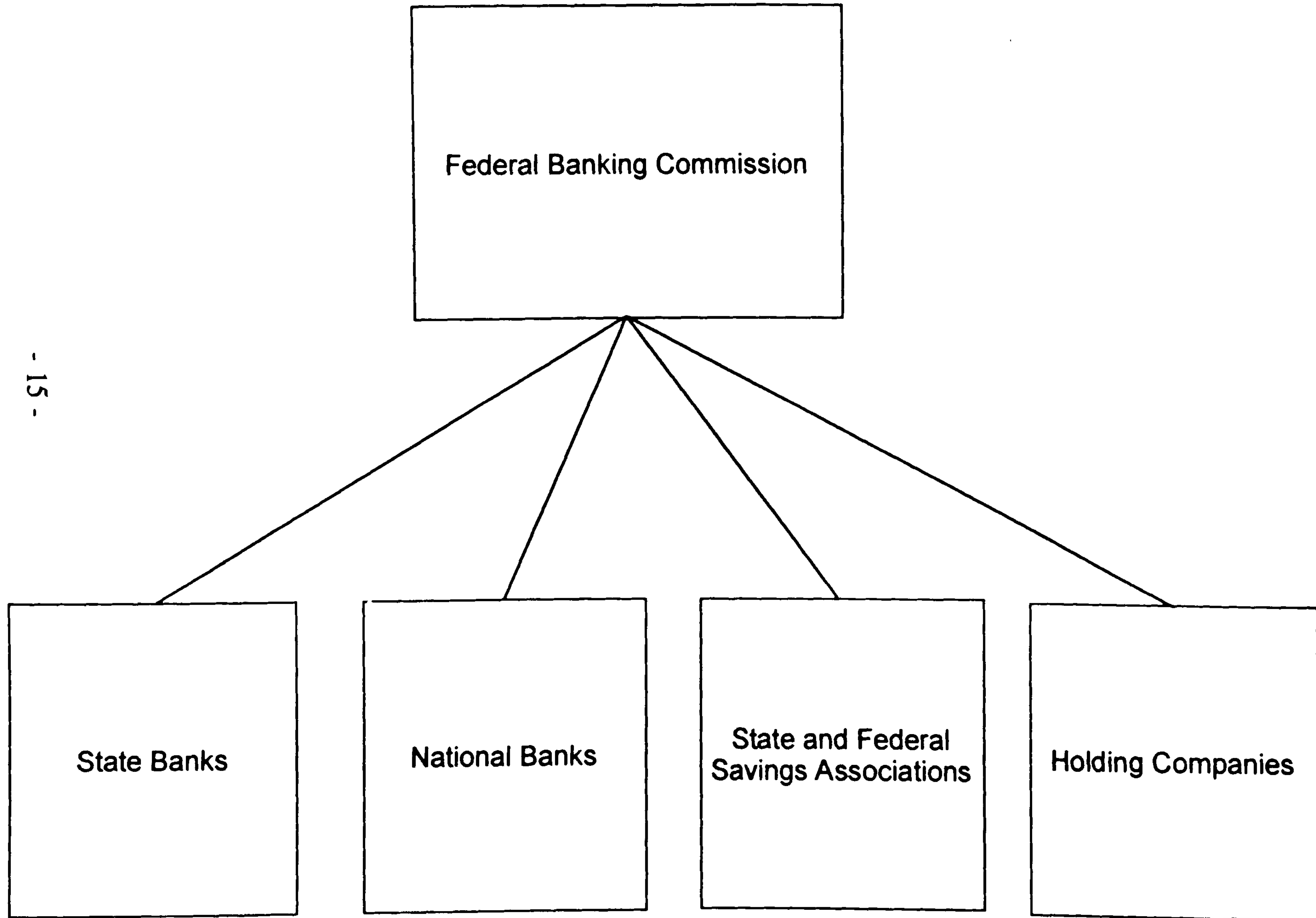


Number of Banking Organizations



Amount of Total Banking Assets ($BIllions)

Appendix D: The Proposed Federal Structure for Supervising FDIC-Insured Depository Institutions and Their Holding Companies



Statement by Vice President Al Gore on the Administration's Proposal to Consolidate the Bank Regulatory Agencies

The bank regulatory consolidation proposal is in keeping with both the substance and the spirit of reinventing government. The new Federal Banking Commission collapses the regulatory, examination and approval functions now performed by four agencies into one. This is a major step forward in the Clinton Administration's efforts to create a government that works better and costs less.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

November 22, 1993

The Honorable Donald W. Riegle, Jr.
Chairman
Committee on Banking, Housing, and
Urban Affairs
United States Senate
Washington, DC 20510

Dear Don:

Enclosed is the Administration's proposal to consolidate the four existing federal bank regulatory agencies into a single new agency, the Federal Banking Commission.

This proposal responds to your request for Under Secretary Newman to present the Administration's views on regulatory consolidation.

We believe the time has come to rationalize and simplify the structure of federal banking regulation. We can no longer afford the current regulatory structure, a spider's web of overlapping jurisdictions that represents a drag on our economy, a headache for our financial services industry, and a source of friction within our government. Regulatory consolidation will advance our goal of reinventing government and enabling the economy to function more efficiently.

Our proposal builds on S. 1633, which you introduced together with Senator D'Amato, as well as on H.R. 1214, Chairman Gonzalez's consolidation bill.

We intend to transmit our proposal to Congress in legislative language early next year. We look forward to working with you and the other members of the Committee to enact these historic and long-overdue reforms.

Sincerely,

Lloyd

Lloyd Bentsen

Enclosures

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

November 22, 1993

The Honorable Alfonse M. D'Amato
Ranking Republican
Committee on Banking, Housing, and
  Urban Affairs
United States Senate
Washington, DC 20510

Dear Al:

Enclosed is the Administration's proposal to consolidate the four existing federal bank regulatory agencies into a single new agency, the Federal Banking Commission.

This proposal responds to Chairman Riegle's request for Under Secretary Newman to present the Administration's views on regulatory consolidation.

We believe the time has come to rationalize and simplify the structure of federal banking regulation. We can no longer afford the current regulatory structure, a spider's web of overlapping jurisdictions that represents a drag on our economy, a headache for our financial services industry, and a source of friction within our government. Regulatory consolidation will advance our goal of reinventing government and enabling the economy to function more efficiently.

Our proposal builds on S. 1633, which you introduced together with Chairman Riegle, as well as on H.R. 1214, Chairman Gonzalez's consolidation bill.

We intend to transmit our proposal to Congress in legislative language early next year. We look forward to working with you and the other members of the Committee to enact these historic and long-overdue reforms.

Sincerely,

Lloyd Bentsen

Enclosures

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

November 22, 1993

The Honorable Henry B. Gonzalez
Chairman
Committee on Banking, Finance and
Urban Affairs
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

Enclosed is the Administration's proposal to consolidate the four existing federal bank regulatory agencies into a single new agency, the Federal Banking Commission.

We believe the time has come to rationalize and simplify the structure of federal banking regulation. We can no longer afford the current regulatory structure, a spider's web of overlapping jurisdictions that represents a drag on our economy, a headache for our financial services industry, and a source of friction within our government. Regulatory consolidation will advance our goal of reinventing government and enabling the economy to function more efficiently.

Our proposal builds on H.R. 1214, the Regulatory Consolidation Act of 1993, which you introduced earlier in this Congress, as well as on S. 1633, the Riegle-D'Amato bill.

We intend to transmit our proposal to Congress in legislative language early next year. We look forward to working with you and the other members of the Committee to enact these historic and long-overdue reforms.

Sincerely,

Lloyd Bentsen

Enclosures

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

November 22, 1993

The Honorable James A. Leach
Ranking Republican
Committee on Banking, Finance and
Urban Affairs
U.S. House of Representatives
Washington, DC 20515

Dear Jim:

Enclosed is the Administration's proposal to consolidate the four existing federal bank regulatory agencies into a single new agency. We appreciate the serious and thoughtful contribution you have made to this very important issue, as reflected in H.R. 1227, the Bank Regulatory Consolidation and Reform Act of 1993.

We believe the time has come to rationalize and simplify the structure of federal banking regulation. We can no longer afford the current regulatory structure, a spider's web of overlapping jurisdictions that represents a drag on our economy, a headache for our financial services industry, and a source of friction within our government. Regulatory consolidation will advance our goal of reinventing government and enabling the economy to function more efficiently.

We agree with your view, reflected in H.R. 1227, that the Office of Thrift Supervision should be consolidated with the Office of the Comptroller of the Currency, and we also believe that further consolidation -- involving functions currently exercised by the Federal Reserve Board and FDIC -- is an achievable goal and represents the best public policy.

We intend to transmit our proposal to Congress in legislative language early next year. We look forward to working with you and the other members of the Committee to enact these historic and long-overdue reforms.

Sincerely,

Lloyd

Lloyd Bentsen

Enclosures

DONALD W. RIEGLE JR. MICHIGAN, CHAIRMAN

PAUL S. SARBANES, MARYLAND
CHRISTOPHER J. DODD, CONNECTICUT
JIM SASSER, TENNESSEE
RICHARD C. SHELBY, ALABAMA
JOHN F. KERRY, MASSACHUSETTS
RICHARD H. BRYAN, NEVADA
BARBARA BOXER, CALIFORNIA
BEN NIGHTHORSE CAMPBELL, COLORADO
CAROL MOSELEY-BRAUN, ILLINOIS
PATTY MURRAY, WASHINGTON

ALFONSE M. D'AMATO, NEW YORK
PHIL GRAMM, TEXAS
CHRISTOPHER S. BOND, MISSOURI
CONNIE MACK, FLORIDA
LAUCH FAIRCLOTH, NORTH CAROLINA
ROBERT F. BENNETT, UTAH
WILLIAM V. ROTH, JR., DELAWARE
PETE V. DOMENICI, NEW MEXICO

STEVEN B. HARRIS, STAFF DIRECTOR AND CHIEF COUNSEL
HOWARD A. MENELL, REPUBLICAN STAFF DIRECTOR

United States Senate

COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS
WASHINGTON, DC 20510-6075

November 8, 1993

Honorable William J. Clinton
President of the United States
White House
Washington, D.C. 20500

Dear Mr. President:

In the preface to the "Report of the National Performance Review" you and the Vice-President state: "It is time to radically change the way government operates." We agree.

Let us state as clearly as we can that we strongly believe that the time is now for the full consolidation of the supervisory and regulatory responsibilities of the four bank and thrift regulatory agencies -- the Comptroller of the Currency, the Federal Reserve Board, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision -- into a single, independent Federal Banking Commission.

The current system is costly, burdensome, inefficient, archaic and must be re-engineered and modernized. We believe this issue must be addressed immediately and call upon you to exert bold leadership in this area as part of the Administration's ongoing effort to reinvent government.

Reforming our bank and financial regulatory bureaucracy is long overdue. Now is the time to address this issue head on. Banks and thrifts are posting record profits, and both the Congress and the Administration are committed to cost saving, deficit reduction, and a more efficient government.

Consolidation of the regulatory agencies is not a new idea. Virtually every independent study of our federal bank regulatory system since 1949 has recognized the need for major consolidation. Consolidation has been advocated by, among others, The Hoover Commission, the Hunt Commission, the FINE Study, the Grace Commission, the Task Group on Regulation of Financial Services, and the recently completed National Commission on Financial Institution Reform, Recovery, and Enforcement.

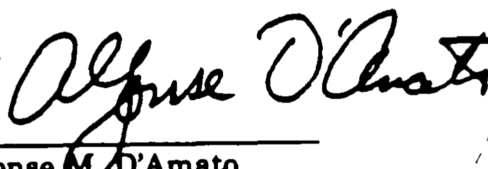
Most recently, on September 14, 1993, the Senate Banking Committee received testimony from a bi-partisan group of six former financial agency regulators. The witnesses were unanimous and unequivocal that major consolidation would benefit consumers; benefit industry; and improve the safety and soundness of the financial services industry. For the banking industry, consolidation holds the promise of reduced examination fees and an end to duplicative examinations and conflicting regulations. For the general public, regulatory consolidation means a more accountable, more responsive bank regulatory system. And for the American economy, regulatory consolidation means a more vital, more competitive banking system.

We believe that a streamlined regulatory system will allow America's banks to put more effort into productive business activities and less into coping with their regulators. We also believe that the consolidation and streamlining of our supervisory and regulatory system into a single Federal Banking Commission will do much to reduce the paperwork burden facing the industry while at the same time increasing the safety and soundness of the system.

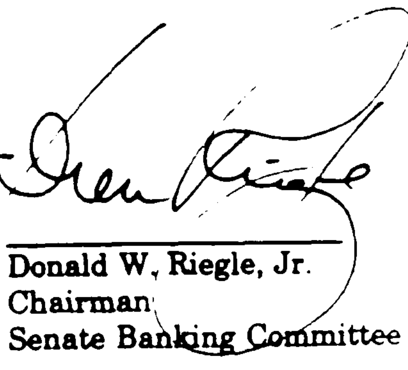
Mr. President, full consolidation of the supervisory and regulatory responsibilities of all four of our bank and thrift regulatory agencies is a top priority for us in this Congress. We look forward to working closely with you and your Administration on this issue. Given the similarity of approaches contained in the bills we have introduced in the House and Senate, we urge your Administration to seize this unique and historic opportunity to fundamentally improve the way our bank and thrift regulatory agencies operate and to reinvent and re-engineer this area of our government in a major, meaningful way.

Sincerely,

Henry B. Gonzalez
Chairman
House Banking Committee



Alfonse M. D'Amato
Ranking Member
Senate Banking Committee



Donald W. Riegle, Jr.
Chairman
Senate Banking Committee

Vol. 139 WASHINGTON, THURSDAY, MARCH 4, 1993 No. 25

Congressional Record

PROCEEDINGS AND DEBATES OF THE 103^d^ CONGRESS, FIRST SESSION

United States
Government
Printing Office
SUPERINTENDENT
OF DOCUMENTS
Washington DC 20402

OFFICIAL BUSINESS
Penalty for private use $300

SECOND CLASS NEWSPAPER
Postage and Fees Paid
U S Government Printing Office
(USPS 087 390)

INTRODUCTION OF THE REGULATORY CONSOLIDATION ACT OF 1993

HON. HENRY B. GONZALEZ

OF TEXAS

IN THE HOUSE OF REPRESENTATIVES

Thursday, March 4, 1993

Mr. GONZALEZ. Mr. Speaker, today I introduce the Regulatory Consolidation Act of 1993, H.R. 1214. This act consolidates all the Federal bank and thrift regulatory functions into a single, independent commission.

Mr. Speaker, the current Federal regulatory structure for banks and thrifts is horribly scattered and disjointed. National banks are regulated by the Office of the Comptroller of the Currency. Savings associations are regulated by the Office of Thrift Supervision. The Federal Reserve regulates bank holding companies, foreign banks, and State banks that are members of the Federal Reserve System and, at the same time, is charged with carrying out the Nation's monetary policy. The Federal Deposit Insurance Corporation regulates State banks that are not members of the Federal Reserve System and insures all banks and savings associations.

You should not be surprised to learn that the current patchwork system was not created as part of any cohesive regulatory plan. The OCC was created to help finance the Civil War, the Federal Reserve was established 60 years later as the Nation's central bank to administer monetary policy, the FDIC was established still later as an insurer—not a regulator, and the predecessor of the OTS was created to provide long-term, low cost funds to thrifts.

This disjointed and haphazard approach to Federal regulation has proven to be duplicative, inefficient, and expensive. The Comptroller General recently presented the Banking Committee with a highly critical review of the bank and thrift examination process, testifying that, "[E]xamination weaknesses are symptomatic of a regulatory structure that is not as effective and efficient as it should be in overseeing our depository institutions." The General Accounting Office report highlighted the inconsistencies in the quality and comprehensiveness of examinations among the regulatory agencies.

The savings and loan debacle illustrates the cost to the taxpayers of our current regulatory system. The banks and savings associations also pay for this duplicative and inefficient system. A bank holding company with national bank, State bank, and savings association subsidiaries undergoes OCC, Federal Reserve, OTS, and State examinations annually. Even Comptroller Bowsher, no fan of loosening regulation, noted that, "[O]ne of the things that drives these bankers nuts is the inconsistency and the arbitrariness that they see from the different banking agencies that come in to look at them." This legislation remedies the uncoordinated regulatory burden and its attendant costs imposed upon our insured depository institutions.

The Regulatory Consolidation Act of 1993 creates a Federal Banking Commission. All regulatory functions of the OCC, OTS, FDIC, and Federal Reserve are transferred to the Commission. The Federal Reserve is free to focus solely on monetary policy and the FDIC administers the Federal deposit insurance funds. The OCC and OTS are abolished. The current system of regulation and insurance of

Some argue that the Federal Reserve needs to retain some regulatory functions: plan floated by the last administration would have large bank holding companies with the Federal Reserve, others propose having the Fed continue to regulate foreign banks. I believe that the Federal Reserve should concentrate on monetary policy only and will explore, through hearings, whether any bank or bank holding company regulatory powers are needed to carry out its monetary policy mission.

The new Commission will consist of seven members; the Secretary of the Treasury, the Chairman of the Board of Governors of the Federal Reserve System, the Chairman of the Board of Directors of the FDIC, and four public members, one of which would be the Chairman, appointed by the President with the advice and consent of the Senate. At least one Presidentially appointed commissioner must have had at least 2 years experience representing consumer or community interests on banking services, credit needs or housing and consumer financial protection.

I believe this arrangement strikes the appropriate balance between independence and executive branch control of bank regulation. Independence is vital—attempts by previous administrations to politicize regulation in order to promote their economic policy contributed greatly to the savings and loan crisis and a near tragic laxity in bank and thrift examination and supervision.

On the other hand, the executive branch has a strong interest in promoting a healthy and viable banking industry. Critical aspects of any administration's economic policy depend to a great degree on a safe and sound banking industry. Placing the Secretary of the Treasury on the Commission will provide the administration with an avenue to express its views. The institutionalized relationship between the independent regulator and the Treasury Department of the sort envisioned in my legislation is superior to the current system where the Treasury Department is charged with running the OCC and the OTS and influences the Federal Reserve and the FDIC through back room winks and nods.

The Regulatory Consolidation Act establishes a consumer division within the Commission to supervise and enforce consumer protection laws, including the Community Reinvestment Act. The consumer division recognizes that consumer protections, including availability of banking services and credit, are as important as safety and soundness. Insured depository institutions are required to meet the convenience and needs of the community they serve. The consumer division is designed to monitor institutions' performance under that test.

I am heartened by the number of my Banking Committee colleagues that have joined me as original cosponsors of the Regulatory Consolidation Act of 1993—Mr. VENTO, Mr. FRANK, Mr. KENNEDY, Mr. FLAKE, Mr. MFUME, Ms. WATERS, Mr. GUTIERREZ, Mr. RUSH, Ms. ROYBAL-ALLARD, Ms. VELAZQUEZ, and Mr. HINCHEY. I wrote to President Clinton in late January urging him to support regulatory consolidation and pledging to work with his administration towards that goal. I am pleased to report that the initial response of the administration is a positive one. President Clinton's report, "A Vision of Change for America" states that, "The Federal Government is more complex than it needs to be. Often, many different agencies deal with the same issue, and individuals, businesses, communities, and States find it impossible to have their problems addressed. Departments and agencies are already consolidating and simplifying their operations, and the administration will seek to rationalize and streamline functions Government-wide."

The massive job of regulating an increasingly complex financial community requires the full-time effort of an independent and thoroughly coordinated commission. Otherwise, we are setting the Nation up for another costly regulatory failure that may make the savings and loan disaster look like a walk in the park, and in the meanwhile, loading needless and excessive burdens on the banking system.

Vol. 139 WASHINGTON, MONDAY, NOVEMBER 8, 1993 No. 155

Congressional Record

PROCEEDINGS AND DEBATES OF THE 103d CONGRESS, FIRST SESSION

United States
Government
Printing Office
SUPERINTENDENT
OF DOCUMENTS
Washington, DC 20402

OFFICIAL BUSINESS
Penalty for private use, $300

SECOND CLASS NEWSPAPER
Postage and Fees Paid
U S Government Printing Office
(USPS 087-390)

STATEMENTS ON INTRODUCED BILLS AND JOINT RESOLUTION

By Mr. RIEGLE (for himself and Mr. D'AMATO):

S. 1633. A bill to consolidate under a new Federal Banking Commission the supervision of all depository institutions insured under the Federal Deposit Insurance Act, and for other purposes; to the Committee on Banking, Housing, and Urban Affairs.

REGULATORY CONSOLIDATION ACT OF 1993

• Mr. RIEGLE. Mr. President, I rise to introduce the Regulatory Consolidation Act of 1993 together with the ranking Republican on the Senate Banking, Housing, and Urban Affairs Committee, Senator ALFONSE D'AMATO. This legislation addresses three important needs in America's financial regulatory system: First, the need to modernize and streamline the outdated anachronistic system under which the Nation's banking and thrift institutions currently must operate; second, the need to increase the effectiveness of Federal Government oversight of depository institutions by integrating responsibility for Federal supervision and examination in a single regulatory body; and third, the need to reduce unnecessary regulatory compliance costs on the industry wherever possible without sacrificing safety and soundness.

Our bill would combine the supervisory and regulatory functions of the Comptroller of the Currency, the Federal Reserve Board, the Federal Deposit Insurance Corporation and the Office of Thrift Supervision into a single Federal Banking Commission.

AMERICA'S FLAWED BANK REGULATORY SYSTEM

Today, we have four entirely separate Federal banking agencies. Each has its own squad of examiners, its own bureaucracy, and its own regulations. No thoughtful person would ever design such a system from scratch. In fact, nobody planned our present bank regulatory system—it's a product of historical accident.

America's bank regulatory system evolved as a reaction to crisis. Running short of money to fund the Civil War, Congress created the Office of the Comptroller of the Currency to facilitate war financing efforts in 1863. In 1913, Congress established the Federal Reserve System to stabilize the industry after a series of banking panics. In 1933, Congress created the FDIC to introduce a system of Federal deposit insurance and restore confidence in our financial system after hundreds of bank failures. And the Office of Thrift Supervision also had its roots in the Depression, only to be transformed into its present form after the savings and loan crisis.

This piecemeal regulatory system is clearly out of date and in critical need of overhaul. It generates needless expense and endless confusion for America's banks and thrifts. Money that the banking industry could make available for lending to its customers is spent instead to support well-intentioned—but only marginally successful—efforts at complying with multiple agency mandates.

In fact, our current bank regulatory system has virtually no defenders outside the regulatory agencies themselves. As former FDIC Chairman William Seidman recently acknowledged:

> The financial institutions regulatory system is complex, inefficient, outmoded and archaic. It needs to be reformed with a single independent federal regulator. (Do not bother to ask regulators about it; their turf is their only message.)"

TESTIMONY OF EX-REGULATORS AND EXPERTS

On September 14, 1993, the Senate Banking Committee received testimony from a bipartisan group of six former financial regulators, together with former Senate Banking Committee Chairman William Proxmire and current House Banking Committee Chairman HENRY GONZALEZ.

The group was unanimous and unequivocal in its view that the current system is costly, burdensome, inefficient, archaic and the time has come for it to be re-engineered and modernized.

Our witnesses were also unanimous and unequivocal on the following issues:

Major consolidation would benefit consumers;

Major consolidation would benefit the industry;

Major consolidation would improve the safety and soundness of the financial services industry; and

Reforming our bank and regulatory bureaucracy is long overdue and now is the time to address the need for major consolidation. We have a new administration committed to change. Banks and thrifts are posting record profits, and both the Congress and the administration are committed to cost-saving, deficit reduction and a more efficient government. This issue must be addressed in the administration's ongoing efforts to reinvent Government.

As I have said, these views were shared by every single one of our witnesses. Here are some brief excerpts of what each had to say about the current bank regulatory system:

William Proxmire, chairman of the Senate Committee on Banking, Housing and Urban Affairs from 1975 to 1980 and 1987 to 1989:

> We have the most bizarre, entangled regulatory system in the world. It never ceases to amaze me that it has lasted this long.
>
> * * * I should like to add the recommendation that at an absolute minimum the Congress consolidate the bank regulatory functions of the Comptroller of the Currency, the Federal Reserve Board and the FDIC in a single agency * * * [T]he minimum consolidation of bank regulation should also include the bank regulating functions of these three agencies and the Office of Thrift Supervision.

HENRY B. GONZALEZ, current chairman of the House Committee on Banking, Finance and Urban Affairs:

> Our current system of regulation operates like a Hydra-headed monster, with its many heads flailing around, each with a mind of its own and indifferent to the activities of the other. Certainly, no rational person would have ever designed such a system for regulating the nation's banks and thrifts.
>
> Consolidation of the regulatory functions [OCC, Federal Reserve, FDIC and OTS] into a single, independent regulator would result in many benefits.

L. William Seidman, chairman of the Federal Deposit Insurance Corporation from 1985 to 1991:

> If one wants to talk about "reinventing government", one doesn't have to be a Thomas Edison to recognize that this is an obvious place to start * * * regulatory restructuring is necessary for the following reasons: to simplify the system and make its regulations uniform; to make it more effective and efficient; to make it operate on a timely basis; to make our financial system more competitive; and to reduce frustration and the resultant consumption of stomach pills.

John G. Heimann, Comptroller of the Currency from 1977 to 1981:

> I first testified in favor of reorganizing the banking supervisory structure in 1975 and, since that time, have consistently argued for banking agency consolidation both while I was in government service and after my return to the private sector. My view as to the

wisdom of consolidation remains the same some 18 years later. The system we have today is archaic, expensive, duplicative and inefficient. The costs are unnecessarily burdensome. Directly and indirectly, they are borne by the consumer and the shareholder. They can be meaningfully reduced without harmful consequences. In fact, I would argue that consolidation would improve the system of banking supervision at less cost.

We should create a Federal Banking Commission (F.B.C.) which would envelop the present bank supervisory activities of the OCC, OTS, FDIC, FRB and the National Credit Union Administration (N.C.U.A.).

H. Joe Selby, Executive Vice President and Director of Regulatory Affairs at the Federal Home Loan Bank of Dallas from 1986 to 1988; Senior Deputy Comptroller of the Currency from 1975 to 1986; and Acting Comptroller of the Currency in 1985:

The present regulatory apparatus is outdated and outmoded. Created in response to financial crises, and to the introduction of new financial products, it has been rendered inefficient and ineffective in many respects by the rapid changes in the financial system.

Multiple federal agencies with overlapping responsibilities only promote duplication, inconsistency and inefficiency.

Responsibility for regulation and supervision of all federally insured depository institutions and holding companies should be vested in a single, federal financial institution supervisory agency.

Andrew F. Brimmer, member of the board of governors of the Federal Reserve System from 1966 to 1974:

* * * Uneven bank examination standards—growing out of our fragmented Federal Bank Regulatory Apparatus—contributed to the severe credit crunch of 1990-91 and aggravated the recession which occurred in those years.

The Federal Bank Regulatory structure should be revamped. The Comptroller of the Currency, the Office of Thrift Supervision, and the National Credit Union Administration should all be abolished.

Richard C. Breeden, Chairman of the Securities and Exchange Commission from 1989-93; Deputy Counsel to the Vice-President and Staff Director of the Task Group on Regulation of Financial Services from 1982-85:

Our current bank regulatory system is simply too big, too costly, and too inefficient. At a time when we face extremely difficult and painful choices as a nation regarding resource allocation and government spending priorities, it is surprising that the bank regulatory system has remained seemingly immune to reductions in overcapacity and elimination or privatization of unnecessary functions. Indeed, the total employment of the depository regulatory agencies in the U.S. is over 40,000 persons. This exceeds the size of several NATO armies, and it is more than 15 *times* greater than the total employment of the SEC, even though the SEC oversees approximately the same number of entities of different types with aggregate assets at least double all the deposits of banks and thrifts in the U.S.

It would be a substantial improvement from the status quo if each banking company could have a single regulator (rather than 2 or 3). Of course, total consolidation of the bank and thrift agencies would allow substantial cost-savings through the elimination of redundant facilities, staff and other overhead.

Today's bank regulatory system is so costly that it is creating a major threat to the competitiveness of commercial banks, and thereby undercutting to some degree the objectives the system is designed to achieve.

Timothy Ryan, Director of the Office of Thrift Supervision from 1990-92:

There is only one word to describe all this. That word is gridlock. No one creating a regulatory system today would design such a mechanism.

Government has the opportunity to make the regulatory world over again not for regulation's sake, but for America's safety and competitiveness. Regulatory agency restructuring has been studied for years. Almost every report issued over the last three decades has recognized the need for and benefits of consolidation.

What is the best structure? Simply stated, I believe that all bank and thrift regulatory activities should be consolidated into one agency. This agency should have all of the authority that today is vested in the multiple agencies. I know this proposal will raise turf issues. That debate, however, is not worth the time or energy.

Consolidation makes sense and could be easily implemented over a two year period. Now, it's time to "just do it".

THE NEED FOR REFORM

The fact that we have just emerged from America's greatest financial crisis since the Great Depression makes this an especially good time for Congress to look at regulatory consolidation. First, we learned the hard way of the enormous price that America's taxpayers and financial institutions are forced to pay by inefficient regulation. And second, for the first time in several years we can look at important administrative issues like regulatory restructuring outside of a crisis environment.

America needs a more rational, modern bank regulatory system. The current system is needlessly complex. The Banking Committee also held hearings in 1991 on several regulatory restructuring proposals. We discovered at least three major problems with the existing regulatory structure.

Lack of independence: Like monetary policy, bank regulation should be separated from political influence. Bank regulatory policy should be decided on its virtue and not by the direction of blowing political winds. In his testimony before the Banking Committee, Steve Roberts, a former aide to Fed Chairman Paul Volcker, gave his rationale for an independent banking regulator this way:

Independent agencies are able to function well for several reasons: they tend to have a continuity of leadership, they have a continuity of mission and purpose with dedicated professional staffs, and a clear mandate. Regulatory agencies that are parts of government departments normally lack such continuity and are generally headed by an individual who has great influence on the staff, the bureau's approach to its mission and objectives, and its approach to regulation and supervision.

Regulator delays: By fragmenting authority, the current system impedes timely decisionmaking because of internal squabbling among the banking agencies and hinders efforts to make needed changes in the banking regulations. As former Senator William Proxmire said in testimony before the Banking Committee:

Our banking and financial system is undergoing rapid technological change where new and complex practices are introduced almost daily. Bank regulators cannot possibly stay on top of this constantly changing financial system if they must spend most of their time fighting turf wars.

Unhealthy competition among regulators: In recent years the heads of the four Federal bank regulatory agencies have all testified in favor of meaningful consolidation of the agencies, and indeed the agencies have made limited progress in carrying out their responsibilities in a properly coordinated manner. Nevertheless, the overlapping jurisdiction in the present regulatory structure continues to foster unhealthy competition among the agencies.

Just last week on October 30, The Washington Post carried a story about the proposal of the Nation's eighth largest banking organization, Wells Fargo, to trade its bank charter for a savings and loan charter in order to take advantage of less restrictive rules on interstate branching and permissible activities. The story went on to note that the proposal would have put Federal regulators on the spot and was dropped because it might be too controversial.

As Fed Chairman Arthur Burns stated in the early 1970's:

The present system is conducive to subtle competition among the regulatory authorities, sometimes to relax constraints, sometimes to delay corrective measures.

Wolfgang Reinicke of the Brookings Institution, testifying in 1991 before the Banking Committee agreed:

The fewer the number of Government agencies, the lesser the regulatory overlap and the lower the chance that short-term institutional competition will override long-term public policy.

Regulatory consolidation is not a new or radical idea. The need to merge the Federal bank regulatory agencies has been widely acknowledged for decades. In 1949, the Hoover Commission was the first of a series of high-level commissions to recommend consolidation of the bank regulatory apparatus. In 1962, the Commission on Money and Credit did the same. In the mid-1970's, my predecessor, Chairman Proxmire, held hearings on regulatory consolidation and introduced legislation on three occasions. In the early 1980's, the Reagan administration embraced regulatory consolidation as a cost-saving measure. And the Bush administration included a stripped-down regulatory consolidation proposal in the initial legislative package sent to Congress in 1991—the package that ultimately became FDICIA. So I want to be the first to acknowledge that this bill has many ancestors.

John Sandner, the chairman of the Chicago Mercantile Exchange, earlier this year outlined his own regulatory

consolidation proposal. At a news conference, Mr. Sandner called the current Federal system of financial regulation "an expensive morass of duplication and inefficiency." And just recently in an interview with the American Banker, David Mullins, the vice chairman of the Federal Reserve Board, also called for a more rational Federal bank regulatory system, saying "there's no question that we need to move to a more streamlined system." He declared the current structure "costly and cumbersome and tending not to lead to decisive actions when needed."

I completely agree with Mr. Sandner and Mr. Mullins. Reform of our regulatory system is long overdue.

It will be a tough fight, however. In testimony before the Banking Committee in 1991, Senator Proxmire warned of the difficulties facing his earlier consolidation proposals (which did not include the thrift regulator):

> I seriously underestimated the depth of the entrenched opposition to regulatory consolidation. All three bank regulatory agencies vehemently opposed the legislation. Privately, however, each agency let it be known it would withdraw its objections if it could assume the powers of the other two.

Therefore, it's important to recognize that regulatory consolidation will serve many vital interests beyond those of the banking agencies:

For taxpayers, regulatory consolidation means more effective Federal supervision and examination of depository institutions, which translates into better protection against the risk that taxpayer funds will ever again need to be called on because losses outstrip Federal deposit insurance funds.

For bank and thrift customers and the general public, regulatory consolidation means a more accountable, more responsive bank regulatory system. Citizens will no longer have to guess which faceless agency is responsible for the particular institution they bank with. Whether it's a bank or a thrift, they'll know that the Federal Banking Commission is the place to turn if there's a problem.

For the American economy, regulatory consolidation means more efficient government and a more vital, cost-effective, and competitive banking system. No other country hobbles its financial system with so many bank regulators. With a streamlined regulatory system, our financial institutions will be able to put more effort into their business and less into coping with their regulators.

For the banking industry, consolidation holds the promise of a more rational system of Federal oversight, with substantially reduced examination and supervision fees, less frequent and less intrusive examinations, and reduced need to sort out inconsistent and even conflicting regulatory guidance.

KEY PROVISIONS OF THIS BILL

Let me now briefly describe how the bill I am introducing today would reform America's bank regulatory system.

The bill would establish a five-member Federal Banking Commission to supervise and regulate all FDIC-insured depository institutions. Although the Commission would be an independent agency, its members would include both the Secretary of the Treasury—or the Secretary's designee—and a member of the Federal Reserve Board. Three independent Commissioners appointed for staggered 6-year terms would also serve on the Commission. The President would designate one of these independent Commissioners to serve as Chairman of the Commission and another to serve as Vice Chairman.

I believe this structure provides both the administration and the Federal Reserve Board with the information and oversight they need with regard to bank regulation while simultaneously fulfilling the vital need for political independence in financial regulation.

The Commission would assume the regulatory and supervisory functions currently exercised by the Comptroller of the Currency with respect to national banks; the Federal Reserve Board over bank holding companies and State-chartered banks that belong to the Federal Reserve System; the FDIC with respect to other State-chartered banks; and the Office of Thrift Supervision with respect to savings associations and savings association holding companies. The FDIC, as deposit insurer, would retain its existing backup enforcement authority. The Federal Reserve would retain all of its central bank monetary policy, lender of last resort, and payment system responsibilities and would have access, through the Federal Banking Commission, to all the information and resources it needs to deal with potential systemic risk issues. I should point out that there are many powerful central banks around the world. As one of our witnesses pointed out, the German Bundesbank is notably among them and it is not only a powerful and effective central bank but it spends 100 percent of its time worrying about monetary policy and the value of the currency. Regulation and insurance of credit unions would remain exactly as they are today.

The bill would require the consolidation of regulatory functions to occur on a date set by the Secretary of the Treasury. The goal would be to achieve consolidation within 10 months after the bill becomes law, but the Secretary would have discretion to extend the period by an additional 5 months. To facilitate a timely and orderly consolidation, the act would urge the President to nominate the initial group of appointed Commissioners at least 3 months before the consolidation date, and urge the Senate Banking Committee to act on those nominations at least 45 days before that date.

Finally, the bill would also reform the Board of the FDIC to reflect the abolition of the Office of the Comptroller of the Currency and the Office of Thrift Supervision by giving both the Secretary of the Treasury—or the Secretary's designee—and the Chairman of the Federal Banking Commission seats on the FDIC Board.

Those are the essential provisions of this bill. Let me state as clearly as I can that I believe strongly that the time is now for full consolidation of the supervisory responsibilities of the four agencies—any alternative that doesn't go this far would simply result in another kind of regulatory hodgepodge. On other details of my bill I have an open mind. I therefore view this bill as an important first step—the central tenet of my view of what can best provide constructive solutions to the regulatory burden problem and to become the foundation of a meaningful discussion of a much-needed, modern bank regulatory structure for the future.

CONCLUSION

The bill I am offering today can go a great distance toward relieving the regulatory burdens many bankers are feeling, improving the efficiency and effectiveness of regulation, and placing America's financial system on a sound regulatory footing for generations ahead. I urge my colleagues to consider it carefully and lend it their support. I urge the administration to seize this unique moment of opportunity to reinvent and reengineer Government in a major, meaningful way.

Mr. President, I ask unanimous consent to have additional material placed in the RECORD at the conclusion of my remarks.

There being no objection, the material was ordered to be printed in the RECORD, as follows:

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC, November 8, 1993.

Hon. WILLIAM J. CLINTON,
President of the United States,
White House, Washington, DC.

DEAR MR. PRESIDENT: In the preface to the "Report of the National Performance Review" you and the Vice-President state: "It is time to radically change the way government operates." We agree.

Let us state as clearly as we can that we strongly believe that the time is now for the full consolidation of the supervisory and regulatory responsibilities of the four bank and thrift regulatory agencies—the Comptroller of the Currency, the Federal Reserve Board, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision—into a single, independent Federal Banking Commission.

The current system is costly, burdensome, inefficient, archaic and must be re-engineered and modernized. We believe this issue must be addressed immediately and call upon you to exert bold leadership in this area as part of the Administration's ongoing effort to reinvent government.

Reforming our bank and financial regulatory bureaucracy is long overdue. Now is the time to address this issue head on. Banks and thrifts are posting record profits, and both the Congress and the Administration are committed to cost saving, deficit reduction, and a more efficient government.

Consolidation of the regulatory agencies is not a new idea. Virtually every independent

study of our federal bank regulatory system since 1949 has recognized the need for major consolidation. Consolidation has been advocated by, among others, The Hoover Commission, the Hunt Commission, the FINE Study, the Grace Commission, the Task Group on Regulation of Financial Services, and the recently completed National Commission on Financial Institution Reform, Recovery, and Enforcement.

Most recently, on September 14, 1993, the Senate Banking Committee received testimony from a bi-partisan group of six former financial agency regulators. The witnesses were unanimous and unequivocal that major consolidation would benefit consumers; benefit industry; and improve the safety and soundness of the financial services industry. For the banking industry, consolidation holds the promise of reduced examination fees and an end to duplicative examinations and conflicting regulations. For the general public, regulatory consolidation means a more accountable, more responsive bank regulatory system. And for the American economy, regulatory consideration means a more vital, more competitive banking system.

We believe that a streamlined regulatory system will allow America's banks to put more effort into productive business activities and less into coping with their regulators. We also believe that the consolidation and streamlining of our supervisory and regulatory system into a single Federal Banking Commission will do much to reduce the paperwork burden facing the industry while at the same time increasing the safety and soundness of the system.

Mr. President, full consolidation of the supervisory and regulatory responsibilities of all four of our bank and thrift regulatory agencies is a top priority for us in this Congress. We look forward to working closely with you and your Administration on this issue. Given the similarity of approaches contained in the bills we have introduced in the House and Senate, we urge your administration to seize this unique and historic opportunity to fundamentally improve the way our bank and thrift regulatory agencies operate and to reinvent and re-engineer this area of our government in a major, meaningful way.

Sincerely,

HENRY B. GONZALEZ,
Chairman,
House Banking Committee.

ALFONSE M. D'AMATO,
Ranking Member,
Senate Banking Committee.

DONALD W. RIEGLE, JR.,
Chairman,
Senate Banking Committee.

REGULATORY CONSOLIDATION ACT OF 1993

The Act would establish a 5-member Federal Banking Commission, consisting of:

The Secretary of the Treasury (or the Secretary's designee);

A member of the Federal Reserve Board, chosen by the Board; and

Three commissioners appointed for staggered 6-year terms.

The Commission—an independent agency—would supervise and regulate all FDIC-insured depository institutions and their holding companies and other affiliates.

The Commission would thus have all the depository institution regulatory functions currently exercised by:

The Comptroller of the Currency (national banks);

The Federal Reserve Board (bank holding companies and State member banks);

The FDIC (State nonmember banks); and

The Director of the Office of Thrift Supervision (thrifts and thrift holding companies)

The FDIC would, as deposit insurer, retain its existing back-up enforcement authority.

The consolidation of regulatory functions occur on a date set by the Secretary of the Treasury. The goal would be to achieve consolidation within 10 months after the bill becomes law, but the Secretary would have discretion to allow an additional 6 months.

To facilitate a timely and orderly consolidation, the Act would urge the President to nominate the initial group of appointed commissioners at least 3 months before the consolidation date, and urge the Senate Banking Committee to act on those nominations at least 45 days before that date.

The President would, subject to Senate confirmation, designate one of the 3 appointed commissioners as Chairperson and the other as Vice Chairperson.

The bill would not specifically require that the Federal Banking Commission have a separate Consumer Division or that one of the commissioners have a consumer-advocacy background.

The Secretary of the Treasury (or the Secretary's designee) and the Chairperson of the Federal Banking Commission would sit on the FDIC's 5-member Board of Directors, in place of the Comptroller of the Currency and the Director of the Office of Thrift Supervision.●

● Mr. D'AMATO. Mr. President, I am pleased to join Senator RIEGLE, the distinguished chairman of the Senate Committee on Banking, Housing, and Urban Affairs, in introducing the Regulatory Consolidation Act of 1993. Before explaining the importance and purpose of the legislation, I want to acknowledge his determination and outstanding leadership in formulating a bipartisan and coherent legislative approach to modernizing and rationalizing the regulation of financial institutions.

Mr. President, the bill we are introducing today would consolidate into a single, independent Federal Bank Commission the supervisory and regulatory functions currently scattered among the Comptroller of the Currency, the Federal Reserve Board, the Federal Deposit Insurance Corporation and the Office of Thrift Supervision. The Federal Bank Commission would assume the regulatory and supervisory functions of the Comptroller of the Currency over national banks; the Federal Reserve Board over bank holding companies and State-chartered banks that belong to the Federal Reserve System; the Fed with respect to other State-chartered banks; and the Office of Thrift Supervision concerning savings associations and their holding companies. The FDIC would retain back-up enforcement authority in its capacity as insurer. The Fed would continue its historical and critical roles as central bank and lender of last resort. The bill would not address or change the present regulation and insurance of credit unions.

Mr. President, several weeks ago amidst great fanfare the administration released the "National Performance Review" containing many recommendations for reinventing Government. The report proposes to streamline, decentralize, reorient and even eliminate agencies and programs in order to create a more responsive, effective and efficient Government. But the report conspicuously avoids any attempt to achieve these laudable goals in the context of the bank regulatory structure. This must be an oversight or a subject still under review within the administration because it has been proposed—but not accomplished—by independent commissions, think tanks and prominent experts since the late 1930's.

Mr. President, the Regulatory Consolidation Act of 1993 would, in the words of Vice President GORE, move our bank regulatory system from "red-tape to results * * *". With the administration's support, and building upon the bipartisan enthusiasm for consolidation in the House and Senate, an independent Federal Bank Commission can be established in this Congress. I urge the administration witnesses to support the bill when they testify before the committee later this month.

Mr. President, the regulatory system for depository institutions has developed more by accident than by design. Bank executives have expressed frustration over what they have called a "revolving door of examiners." And among the most notable causes of the credit crunch is the burdensome, confusing, and costly regulation that has resulted from the present labyrinthine framework of overlapping and uncoordinated examinations, duplicative reports, and differing and inconsistent interpretations. The current system of regulation is archaic, cumbersome, costly and confusing to both the regulated and the regulators.

Mr. President, I want to emphasize that this legislation addresses only regulatory structure and not the substance of the regulation. The committee recognizes the need to update bank and thrift regulation, mitigate the unintended or unnecessary consequences of particular regulations, and increase the ability of banks and thrifts to make money and credit available to the economy. In the near future, the Senate will consider S. 1275, the "Community Development, Credit Enhancement, and Regulatory Improvement Act of 1993" to address these concerns. The purpose of this bill is to recognize and consolidate the four regulatory agencies into a Federal Bank Commission, and it is entirely consistent with the committee's overall approach to simplifying and streamlining regulation while strengthening the banking system. Mr. President, Chairman RIEGLE and I intend to make regulatory consolidation a priority for our committee. I have pledged to fully support and cooperate in this effort. We are both committed to the passage of legislation by the end of this Congress. Although this is an ambitious goal, especially in light of the fate of similar efforts in the past, I urge my colleagues to capitalize on this opportunity to reinvent and reorganize the bank regulatory structure.

Mr. President, I congratulate the chairman again for offering an excellent way to reduce overregulation and

streamline the regulatory structure for depository institutions. Enacting this legislation will provide for significant paperwork reduction, regulatory burden relief and contribute to economic growth while increasing the safety and soundness of the financial system. I urge our colleagues to join us in achieving a comprehensible system of regulation for depository institutions.●

Removal Notice

The item identified below has been removed in accordance with FRASER's policy on handling sensitive information in digitization projects due to

Citation Information

Document Type:

Number of Pages Removed:

Author(s):

Title:

Date:

Journal:

Volume:

Page(s):

URL:

Federal Reserve Bank of St. Louis https://fraser.stlouisfed.org

TREASURY NEWS

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

For Immediate Release
November 23, 1993

STATEMENT OF TREASURY SECRETARY LLOYD BENTSEN
BANK REGULATORY CONSOLIDATION

I strongly support this approach to regulatory consolidation.

First, let me lay out a bit of the rationale of what we want to do. It just makes no sense to have four separate agencies involved in regulating our financial institutions.

Right now we have a system where the regulation is scattered all over. It was designed for another time. And let me tell you, that time has long since passed. What we have now slows up our economy by making it difficult and confusing for our financial community to get its work done. And it creates friction within the government. We need to straighten this out.

That's why we settled on the idea of a single agency. The leaders of the House and Senate Banking Committees have done quite a bit of work on this issue, and they've come up with the same approach. I think it's the best way to tackle this problem. I'm looking forward to working with Congress in getting this legislation through. We expect to send our plan up to the Hill in January.

I might also note that it's rare that you'll find a government agency willingly giving up some of its authority.

But that makes my second point, which is that one of the aims of the Clinton administration is to reinvent government -- get rid of what's old and outmoded and install modern systems. We have to get rid of these inefficiencies in our economy to make it function at its best, and this is one way to do that. We have other initiatives in the works here at Treasury on that front.

As we bring about this change in our system for regulating financial institutions, we will preserve the basic functions of the FDIC and the Federal Reserve. That's because we're restructuring the system around three basic jobs -- supervision and regulation, insuring deposits, and operating a central bank.

The final point I would make is that we will ensure that nothing we do raises any question about the safety and security of our financial system.

-30-

LB-523

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
Nov. 22, 1993

MARY ELLEN WITHROW NOMINATED TO BE TREASURER OF THE U.S.

Treasury Secretary Lloyd Bentsen announced Monday that President Clinton has nominated Ohio Treasurer Mary Ellen Withrow to be Treasurer of the United States.

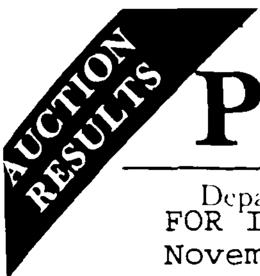
The Treasurer oversees the United States Mint, which manufactures coins and medals; the Bureau of Engraving and Printing, which prints paper money and postage and revenue stamps; and the United States Savings Bond Division.

Mrs. Withrow was first elected Treasurer of Ohio in 1982 and reelected in 1986 and 1990. She began her public career in 1969 as the first woman elected to the Elgin Local School Board in Marion County, Ohio. She was elected Marion County Treasurer in 1976 and 1980.

Ms. Withrow, 63, and her husband, Norman, are residents of Marion County. They have four daughters and four grandchildren.

-30-

LB-524



PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
November 23, 1993

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 5-YEAR NOTES

Tenders for $11,023 million of 5-year notes, Series U-1998, to be issued November 30, 1993 and to mature November 30, 1998 were accepted today (CUSIP: 912827N24).

The interest rate on the notes will be 5 1/8%. All competitive tenders at yields lower than 5.20% were accepted in full. Tenders at 5.20% were allotted 82%. All noncompetitive and sucessful competitive bidders were allotted securities at the yield of 5.20%, with an equivalent price of 99.673. The median yield was 5.18%; that is, 50% of the amount of accepted competitive bids were tendered at or below that yield. The low yield was 5.12%; that is, 5% of the amount of accepted competitive bids were tendered at or below that yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$29,800,885	$11,022,605

The $11,023 million of accepted tenders includes $473 million of noncompetitive tenders and $10,550 million of competitive tenders from the public.

In addition, $530 million of tenders was awarded at the high yield to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $550 million of tenders was also accepted at the high yield from Federal Reserve Banks for their own account in exchange for maturing securities.

LB-525

TREASURY NEWS

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

FOR RELEASE AT 2:30 P.M.
November 23, 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 December 2, 1993. This offering will provide about $2,775 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $24,014 million.

Federal Reserve Banks hold $6,140 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 $1,925 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.

oOo

Attachment

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED DECEMBER 2, 1993

November 23, 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 J3 9	912794 K8 6
Auction date	November 29, 1993	November 29, 1993
Issue date	December 2, 1993	December 2, 1993
Maturity date	March 3, 1994	June 2, 1994
Original issue date	September 2, 1993	June 3, 1993
Currently outstanding	$11,905 million	$14,771 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 IMMEDIATE RELEASE
November 23, 1993

CONTACT: Scott Dykema
(202) 622-2960

BENTSEN RELEASES ECONOMIC/FOREIGN EXCHANGE REPORT

Treasury Secretary Lloyd Bentsen released Tuesday the department's Sixth Annual Report to Congress on International Economic and Exchange Rate Policy.

"The report paints a rather bleak picture of the industrialized world," Bentsen said. The secretary called for more vigorous pursuit of the growth strategy adopted by G-7 countries. The report concludes that moderate economic recoveries appear to be firmly established in the United States, Canada, and the United Kingdom, but prospects for Japan and continental Europe are discouraging.

Bentsen said more needs to be done. "First, we need a GATT agreement to open new markets and encourage trade. Second, the Japanese Government must act promptly and decisively to carry through on its commitment at the Tokyo Summit to implement fiscal and monetary measures that ensure strong domestic demand and reduce its trade surplus. Third, Europe should continue to pursue policies that permit additional cuts in interest rates and to address structural issues that are impeding growth and employment."

Bentsen, noting one of the report's findings, also said emerging markets are a major source of dynamism in the global economy. "The United States has taken significant steps, such as NAFTA and the new dialogue with the APEC nations, to ensure that we will have a major stake in the success of these countries."

Treasury's report finds that China continues to manipulate its exchange system and urges Chinese authorities to eliminate all restrictions on access of its residents to

foreign exchange. Although China is now reporting deficits in its overall trade and current account positions, U.S. data indicate that the bilateral Chinese surplus with the United States continues to grow, totalling over $14 billion in the first eight months of this year. While Treasury expresses concern over the restrictions maintained by Taiwan and Korea, which may limit market forces that could otherwise lead to appreciation of their exchange rates, the report doesn't find that manipulation is now occurring.

The report, prepared in consultation with the Federal Reserve, is required under the Omnibus Trade and Competitiveness Act of 1988.

-30-

DEPARTMENT OF THE TREASURY

SIXTH ANNUAL

REPORT TO THE CONGRESS

ON

INTERNATIONAL ECONOMIC AND EXCHANGE RATE POLICY

NOVEMBER 1993

Embargoed for release until
4:30 p.m., November 23, 1993

DEPARTMENT OF THE TREASURY

SIXTH ANNUAL

REPORT TO THE CONGRESS

ON

INTERNATIONAL ECONOMIC AND EXCHANGE RATE POLICY

NOVEMBER 1993

Embargoed for release until
4:30 p.m., November 23, 1993

TABLE OF CONTENTS

		Page
Part I	Summary and Conclusions	1
Part II	Global Economic Developments	
	- Economic Situation in the G-7 Countries	5
	- Developments in Foreign Exchange Markets	11
	- U.S. Balance of Payments Situation	14
	- Progress in Cooperation among the G-7	17
Part III	Actions Under Section 3004	20
	- China	21
	- Taiwan	27
	- South Korea	31
Appendix	Text of Sections 3004 - 3006 of the Omnibus Trade and Competitiveness Act of 1988	

PART I: SUMMARY AND CONCLUSIONS

This Report discusses developments in U.S. international economic policy, including exchange rate policy, since the fifth annual Report to Congress submitted in December 1992. It concentrates on developments since the interim Report provided in May 1993. These reports are required under Sections 3004 and 3005 of the Omnibus Trade and Competitiveness Act of 1988 (Trade Act).

A healthy and growing world economy is increasingly important to U.S. economic growth. Exports have accounted for a rising share of U.S. economic growth, having increased from 4 percent of GDP in 1959 to more than 10 percent today. More than forty percent of the rise in total income between 1985 and 1991 can be attributed to exports, although the ratio has since declined as economies in continental Europe and Japan have slowed. For the United States to export, others must import, and their ability to do so is closely linked with growth in their domestic economies.

Although moderate economic recoveries appear firmly established in the United States, Canada and the United Kingdom, prospects for other major industrial countries are not at all encouraging. Germany, Japan and France are now expected to experience negative growth in 1993, with minimal growth in Italy. Projected aggregate economic growth for the major industrial countries in 1993 has declined from 1.9 percent (as forecast by the IMF in April 1993) to 1.3 percent (September 1993 forecast). Growth is still expected to improve in 1994, but the forecast has been pared back to 2.3 percent (from 3.0 percent), which would be insufficient to create the jobs necessary to significantly reduce current high levels of unemployment. Private forecasts and the OECD forecasts also have scaled back growth projections for Japan and continental Europe.

Employment growth has been flat in the industrial countries, and unemployment has continued to increase. Unemployment in Europe is now in double digits and is expected to rise to 12 percent in 1994. There are currently 35 million unemployed in the OECD countries alone, 22 million of whom are in Europe.

The recent slowdown in growth in continental Europe and Japan has caused U.S. exports to these regions to remain flat since 1991. The IMF estimates that slow growth in the industrial countries reduced U.S. GDP growth by one-third in the second quarter of 1993. Where growth has been robust, including the newly industrializing economies (NIEs) of Asia, China and Latin America, demand for U.S. goods and services has expanded rapidly. Growth in exports to these countries has accounted for more than half of the total growth in U.S. exports since 1991. The recent increase in the U.S. trade deficit is not attributable to a failure of U.S. industry to compete, but rather reflects weak economic conditions in Japan and Europe.

To help foster global economic recovery and growth in jobs and trade, the major industrial countries have intensified their economic policy coordination. In April 1993, they adopted a cooperative growth strategy, including:

-- In the United States and Canada, improvements in savings and investment through substantial reductions in fiscal deficits.

-- In Europe, measures to stimulate private demand and combat rising unemployment, particularly through further declines in interest rates facilitated by medium-term fiscal consolidation and containment of costs.

-- In Japan, measures to stimulate domestic demand to increase economic growth and reduce large external account surpluses.

The G-7 countries have implemented a range of measures consistent with this strategy to strengthen the world economy. In the United States, passage of a budget package that provides for $500 billion in deficit reduction has contributed to significant declines in long-term interest rates. In Europe, short-term interest rates have declined by 100 to nearly 400 basis points since January 1993. In Japan, the Government recently introduced a third fiscal expansion package, and the Bank of Japan has reduced the discount rate by 150 basis points. The Government has also begun the process of deregulating and reforming the economy to make it more open to foreign goods, services and investment.

Despite this progress, the outlook remains unsatisfactory, and sustained efforts will be required. In the United States, reform of the health care system is needed to reduce the burgeoning costs to the budget, businesses and individuals. In Europe, fiscal deficits as a percent of GDP now exceed the peak levels experienced by the United States, and real interest rates remain high. In Japan, weak consumer and business confidence continue to stymie domestic demand, resulting in further increases in an external surplus that is already a drag on world growth and a source of heightened protectionist pressures. Action to achieve increased consumption and to accelerate the opening of the Japanese economy is becoming urgent. Finally, all G-7 countries need to accelerate structural reforms to remove impediments to increased employment and to bring the Uruguay Round to a successful conclusion by the mid-December deadline.

In its Article IV consultations with the United States Government, which were completed in August 1993, IMF staff indicated particular interest in two developments affecting the U.S. budget deficit. First, staff indicated that, despite the adoption of the budget package, the U.S. budget deficit would begin to rise in 1998. Second, they noted that the budgetary implications of the President's health care proposal (which was released several months after the Article IV consultations were completed) remained uncertain.

Over the past twelve months, the dollar has been relatively stable on an overall, trade-weighted basis. The two most prominent developments in the foreign exchange markets were:

-- yen appreciation in early 1993 and a renewed rise in the summer, to successive new historic highs against the dollar and most other currencies; and

-- another bout of pressures in the Exchange Rate Mechanism (ERM) of the European Monetary System, which led to a widening on August 2, for most participating currencies, of the permitted band of fluctuations from 2.25 percent to 15 percent.

The Administration believes that exchange rates should reflect economic fundamentals. Attempts to artificially influence or manipulate exchange rates are inappropriate. At the same time, excessive volatility of exchange rates is counterproductive for growth. Consequently, the United States remains ready to cooperate in exchange markets with its G-7 partners.

Treasury has reviewed the foreign exchange and exchange rate policies of China, Taiwan and Korea, countries with an important role to play in promoting a healthy, open global economy and adjustment in external imbalances. This assessment has examined whether these countries are manipulating their exchange rates within the meaning of Section 3004 of the Trade Act, to prevent effective balance of payments adjustment or gain unfair competitive advantage in international trade.

Treasury supports **China's** plans to move towards a more market based economy and reform its foreign exchange system. Nevertheless, China's foreign exchange system continues to be heavily regulated, and the United States is seriously concerned with the level of China's bilateral trade surplus with the United States. Based on China's continued reliance on foreign exchange restrictions, it is Treasury's judgement that China manipulates its exchange system to prevent balance of payments adjustment and gain unfair competitive advantage. Treasury urges the Chinese authorities to eliminate all restrictions on access to foreign exchange, a step which would facilitate imports and promote adjustment in China's large bilateral surplus with the United States.

Taiwan is not, at this time, manipulating the rate of exchange between the New Taiwan dollar and the U.S. dollar. Nevertheless, continued adjustment is needed in Taiwan's global current account surplus and bilateral trade surplus with the United States.

Treasury remains seriously concerned that Taiwan appears unwilling to lift an array of restrictions on foreign exchange transactions and capital flows, although it has made changes that reduce some of the restrictions. The remaining restrictions continue to reduce demand for the NT dollar and limit market forces which could lead to appreciation.

Korea is not, at this time, manipulating its exchange rate directly. Korea's external deficits declined significantly in 1992 as economic growth slowed following the implementation of stabilization policies in late 1991 and throughout 1992, and have declined further in 1993.

There is no evidence that the Korean central bank is intervening directly in the exchange market, and the level of activity of other government-owned foreign exchange banks in the market has remained minimal since the May 1993 report. Treasury continues to be concerned, however, that stringent foreign exchange and capital controls have hindered the influence of market forces in the determination of the won's exchange rate and of Korea's trade and investment flows. The Korean authorities implemented some initial measures in October 1993 to ease controls in the foreign exchange area.

PART II: GLOBAL ECONOMIC DEVELOPMENTS.

A. ECONOMIC SITUATION IN THE G-7 COUNTRIES

Growth

Real GDP growth prospects for continental Europe and Japan have deteriorated since spring. While the moderate recoveries projected for the United States, Canada and the United Kingdom seem more firmly established, the outlook for the others is more gloomy. The International Monetary Fund has once again marked down its projections for most G-7 countries -- in some cases by sizeable amounts. Table 1 below shows the latest IMF growth projections for the G-7 countries.

Table 1
G-7 Real GDP Growth
(% change year/year)

	1992	1993F	1994F
United States	2.6%	2.7%	2.6%
Memo: Administration Forecast for U.S.		2.4	3.0
Japan	1.3	-0.1	2.0
Germany (all)	1.9	-1.6	1.2
France	1.4	-1.0	1.1
Italy	0.9	0.3	1.7
United Kingdom	-0.5	1.8	2.8
Canada	0.7	2.6	3.8
G-7 Total	1.8	1.3	2.3

F=forecast; source: IMF, *World Economic Outlook*, September 1993

OECD and private forecasts of real GDP growth in Japan and continental Europe also have been scaled back. The OECD's Secretariat is /expected to revise downward its June 1993 growth projections for Japan and Europe in the December 1993 *Economic Outlook*. A summary of private forecasts provided by Consensus Economics, Inc. in the monthly publication *Consensus Forecasts* also has reduced growth prospects for Europe and Japan, indicating more doubt about the speed and strength of recovery. The November *Consensus Forecast* has reduced sharply already low forecasts for growth in Continental Europe and Japan for both 1993 and 1994. As illustrated in Table 2, the forecasts for growth in Japan and continental Europe for 1993 and 1994 combined were scaled back by more than 3 percentage points for Japan and by more than one percentage point for the continent between the May and November *Consensus Forecasts*.

Table 2
Evolution of *Consensus Forecasts*
Real Growth
(in percentage points)

	1993 Forecast in:		1994 Forecast in:	
	5/93	11/93	5/93	11/93
Japan (GNP)	1.2	-0.1	3.1	1.1
Germany (west)	-1.7	-2.1	1.0	0.6
France	0.0	-1.3	2.0	0.8
Italy	0.3	-0.3	1.5	1.4
UK	1.5	1.8	2.5	2.6
Canada	3.2	2.5	3.8	3.5
United States	3.1	2.7	3.1	2.8

Change in Growth Forecast for:
(in percentage points)

	1993	1994	1993+1994
Japan (GNP)	-1.3	-2.0	-3.3
Germany (west)	-0.4	-0.4	-0.8
France	-1.3	-1.2	-2.5
Italy	-0.6	-0.1	-0.7
UK	0.3	0.1	0.4
Canada	-0.7	-0.3	-1.0
United States	-0.4	-0.3	-0.7

Source: *Consensus Forecasts*, Consensus Economics, Inc.

If these forecasts prove correct, **Japan** in 1993 will record its first recession since 1974 (during the first OPEC oil price shock). More troublesome is the prospect that this recession (unlike the 1970s recession) would not represent an aberration from an otherwise strong Japanese growth path. Japanese growth was 7.6 percent in 1973 and 2.9 percent in 1975, in contrast to the weak growth rates shown above for 1992-1994. After an investment boom during the years of the speculative "bubble" of the late 1980s, the excessive expansion of business investment is now being followed by a period of retrenchment. Private non-residential investment grew at double-digit rates in the 1988-1990 period, but actually declined in 1992. Consumption spending has also been weak. The sharp rise in public sector investment in 1992 and 1993 under the fiscal expansion programs has compensated only in part for private sector weakness.

The projections in Table 1 for 1993 and 1994 include the Fund staff's estimate of the impact of the two Japanese fiscal expansion programs announced during the current year (April and September), suggesting that these steps, while welcome, are likely to serve mainly to prevent even deeper recession, rather than to ensure a strong recovery. These projections indicate that further measures may be needed to ensure a solid recovery. The IMF has projected that most of the decline in Japan's overall government sector budget surplus (from 3.0 percent of GNP in 1991 to 0 percent in 1993) is due to cyclical factors, which will be reversed once recovery has materialized.

The outlook for **Europe** is also disappointing. Projections for the four largest EC countries are shown above. Weakness in most European economies has reflected low to negative growth of real consumption outlays, and very weak business investment. For the EC countries as a whole, the IMF now expects a 0.2 percent decline in real GDP this year, recovering to only 1.6 percent growth in 1994. The aggregate unemployment rate for the EC is now in double digits, and the Fund expects this rate to rise to 12.0 percent for 1994, despite some improvement in the UK. The number of jobs in the EC is expected to continue to fall, for the fourth successive year, in 1994.

Budget deficits in Europe, already substantial, have increased because of the downturn. When adjusted for cyclical factors, however, fiscal policy has tightened in Germany and Italy.

Table 3
Fiscal Balances: Germany, France, Italy and the UK
(percent of GDP)

(a) Structural Budget Balances:

	1990	1991	1992	1993F
Germany	-3.0	-4.7	-3.6	-3.1
France	-2.5	-2.3	-3.4	-3.8
Italy	-11.5	-10.2	-8.8	-8.2
UK	-3.2	-2.3	-3.8	-5.7

(b) Actual Budget Balances:

	1990	1991	1992	1993F
Germany	-1.9	-3.1	-2.7	-4.8
France	-1.5	-2.1	-3.9	-6.0
Italy	-11.5	-10.7	-10.0	-10.3
UK	-1.3	-2.7	-6.2	-8.6

F = forecast; source: IMF, *World Economic Outlook*, September 1993

Recovery of private consumption and investment in Europe continues to be constrained by the high level of real interest rates (nominal interest rates adjusted for inflation). While nominal interest rates have fallen, real rates remain high given the current very weak state of growth and employment in most European countries.

Table 4
Nominal and Real* Short-Term Interest Rates**
(percentage points)

	1992		1993F		1994F	
	Nominal	Real	Nominal	Real	Nominal	Real
United States	3.4	0.4	3.0	0.0	3.6	0.8
Japan	4.1	2.5	2.8	1.6	3.2	2.4
Germany (all)	9.4	4.7	7.0	2.4	5.9	3.0

* Real rates are derived by subtracting comparable consumer prices (see Table 5) from nominal rates.
** For the United States: three-month Treasury bills; for Japan, three month certificates of deposit; for Germany, three-month interbank deposits.

F=Forecast: source: IMF, *World Economic Outlook*, September 1993

These estimates of real interest rates would be higher if producer prices or equipment prices were used instead of consumer prices to measure inflation. For instance, in west Germany, producer prices are expected to rise less than 0.5 percent this year and only about 1 percent next year, which implies real interest rates of nearly 7 and 5 percent, respectively.

The widening of the exchange rate bands within the Exchange Rate Mechanism (ERM) of the European Monetary System has given added flexibility to monetary policy in many European countries. To the extent that this flexibility can be used, European growth in 1994 and later years could be stronger.

Inflation

Aggregate inflation in the G-7 countries continues to decline, and inflation is likely to remain low. IMF projections for consumer price increases (see Table 5 below) indicate that inflation for the G-7 next year will be at the lowest rate since the early 1960s (excluding the rate for 1986, when world petroleum prices fell sharply). The *Consensus Forecast* is similar.

Table 5
G-7 Consumer Price Inflation
(% change year/year)

	1992	1993F	1994F
United States	3.0	3.0	2.8
Memo: Administration Forecast for U.S.		3.2	3.3
Japan	1.7	1.2	0.8
Germany (all)	4.7	4.6	2.9
France	2.4	2.2	2.2
Italy	5.2	4.5	4.6
United Kingdom*	4.7	3.2	3.8
Canada	1.5	1.8	1.5
G-7 Total	3.1	2.9	2.6

* Retail Price Index excluding mortgage interest

F=forecast; source, IMF, *World Economic Outlook*, September 1993

Anti-inflationary macroeconomic policies, recession and slow growth have contributed to the improved outlook for low inflation in the major countries. Slow growth in the industrial economies as a whole has restrained world commodity prices. Rises in unemployment have tended to moderate wage gains.

German inflation has been a major concern, in part because tight monetary policies designed to reduce inflation in Germany have impeded recovery elsewhere in Europe. Recently, the outlook for German inflation has improved. Over the past twelve months (through October 1993) consumer prices in the west increased by less than 4 percent; the annual rate for the April-October 1993 period declined to 2.9 percent.

Part of the rise in the German price level this year can be explained by the one point increase in value added tax on January 1 and mineral fuel tax increases this spring -- both of which were incorporated in the consumer price index even as they restrained aggregate demand. Decontrol of prices in the east from the artificially low levels set by the former GDR authorities, now nearly completed, has contributed to upward movement of the price level in the east. Wage settlements have been in the 3 to 3-1/2 percent range this year, vs. 5-1/2 to 6 percent in 1992, and this moderation should contribute to an improved inflation picture. The IMF expects a decline in the all-German inflation rate to 2.9 percent next year (2.7 percent in the west).

External Accounts

The most important development in the external accounts of the G-7 countries, in terms of policy concerns, has been the continuing sharp rise in Japan's trade and current account surpluses, to a record current account surplus of $117.6 billion, or 3.2 percent of GDP, in 1992. In the first three quarters of 1993, the current account surplus reached $99.5 billion (an annual rate of $132.7 billion). The IMF expects the surplus to reach $137 billion for the year, and to rise slightly in 1994 to $141 billion, as Table 6 indicates.

Table 6
G-7 Current Account Balances
($ billions and % GDP)

	1992	1993F	1994F
United States	-$66	-$112	-$130
	(-1.1)	*(-1.8)*	*(-1.9)*
Japan	+118	+137	+141
	(+3.2)	*(+3.2)*	*(+3.0)*
Germany (all)	-26	-32	-30
	(-1.3)	*(-1.7)*	*(-1.5)*
France	+3	+2	+3
	(+0.2)	*(+0.2)*	*(+0.3)*
Italy	-27	-14	-13
	(-2.1)	*(-1.4)*	*(-1.3)*
United Kingdom	-16	-21	-25
	(-1.5)	*(-2.3)*	*(-2.6)*
Canada	-23	-20	-17
	(-4.0)	*(-3.7)*	*(-2.9)*
G-7 Total	-37	-60	-70
	(-0.2)	*(-0.4)*	*(-0.4)*

F=Forecast; source: IMF, *World Economic Outlook*, September 1993

The Japanese recession expected this year, in concert with significant growth in major trading partners in North America (United States 2.7 percent and Canada 2.6 percent) and Asia (8.7 percent) and "J-curve" effects stemming from the yen's rise, will continue to widen Japan's current account surplus in dollar terms through 1994. Using Bank of Japan export and import price deflators to derive indices of Japanese trade volumes indicates that the volume of Japanese exports grew 5.3 percent in 1992 and the volume of imports fell by 1.4 percent.

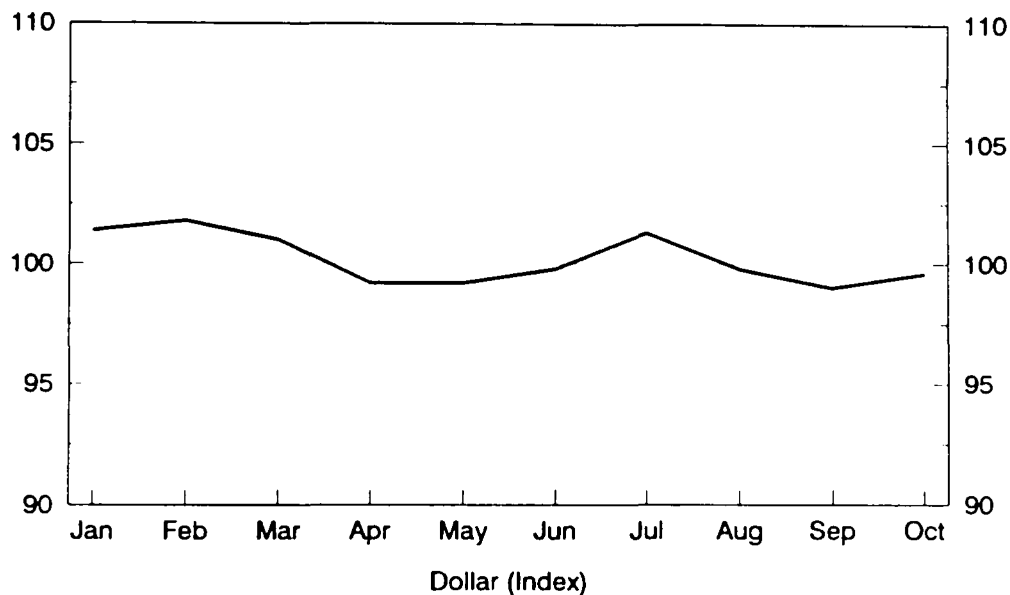
The degree to which the growth in Japanese domestic demand increases will be the key factor in the evolution of Japan's external balances, particularly over the next year or two.

The U.S. current account deficit is also likely to continue rising, although the deficit may not be as high as the IMF staff expects. The moderate nature of the U.S. expansion and the strong competitive position of U.S. exports (of both goods and services) should help restrain the rise. Faster growth in Europe and Japan would have a significant effect in moderating the increase in the deficit.

B. DEVELOPMENTS IN FOREIGN EXCHANGE MARKETS

On a real trade-weighted basis, the dollar was relatively stable, declining by 0.6 percent from the end of 1992 to October 1993.

Chart 1
Real Exchange Rate of the Dollar
(January 1993 - October 1993)

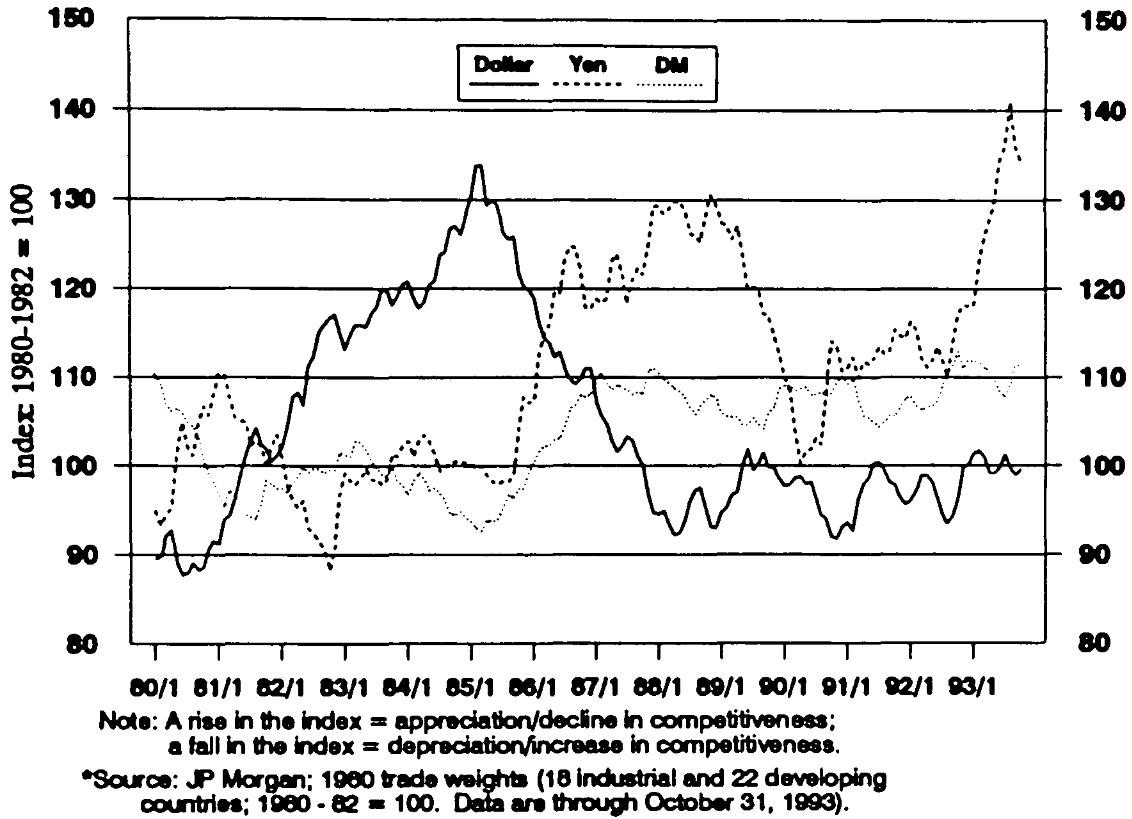


Source: J.P.Morgan, 1980 trade weights (18 industrial and 22 developing countries; 1980-82=100). Data are through Oct 31, 1993

A rise in the index = appreciation/decline in competitiveness; a fall in the index = depreciation/increase in competitiveness

The primary exchange market development was appreciation of the yen, which rose nearly 14 percent over the same period, bringing its total appreciation since August 1992 to 22 percent.

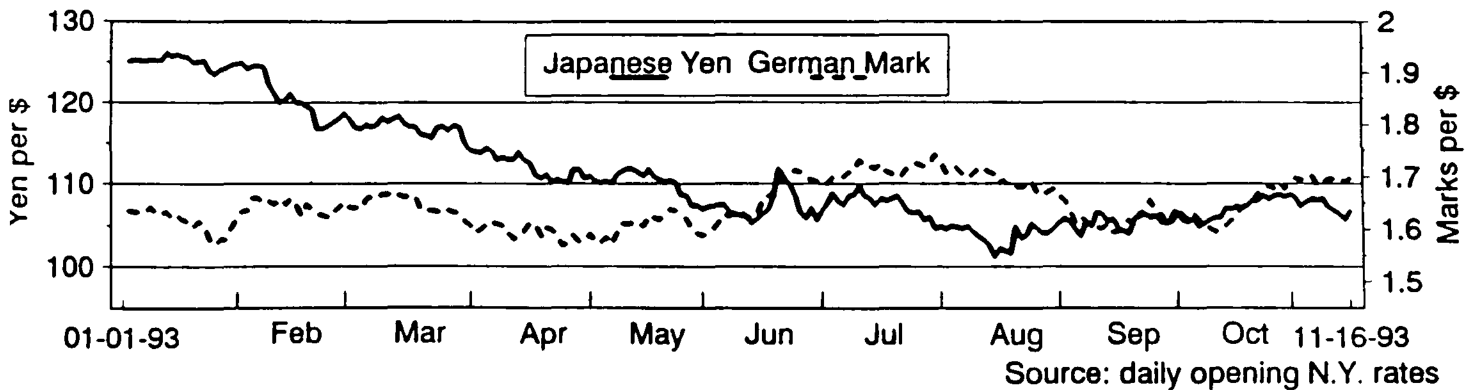
Chart 2
Real Exchange Rates: Dollar, Yen and Mark
(January 1980 - November 1993)



Note: A rise in the index = appreciation/decline in competitiveness;
a fall in the index = depreciation/increase in competitiveness.
*Source: JP Morgan; 1980 trade weights (18 industrial and 22 developing countries; 1980 - 82 = 100. Data are through October 31, 1993).

In nominal terms, the yen appreciated against both the dollar and the DM since the end of 1992. Dollar movements often reflected developments or expectations regarding other currencies.

Chart 3
Currencies in Nominal Terms: Dollar vs. Yen and Mark
(January - mid-November 1993)



Source: daily opening N.Y. rates

Other European central banks were careful not to get ahead of the Bundesbank's gradual and modest pace of monetary easing, apparently out of concern that their currencies might be weakened excessively in the European Monetary System's (EMS) Exchange Rate Mechanism (ERM). However, ERM pressures reemerged during the summer, as the market judged the modest pace of monetary easing to be inappropriate to weak cyclical conditions in European economies. As of August 2, 1993 the permissible bands of fluctuation for most participating currencies were widened to +/- 15 percent from +/- 2.25 percent. Despite the widening in ERM bands, it appears that many other European central banks remain sensitive to the exchange rate implications of easing more rapidly than the Bundesbank.

The DM tended to ease against the dollar during the episode of pressures in the ERM. In late September, political tensions in Russia, culminating in President Yeltsin's dissolution of parliament, also briefly weakened the mark against the dollar, but to a lesser extent.

C. U.S. BALANCE OF PAYMENTS SITUATION

Developments in 1993

The U.S. trade deficit in the first half of 1993 (balance of payments basis, seasonally adjusted) was $127.4 billion at an annual rate, up from $107 billion (annual rate) in the second half of last year and $96.1 billion for 1992 as a whole. The renewed widening in the trade deficit, which began in 1991 after four years of steady declines, primarily reflects cyclical factors; the United States is in the course of a cyclical recovery, while Japan and Europe are experiencing recession or very slow growth.

First half 1993 exports totalled $449.3 billion at an annual rate, up about $9 billion or just 2 percent in value from the full year 1992; exports have been essentially flat since the last quarter of 1992. The deceleration of export growth, which had averaged 13.5 percent per year in value terms between 1987 and 1991, was the major factor in the widening of the trade deficit during the first half of the year.

On a geographic basis, U.S. export growth has been particularly sluggish to the other industrial countries, especially Europe and Japan, reflecting the very weak demand growth in their economies. The most recent IMF forecasts project negative GDP growth in 1993 for both Europe (EC -0.2 percent) and Japan (-0.1 percent) for 1993.

By contrast, export growth has held up well to areas such as Latin America and the Asian NIEs, which have avoided recession. The IMF projects 8.7 percent growth this year for developing economies in Asia, while growth in Latin America should be nearly 3.5 percent. This pattern confirms other evidence from cost and price indicators that the U.S. competitive position remains strong and is not a significant factor behind the recent widening of the trade deficit.

While overall exports have stagnated so far in 1993, imports have risen substantially, despite the modest pace of recovery in the domestic U.S. economy. Imports rose during the first half of 1993 to $576.7 billion at an annual rate, up $40 billion or 7-1/2 percent compared with full-year 1992. Imports rose sharply in March, and have remained substantially above the averages of Q1 (and Q492) through September (latest data available).

Capital goods and automotive products accounted for nearly 60 percent of the increase in imports during the first half of 1993. Computers continued to be a major category of investment and import spending; both consumption and investment spending contributed to strong growth of vehicle imports. More than 85 percent of the increased imports of automotive products were from Canada.

The geographic pattern of the overall trade balance reflects in part the influence of growth abroad on export performance. Where exports are weak or falling, the balance has deteriorated. Export growth to the NIEs and Latin America has contributed to a modest reduction in bilateral deficits. The following table shows the shifting geographic trade pattern since 1991 (lowest annual trade deficit since 1983).

Table 7
U.S. Trade with Selected Areas: 1991, 1993*
($billion; data from *Survey of Current Business*)

Country or Region	Exports 1991	Exports 1993*	Imports 1991	Imports 1993*	Balance 1991	Balance 1993*
W. Europe	$116.8	$112.5	$101.9	$117.1	$14.9	-$4.7
Japan	47.2	46.7	92.3	104.2	-45.1	-57.5
China	6.3	7.9	19.0	27.6	-12.7	-19.7
Asian NIEs	44.4	49.0	59.2	61.8	-14.9	-12.7
L. America	63.3	76.5	63.0	74.7	0.3	1.8
Canada	85.9	99.7	93.0	116.0	-7.1	-16.3
R. O. W.	53.0	57.0	62.3	75.3	-9.3	-18.3
TOTAL	416.9	449.3	490.7	576.7	-73.8	-127.4

* 1st half, seasonally adjusted annual rate

The current account typically follows closely swings in the trade balance, since trade is the largest and most volatile component. However, the role of services has increased substantially in recent years. The increasing net surplus recorded on services transactions reflects a combination of U.S. competitiveness in a range of high-tech services, and the fact that the United States has become an attractive and (relatively) low-cost tourist destination. Table 8 shows data for the peak deficit year of 1987, for 1991 (post-1987 low point) and 1993 (1st half at an annual rate).

Table 8
U.S. Current Account: 1987; 1991; 1993*
($billion)

Balance	1987	1991	1993*
Trade	-160	-74	-127
Services	8	46	59
Investment Income	8	13	-1
Transfers	-23	-36**	-29
Current Account	-163	-51**	-98

* 1st half, seasonally adjusted annual rate
** Excludes $43 billion in one-time transfers from allies to support Desert Storm.

However, growing surpluses on services have been largely offset by a deterioration in the balance on net investment income. The succession of large current account deficits -- which are expected to continue in the near future -- has eroded the U.S. net investment position and, inevitably, our net earnings. Consequently, the surplus on net investment income that characterized the U.S. balance of payments position in the postwar period has disappeared, and income payments on foreign investments in the United States seem likely to exceed receipts from investments abroad by an increasing margin in coming years.

In principle, the capital account balance constitutes the mirror-image of the current account balance; i.e., a current account deficit will have as its counterpart a net capital inflow of equal size. However, measurement problems mean that recorded balances on current and capital account may be quite different. During the first half of 1993, the recorded net capital inflow accounted for $26.2 billion of the total net inflow of $49.2 billion, while the remainder was unrecorded. Of the recorded balances, official channels accounted for more than $28 billion in total net inflows (with recorded private net capital outflows of $2 billion).

U.S. investors acquired substantial amounts of foreign assets during the first half of 1993, in the form of both portfolio and direct investments. U.S. purchases of foreign securities in the first half were roughly equal to securities purchases for the entire year 1992; direct investment outflows were at a pace equal to that of 1992. Net flows of U.S. official capital were negligible.

There was a decline in recorded foreign private portfolio investment in the United States in the first half of this year, compared with 1992. Foreign direct investment inflows, which showed a mixed pattern in 1992, accelerated substantially in the first half of 1993 -- to levels roughly equal to U.S. direct investment outflows -- but remained well below the very high annual levels of 1987-90. There were substantial inflows of official capital in the first half of 1993, equalling roughly three-fourths of private flows. These largely reflected purchases of dollars by foreign central banks.

Prospects for Full-Year 1993 and 1994

Relative growth performance in the United States and major foreign economies will continue to dominate the trade and current account outlook for the rest of 1993 and 1994. Barring a dramatic change in prospects for growth in the United States -- and, especially, Europe and Japan -- U.S. trade and current account deficits should continue to widen at least through 1994.

The full-year 1993 trade deficit is likely to widen somewhat from the first half figure of $127 billion (annual rate) -- perhaps to the neighborhood of the $136 billion (annual rate) deficit figure for the second quarter. A further widening is in prospect for 1994, though probably less than the $40 billion deterioration expected for 1993 over 1992. It is difficult to be more precise, especially since there have been unusually frequent revisions recently to the outlook for growth in Europe and Japan, which is key to prospects for the U.S. trade balance.

Following the trade balance, the current account deficit also is expected to widen this year and next. It should rise to slightly above $100 billion for the full year 1993, and show a further increase in 1994.

D. PROGRESS IN COOPERATION AMONG THE G-7

U.S. economic growth is increasingly linked through trade and investment with world economic growth; economic growth here is dependent upon growth abroad. U.S. exports represent an increasingly important component to overall economic growth, having increased from 4 percent of GDP in 1959 to more than 10 percent today. From 1985 to 1991, growth in U.S. exports was equivalent to 40 percent of total income growth, although the ratio declined thereafter as

economies in Europe and Japan slowed. For the United States to export, others must import, and their ability to do so is closely linked with growth in their domestic economies. Accordingly, the Administration places high priority on a close and effective dialogue within the Group of Seven.

The G-7 recognizes the need to restore growth. Economic policy coordination among the G-7 has made significant advances since the interim report was presented in May 1993. At the Tokyo Summit in July, specific policy measures were agreed by the G-7, which were later reaffirmed at the meeting of the G-7 Finance Ministers in September. In the United States, passage of a budget package will cut $500 billion from the federal budget deficit over the next five years. Short-term interest rates in Europe have declined, and the basis is being laid for further reductions. In Japan, the Government has introduced a third fiscal expansion package, and the Bank of Japan has gradually reduced the discount rate by 150 basis points since January 1993. Other steps are being taken in Japan to open the economy to foreign goods, services and investment.

Despite this progress, the outlook remains unsatisfactory, and further steps are needed. In the United States, reform of the health care system is needed to reduce the costs for citizens and the budget. In Europe, fiscal deficits as a percent of GDP currently exceed the peak levels experienced by the United States and real interest rates remain high. In Japan, domestic demand has been stymied by the bursting of the asset price bubble and a collapse in confidence, and the external surplus represents both an increasing drag on world growth and a source of protectionist pressures. The need for measures to increase consumption and to accelerate market reforms in Japan has become urgent.

All G-7 countries need to accelerate structural reforms to remove impediments to increased employment. The Jobs Conference proposed by the President, expected to take place in February 1994, will provide an opportunity to explore possible approaches for strengthening employment growth. Although the agenda for the Conference has not been finalized, it is expected to provide a forum for discussion of policies, including structural reforms.

The Administration's commitment to economic policy coordination recognizes the need to create a new growth strategy. The direct link that exists today between trade, investment and world growth makes it in the interests of the United States and its G-7 partners to pursue economic policy coordination. To spur export growth and investment in other countries requires that their domestic economies grow. Therefore, the individual interests of the G-7 members will be well served by coordinating policy to reinvigorate economic growth both at home and abroad. Development of appropriate macroeconomic policies and the removal of structural barriers, particularly in labor markets, will contribute to other factors that are expected to help restore economic growth and reduce external imbalances

within the G-7. However, U.S. authorities are very much aware that official forecasts have undergone a series of downward revisions, and they stand ready to suggest additional policy measures if growth prospects do not improve as expected.

PART III: ACTIONS UNDER SECTION 3004

The text of Section 3004 of the Omnibus Trade and Competitiveness Act of 1988 (see Appendix 1) requires that the Treasury consider whether countries manipulate their exchange rates for purposes of preventing balance of payments adjustment or to obtain unfair advantages in international trade. Section 3004 provides for steps that the Secretary of the Treasury shall take, including negotiations, with respect to countries that manipulate their exchange rates. This section summarizes the current status of China, Taiwan and Korea, countries that have in past reports been designated under Section 3004.

In the first report (fall 1988), Treasury determined that Taiwan and Korea manipulated their exchange rates within the meaning of the legislation. Following bilateral negotiations, Treasury concluded that, while significant problems remained, Taiwan (as of fall 1989 report) and Korea (as of spring 1990 report) were no longer manipulating their currencies. These findings were reaffirmed in fall 1990, spring 1991, and fall 1991. The applicability of Section 3004 to China was first considered in fall of 1990; in that report and in the spring and fall 1991 reports, Treasury noted that China's exchange rate controls were of serious concern but did not find that currency manipulation was occurring.

In the spring and fall 1992 reports, Treasury reaffirmed its determination that Korea was not manipulating its exchange rate. With regard to Taiwan, Treasury determined that Taiwan was once again manipulating its currency, as it was using central bank intervention and restrictions on foreign exchange transactions and capital flows to constrain demand for the NT dollar, even though its external surpluses were increasing. However, in the spring 1993 report, following negotiations with Taiwan, Treasury determined that Taiwan was not manipulating its exchange rate, as it was not intervening in the exchange markets to dampen appreciation and significant adjustment in Taiwan's current account surpluses was taking place.

With respect to China, Treasury found that China was also manipulating its foreign exchange rate system in the spring 1992 report. The basis for the changed judgment was the continued devaluation of the administered exchange rate, the significant control exercised by the authorities over foreign exchange swap center rates which had also depreciated since the emergence of the large surpluses and China's large external surplus. As a result of these manipulation findings, Treasury initiated negotiations with China during 1992.

The remainder of this part describes and assesses balance of payments and exchange rate developments in the foreign exchange systems of China, Taiwan and Korea.

CHINA

Treasury supports China's plans to move towards a more market based economy and reform its foreign exchange system consistent with the path of overall reforms. Nevertheless, China's foreign exchange system continues to be heavily regulated and the United States is seriously concerned with the level of China's bilateral trade surplus with the United States. Based on China's continued reliance on foreign exchange restrictions, it is Treasury's judgement that China manipulates its exchange system to prevent balance of payments adjustment and gain unfair competitive advantage. Treasury urges the Chinese authorities to eliminate all restrictions on access to foreign exchange, a step which would facilitate imports and promote adjustment in China's large bilateral surplus with the United States.

Trade and Economic Developments

According to Chinese data (which differ substantially from those of its trading partners as described below), China's trade and current account balances have declined substantially in 1993. These data suggest that for the first nine months of 1993, China's global imports rose 30 percent compared with the first nine months of 1992 to $68.2 billion, while China's global exports rose only 7 percent to $61.2 billion. As a result, China reports that its merchandise trade balance fell to a deficit of $7.0 billion for January-September 1993 compared with a surplus of $4.9 billion for January-September 1992. Import growth continued to be driven by strong domestic demand and rapid GDP growth. (However, using data from China's trading partners it is not clear that China's trade balance is in deficit.) Largely due to the deterioration in its trade balance, China's expects that its current account balance will fall into deficit in 1993 compared with a $6.4 billion surplus in 1992. Foreign exchange reserves dropped from $46.8 billion at the end of 1992 to $38.2 billion at the end of June 1993 (equivalent to 6 months of imports).[1] China's total external debt increased from $60.6 billion at year-end 1991 to $69.3 billion at year-end 1992. China's debt service ratio stood at 9 percent for 1992.

---

[1] Reserve figures include foreign exchange held by both the People's Bank of China and the Bank of China. The Chinese authorities no longer include foreign exchange holdings of the Bank of China in China's official foreign exchange reserve figures. Nevertheless, it should be noted that the Bank of China is a state bank and that a substantial share of its foreign exchange deposits are from state enterprises. This suggests a significant degree of government control over the Bank of China's reserve holdings. At the end of June 1993, foreign exchange reserves of the People's Bank of China stood at $18.9 billion while reserves of the Bank of China stood at $19.3 billion.

Despite the decline in China's global trade balance, its surplus with the United States continued to grow. According to U.S. data, Chinese exports to the United States for January-August 1993 grew 24 percent over January-August 1992 to $19.7 billion. Chinese imports from the United States grew 17 percent during the same period to reach $5.5 billion, for a Chinese trade surplus of $14.2 billion in the first eight months of 1993. At current growth rates, China's surplus with the United States would rise to $23.1 billion for all of 1993, up from $18.3 billion in 1992. U.S. consumption of the type of low-cost, labor-intensive goods exported by China is growing rapidly. Footwear, clothing, toys, and plastic goods constituted the most rapidly growing categories of U.S. imports from China. On the export side, U.S. exports of capital goods are increasing most rapidly. Aircraft, automobiles, telecommunications equipment, and specialized industrial machinery constituted the most rapidly growing categories of U.S. exports to China.

In general, China's trade data are not consistent with those of its major trading partners. For example, China reports a small trade surplus with the United States, in contrast to the large and growing surplus shown in U.S. figures. Similarly, China reports a trade deficit with Japan, while Japan reports a Chinese bilateral surplus. The source of the differences is chiefly China's significantly lower reported export figures. Chinese companies face incentives to underreport the value of exports as a way to avoid domestic taxes, to avoid foreign exchange surrender requirements, and to move funds offshore. Moreover, Chinese trade figures count exports transshipped through Hong Kong to other countries as exports to Hong Kong. The United States and other trading partners count these goods as exports to the partner country.

China's economy continues its high growth fueled by rapid growth of investment and the money supply. According to Chinese statistics, China's GDP grew 13.3 percent in the first nine months of 1993. Investment in fixed assets by state enterprises rose 57 percent in September 1993 compared with September 1992 while M1 grew 21 percent during the same period. Rapid economic growth has contributed to rising inflation. Retail price inflation rose from 6 percent for the year ending in September 1992 to 12 percent for the year ending in September 1993. Urban inflation has risen more rapidly, reaching 21 percent for the year ending in September 1993.

On July 3, 1993 the government announced a 16-point austerity program to slow the economy. This program includes measures to cut government spending, impose credit limits, raise interest rates, and prevent the diversion of bank loans for non-priority investment. So far, the austerity program has focused mainly on recalling funds and redirecting credit away from securities trading, real estate investment, and other activities the Chinese authorities view as speculative. The program seems to have cooled China's economy somewhat, as industrial production, investment in fixed assets, and urban inflation have declined from

highs in June and July 1993. Chinese officials have indicated they plan to go ahead with major reforms of China's monetary, financial, and tax systems. These reforms would be aimed at: increasing the People's Bank of China's ability to control the money supply and promote the stability of the *renminbi*, allowing existing state banks to become commercial banks while creating new institutions to make policy loans, and separating central and local taxes to decrease the central government's reliance on provincial authorities for the collection of taxes.

China's Foreign Exchange System

There have been no significant changes in China's foreign exchange system since Treasury's May 1993 report to Congress. China continues to operate a dual exchange rate system. The administered exchange rate is set daily and generally applies to priority imports by state-owned enterprises under the State Plan. China's second exchange rate, the "swap" rate, is determined in foreign exchange adjustment centers. Joint ventures and foreign invested enterprises may buy and sell foreign exchange at the swap centers. Domestic enterprises (which must surrender their foreign exchange earnings for retention quotas) may trade retention quotas at the swap centers. Swap center exchange rates are established through an open bidding system (15 centers) or as the State Administration of Exchange Control (SAEC) matches applications for foreign exchange (85 centers).

China maintains several types of restrictions on foreign exchange, including: 1) surrender requirements; and 2) restrictions on access to swap centers. In addition, China's foreign exchange regulations are non-transparent.

China's surrender system requires domestic enterprises to surrender 20 percent of their foreign exchange earnings to the People's Bank of China in exchange for *renminbi* at the administered exchange rate. This foreign exchange is used to supplement foreign reserves and to supply foreign exchange to state enterprises under the foreign exchange plan. In addition, the central bank may require enterprises to surrender an additional 30 percent of their foreign exchange earnings to the central bank in exchange for *renminbi* at the swap center exchange rate. In 1992, the People's Bank of China fully exercised this option. Of the remaining 50 percent of foreign exchange earnings, 40 percent accrues to the foreign trade corporation exporting the goods while 10 percent accrues to the local government. All retained foreign exchange is kept in the form of foreign exchange retention quotas which domestic firms may trade in swap centers. The producing enterprise receives no foreign exchange retention quotas. Foreign funded enterprises are not required to surrender their foreign exchange earnings and may trade foreign exchange in China's swap centers.

China maintains extensive limits on access to foreign exchange. For goods on the restricted list, an enterprise must receive a license from the Ministry of

Foreign Trade and Economic Cooperation (MOFTEC) before it may buy foreign exchange in the swap centers. For those goods that do not require MOFTEC approval, access is based on a priority list of uses of foreign exchange drawn up in conformity with state industrial policy. The authorities generally discourage purchases of foreign exchange to finance imports of goods not formally approved by the government. Limits on access to the swap centers act as barriers to trade since importers cannot purchase foreign exchange to import a wide range of goods. American and other foreign businesses in China have complained that they are being denied access to China's swap centers for transactions that had been approved previously and that this is a serious constraint on their business activities.

In April 1993, China introduced a priority list in swap centers that placed imports into three categories: 1) goods for which foreign exchange was guaranteed (primarily agricultural inputs, interest payments and remittances, technology imports, and inputs to key construction projects); 2) goods for which foreign exchange was provided on a discretionary basis by the SAEC (industrial inputs, educational materials, and some spare parts); and 3) goods for which foreign exchange was prohibited (generally consumer and luxury goods).

On July 1, 1993 China replaced the three categories of imported goods with a unified priority list. The new list sets general guidelines for enterprises and products that are to have priority access to foreign exchange (foreign invested enterprises for business activities and remittances, to state-owned enterprises and priority construction projects, for imports of agricultural inputs, grain and foodstuffs, high technology goods, and materials needed for educational, cultural, and medical purposes). China claims that it no longer prohibits the purchase of foreign exchange for particular goods. However, it is not clear that the new priority list improves access to foreign exchange. By specifying broad categories of goods for which foreign exchange should be made available, the new list gives wide discretion to the State Administration of Exchange Control to approve or deny applications for foreign exchange. There is no guarantee that purchases of foreign exchange for these goods will be approved, nor is it clear whether purchases of foreign exchange for previously prohibited items will be permitted.

Generally, China's foreign exchange system is not transparent. China does not allow public access to the regulations governing foreign exchange, including the regulations governing China's swap centers.

Exchange Rate Developments

In 1992, China's administered exchange rate depreciated 5.5% to 5.77 yuan/dollar. China's swap rate depreciated 24% to end 1992 at 7.30 yuan/dollar.

Administered Rate: On November 10, 1993, the official rate of the *renminbi* stood at 5.80 yuan/dollar. This rate represents a slight depreciation from 5.77 yuan/dollar at the end of 1992. The Chinese authorities have kept the administered rate relatively constant in 1993.

Swap Rate: On November 10, 1993, China's national swap rate stood at 8.71 yuan/dollar, representing a depreciation of 20 percent against the dollar since year-end 1992. In February 1993, faced with a rapidly depreciating swap rate, China unofficially capped the swap rate at about 8.2 yuan/dollar. However, exchange rate caps caused the volume in China's swap centers to drop as many foreign exchange transactions moved into the grey and black markets. On June 1, 1993, the Chinese authorities lifted caps on the swap rate and the *renminbi* immediately depreciated to approximately 10.5 yuan/dollar. On July 3, 1993, the Chinese government announced a 16-point austerity program and the appointment of Zhu Rongji as Governor of the People's Bank of China. Shortly afterwards the People's Bank of China began to sell dollars in China's swap centers and tightened restrictions on access to foreign exchange. As a result, the *renminbi* appreciated to about 8.70 yuan/dollar by mid-July and has remained at a fairly constant level since that time.

On November 10, 1993, the gap between the swap and administered exchange rates was 51 percent, up from 27 percent at the end of 1992.

Exchange Rate Negotiations

Treasury most recently held negotiations with the People's Bank of China in September 1993. During these negotiations, Treasury urged the Chinese authorities to eliminate all foreign exchange restrictions. Treasury noted that current restrictions act as barriers to trade and limit Chinese imports. Lifting restrictions on access to foreign exchange would promote adjustment in China's large bilateral surplus with the United States. In response to Treasury concerns, the People's Bank of China confirmed China's intention to unify China's exchange rates, create a unified national foreign exchange market, and improve the transparency of China's foreign exchange regime, although the People's Bank has not committed to a timetable for reform.

Treasury welcomes plans for unification of China's dual exchange rates as a significant step toward reducing the distortions in China's foreign exchange system. However, unification alone will do little to improve access to foreign exchange. Treasury strongly urged the Chinese authorities to move to full current account convertibility as soon as possible. Free access to foreign exchange would improve access to the Chinese market, further China's economic reform process, and improve the efficiency of China's economic system.

China's GATT Accession

China's accession would extend the GATT system of trade rules to one of the world's largest economies, help facilitate China's trade relations with the rest of the world, and contribute to opening further an important market to U.S. goods and services. However, China has not yet brought its foreign exchange regime into conformity with GATT Article XV. Article XV states that GATT members 1) shall not, by exchange action, frustrate the intent of the GATT trade provisions; and 2) may only apply exchange restrictions in accordance with the IMF Articles of Agreement. Treasury urges China to bring its exchange system into compliance with GATT Article XV and the IMF Articles of Agreement as it accedes to the GATT.

Assessment

The Chinese government has recently announced its intention to embark on a series of major reforms of its monetary, financial, and tax systems. The United States supports China's efforts to move toward a more market based economy as well as its recent actions aimed at promoting macroeconomic stability. Moreover, Treasury welcomes China's stated intention to implement major reforms of China's foreign exchange system in the near future in the context of overall reform efforts, including: unifying its dual exchange rates; creating a unified national swap market; and improving the transparency of its exchange system.

Nevertheless, China's foreign exchange system continues to be heavily regulated, and the United States is seriously concerned with the level of China's bilateral trade surplus with the United States. There has been no significant liberalization of China's foreign exchange regime since Treasury's May 1993 report to Congress. Treasury considers that China's restrictions on access to foreign exchange significantly limit imports and the business activities of domestic and foreign enterprises. Moreover, while China has indicated its intention to implement reforms, it has not yet taken these steps nor committed to a specific timetable for reform. Therefore, based on China's continued substantial reliance on foreign exchange restrictions, it is Treasury's judgement that China currently manipulates its exchange system to prevent balance of payments adjustment and gain unfair competitive advantage.

Treasury will continue its negotiations with the People's Bank of China concerning implementation of exchange system reform and urge the Chinese authorities to remove all foreign exchange restrictions that act as barriers to trade.

TAIWAN

Taiwan is not currently manipulating the rate of exchange between the New Taiwan (NT) dollar and the U.S. dollar for the purpose of preventing balance of payments adjustment or gaining unfair competitive advantage in international trade. Nevertheless, continued adjustment is needed in Taiwan's global current account surplus and bilateral trade surplus with the United States

Treasury remains seriously concerned that Taiwan appears unwilling to lift an array of restrictions on foreign exchange transactions and capital flows, although it has relaxed some of the restrictions. These restrictions reduce demand for the NT dollar and limit market forces which could lead to appreciation.

Trade and Economic Developments

Taiwan's overall external imbalance continued to decline during the first semester of 1993. Taiwan's current account surplus was $3.1 billion for the period from January to June, 1993 (equivalent to 2.9 percent of GDP), compared to $4.1 billion for the first semester of 1992 and $8.2 billion for year 1992 (equivalent to 3.9 percent of GDP). Net private capital outflows continued through the first half of 1993, registering $2.6 billion. Private capital outflows were led by private direct investment abroad and other long-term capital outflows.

The pace of reduction in Taiwan's bilateral surplus with the United States picked up over the first eight months of 1993. Taiwan's cumulative bilateral surplus with the United States was $5.9 billion during the period from January to August, 1993, representing a 12 percent drop from the same period in 1992, when Taiwan's surplus was $6.7 billion. U.S. exports to Taiwan over the period from January to August 1993 were 11 percent higher than during the same period last year, while U.S. exports to the world during this eight-month period were 3 percent higher than during the same period last year. U.S. imports from Taiwan during January to August, 1993, dropped 1 percent compared to the same period last year, while total U.S. imports grew 9 percent during that period.

Taiwan's foreign exchange reserves stood at $83.7 billion at end-August, 1993, providing over one year of import cover. Total international reserves (including gold) stood at $88.5 billion.

Exchange Rate Developments

The NT dollar depreciated sharply over the summer, bringing the cumulative depreciation against the US dollar between end-1992 and November 12, 1993 to 5.8 percent. With Taiwan's inflation running at 3 to 4 percent in 1993, it is expected that Taiwan's exports will become more competitive. The NT dollar

stood at NT$ 26.87 per US dollar on November 10, 1993. This represents a depreciation of 9.6 percent since the NT dollar reached a record high in July, 1992.

Depreciation of the NT dollar appears to have resulted from private capital outflows and the Taiwan authorities' decision to ease monetary policy. The Central Bank of China (CBC) kept money tight for the first few months of 1993, to check inflation as well as to avoid short-term capital outflow due to dips in the interest rate. In April, Taiwan began to release some postal system savings which had been deposited at the CBC, so that the funds could be used for loans to manufacturers and small- and medium-sized enterprises and for infrastructure projects. In September, Taipei lowered reserve requirements on domestic currency deposits, but imposed reserve requirements on foreign currency deposits, in an attempt to stem capital outflows and bolster the NT dollar. Market observers have reported that the Taiwan authorities intervened over the summer to support the NT$ against depreciation pressures, although this is difficult to verify.

The NT dollar also sustained a 23 percent depreciation against the Japanese yen through November 10, 1993. As Taiwan purchases most of its imports from Japan (30 percent in 1992) and the United States (22 percent in 1992), a depreciation of this magnitude could raise import prices and increase inflationary pressures in Taiwan's domestic economy.

Exchange Rate System

Taiwan continues to maintain extensive controls and regulations on foreign exchange transactions and capital flows. Together, these limit the size of Taiwan's foreign exchange market.

Although Taiwan has relaxed certain limitations on foreign exchange transactions and capital flows over the past year, these reforms were generally marginal, and the key ceilings and restrictions remain in place. We understand that in some cases the new, higher ceilings continue to restrict individual firms' activities; in all cases, the limitations retain the potential to constrict firms' activities.

Taiwan's ceilings on banks' foreign exchange liabilities limit the ability of banks to engage in forward trading in the NT dollar, to offer foreign currency loans in Taiwan and to use swap funding in order to obtain NT dollars with which to make local currency loans. In August, the Taiwan authorities increased the foreign exchange liabilities ceilings for commercial banks, the third such increase this year, and developed a new formula for calculating the ceilings. We understand that most U.S. banks are not operating up against the ceilings on foreign exchange liabilities at the present time. One contributing factor may be the recent

depreciation of the NT dollar, which has made holding foreign exchange liabilities unattractive. Hence, the situation could change dramatically if pressures for appreciation develop, and the existence of the ceilings remains an obstacle to banks' long-term plans in Taiwan.

Non-trade-related capital inflows and outflows by a firm or by an individual continue to be subject to a limit of US$5 million. Foreign individual investors are prohibited from investing on Taiwan's stock exchange (the Taiex). The Taiex was opened to foreign institutional investors in January, 1991; however, they continue to face limitations on inward remittances and on repatriating capital and profits. In July, the CBC raised the ceiling for aggregate foreign institutional investment from US$2.5 billion to US$5 billion (out of a total market capitalization of over US$120 billion), and increased the limit for a single institutional investor from US$50 million to US$100 million.

In August, 1993, the CBC issued regulations for the establishment of foreign exchange brokerage firms. Until then, the foreign exchange brokerage business in Taiwan had been handled by the quasi-public Foreign Exchange Development Foundation (FEDF). Also in August, the Taiwan authorities authorized inter-bank forward rate agreements, interest rate swaps and third currency forward and swaps transactions. These reforms represent a step forward; nevertheless, unless Taiwan lifts its restrictions on capital flows and limitations on the activities of foreign exchange brokers, this market is likely to remain small and thin.

Exchange Rate Negotiations

While not citing Taiwan as an exchange rate manipulator, Treasury nonetheless continues to urge Taiwan to move more rapidly to reduce restrictions on foreign exchange transactions and capital flows. Taiwan's aim of achieving the status of a regional financial center will require significant liberalization of these restrictions, as well as further movement toward opening its financial markets.

Assessment

The present determination maintains the assessment contained in Treasury's May, 1993 report that Taiwan is not at this time engaging in practices which constitute manipulation of its currency. Four factors support this determination. First, the depreciation of the NT dollar in recent months appears to be largely the result of capital outflows from the island and a relaxation of monetary policy. Second, the array of controls on capital flows and external transactions maintained by the Taiwan authorities do not appear at this time to be directly constraining appreciation of the NT dollar. Third, significant adjustment continues to occur in

Taiwan's current account and trade surpluses. Finally, it appears that in recent months the Central Bank may have intervened in the market to support the NT dollar.

Treasury remains concerned that the recent depreciation in the NT dollar may cause Taiwan's external surpluses to increase in the months ahead. Taiwan's real exchange rate and exports have become even more competitive to date in 1993.

Treasury will continue to monitor Taiwan's exchange rate policies in the period leading up to the next report to Congress. In this regard, Treasury is prepared to respond to any actions by Taiwan that interfere with the role of market forces in exchange rate determination -- such as direct intervention in the foreign exchange market to dampen pressures for appreciation, or maintenance of restrictions on foreign exchange transactions or capital inflows that constrain NT dollar appreciation.

Treasury will continue to use bilateral discussions to press for changes in Taiwan's exchange rate policies and elimination of restrictions on foreign exchange transactions and capital movements. In addition, in the context of Taiwan's accession to the GATT, the United States will participate in negotiations with Taiwan on a special exchange agreement with GATT contracting parties to ensure that Taiwan cannot use foreign exchange policies to frustrate the intent of GATT trade liberalization obligations.

REPUBLIC OF KOREA

Korea is not currently manipulating the exchange rate directly to prevent effective balance of payments adjustment or to gain unfair competitive advantage in international trade. Korea's external deficits declined significantly in 1992 as economic growth slowed following the implementation of stabilization policies in late 1991 and throughout 1992. External deficits have declined further in 1993. There continues to be no evidence that the Korean central bank is intervening directly in the exchange market, and the level of activity of other government-owned foreign exchange banks in the market has remained minimal since the May 1993 report. Treasury continues to be concerned, however, that stringent foreign exchange and capital controls have hindered the influence of market forces in the determination of Korea's exchange rate and trade and investment flows.

Recent Developments

Real GNP growth slowed to 4.7 percent in 1992, compared to 8.6 percent in 1991 and 9.4 percent in 1990. GNP grew by 3.8 percent in the first half of 1993. The slowdown is attributed to stabilization policies to cool demand after overheated growth in 1991 and 1992. The cooling down of the economy was accompanied by a significant reduction in the rate of inflation in 1992, which declined by more than half to 4.5 percent (the lowest in six years) from 9.4 percent in 1991. Consumer prices registered a 4.6 percent advance in the year ending September 1993. Original growth projections of 5 to 6 percent for 1993 were recently revised downward to roughly 4.5 percent in anticipation of difficult business conditions in the wake of President Kim's August 1993 decree banning the use of false names in financial transactions.

The current account deficit continued its downward trend in the first three quarters of 1993, registering $1.0 billion (0.3 percent of GNP) compared to $4.8 billion (1.6 percent of GNP) in the first three quarters of 1992. Korea's overall trade deficit shrank in the first three quarters of 1993 to $445 million, down from $3.0 billion in the first three quarters of 1992, due to brisk export growth and lower imports. According to U.S. data, Korea's bilateral trade surplus with the United States grew to $1.6 billion in January - August 1993, compared to $1 billion during the same period in 1992. The overall external deficit is expected to be eliminated in 1994.

In the capital account, overall net capital inflows totalled $5.1 billion in the first half of 1993, up from $2.3 billion during the first half of 1992, due mainly to a rise in long-term capital inflows following 1992's limited opening of the stock market to foreign investment. Korea's net external debt has continued its downward trend as Korean overseas assets have risen. Net debt registered $9.74

billion (3 percent of GNP) at the end of June 1993, representing a 24 percent decline from the same period last year.

In conjunction with the continued improvement in its external accounts, Korea's foreign exchange reserves reached a record $20 billion as of the end of September 1993, providing roughly 3 months of import coverage. Debt service payments have remained stable at roughly 6 percent of exports of goods and services.

As of November 10, 1993, the won stood at 804.5 per dollar, representing a nominal depreciation of 1.7 percent since the end of 1992. The won depreciated roughly 17 percent against the Japanese yen during the same period. Since the introduction of the "market average rate" (MAR) system in March 1990 (see the fall 1992 report for a description of this system), the won has depreciated against the dollar by 16.3 percent, due largely to higher inflation in Korea and the emergence of trade and current account deficits in 1990. In addition, however, Treasury believes that the maintenance of strict controls on foreign exchange transactions and capital inflows, as opposed to direct intervention by the central bank, serves to put downward pressure on the won.

Foreign Exchange and Capital Controls

A broad array of controls on foreign exchange and capital account transactions in Korea continues to prevent market forces from playing a fully effective role in exchange rate determination, to distort trade and investment flows, and to constitute a potential channel for Korean monetary authorities to indirectly influence the exchange rate.

The so-called "real demand rule," which requires foreign exchange banks to obtain and review documentation of an underlying commercial transaction for most foreign exchange transactions, has been a significant impediment to the development of the Korean foreign exchange market and financial sector as a whole. In a positive step forward, the Korean authorities implemented initial measures on October 1, 1993, to ease underlying documentation requirements and expanded the foreign exchange fluctuation band. Korea's restrictive terms for deferred import payment, especially regulations that limit payback periods to only a fraction of international norms, continue to be of key concern, as are tight restrictions on off-shore financing alternatives. While there have been some limited steps since the May 1993 report to ease controls in some of these areas, much remains to be done to enhance the role of market forces in the determination of the exchange rate and trade and investment flows. Given Korean aspirations to integrate the Korean financial sector with global capital markets and to attain

OECD membership by 1996, the Korean authorities should take bolder steps to shorten significantly the list of prohibited foreign exchange and capital transactions and move forward with broad-based reform of the financial sector.

Status of Financial Policy Talks

In early July 1993 the Korean government finalized a broad-based financial sector deregulation and liberalization plan for the next five years. Treasury and the Korean Ministry of Finance consulted closely during the formulation of the financial sector blueprint through the U.S.-Korea Financial Policy Talks. Treasury has commended the efforts of the Korean authorities in formulating the reform plan and welcomed the broad scope of its contents. Treasury will be following developments closely as the implementation process unfolds. In that regard, concerns remain about the lack of specificity in the blueprint and the lengthy timeframe for implementation. Treasury will continue to work with the Korean Ministry of Finance in the Financial Policy Talks and the Uruguay Round financial services negotiations in addressing outstanding market access issues faced by U.S. financial services institutions in Korea.

oOo

APPENDIX 1 - OMNIBUS TRADE AND COMPETITIVENESS ACT OF 1988 (H.R. 3)

SEC. 3004. INTERNATIONAL NEGOTIATIONS ON EXCHANGE RATE AND ECONOMIC POLICIES.

(a) Multilateral Negotiations.--The President shall seek to confer and negotiate with other countries--

(1) to achieve--

(A) better coordination of macroeconomic policies of the major industrialized nations; and
(B) more appropriate and sustainable levels of trade and current account balances, and exchange rates of the dollar and other currencies consistent with such balances; and

(2) to develop a program for improving existing mechanisms for coordination and improving the functioning of the exchange rate system to provide for long-term exchange rate stability consistent with more appropriate and sustainable current account balances.

(b) Bilateral Negotiations.--The Secretary of the Treasury shall analyze on an annual basis the exchange rate policies of foreign countries, in consultation with the International Monetary Fund, and consider whether countries manipulate the rate of exchange between their currency and the United States dollar for purposes of preventing effective balance of payments adjustments of gaining unfair competitive advantage in international trade. If the Secretary considers that such manipulation is occurring with respect to countries that (1) have material global current account surpluses; and (2) have significant bilateral trade surpluses with the United States, the Secretary of the Treasury shall take action to initiate negotiations with such foreign countries on an expedited basis, in the International Monetary Fund or bilaterally, for the purpose of ensuring that such countries regularly and promptly adjust the rate of exchange between their currencies and the United States dollar to permit effective balance of payments adjustments and to eliminate the unfair advantage. The Secretary shall not be required to initiate negotiations in cases where such negotiations would have a serious detrimental impact on vital national economic and security interests; in such cases, the Secretary shall inform the chairman and the ranking minority member of the Committee on Banking, Housing, and Urban Affairs of the Senate and of the Committee on Banking, Finance and Urban Affairs of Representatives of his determination.

SEC. 3005. REPORTING REQUIREMENTS.

(a) Reports Required.--In furtherance of the purpose of this title, the Secretary, after consultation with the Chairman of the Board, shall submit to the Committee on Banking, Finance and Urban Affairs of the House of Representatives and the Committee on Banking, Housing, and Urban Affairs of the Senate, on or before October 15 of each year, a written report on international economic policy, including exchange rate policy. The Secretary shall provide a written update of developments six months after the initial report. In addition, the Secretary shall appear, if requires, before both committees to provide testimony on these reports.

(b) Contents of Report.-- Each report submitted under subsection (a) shall contain--

(1) an analysis of currency market developments and the relationship between the United States dollar and the currencies of our major trade competitors;

(2) an evaluation of the factors in the United States and other economies that underlie conditions in the currency markets, including developments in bilateral trade and capital flows;

(3) a description of currency intervention or other actions undertaken to adjust the actual exchange rate of the dollar;

(4) an assessment of the impact of the exchange rate of the United States dollar on--

(A) the ability of the United States to maintain a more appropriate and sustainable balance in its current account and merchandise trade account;
(B) production, employment, and noninflationary growth in the United States;
(C) the international competitive performance of United States industries and the external indebtedness of the United States;

(5) recommendations for any changes necessary in United States economic policy to attain a more appropriate and sustainable balance in the current account;

(6) the results of negotiations conducted pursuant to section 3004;

(7) key issues in United States policies arising from the most recent consultation requested by the International Monetary Fund under article IV of the Fund's Articles of Agreement; and

(8) a report on the size and composition of international capital flows, and the factors contributing to such flows, including, where possible, an assessment of the impact of such flows on exchange rates and trade flows.

(c) Report by Board of Governors.--Section 2A(1) of the Federal Reserve Act (12 U.S.C. 225a(1)) is amended by inserting after "the Nation" the following: ", including an analysis of the impact of the exchange rate of the dollar on those trends".

SEC. 3006. DEFINITIONS.

As used in this subtitle:

(1) Secretary.--The term "Secretary" means the Secretary of the Treasury.

(2) Board.--The term "Board" means the Board of Governors of the Federal Reserve System.

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
November 23, 1993

STATEMENT BY TREASURY SECRETARY LLOYD BENTSEN

"I am delighted that both the Senate and the House have passed the Government Securities Act Amendments of 1993. This bill gives the Treasury permanent rulemaking authority over the government securities market and extends important investor protections to buyers of government securities. It also enables Treasury and the independent regulatory authorities to better supervise the activity of market participants. Maintaining the confidence of all market participants in the efficiency and liquidity of the Treasury markets is vital to our job of selling the government's debt at the lowest possible cost, and this bill will enable us to continue to carry out this important responsibility."

LB-528

TEMPORARY DIESEL DYEING REGULATIONS
(Filed November 23, 199.

The IRS today issued temporary regulations relating to changes to the diesel fuel excise tax Congress made in the 1993 Budget Act (the "Act). These changes were made in response to reports of significant noncompliance with the tax. A principal feature of the new rules is the use of dyes to differentiate taxed and nontaxable fuels. Under the new statute, to be removed from a terminal free of tax (i.e., for nontaxable or reduced-tax uses), diesel fuel must be dyed. Tax must be imposed upon the removal of undyed fuel from a terminal. (A terminal is a gasoline and diesel storage and distribution facility that is supplied by pipeline or vessel, and from which gasoline and diesel may be removed at a rack.) The use of dyeing to distinguish between fuels is consistent with the practice of a number of other industrialized countries (including Canada, Denmark, France, Germany, Italy, and the United Kingdom). The new rules are effective January 1, 1994.

Treatment of Dyed Fuel

Tax Exemption for Dyed Fuel

The Act exempts diesel fuel from tax at the time of removal from the terminal (which is generally the tax collection point for diesel fuel under the Act) if the IRS determines the fuel is destined for a nontaxable use, and the fuel is dyed (and marked) in accordance with regulations. All fuel dyed and labeled in accordance with the regulations is treated as destined for a non-taxable use.

- The regulations require the use of EPA blue dye (if high sulfur fuel) or red dye (if low sulfur fuel)[1] of a prescribed type and concentration. Other dyes may be used in low sulfur fuel, but only if they are approved by the IRS Commissioner. A transitional rule permits a lower concentration of dye for stocks of fuel previously dyed for EPA purposes.

- The IRS received a number of requests for waivers or delays of the dyeing requirements (although others urged prompt issuance of the regulations). The regulations did not adopt these suggestions because the IRS does not have authority to waive or delay the dyeing requirements.

Penalty for Improper Use of Dyed Fuel

The Act also provides that dyed diesel fuel (including fuel that is dyed to satisfy EPA requirements or for marketing or other nontax purposes) may only be used for nontaxable

---

[1]Under the Clean Air Act, administered by the EPA, high-sulfur fuel must be dyed blue and may not be used on the highway. Low-sulfur fuel for highway use may be clear or dyed a color other than blue.

purposes such as for heating, use on a farm for farming purposes and use by a State or local government. For any other use of dyed fuel, the Act imposes a $10-per-gallon penalty on the user and on any person that sells the fuel with knowledge that it will be used for a taxable purpose.

The IRS received a number of requests for delays in enforcement of this requirement (although, again, others urged the IRS not to delay). The regulations did not adopt these suggestions because the IRS does not have authority to delay the enforcement of the penalty.

Labeling Requirements

Terminal operators and others who sell dyed fuel are responsible for informing their customers of the restriction on the use of dyed diesel fuel. The notice must state: "DYED DIESEL FUEL, NONTAXABLE USE ONLY, PENALTY FOR TAXABLE USE" and must appear on bills of lading, invoices, etc., for dyed diesel fuel and on retail fuel pumps where dyed diesel fuel is sold.

Relief Provisions

The IRS requested public comments during the development of the temporary regulations. The regulations include a number of relief provisions adopted in response to the comments received.

- Splash dyeing (i.e., manual mixing of dye in diesel fuel) at the terminal will be allowed on a transitional basis. Dye injection systems will not be required until July 1, 1994.

- Dyed fuel does not have to contain a colorless marker until July 1, 1994.

- Kerosene will not be treated as diesel fuel under these regulations. Thus, kerosene used for heating will not be taxed and will not have to be dyed. However, a person that blends kerosene with diesel fuel past the terminal rack is liable for tax on the amount of kerosene used in the blend. The treatment of kerosene after June 30, 1994 is under study.

- The person receiving dyed fuel at the terminal rack is not required to be registered by the IRS and is not required to give the terminal operator or position holder (i.e., the person that holds the inventory position in the diesel, as reflected on the records of the terminal operator) an exemption certificate. However, each terminal operator must keep records sufficient to identify each person that receives dyed diesel fuel at the rack of each terminal it operates.

Treatment of Clear Fuel

Imposition of Tax

The Act provides that diesel fuel is taxed in the same manner as gasoline. Thus, tax is imposed on undyed diesel fuel removed from the terminal at the rack and the position holder is liable for this tax.

Credit or Payments for Nontaxable Uses

The regulations include rules for claiming a credit or refund with respect to clear (i.e., taxed) diesel fuel that is used for nontaxable uses. These rules follow the legislative history and the Act.

- If clear diesel fuel is used in a nontaxable use other than on a farm for farming purposes or by a State or local government, the ultimate purchaser must make the claim. This rule will apply, for example, to users of home heating oil or users of fuel for construction, logging, etc.

- If clear diesel fuel is sold for use on a farm for farming purposes or by a State or local government, only a registered ultimate vendor may make the claim. This rule enables farmers and State and local governments to purchase clear diesel fuel on a tax-free basis.

  - As a transitional rule, however, a person that is registered as a diesel fuel producer on December 31, 1993, generally will be considered to be a registered ultimate vendor during 1994.

  - As a condition to making a claim, a registered ultimate vendor must have received a prescribed certificate from the farmer or State or local government to whom it sold the fuel. A transitional rule provides that claims relating to sales before April 1, 1994, may be supported with certain exemption certificates used to support tax-free sales of diesel fuel under pre-1994 law.

Noncommercial Boats

The Act provides that diesel fuel used in noncommercial boats is no longer exempt from tax. The pre-1994 exemption continues, however, for diesel fuel used in boats for commercial fishing, transportation of persons or property for compensation or hire, or for business use other than use predominantly for entertainment, amusement, or recreation.

Notice of Proposed Rulemaking

Issued along with these temporary regulations is a notice of proposed rulemaking, under which the temporary regulations are issued as proposed regulations. The notice requests comments and schedules a public hearing on March 22, 1994.

[4830-01-u]

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Parts 40, 48, and 602

[T.D. 8496]

RIN 1545-AS13

Diesel Fuel Excise Tax; Registration Requirements Relating to Gasoline and Diesel Fuel Excise Tax

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Temporary regulations.

SUMMARY: This document contains temporary regulations relating to the tax on diesel fuel and registration requirements for the gasoline and diesel fuel excise taxes. The temporary regulations reflect and implement certain changes made by the Omnibus Budget Reconciliation Act of 1990 (the 1990 Act) and the Omnibus Budget Reconciliation Act of 1993 (the 1993 Act). The temporary regulations affect certain blenders, enterers, refiners, terminal operators, throughputters and persons that sell, buy, or use diesel fuel for a nontaxable use. The text of these temporary regulations also serves as the text of the proposed regulations set forth in the notice of proposed rulemaking on this subject in the Proposed Rules section of this issue of the **Federal Register**.

EFFECTIVE DATE: These regulations are effective January 1, 1994.

ADDRESSES: Send comments to: CC:DOM:CORP:T:R (PS-52-93), room 5228, Internal Revenue Service, P.O. Box 7604, Ben Franklin Station, Washington, DC 20044. In the alternative, comments may be hand delivered to: CC:DOM:CORP:T:R (PS-52-93), room 5228, Internal Revenue Service, 1111 Constitution Avenue NW, Washington, DC 20224.

FOR FURTHER INFORMATION CONTACT: Frank Boland (202) 622-3130 (not a toll-free call).

SUPPLEMENTARY INFORMATION:

Paperwork Reduction Act

These regulations are being issued without prior notice and public procedure pursuant to the Administrative Procedure Act (5 U.S.C. 553). For this reason, the collections of information contained in these regulations have been reviewed and, pending receipt and evaluation of public comments, approved by the Office of Management and Budget under control number 1545-1418. The estimated annual burden per respondent or recordkeeper varies from 2 hours to .1 hour, depending on individual circumstances, with an estimated average of .1 hour.

These estimates are an approximation of the average time expected to be necessary for a collection of information. They are based on such information as is available to the IRS. Individual respondents or recordkeepers may require more or less time, depending on their particular circumstances.

For further information concerning this collection of information, and where to submit comments on this collection of information, the accuracy of the estimated burden, and suggestions for reducing this burden, please refer to the preamble to the cross-referencing notice of proposed rulemaking published in the Proposed Rules section of this issue of the **Federal Register**.

Background

On August 26, 1993, the IRS published in the **Federal Register** (58 FR 45081) an advance notice of proposed rulemaking (ANPRM) that invited comments from the public on any issue that should be addressed in regulations relating to the 1993 Act's changes to the diesel fuel tax. The IRS received a number of comments in response to the ANPRM that were considered in drafting these temporary regulations.

This document contains temporary regulations that are effective January 1, 1994. It provides rules relating to the imposition of, and liability for, the diesel fuel tax under section 4081; the exemption for dyed diesel fuel; the back-up tax on dyed fuel used for a taxable purpose; credits and payments relating to taxed diesel fuel used for a nontaxable purpose; and registration requirements relating to both the diesel fuel and gasoline taxes. A future notice of proposed rulemaking will propose conforming amendments to the gasoline tax regulations (§§48.4081-1 through 48.4081-8) so that those rules will also generally apply to diesel

fuel.

Fuel distribution system and structure of the diesel fuel tax under the Internal Revenue Code (Code)

Diesel fuel and gasoline generally are distributed from refineries and points of entry into the United States through the "bulk transfer/terminal system" to wholesale distributors and then to retailers. For a further description of this distribution system, see the preamble to the proposed gasoline regulations that were published in the **Federal Register** on August 27, 1991 (56 FR 42287).

Pre-1994. Before January 1, 1994, the federal diesel fuel tax is imposed by section 4091. Tax is imposed on the sale of diesel fuel by the producer or importer thereof. A producer is defined in section 4092 to include a registered wholesale distributor. Thus, in practice, tax is not imposed until a registered wholesale distributor sells the diesel fuel to a retailer or at the wholesaler's own retail pumps.

A producer or importer that is registered by the IRS can sell diesel fuel tax free to (1) other registered producers, (2) registered heating oil retailers for resale for use as heating oil, and (3) a buyer for any of the following uses by the buyer: (a) use other than as a fuel in a diesel-powered highway vehicle or diesel-powered train, (b) an off-highway business use, (c) use on a farm for farming purposes, (d) the exclusive use of a State or local

government, (e) export, (f) the exclusive use of a nonprofit educational organization, (g) in certain aircraft museum uses, and (h) use in certain school buses and qualified local buses. A reduced rate of tax applies to a producer's sale for use by the buyer in trains and certain intercity buses.

Congress has found that considerable evasion may be occurring under the pre-1994 taxing structure. See Shortfall in Highway Trust Fund Collections: Hearing before the Subcommittee on Investigations and Oversight of the House Committee on Public Works and Transportation, 102d Cong., 2d Sess. (1992). Congress sought to correct the weaknesses of pre-1994 law by amendments made to the Code by section 13242 of the 1993 Act.

After 1993. Effective January 1, 1994, the 1993 Act amends section 4081 to impose the diesel fuel tax in the same manner as the gasoline tax. Thus, tax will be imposed on (1) the removal of gasoline and diesel fuel (collectively taxable fuel) from any refinery, (2) the removal of taxable fuel from any terminal, (3) the entry of taxable fuel into the United States for consumption, use, or warehousing, and (4) the sale of taxable fuel to an unregistered person unless there was a prior taxable removal, entry, or sale of the taxable fuel. However, the tax will not apply to any entry or removal of taxable fuel transferred in bulk to a refinery or terminal if the persons involved (including the

terminal operator) are registered.

Under section 4081, there are no nonbulk removals or entries of gasoline that are exempt from tax. However, under section 4082, as amended by the 1993 Act, the tax under section 4081 does not apply to diesel fuel that (1) the IRS determines is destined for a nontaxable use (such as use on a farm for farming purposes), (2) is indelibly dyed in accordance with IRS regulations, and (3) meets any marking requirements that may be prescribed in regulations. For this purpose, nontaxable use generally includes the same uses that are exempt from tax under pre-1994 law, plus certain uses that are taxed at a reduced rate (use in any train and in certain buses). However, under section 6421, as amended by section 13163 of the 1993 Act, diesel fuel used in noncommercial boats is no longer exempt from tax. The pre-1994 exemption continues, however, for diesel fuel used in boats for commercial fishing, transportation of persons or property for compensation or hire, or for business use other than use predominantly for entertainment, amusement, or recreation.

If diesel fuel that was exempt from tax under section 4082 is later sold for use or used for a purpose that is not a nontaxable use (for example, use as a fuel in a registered diesel-powered highway vehicle), revised section 4041(a)(1) imposes a tax on such sale or use. A reduced rate of tax applies to diesel fuel sold for use or used as a fuel in

trains and certain intercity buses.

New section 6714 imposes an assessable penalty if (1) any dyed fuel is sold or held for sale by any person for any use that such person knows or has reason to know is not a nontaxable use of such fuel, (2) any dyed fuel is held for use or used by any person for a use other than a nontaxable use and such person knew, or had reason to know, that such fuel was so dyed, or (3) any person willfully alters, or attempts to alter, the strength or composition of any dye or marker in any dyed fuel. Under this section, dyed fuel means any dyed diesel fuel, whether or not dyed pursuant to section 4082.

The amount of the penalty is $10 for every gallon of fuel involved or $1,000, whichever is greater. The penalty increases with subsequent violations by multiplying the penalty amount by the number of prior violations. Also, if the penalty is imposed on any business entity, each officer, employee, or agent of the entity who willfully participated in any act giving rise to the penalty is jointly and severally liable with the entity for the penalty.

As under pre-1994 law, a credit or payment may be allowed if diesel fuel on which tax has been imposed is used in a nontaxable use. Under pre-1994 law, only the ultimate purchaser of the fuel (that is, the person that bought the fuel for consumption or export and not for resale) is eligible to claim the credit or payment. If at least $750

is payable to a purchaser at the end of any of the first three quarters of its income tax year, the purchaser may make a quarterly claim for that payment if the claim is filed during the first quarter following the last quarter included in the claim. Any amounts not claimed for these quarters and any amounts for the fourth quarter of the claimant's income tax year generally must be claimed as a credit against the claimant's income tax.

The 1993 Act continues these rules after 1993 except for taxed fuel used on a farm for farming purposes or by a State or local government. In these two cases, revised section 6427(l) provides that only the registered ultimate vendor of diesel fuel (rather than the farmer or governmental unit) may obtain the credit or payment. The ultimate vendor may file a claim for any period for which $200 or more is payable and which is not less than one week. The claim must be filed by the end of the quarter following the earliest quarter included in the claim. If the claim is not paid within 20 days after it is filed, interest will be paid on the claim.

The 1993 Act gives the IRS additional authority to enforce the diesel fuel tax. For example, new section 4083(c) provides that the IRS has the authority to inspect terminals, dyes and dyeing equipment, and fuel storage facilities; to stop, detain and inspect vehicles; and to establish inspection sites. Also, new section 4082(c)

provides that the IRS may require conspicuous labeling of retail diesel fuel pumps and other delivery facilities where dyed diesel fuel is dispensed.

Explanation of the temporary regulations; diesel fuel tax

Definition of diesel fuel. The temporary regulations define diesel fuel as any liquid that is commonly or commercially known or sold as a fuel that is suitable for use in a diesel-powered highway vehicle, diesel-powered train, or diesel-powered boat. A liquid meets this requirement if, without further processing or blending, the liquid has practical and commercial fitness for use in the propulsion engine of the vehicle, train, or boat.

Kerosene is not treated as diesel fuel before July 1, 1994. Thus, the dyeing requirements of the temporary regulations do not apply to kerosene. However, a person that blends previously-taxed diesel fuel with kerosene outside the bulk transfer/terminal system is liable for tax on its removal or sale of the resulting blend. Only the untaxed portion of the mixture (that is, the added kerosene) is subject to tax.

Comments are requested on the treatment of kerosene after June 30, 1994.

Imposition of tax; the position holder rule. As under the gasoline tax regulations, these temporary regulations provide that tax is imposed on diesel fuel removed from the terminal at the rack. The position holder is liable for

this tax and the terminal operator may be jointly and severally liable for the tax if the position holder is not registered under section 4101. Also, tax is imposed on the nonbulk removal of diesel fuel from a refinery, on the entry of diesel fuel into the United States, and on the sale or removal of blended diesel fuel by the blender thereof.

Exemption for dyed diesel fuel. Under the temporary regulations, tax is not imposed on the removal, entry, or sale of diesel fuel if (1) the person otherwise liable for tax (for example, the position holder) is a taxable fuel registrant, (2) in the case of removal from a terminal, the terminal is operated by a taxable fuel registrant, and (3) the fuel contains either a blue dye (if high sulfur fuel) or red dye (if low sulfur fuel) of a prescribed type and concentration. Other dyes may be used in low sulfur fuel but only if they are approved by the Commissioner.

The blue dye described in the temporary regulations is the same dye prescribed by the Environmental Protection Agency (EPA) as an identifier of high sulfur diesel fuel, which, under EPA rules, is not to be used in diesel motor vehicles. However, the EPA does not require the blue dye to be of a specific concentration. The temporary regulations, although requiring a specific concentration, provide a transitional rule permitting a lower concentration for stocks of fuel previously dyed for EPA purposes. Comments are requested on these standards.

The temporary regulations do not require that dyed fuel also contain a colorless marker. A colorless marker is a material that does not reveal its presence until the fuel into which it is introduced is subjected to a special test. The IRS believes, however, that the use of markers is a valuable enforcement tool and will require markers beginning July 1, 1994. Further comment is requested on the type and concentration of marker to be required. Ideally, any required marker should be economical to use, easy to detect in diesel fuel by use of a roadside test, difficult and expensive to remove from the fuel, and capable of manufacture by different producers.

The person receiving dyed fuel at the terminal rack is not required to be registered by the IRS and is not required to give the terminal operator or position holder an exemption certificate. However, under the temporary regulations, each terminal operator must keep records sufficient to identify each person that receives dyed diesel fuel at the rack of each terminal it operates. If the terminal operator provides any person with any bill of lading, shipping paper, or similar document that indicates that diesel fuel removed at the rack is dyed when in fact it is not dyed, then the terminal operator is jointly and severally liable for tax on the removal.

Notice relating to sales and removals of dyed diesel fuel. Under section 4082, dyed diesel fuel may only be used

for nontaxable purposes; tax and a penalty may be imposed on any other use. The temporary regulations provide that terminal operators and others who sell dyed fuel are responsible for informing their customers of this restriction on the use of dyed diesel fuel. Any person that fails to provide this information as required by the temporary regulations will, for purposes of the penalty imposed by section 6714, be presumed to know that the dyed diesel fuel will be used for a taxable use.

Dye injection systems. The temporary regulations do not require the use of dye injection systems or visual inspection devices. The IRS believes, however, that such systems and devices can contribute to effective tax enforcement. Thus, a future notice of proposed rulemaking will propose rules regarding these systems and devices. These rules will be proposed to be effective July 1, 1994. Until specific dye injection systems are required, any means of dyeing, including "splash" dyeing at the terminal, is acceptable.

Back-up tax. Under section 4041, a back-up tax applies to dyed diesel fuel or diesel fuel on which a credit or payment has been allowed under section 6427 if the fuel is delivered into the fuel supply tank of a diesel-powered highway vehicle, diesel-powered train, or diesel-powered boat for a taxable use. The operator of the vehicle, boat, or train is liable for the tax. In addition, the seller of

the diesel fuel generally is jointly and severally liable for the tax if the seller knows or has reason to know that the fuel will be used for a taxable use. However, a seller of diesel fuel is not jointly and severally liable for tax on fuel delivered into the fuel supply tank of a bus or train.

Because the back-up tax is imposed only on the delivery of diesel fuel into the fuel supply tank of a vehicle, boat, or train, tax is not imposed on the use of diesel fuel as heating oil or in stationary engines. In addition, the tax does not apply to a delivery of diesel fuel for several enumerated uses.

Exemption for use in certain boats. Generally, the pre-1994 exemption for diesel fuel used in a boat continues for a boat employed in (1) the business of commercial fishing or transporting persons or property for compensation or hire, or (2) any other trade or business unless the boat is used in any activity of a type generally considered to constitute entertainment, amusement, or recreation. This limitation on entertainment, amusement, or recreation activities does not apply to a boat used in a trade or business of commercial fishing or transporting persons or property for compensation or hire. Thus, diesel fuel used in a boat in the conduct of a trade or business of transporting passengers for compensation or hire (such as a cruise ship, sightseeing boat, or any charter vessel that includes a captain who is

responsible for operating the boat) is exempt from tax even if the passengers engage in activities that could be considered entertainment, amusement, or recreation.

Administrative authority. The temporary regulations provide rules relating to inspections of terminals, dyes and dyeing equipment, fuel storage facilities, and vehicles.

Credits and payments. The temporary regulations set forth the conditions that must be met before a claim for credit or payment is allowed with respect to taxed diesel fuel that has been used for nontaxable uses. Only the ultimate purchaser may make the claim with respect to taxed fuel used in nontaxable uses other than use on a farm for farming purposes or by a State or local government.

Only a registered ultimate vendor may make the claim with respect to taxed diesel fuel sold for use on a farm for farming purposes or by a State or local government. Generally, a person becomes registered for this purpose only if it meets the tests set forth in the temporary regulations. As a transitional rule, however, a person that is registered as a diesel fuel producer on December 31, 1993, generally will be considered to be a registered ultimate vendor during 1994.

As a condition to making a claim, a registered ultimate vendor must have received a prescribed certificate from the farmer or State or local government to whom it sold the fuel. As a transitional rule, however, claims relating to

sales before April 1, 1994, may be supported with certain exemption certificates used to support tax-free sales of diesel fuel under pre-1994 law.

Registration and reporting provisions of the Code

The Code provisions relating to registration with respect to the gasoline and diesel fuel taxes are sections 4101, 4222, 7232, and 7272.

Section 4101(a), as amended by the 1990 Act, provides that every person required by the IRS to register with respect to the tax imposed by section 4081 must register with the IRS at the time, in the form and manner, and subject to the terms and conditions, as may be prescribed by regulations.

Section 4101(b) provides that the IRS may require, as a condition of permitting any person to be registered, that the person give the IRS a bond in a sum that the IRS deems appropriate and agree to the imposition of a lien on property of such person used in the trade or business for which the registration is sought.

Section 4101(c) provides that, with regard to the denial, revocation, or suspension of registration, rules similar to the rules of section 4222(c) apply. Section 4222(c) provides that the registration of any person can be denied, revoked, or suspended if the IRS determines that (1) the person has used its registration to avoid payment of tax, or to postpone or in any manner to interfere with the

collection of tax, or (2) denial, revocation, or suspension is necessary to protect the revenue.

Section 4101(d) provides that the IRS may require information reporting by persons registered under section 4101.

Section 7232 imposes a criminal penalty on any person that fails to register as required by section 4101, falsely represents itself to be registered, or willfully makes any false statement in an application for registration. Section 7272 imposes a civil penalty on any person that fails to register as required by section 4101.

Explanation of the temporary regulations; registration and reporting

Overview. The temporary regulations update and clarify the rules under section 4101 relating to registration for purposes of the taxable fuel excise tax imposed under section 4081. The temporary regulations describe persons that must be or are allowed to be registered for these purposes, the standards for qualification to be registered, and the terms and conditions of registration. Submission of an application for registration does not make the applicant a registrant; a person becomes a registrant only if the district director approves the application and issues the person a registration letter.

Registration standards. The district director will register an applicant only if the district director

determines that the applicant meets certain prescribed tests: the activity test, the acceptable risk test, and the adequate security test. However, a district director will register an applicant as an ultimate vendor of diesel fuel if the applicant meets only the activity test and the district director is satisfied with the tax history of the applicant and any person related to the applicant.

Action on the application by the district director. If the district director determines that an applicant meets all of the applicable registration tests, the district director is to register the applicant and issue the applicant a letter of registration containing the effective date of the registration. The effective date will be no earlier than the date on which the letter of registration is signed by the district director.

The letter of registration replaces the certificate of registry that is issued by the district director under present practice. Unlike present practice, the letter of registration will not be a copy of the applicant's approved application for registration.

Terms and conditions of registration. After an applicant has been registered, it must follow certain rules to retain its registration and avoid certain other adverse consequences. For example, a registrant must make deposits, file returns, and pay taxes as required, and must notify the district director that issued its letter of registration of

any changes in the information it has submitted in connection with its application. In addition, a registrant may not make any false statement on, or violate the terms of, a notification certificate, or allow another person to use its registration. It is expected that the district director will regularly review each registration to ensure that each registrant has followed these rules.

Effective July 1, 1994, additional conditions apply to terminal operators, throughputters, and gasohol blenders. Under the temporary regulations, these registrants must report specified information at the time, place, and in the manner prescribed by the IRS.

The district director must revoke or suspend a registration if the district director determines that a registrant has used its registration to evade the taxable fuel tax or interfere with the collection of the tax. Revocation or suspension also is required if the district director determines that the registrant does not meet one or more of the registration tests and the deficiency has not been corrected within a reasonable period of time after notification by the district director.

If the district director determines that a registrant has failed to comply with other terms and conditions of its registration, has made a false statement in its application, or otherwise has used its registration in a manner that creates a significant threat to the revenue, the district

director may revoke or suspend registration. Alternatively, the district director may require the registrant to give a bond as a condition of retaining its registration, require the registrant to file monthly or semimonthly returns, or both.

Special Analyses

It has been determined that this Treasury Decision is not a significant regulatory action as defined in Executive Order 12866. It also has been determined that section 553(b) of the Administrative Procedure Act (5 U.S.C. chapter 5) and the Regulatory Flexibility Act (5 U.S.C. chapter 6) do not apply to these regulations and, therefore, a Regulatory Flexibility Analysis is not required. Pursuant to section 7805(f) of the Internal Revenue Code, these regulations will be submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on their impact on small business.

Drafting Information

The principal author of these regulations is Frank Boland, Office of Assistant Chief Counsel (Passthroughs and Special Industries). However, other personnel from the IRS and Treasury Department participated in their development.

List of Subjects

26 CFR parts 40 and 48

Excise taxes, Reporting and recordkeeping requirements.

26 CFR part 602

Reporting and recordkeeping requirements.

Adoption of Amendments to the Regulations

Accordingly, 26 CFR parts 40, 48, and 602 are amended as follows:

PART 40--EXCISE TAX PROCEDURAL REGULATIONS

Paragraph 1. The authority citation for part 40 is amended by adding an entry in numerical order to read as follows:

Authority: 26 U.S.C. 7805 * * *

Section 40.6011(a)-3T also issued under 26 U.S.C. 6011(a). * * *

Par. 2. Section 40.6011(a)-3T is added to read as follows:

§40.6011(a)-3T Monthly and semimonthly returns from certain persons liable for tax on taxable fuel (temporary).

(a) In general. The district director may require a person to make a return of tax for a monthly or semimonthly period in the manner prescribed in §40.6011(a)-1(b) if the person--

(1) Is a bonded registrant (described in §48.4101-3T(b)(2) of this chapter) at any time during the period;

(2) Has been registered under section 4101 for less than one year at the beginning of the period;

(3) Meets the acceptable risk test of §48.4101-3T(f)(3) of this chapter by reason of §48.4101-3T(f)(3)(i)(B) of this

chapter at any time during the period;

(4) Has failed to comply with the applicable provisions of §48.4101-3T(h) of this chapter (relating to the terms and conditions of registration); or

(5) Is liable for tax under §48.4082-4T(a) of this chapter (relating to the back-up tax on diesel fuel) at any time during the period.

(b) Effective date. This section is effective January 1, 1994.

PART 48--MANUFACTURERS AND RETAILERS EXCISE TAXES

Par. 3. The authority citation for part 48 is amended by removing the entry for "Section 48.4101-2T" and adding entries in numerical order to read as follows:

Authority: 26 U.S.C. 7805 * * *

Sections 48.4082-1T and 48.4082-2T also issued under 26 U.S.C. 4082.

Section 48.4101-3T also issued under 26 U.S.C. 4101(a) and (b).

Section 48.4101-4T also issued under 26 U.S.C. 4101(d).

Sections 48.6427-8T and 48.6427-9T also issued under 26 U.S.C. 6427(n).

Par. 4. Section 48.4041-0T is added to read as follows:

§48.4041-0T Applicability of regulations relating to diesel fuel after December 31, 1993 (temporary).

Sections 48.4041-1 through 48.4041-17 do not apply to sales or uses of diesel fuel after December 31, 1993. For

rules relating to the diesel fuel tax imposed by section 4041 after December 31, 1993, see §48.4082-4T.

Par. 5. Sections 48.4081-10T through 48.4081-12T are added to read as follows:

§48.4081-10T Diesel fuel tax; definitions (temporary).

(a) Definitions.

Diesel fuel means any liquid that is commonly or commercially known or sold as a fuel that is suitable for use in a diesel-powered highway vehicle, diesel-powered train, or diesel-powered boat. A liquid meets this requirement if, without further processing or blending, the liquid has practical and commercial fitness for use in the propulsion engine of the vehicle, train, or boat. A liquid may possess this practical and commercial fitness even though the specified use is not the liquid's predominant use. However, a liquid does not possess this practical and commercial fitness solely by reason of its possible or rare use as a fuel in the propulsion engine of such a vehicle, train, or boat.

(1) Kerosene; before July 1, 1994. Before July 1, 1994, kerosene is not treated as diesel fuel. For rules relating to the imposition of tax on kerosene that is blended with diesel fuel, see §48.4081-12T.

(2) Kerosene; after June 30, 1994. [Reserved]

Diesel-powered boat means any waterborne vessel of any size or configuration that is propelled, in whole or in

part, by a diesel-powered engine.

Diesel-powered highway vehicle means a highway vehicle, as defined in §48.4041-8(b), that is propelled by a diesel-powered engine.

Diesel-powered train means any diesel-powered equipment or machinery that rides on rails, including equipment or machinery that transports passengers, freight, or a combination of both passengers and freight, and equipment or machinery that only carries freight or passengers of the operator thereof. Thus, the term includes a locomotive, work train, switching engine, and track maintenance machine.

(b) Effective date. This section is effective January 1, 1994.

§48.4081-1T Diesel fuel tax; tax on removal at a terminal rack (temporary).

(a) Imposition of tax. Except as provided in §48.4082-1T (relating to exemption for dyed diesel fuel), tax is imposed on the removal of diesel fuel from a terminal if the diesel fuel is removed at the rack.

(b) Liability for tax--(1) In general. The position holder with respect to the diesel fuel is liable for the tax imposed under paragraph (a) of this section.

(2) Joint and several liability of terminal operator; unregistered position holder--(i) In general. The terminal operator is jointly and severally liable for the tax imposed under paragraph (a) of this section if--

(A) The position holder with respect to the diesel fuel is a person other than the terminal operator and is not a taxable fuel registrant; and

(B) The terminal operator has not met the conditions of paragraph (b)(2)(ii) of this section.

(ii) Conditions for avoidance of liability. A terminal operator is not liable for tax under paragraph (b)(2)(i) of this section if, at the time of the removal, the terminal operator--

(A) Is a taxable fuel registrant;

(B) Has an unexpired notification certificate (described in §48.4081-5) from the position holder; and

(C) Has no reason to believe that any information in the certificate is false.

(3) Joint and several liability of terminal operator; incorrect information provided. The terminal operator is jointly and severally liable for the tax imposed under paragraph (a) of this section if, in connection with the removal of diesel fuel that is not dyed and marked in accordance with §48.4082-1T, the terminal operator provides any person with any bill of lading, shipping paper, or similar document indicating that the diesel fuel is dyed and marked in accordance with §48.4082-1T.

(c) Rate of tax. For the rate of tax, see section 4081(a).

(d) Effective date. This section is effective

January 1, 1994.

§48.4081-12T Diesel fuel tax; taxable events other than removal at the terminal rack (temporary).

(a) Tax on removal from a refinery--(1) In general. Except as provided in §48.4082-1T (relating to exemption for dyed diesel fuel) and paragraph (a)(2) of this section (relating to an exemption for certain refineries), tax is imposed on the removal of diesel fuel from a refinery if--

(i) The removal is by bulk transfer and the refiner or the owner of the diesel fuel immediately before the removal is not a taxable fuel registrant; or

(ii) The removal is at the refinery rack.

(2) Exemption for certain refineries. The tax imposed under paragraph (a)(1)(ii) of this section does not apply to a removal of diesel fuel if--

(i) The diesel fuel is removed by rail car from an approved refinery and is received at an approved terminal;

(ii) The refinery and the terminal are operated by the same taxable fuel registrant; and

(iii) The refinery is not served by pipeline (other than a pipeline for the receipt of crude oil) or vessel.

(3) Liability for tax. The refiner is liable for the tax imposed under paragraph (a)(1) of this section.

(4) Rate of tax. For the rate of tax, see section 4081(a).

(b) Tax on entry into the United States--(1) Imposition of tax. Except as provided in §48.4082-1T (relating to dyed diesel fuel), tax is imposed on the entry of diesel fuel into the United States if--

(i) The entry is by bulk transfer and the enterer is not a taxable fuel registrant; or

(ii) The entry is not by bulk transfer.

(2) Liability for tax. The enterer is liable for the tax imposed under paragraph (b)(1) of this section.

(3) Rate of tax. For the rate of tax, see section 4081(a).

(c) Blended diesel fuel; tax on removal or sale by the blender--(1) Imposition of tax. Blended diesel fuel is any mixture of diesel fuel with respect to which tax has been imposed under section 4041(a)(1) or 4081(a), and any other liquid (such as kerosene) on which tax has not been imposed under section 4081 (other than diesel fuel dyed in accordance with §48.4082-1T(b)). Tax is imposed on the removal or sale of blended diesel fuel by the blender thereof. The number of gallons of blended diesel fuel subject to tax is the difference between the total number of gallons of blended diesel fuel removed or sold and the number of gallons of previously taxed diesel fuel used to produce the blended diesel fuel.

(2) Liability for tax. The person that produces the blended diesel fuel outside the bulk transfer/terminal

system (the blender) is liable for the tax imposed under paragraph (c)(1) of this section.

(3) Rate of tax. For the rate of tax, see section 4081(a).

(d) Effective date. This section is effective January 1, 1994.

Par. 6. Sections 48.4082-1T through 48.4083-1T are added to read as follows:

§48.4082-1T Diesel fuel tax; exemption (temporary).

(a) Exemption. Tax is not imposed by section 4081 on the removal, entry, or sale of any diesel fuel if--

(1) The person otherwise liable for tax is a taxable fuel registrant;

(2) In the case of a removal from a terminal, the terminal is an approved terminal; and

(3) The diesel fuel satisfies the dyeing and marking requirements of paragraph (b) of this section.

(b) Dyeing and marking requirements--(1) Dyeing; high sulfur fuel. Diesel fuel that is required to be dyed blue pursuant to the Environmental Protection Agency's high sulfur diesel fuel requirement (40 CFR 80.29) satisfies the dyeing requirement of this paragraph (b) only if it contains the blue dye 1,4 dialkyamino-anthraquinone in a concentration of at least 10 pounds (3 pounds before April 1, 1994) of active liquid Solvent Blue 98 per thousand barrels of diesel fuel.

(2) Dyeing; low sulfur fuel. Diesel fuel that is not described in paragraph (b)(1) of this section satisfies the dyeing requirement of this paragraph (b) only if it contains--

(i) The red dye red disazo in a concentration of at least 5.6 pounds of active liquid Solvent Red 164 per thousand barrels of diesel fuel; or

(ii) Any other dye of a type and in a concentration that is approved by the Commissioner.

(3) Marking. [Reserved]

(c) Effective date. This section is effective January 1, 1994.

§48.4082-2T Diesel fuel tax; notice required with respect to dyed diesel fuel (temporary).

(a) In general. A notice stating: DYED DIESEL FUEL, NONTAXABLE USE ONLY, PENALTY FOR TAXABLE USE must be--

(1) Provided by the terminal operator to any person that receives dyed diesel fuel at a terminal rack of that operator;

(2) Provided by any seller of dyed diesel fuel to its buyer if the fuel is located outside the bulk transfer/terminal system and is not sold from a retail pump posted in accordance with the requirements of paragraph (a)(3) of this section; and

(3) Posted by a seller on any retail pump where it sells dyed diesel fuel for use by its buyer.

(b) Form. The notice required under paragraph (a)(1) or (2) of this section must be provided by the time of the removal or sale and must appear on shipping papers, bills of lading, and invoices accompanying the sale or removal of the fuel.

(c) Penalty. Any person that fails to provide or post the required notice with respect to any dyed diesel fuel is, for purposes of the penalty imposed by section 6714, presumed to know that the fuel will be used for a taxable use.

(d) Effective date. This section is effective January 1, 1994.

§48.4082-3T Diesel fuel; dye injection systems and visual inspection devices (temporary). [Reserved]

§48.4082-4T Diesel fuel; back-up tax (temporary).

(a) Imposition of tax--(1) In general. Tax is imposed by section 4041 on the delivery into the fuel supply tank of the propulsion engine of a diesel-powered highway vehicle (other than an automobile bus) or diesel-powered boat of--

(i) Any diesel fuel that contains a dye;

(ii) Any diesel fuel on which a credit or payment has been allowed under section 6427; or

(iii) Any liquid other than gasoline or diesel fuel on which tax has not been imposed by section 4081.

(2) Liability for tax--(i) In general. The operator of the vehicle or boat into which the fuel is delivered is

liable for the tax imposed under paragraph (a)(1) of this section.

(ii) Joint and several liability of the seller. The seller of the diesel fuel is jointly and severally liable for the tax imposed under paragraph (a)(1) of this section if the seller knows or has reason to know that the fuel will not be used in a nontaxable use.

(3) Rate of tax. The rate of tax is the rate imposed on diesel fuel by section 4081(a).

(b) Tax on diesel fuel; buses and trains--(1) In general. Tax is imposed by section 4041 on the delivery into the fuel supply tank of the propulsion engine of an automobile bus or a diesel-powered train of--

(i) Any diesel fuel that contains a dye;

(ii) Any diesel fuel on which a credit or payment has been allowed under section 6427; or

(iii) Any liquid other than gasoline or diesel fuel on which tax has not been imposed by section 4081.

(2) Liability for tax. The operator of the bus or train into which the fuel is delivered is liable for the tax imposed under paragraph (b)(1) of this section.

(3) Rate of tax--(i) Buses--(A) In general. The rate of tax on the delivery of diesel fuel into an automobile bus is the sum of the rates described in sections 4041(a)(1)(C)(iii)(I) and 4041(d)(1) (the bus rate), if the bus is used to furnish (for compensation) passenger land

transportation available to the general public and either such transportation is scheduled and along regular routes or the seating capacity of the bus is at least 20 adults (not including the driver). A bus is available to the general public if the bus is available for hire to more than a limited number of persons, groups, or organizations.

(B) Other uses. The rate of tax on the delivery of diesel fuel into an automobile bus is the rate of tax imposed by section 4091(a) if the bus is used for a purpose other than that described in paragraph (b)(3)(i)(A) of this section.

(ii) Trains. The rate of tax on the delivery of diesel fuel into a diesel-powered train is the rate prescribed in section 4041 for diesel fuel sold for use in a train (the train rate).

(4) Cross reference. For the registration requirement relating to certain bus and train operators, see §48.4101-3T(c)(2).

(c) Exemptions. The taxes imposed under paragraphs (a) and (b) of this section do not apply to a delivery of diesel fuel for--

(1) Use on a farm for farming purposes as that term and related terms are defined in §48.6420-4(a) through (g);

(2) The exclusive use of a State, any political subdivision of a State, or the District of Columbia;

(3) Use described in section 4041(h) (relating to use in

a vehicle owned by an aircraft museum);

(4) The exclusive use of the American Red Cross;

(5) Use in a boat employed in--

(A) The business of commercial fishing;

(B) The business of transporting persons or property for compensation or hire; or

(C) Any other trade or business, unless the boat is used in any activity of a type generally considered to constitute entertainment, amusement, or recreation (within the meaning of section 274(a)(1)(A) and the regulations under that section);

(6) Use in an automobile bus while the bus is engaged in the transportation of students and employees of schools (as defined in the last sentence of section 4221(d)(7)(C));

(7) Use in a qualified local bus (described in section 6427(b)(2)(D)) while the bus is engaged in furnishing (for compensation) intracity passenger land transportation that is available to the general public and is scheduled and along regular routes;

(8) Use in a highway vehicle that is not registered (and is not required to be registered) for highway use under the laws of any State or foreign country;

(9) The exclusive use of a nonprofit educational organization, as defined in §48.4221-6(b);

(10) Use in a highway vehicle owned by the United States that is not used on the highway; or

(11) Use in a vessel of war of the United States or any foreign nation, as described in §48.4221-4(b)(5).

(d) Effective date. This section is effective January 1, 1994.

§48.4083-1T Administrative authority (temporary).

(a) In general--(1) Authority to inspect. Officers or employees of the IRS designated by the Commissioner, upon presenting appropriate credentials and a written notice to the owner, operator, or agent in charge, are authorized to enter any place and to conduct inspections in accordance with paragraphs (a) through (c) of this section.

(2) Reasonableness. Inspections will be performed in a reasonable manner and at times that are reasonable under the circumstances, taking into consideration the normal business hours of the place to be entered.

(b) Place of inspection--(1) In general. Inspections may be at any place at which taxable fuel is (or may be) produced or stored or at any inspection site where evidence of activities described in section 6714(a) may be discovered. These places may include, but are not limited to--

(i) Any terminal;

(ii) Any fuel storage facility that is not a terminal;

(iii) Any retail fuel facility; or

(iv) Any designated inspection site.

(2) Designated inspection sites. A designated inspection

site is any State highway inspection station, weigh station, agricultural inspection station, mobile station, or other location designated by the Commissioner to be used as a fuel inspection site. A designated inspection site will be identified as a fuel inspection site.

(c) Scope of inspection--(1) Inspection. Officers or employees may physically inspect, examine or otherwise search any tank, reservoir, or other container that can or may be used for the production, storage, or transportation of fuel, fuel dyes, or fuel markers. Inspection may also be made of any equipment used for, or in connection with, production, storage, or transportation of fuel, fuel dyes or fuel markers. This includes any equipment used for the dyeing or marking of fuel. This also includes the books and records kept to determine excise tax liability under section 4081.

(2) Detainment. Officers or employees may detain any vehicle, train, or boat for the purpose of inspecting its fuel tanks and storage tanks. Detainment will be either on the premises under inspection or at a designated inspection site. Detainment may continue for such reasonable period of time as is necessary to determine the amount and composition of the fuel.

(3) Removal of samples. Officers or employees may take and remove samples of fuel in such reasonable quantities as are necessary to determine its composition.

(d) Refusal to submit to inspection--(1) Imposition of penalty. Any person that refuses to allow an inspection will be fined $1,000 for each refusal. This penalty is in addition to any other penalty or tax that may be imposed upon that person or any other person liable for tax under section 4081 or penalty under section 6714.

(2) Assessment of penalty. This penalty is an assessable penalty and is assessed in accordance with section 6671.

(e) Effective date. This section is effective January 1, 1994.

Par. 7. Sections 48.4101-3T and 48.4101-4T are added to read as follows:

§48.4101-3T Registration (temporary).

(a) Overview. This section provides rules relating to registration under section 4101 for purposes of the federal excise tax on taxable fuel imposed by section 4081 and the credit or payment allowed to registered ultimate vendors of diesel fuel under section 6427. This section describes persons that must be, or are allowed to be, registered; standards for qualification to be registered; and the terms and conditions of registration. A person is registered under section 4101 only if the district director has issued a registration letter to the person and the registration has not been revoked or suspended. Each business unit that has, or is required to have, a separate employer identification number is treated as a separate person. Thus, two business

units (for example, a parent corporation and a subsidiary corporation, or a proprietorship and a related partnership), each of which has a different employer identification number, are two persons.

(b) Definitions--(1) Applicant. An applicant is a person that has applied for registration under paragraph (e) of this section.

(2) Bonded registrant. A bonded registrant is a person that has given a bond to the district director under paragraph (j) of this section as a condition of registration.

(3) Gasohol bonding amount. The gasohol bonding amount is the product of--

(i) The rate of tax applicable to later separation, as described in §48.4081-6(g)(1)(iii); and

(ii) The total number of gallons of gasoline expected to be bought at the gasohol production tax rate by the gasohol blender during a representative 6-month period (as determined by the district director).

(4) Penalized for a wrongful act. A person has been penalized for a wrongful act if the person has--

(i) Been assessed any penalty under chapter 68 of the Internal Revenue Code (or similar provision of the law of any State or the District of Columbia) for fraudulently failing to file any return or pay any tax, and the penalty has not been wholly abated, refunded, or credited;

(ii) Been assessed any penalty under chapter 68 of the Internal Revenue Code, such penalty has not been wholly abated, refunded, or credited, and the district director determines that the conduct resulting in the penalty is part of a consistent pattern of failing to deposit, pay, or pay over a substantial amount of tax;

(iii) Been convicted of a crime under chapter 75 of the Internal Revenue Code (or similar provision of the law of any State or the District of Columbia), or of conspiracy to commit such a crime, and the conviction has not been wholly reversed by a court of competent jurisdiction;

(iv) Been convicted, under the laws of the United States, any State, or the District of Columbia, of a felony for which an element of the offense is theft, fraud, or the making of false statements, and the conviction has not been wholly reversed by a court of competent jurisdiction;

(v) Been assessed any tax under section 4103 and the tax has not been wholly abated, refunded, or credited; or

(vi) Had its registration under section 4101 or 4222 revoked.

(5) Related person. A person is related to an applicant if the person--

(i) Directly or indirectly exercises control over an activity of the applicant and the activity is described in paragraph (c)(1) or (d) of this section;

(ii) Owns, directly or indirectly, five percent or more

of the applicant;

(iii) Is under a duty to assure the payment of a tax for which the applicant is responsible;

(iv) Is a member, with the applicant, of a group of organizations (as defined in §1.52-1(b) of this chapter) that would be treated as a group of trades or businesses under common control for purposes of §1.52-1 of this chapter; or

(v) Distributed or transferred assets to the applicant in a transaction in which the applicant's basis in the assets is determined by reference to the basis of the assets in the hands of the distributor or transferor.

(6) Registrant. A registrant is a person that the district director has, in accordance with paragraph (g)(3) of this section, registered under section 4101 and whose registration has not been revoked or suspended.

(c) Persons required to be registered--(1) In general. A person is required to be registered under section 4101 if the person is engaged in the activity of a--

(i) Blender, as defined in §48.4081-1(d);

(ii) Enterer, as defined in §48.4081-1(g);

(iii) Refiner, as defined in §48.4081-1(o);

(iv) Terminal operator, as defined in §48.4081-1(t); or

(v) Throughputter, as defined in §48.4081-1(u)(2) (a throughputter that is a position holder).

(2) Bus and train operators. Every operator of a bus or

train is required to be registered under section 4101 at any time it incurs any liability for tax under §48.4082-4T at the bus rate (as described in §48.4082-4T(b)(3)(i)) or the train rate (as described in §48.4082-4T(b)(3)(ii)).

(3) Consequences of failing to register. For the criminal penalty imposed for failure to register, see section 7232. For the civil penalty imposed for failure to register, see section 7272.

(d) Persons that may, but are not required to, be registered. A person may, but is not required to, be registered under section 4101 if the person is engaged in the activity of--

(1) A gasohol blender, as defined in §48.4081-6(b)(3);

(2) An industrial user, as defined in §48.4081-1(l);

(3) A throughputter, as defined §48.4081-1(u)(1) (a throughputter that is not a position holder); or

(4) An ultimate vendor of diesel fuel, as defined in §48.6427-9T(a)(1).

(e) Application instructions. Application for registration under section 4101 must be made in accordance with the instructions for Form 637 (or such other form as the Commissioner may designate).

(f) Registration tests--(1) In general--(i) Persons other than ultimate vendors. Except as provided in paragraph (f)(1)(ii) of this section, the district director will register an applicant only if the district director

determines that the applicant meets the three following tests (collectively, the registration tests):

(A) The activity test of paragraph (f)(2) of this section;

(B) The acceptable risk test of paragraph (f)(3) of this section; and

(C) The adequate security test of paragraph (f)(4) of this section.

(ii) Ultimate vendors. The district director will register an applicant as an ultimate vendor of diesel fuel only if the district director--

(A) Determines that the applicant meets the activity test of paragraph (f)(2) of this section; and

(B) Is satisfied with the filing, deposit, payment, and claim history for all federal taxes of the applicant and any related person.

(2) The activity test. An applicant meets the activity test of this paragraph (f)(2) only if the district director determines that the applicant--

(i) Is, in the course of its trade or business, regularly engaged in an activity described in paragraph (c)(1) or (d) of this section; or

(ii) Is likely to be (because of such factors as the applicant's business experience, financial standing, or trade connections), in the course of its trade or business, regularly engaged in an activity described in paragraph

(c)(1) or (d) of this section within a reasonable time after becoming registered under section 4101.

(3) Acceptable risk test--(i) In general. An applicant meets the acceptable risk test of this paragraph (f)(3) only if--

(A) Neither the applicant nor a related person has been penalized for a wrongful act; or

(B) Even though the applicant or a related person has been penalized for a wrongful act, the district director determines, after review of evidence offered by the applicant, that the registration of the applicant does not create a significant risk of nonpayment or late payment of the tax imposed by section 4081.

(ii) Significant risk of nonpayment or late payment of tax. In making the determination described in paragraph (f)(3)(i)(B) of this section, the district director may consider factors such as the following:

(A) The time elapsed since the applicant or related person was penalized for a wrongful act.

(B) The present relationship between the applicant and any related person that was penalized for any wrongful act.

(C) The degree of rehabilitation of the person penalized for any wrongful act.

(D) The amount of bond given by the applicant. In this regard, the district director may accept a bond under paragraph (j) of this section, without regard to the limits

on the amount of the bond set by paragraph (j)(2) of this section.

(4) Adequate security test--(i) In general. An applicant meets the adequate security test of this paragraph (f)(4) only if the district director determines that the applicant has both adequate financial resources and a satisfactory tax history, or the applicant gives the district director a bond (under the provisions of paragraph (j) of this section).

(ii) Adequate financial resources--(A) In general. An applicant has adequate financial resources only if the district director determines that the applicant is financially capable of paying--

(1) Its expected tax liability under section 4081 for a representative 6-month period (as determined by the district director);

(2) In the case of a terminal operator, the expected tax liability under section 4081 of persons other than the terminal operator with respect to taxable fuel removed at the racks of its terminals during a representative 1-month period (as determined by the district director); and

(3) In the case of a gasohol blender, the gasohol bonding amount.

(B) Basis for determination. The determination under this paragraph (f)(4)(ii) must be based on financial information such as the applicant's income statement, balance sheet or bond ratings, or other information related

to the applicant's financial status.

(iii) Satisfactory tax history. An applicant has a satisfactory tax history only if the district director is satisfied with the filing, deposit, and payment history for all federal taxes of the applicant and any related person.

(g) Action on the application by the district director--(1) Review of application. The district director may investigate the accuracy and completeness of any representations made by an applicant, request any additional relevant information from the applicant, and inspect the applicant's premises during normal business hours without advance notice.

(2) Denial. If the district director determines that an applicant does not meet all of the applicable registration tests described in paragraph (f) of this section, the district director must notify the applicant, in writing, that its application for registration is denied and state the basis for the denial.

(3) Approval. If the district director determines that an applicant meets all of the applicable registration tests described in paragraph (f) of this section, the district director must register the applicant under section 4101 and issue the applicant a letter of registration containing the effective date of the registration. The effective date of the registration must be no earlier than the date on which the district director signs the letter of registration. A

copy of an application for registration (Form 637) is not a letter of registration.

(h) Terms and conditions of registration--(1) Affirmative duties. Each registrant must--

(i) Make deposits, file returns, and pay taxes required by the Internal Revenue Code and the regulations thereunder;

(ii) Keep records sufficient to show the registrant's tax liability under section 4081 and payments or deposits of such liability;

(iii) Make all information reports required under section 4101(d) and §48.4101-4T;

(iv) Make available for inspection on demand by the Internal Revenue Service during normal business hours records relevant to a determination of tax liability under section 4081; and

(v) Notify the district director of any change (such as a change in ownership) in the information the registrant submitted in connection with its application for registration, or previously submitted under this paragraph (h)(1)(v), within 10 days after the change occurs.

(2) Prohibited actions. A registrant may not--

(i) Sell, lease or otherwise allow another person to use its registration;

(ii) Make any false statement to the district director in connection with a submission under paragraph (h)(1) or (3) of this section; or

(iii) Make any false statement on, or violate the terms of--

(A) A notification certificate of a taxable fuel registrant (as described in §48.4081-5(b)); or

(B) A certificate of a registered gasohol blender (as described in §48.4081-6(c)(2)).

(3) Additional terms and conditions for terminal operators--(i) Records to be maintained relating to removals of diesel fuel. Each terminal operator described in §48.4081-1(t) must keep the following information with respect to each rack removal of diesel fuel at each terminal it operates:

(A) The bill of lading or other shipping document.

(B) The record of whether the fuel was dyed in accordance with §48.4082-1T(b).

(C) The volume and date of the removal.

(D) The identity of the person that received the fuel.

(E) Any other information required by the Commissioner.

(ii) Retention of information. In addition to any other requirement relating to the retention of records, the terminal operator must maintain the information described in paragraph (h)(3)(i) of this section at the terminal from which the removal occurred for at least 3 months after the removal to which it relates.

(i) Adverse actions by the district director against a registrant--(1) Mandatory revocation or suspension. The

district director must revoke or suspend the registration of any registrant if the district director determines that the registrant, at any time--

(i) Does not meet one or more of the applicable registration tests under paragraph (f) of this section and has not corrected the deficiency within a reasonable period of time after notification by the district director;

(ii) Has used its registration to evade, or attempt to evade, the payment of any tax imposed by section 4081, or to postpone or in any manner to interfere with the collection of any such tax, or to make a fraudulent claim for a credit or payment;

(iii) Has aided or abetted another person in evading, or attempting to evade, payment of any tax imposed by section 4081, or in making a fraudulent claim for a credit or payment; or

(iv) Has sold, leased, or otherwise allowed another person to use its registration.

(2) Remedial action permitted in other cases. If the district director determines that a registrant, at any time, has failed to comply with the terms and conditions of registration under paragraph (h) of this section, made a false statement to the district director in connection with its application for registration or retention of registration, or otherwise used its registration in a manner that creates a significant risk of nonpayment or late

payment of tax, then the district director may--

(i) Revoke or suspend the registrant's registration;

(ii) In the case of a registrant other than an ultimate vendor, require the registrant to give a bond under the provisions of paragraph (j) of this section as a condition of retaining its registration; and

(iii) In the case of a registrant other than an ultimate vendor, require the registrant to file monthly or semimonthly returns under §40.6011(a)-3T of this chapter as a condition of retaining its registration.

(3) Action by the district director to revoke or suspend a registration. If the district director revokes or suspends a registration, the district director must so notify the registrant in writing and state the basis for the revocation or suspension. The effective date of the revocation or suspension may not be earlier than the date on which the district director notifies the registrant.

(j) Bonds--(1) Form. Each bond given to the district director as a condition of registration under paragraph (f)(4)(i) or (i)(2)(ii) of this section must be executed in the form prescribed by the district director. Each bond must be--

(i) A public debt obligation of the United States Government;

(ii) An obligation the principal and interest of which are unconditionally guaranteed by the United States

Government;

(iii) A bond executed by a surety company listed in Department of the Treasury Circular 570 as an acceptable surety or reinsurer of federal bonds (a surety bond); or

(iv) Any other bond with security (including liens under section 4101(b)(1)(B)) considered acceptable by the district director.

(2) Amount of bond. A bond given under this paragraph (j) must be in an amount that the district director determines will ensure timely collection of the taxes imposed by section 4081, taking into account the applicant's financial capabilities, tax history, and expected liability under section 4081. The district director may increase or decrease the amount of the required bond to take into account changes in the applicant's financial capabilities, tax history, and expected liability under section 4081. However, in no case may the amount of the bond be greater than the amount that the district director determines is equal to--

(i) The applicant's expected tax liability under section 4081 for a representative 6-month period (as determined by the district director);

(ii) In the case of a terminal operator, the expected tax liability of persons other than the terminal operator under section 4081 with respect to taxable fuel removed at the racks of its terminals during a representative 1-month

period (as determined by the district director); and

(iii) In the case of a gasohol blender, the gasohol bonding amount.

(3) Collection of taxes from a bond. If a bonded registrant does not pay the amount of tax it incurs under section 4081 by the time prescribed in section 6151 for paying that tax, the district director may collect the amount of the unpaid tax (including penalties and interest with respect to that tax) from the bonded registrant's bond.

(4) Termination of bonds--(i) Surety bonds. A surety on a bond may give written notice to the district director and the bonded registrant that the surety desires to be relieved of liability under the bond after a certain date, which date must be at least 60 days after the receipt of the notice by the district director. The surety will be relieved of any liability that the bonded registrant incurs after the date named in the notice. However, the surety remains liable for the amount of tax that the bonded registrant incurred under section 4081 during the term of the bond and for penalties and interest with respect to that tax.

(ii) Other bonds. A bond (other than a surety bond) given to the district director may be returned to the bonded registrant only after the earlier of--

(A) The district director's determination that the bonded registrant has paid all taxes that the bonded registrant incurred under section 4081 during the period covered by the

bond and any penalties and interest with respect to the taxes;

(B) The expiration of the period for assessment of the section 4081 tax of the bonded registrant, as determined under the provisions of subchapter A of chapter 66 of the Internal Revenue Code, for the period covered by the bond; or

(C) The date that the district director receives from the registrant a substitute bond given under this paragraph (j).

(5) Determination that bond is no longer required. If the district director determines that the bonded registrant meets the adequate security test of paragraph (f)(4) of this section without a bond, the registrant is to be released from the obligation to give a bond as a condition of registration under section 4101.

(k) Cross references--(1) For a rule relating to the filing of monthly and semimonthly returns by certain persons that are registered under section 4101, see §40.6011(a)-3T of this chapter.

(2) For regulations relating to the gasoline tax imposed by section 4081, see §§48.4081-0 through 48.4081-8. For regulations relating to the diesel fuel tax imposed by section 4081, see §§48.4081-10T through 48.4081-12T.

(l) Effective date--(1) Except as otherwise provided in this paragraph (l), this section is effective January 1, 1994.

(2) Paragraph (c)(1) of this section (relating to persons required to be registered) is effective January 1, 1995.

(3) A registration in effect on December 31, 1993, with respect to the tax on gasoline or diesel fuel is subject to the district director's review, and to revocation or suspension, under the standards set forth in this section, but remains in effect until the earlier of--

(i) The effective date of a registration issued under paragraph (g)(3) of this section; or

(ii) The effective date of the revocation or suspension of the registration under paragraph (i) of this section.

§48.4101-4T Information reporting (temporary).

(a) In general--(1) Terminal operators. Each terminal operator described in §48.4081-1(t) must make a return showing--

(i) The name and registration number of any person that is a position holder (as described in §48.4081-1(m)) at any terminal it operates;

(ii) The identity of the position holder with respect to--

(A) All rack removals of taxable fuel from each terminal it operates, and the volume and dates of the removals; and

(B) In the case of rack removals of diesel fuel, whether the fuel was dyed at the operator's terminal in accordance with §48.4082-1T(b); and

(iii) Any other information required by the Commissioner.

(2) Throughputters. Each throughputter described in §48.4081-1(u) must make a return showing--

(i) The name and registration number of the operator of each terminal at which it holds an inventory position in taxable fuel; and

(ii) Any other information required by the Commissioner.

(3) Gasohol blenders. Each registered gasohol blender described in §48.4081-6(b)(4) must make a return showing, with respect to each batch of gasohol it produced from gasoline it bought at the gasohol production tax rate--

(i) The name and registration number of the person that sold the blender the gasoline;

(ii) The date and location of the purchase of the gasoline;

(iii) The volume of the gasoline;

(iv) The name, address, and employer identification number of the person that sold the blender the alcohol;

(v) The date and location of the purchase of the alcohol;

(vi) The volume and type of the alcohol; and

(vii) Any other information required by the Commissioner.

(b) Form and time of return. Each return required under this section must be made at the time and in the form required by the Commissioner.

(c) Consequences for failure to make a return. For the consequences for failing to make an information return required by this section, see §48.4101-3T(i) (relating to

adverse actions against a registrant) and section 6721 (relating to a penalty for failure to file an information return).

(d) Effective date. This section is effective July 1, 1994.

Par. 8. Sections 48.6427-8T and 48.6427-9T are added to read as follows:

§48.6427-8T Credit or payment with respect to diesel fuel used in a nontaxable use (other than on a farm for farming purposes or by a State or local government) (temporary).

(a) Conditions to allowance of credit or payment. A claim for credit or payment with respect to diesel fuel is allowed under this section only if--

(1) Tax was imposed by section 4081 on the diesel fuel to which the claim relates;

(2) The claimant bought the fuel and did not resell it in the United States;

(3) The claimant has filed a timely claim for a credit or payment that contains the information required under paragraph (c) of this section; and

(4) The fuel was either--

(i) Used in a use described in §§48.4082-4T(c)(3) through (11);

(ii) Exported;

(iii) Used other than as a fuel in a propulsion engine of a diesel-powered highway vehicle or diesel-powered boat;

(iv) Used as a fuel in a propulsion engine of a diesel-powered train; or

(v) Used as a fuel in the propulsion engine of an automobile bus if the bus was used in a use described in section 6427(b)(1) (after the application of section 6427(b)(3)).

(b) Form of claim. Each claim for an income tax credit under this section must be made on Form 4136, Credit for Federal Tax Paid on Fuels, or on such other form as the Commissioner may designate, in accordance with the instructions for that form. Each claim for a payment under this section must be made on Form 843, Claim for Refund and Request for Abatement, or on such other form as the Commissioner may designate, in accordance with the instructions for that form.

(c) Content of claim--(1) In general. Each claim for credit or payment under this section must contain the following information with respect to all the diesel fuel covered by the claim:

(i) The name, address, telephone number, and employer identification number of the person(s) that sold the diesel fuel to the claimant and the date(s) of the purchase(s).

(ii) A statement by the claimant that the diesel fuel covered by the claim did not contain visible evidence of dye.

(iii) A statement (which may appear on the invoice or

similar document) by the person that sold the fuel to the claimant that the diesel fuel sold did not contain visible evidence of dye.

(iv) The total amount of diesel fuel covered by the claim.

(v) The use made of the diesel fuel covered by the claim described by reference to specific categories listed in paragraph (a)(4) of this section (such as use in a boat employed in commercial fishing or use by a nonprofit educational organization).

(vi) If the diesel fuel covered by the claim was exported, a statement that the claimant has the proof of exportation described in §48.4221-3(d)(1).

(d) Time and place for filing claim. For rules relating to the time for filing a claim under section 6427, see section 6427(i).

(e) Effective date. This section is effective January 1, 1994.

§48.6427-9T Credit or payment with respect to diesel fuel sold for use on a farm for farming purposes or by a State or local government (temporary).

(a) Definitions--(1) An ultimate vendor, as used in this section, is a person that sells undyed diesel fuel to the user of the fuel (the ultimate purchaser) for use on a farm for farming purposes or for the exclusive use of any State, political subdivision of a State, or the District of Columbia.

(2) A registered ultimate vendor is--

(i) An ultimate vendor that is registered under section 4101 as an ultimate vendor; or

(ii) With respect to a claim filed before January 1, 1995, an ultimate vendor that is registered as a producer of diesel fuel on December 31, 1993, if the registration has not been revoked or suspended.

(b) Conditions to allowance of credit or payment. A claim for credit or payment with respect to diesel fuel is allowed under this section only if--

(1) Tax was imposed by section 4081 on the diesel fuel to which the claim relates;

(2) The claimant sold the diesel fuel to the ultimate purchaser for--

(i) Use on a farm for farming purposes (as defined in §48.6420-4); or

(ii) The exclusive use of a State, political subdivision of a State, or the District of Columbia;

(3) The claimant is a registered ultimate vendor; and

(4) The claimant has filed a timely claim for a credit or payment that contains the information required under paragraph (d) of this section.

(c) Form of claim. Each claim for an income tax credit under this section must be made on Form 4136, Credit for Federal Tax Paid on Fuels, or on such other form as the Commissioner may designate, in accordance with the

instructions for that form. Each claim for a payment under this section must be made on Form 843, Claim for Refund and Request for Abatement, or on such other form as the Commissioner may designate, in accordance with the instructions for that form.

(d) Content of claim--(1) In general. Each claim for credit or payment under this section must contain the following information with respect to all the diesel fuel covered by the claim:

(i) A copy of the claimant's letter of registration or, if applicable, its certificate of registration.

(ii) The name, address, telephone number, and employer identification number of each person that sold the diesel fuel to the claimant and the date of the purchase.

(iii) The name, address, telephone number, and taxpayer identification number of each farmer or governmental unit that bought the diesel fuel from the claimant and the number of gallons that the claimant sold to each.

(iv) A statement that the diesel fuel covered by the claim did not contain visible evidence of dye.

(v) The total amount of diesel fuel covered by the claim.

(vi) A statement that the claimant has not included the amount of the tax in its sales price of the diesel fuel and has not collected the amount of tax from its buyer.

(vii) For claims relating to sales by the claimant after March 31, 1994, a statement that the claimant has in its

possession an unexpired certificate described in paragraph (d)(2) of this section and the claimant has no reason to believe any information in the certificate is false.

(viii) For claims relating to sales by the vendor before April 1, 1994, either the statement described in paragraph (d)(1)(vii) of this section or a statement that--

(A) The claimant has in its possession an unexpired exemption certificate relating to tax-free sales of diesel fuel for use on a farm for farming purposes or for the exclusive use of a State, political subdivision of a State, or the District of Columbia;

(B) The certificate was received from the buyer before January 1, 1994; and

(C) The claimant has no reason to believe any information in the certificate is false.

(2) Certificate--(i) In general. The certificate to be provided to the ultimate vendor consists of a statement that is signed under penalties of perjury by a person with authority to bind the buyer, is in substantially the same form as the model certificate provided in paragraph (d)(2)(ii) of this section, and contains all information necessary to complete such model certificate. A new certificate must be given if any information in the current certificate changes. The certificate may be included as part of any business records normally used to document a sale. The certificate expires on the earliest of the

following dates:

(A) The date one year after the effective date of the certificate (which may be no earlier than the date it is signed).

(B) The date a new certificate is provided to the seller.

(ii) Model certificate.

CERTIFICATE OF FARMER OR STATE OR LOCAL GOVERNMENTAL UNIT
(To support vendor's claim for a credit or payment under section 6427 of the Internal Revenue Code.)

Name, address, and employer identification number of seller

The undersigned buyer ("Buyer") hereby certifies the following under penalties of perjury:

Buyer will use the diesel fuel to which this certificate relates either--(check one)

____ On a farm for farming purposes (as that term is defined in §48.6420-4 of the Manufacturers and Retailers Excise Tax Regulations); or

____ For the exclusive use of a State, political subdivision of a State, or the District of Columbia.

This certificate applies to the following (complete as applicable):

If this is a single purchase certificate, check here ____ and enter:

1. Invoice or delivery ticket number ____________________
2. _____ (number of gallons)

If this is a certificate covering all purchases under a specified account or order number, check here _____ and enter:

1. Effective date ______________
2. Expiration date ______________
(period not to exceed 1 year after the effective date)
3. Buyer account or order number ________________

Buyer will provide a new certificate to the seller if any information in this certificate changes.

If Buyer uses the diesel fuel to which this certificate relates for a purpose other than stated in the certificate Buyer will be liable for tax.

Buyer understands that the fraudulent use of this certificate may subject Buyer and all parties making such fraudulent use of this certificate to a fine or imprisonment, or both, together with the costs of prosecution.

____
Signature and date signed

____
Printed or typed name of person signing

____
Title of person signing

____
Name of Buyer

____
Employer identification number

____
Address of Buyer

(e) Time and place for filing claim. For rules relating to the time for filing a claim under section 6427, see section 6427(i). A claim under this section is not filed unless it contains all the information required by paragraph (d) of this section and is filed at the place required by the form.

(f) Effective date. This section is effective January 1, 1994.

PART 602--OMB CONTROL NUMBERS UNDER THE PAPERWORK REDUCTION ACT

Par. 9. The authority citation for part 602 continues to read as follows:

Authority: 26 U.S.C. 7805.

Par. 10. Section 602.101(c) is amended by adding the following entries in numerical order to the table to read as follows:

§602.101 OMB control numbers.

* * * * *

(c) * * *

CFR part or section where identified and described	Current OMB control number
* * * * *	
48.4082-2T	1545-1418
48.4101-3T	1545-1418
48.4101-4T	1545-1418
48.6427-8T	1545-[illegible]
48.6427-9T	1545-[illegible]
* * * * *	

Margaret Milner Richardson

Commissioner of Internal Revenue
Margaret Milner Richardson

Approved: Leslie Samuels

Assistant Secretary of the Treasury
Leslie Samuels

TREASURY NEWS

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

For Immediate Release
November 24, 1993

STATEMENT BY TREASURY SECRETARY LLOYD BENTSEN

The U.S. Treasury Department is taking two restructuring steps to cut our bureaucracy and better serve our customers.

First, we're moving the Savings Bonds Division into the Bureau of Public Debt, which will finally put everybody who works on savings bonds into one unit. Second, we're eliminating several political appointments from the U.S. Mint.

In both cases, we looked at the environment we're operating in, and we said it's time to change. What made sense a long time ago, doesn't make sense now.

The Bureau of Public Debt is responsible for every aspect of the savings bonds program, except marketing. The Savings Bonds Division handles that. But marketing people have no say in many things that affect sales -- like interest rates and product design.

I don't think there are many companies left in America where products are designed, engineered, built and then thrown over some wall to marketing people who are told: "Go sell this thing." Everybody has to be brought into the same room, under the same management.

The marketing strategy employed today is essentially unchanged since the program began. Marketing in the 1940s doesn't look like marketing in the 1990s. Nor does the marketplace.

For instance, we rely on many corporations to sell bonds through payroll deductions, and we still will. But the reality is that many of these corporations are shrinking, and we need to develop more over-the-counter sales and other marketing methods.

One reason the program has been so successful is the hard work and dedication of the sales force. This improved organizational structure will allow these individuals to improve their productivity through greater contact with other areas of the program.

Savings bonds are a great product. They are the most widely held security of all time. They offer the American people a secure investment opportunity, a good rate of return, and tax advantages.

LB-529

We have the goods, and with this restructuring we'll be better able to sell them and encourage Americans to save.

At the Mint, there are nine political appointments that are currently vacant. We plan to eliminate entirely five positions, and convert the remaining four to career positions. We will be sending legislation to the Hill to accomplish this.

The four field Mints in Philadelphia, Denver, San Francisco, and West Point, New York, are coin production facilities -- pure and simple. Day-to-day operations are left to plant managers, who are career civil servants with years of experience in manufacturing.

As a vestige of the days of patronage -- dating back to the Coinage Act of 1873 -- the Mints are headed by Superintendents appointed by the President and confirmed by the Senate. In addition, five other Presidential appointees reside in the field Mints.

It's time professional managers, not political appointees, run production facilities.

I hope these actions send a signal: No more business as usual.

-30-

TREASURY NEWS

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

For Immediate Release
November 24, 1993

STATEMENT OF TREASURY SECRETARY LLOYD BENTSEN
PASSAGE OF THE BRADY BILL

It's been 12 long years since the attempt on President Reagan's life that severely wounded Jim Brady and prompted this legislation. This is a victory for Jim, and for the millions of Americans across the spectrum who worked to bring about the most significant gun control measure in a quarter century. I congratulate Congress for passing this bill.

The Brady Bill by itself cannot solve the problem of guns and violence in our society. It will take more than that. But I believe that a mandatory waiting period before buying a handgun will make an important contribution. It will save lives, and it will reduce the economic drain on society that handgun violence creates.

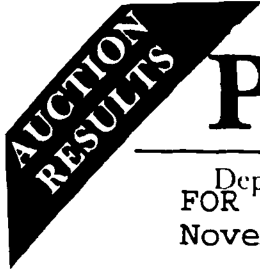
At the Treasury Department and the Bureau of Alcohol, Tobacco and Firearms we will give priority to the effective and timely implementation of this law.

Beyond the Brady Bill, we believe three important provisions of the crime bill now in a conference committee will make an additional contribution to reducing violence in America. Those provisions include important gun dealer licensing reforms, an outright ban on a number of assault weapons that are used in crimes and which have no place on our streets, and a ban on the M-39B armor-piercing bullet.

The last substantive gun control legislation was the Gun Control Act of 1968, enacted following the assassinations of President Kennedy, Sen. Robert Kennedy, and Dr. Martin Luther King. That legislation set up a licensing system, created a weapons tracing system, and restricted the importation of some weapons.

-30-

LB-530



PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
November 29, 1993

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $13,597 million of 13-week bills to be issued December 2, 1993 and to mature March 3, 1994 were accepted today (CUSIP: 912794J39).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.10%	3.17%	99.216
High	3.12%	3.19%	99.211
Average	3.12%	3.19%	99.211

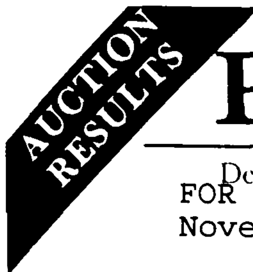
Tenders at the high discount rate were allotted 20%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$61,282,295	$13,597,313
Type		
Competitive	$56,309,397	$8,624,415
Noncompetitive	1,158,551	1,158,551
Subtotal, Public	$57,467,948	$9,782,966
Federal Reserve	3,139,630	3,139,630
Foreign Official Institutions	674,717	674,717
TOTALS	$61,282,295	$13,597,313

An additional $12,483 thousand of bills will be issued to foreign official institutions for new cash.

LB-531



PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
November 29, 1993

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $13,595 million of 26-week bills to be issued December 2, 1993 and to mature June 2, 1994 were accepted today (CUSIP: 912794K86).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.24%	3.34%	98.362
High	3.26%	3.36%	98.352
Average	3.26%	3.36%	98.352

Tenders at the high discount rate were allotted 17%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$54,950,251	$13,594,709
Type		
Competitive	$49,939,431	$8,583,889
Noncompetitive	840,537	840,537
Subtotal, Public	$50,779,968	$9,424,426
Federal Reserve	3,000,000	3,000,000
Foreign Official Institutions	1,170,283	1,170,283
TOTALS	$54,950,251	$13,594,709

An additional $21,517 thousand of bills will be issued to foreign official institutions for new cash.

LB-532

TREASURY NEWS

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

FOR RELEASE AT 2:30 P.M.
November 30, 1993

CONTACT: Office of Financing
202/219-3350

TREASURY TO AUCTION CASH MANAGEMENT BILL

The Treasury will auction approximately $4,000 million of 10-day Treasury cash management bills to be issued December 6, 1993.

Competitive tenders will be received at all Federal Reserve Banks and Branches. Noncompetitive tenders will not be accepted. Tenders will not be received at the Bureau of the Public Debt, Washington, D. C.

Additional amounts of the bills may be issued to Federal Reserve Banks as agents for foreign and international monetary authorities at the average price of accepted competitive tenders.

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

LB-533

HIGHLIGHTS OF TREASURY OFFERING
OF 10-DAY CASH MANAGEMENT BILL

November 30, 1993

Offering Amount . . . . . . $4,000 million

Description of Offering:

Term and type of security .	10-day Cash Management Bill
CUSIP number	912794 E6 7
Auction date	December 2, 1993
Issue date	December 6, 1993
Maturity date	December 16, 1993
Original issue date	December 17, 1992
Currently outstanding . . .	$48,258 million
Minimum bid amount	$1,000,000
Multiples	$1,000,000
Minimum to hold amount . .	$10,000
Multiples to hold	$1,000

Submission of Bids:

Noncompetitive bids . . . . Not Accepted

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 . . Not Accepted

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 AT 2:30 P.M.
November 30, 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 December 9, 1993. This offering will provide about $3,100 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $23,695 million.

Federal Reserve Banks hold $5,872 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 $1,916 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.

oOo

Attachment

LB-534

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED DECEMBER 9, 1993

November 30, 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 J4 7	912794 K9 4
Auction date	December 6, 1993	December 6, 1993
Issue date	December 9, 1993	December 9, 1993
Maturity date	March 10, 1994	June 9, 1994
Original issue date	March 11, 1993	December 9, 1993
Currently outstanding	$26,191 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

federal financing bank NEWS
WASHINGTON, D.C. 20220
Press 202-622-2960
FFB 202-622-2450

December 2, 1993

FEDERAL FINANCING BANK

Charles D. Haworth, Secretary, Federal Financing Bank (FFB), announced the following activity for the month of October 1993.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled $127.3 billion on October 31, 1993, posting a decrease of $1,980.8 million from the level on September 30, 1993. This net change was the result of a decrease in holdings of agency debt of $1,848.6 million, in holdings of agency assets of $0.1 million, and in holdings of agency-guaranteed loans of $132.1 million. FFB made 11 disbursements and 1 repricing in October. FFB also received 36 prepayments in October.

Attached to this release are tables presenting FFB October loan activity and FFB holdings as of October 31, 1993.

FEDERAL FINANCING BANK
OCTOBER 1993 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE
AGENCY DEBT				
RESOLUTION TRUST CORPORATION				
Note 20 /Advance #1	10/1	$30,787,710,737.98	1/3/94	3.114% S/A
GOVERNMENT - GUARANTEED LOANS				
GENERAL SERVICES ADMINISTRATION				
Foley Square Office Bldg.	10/6	$8,095,979.00	12/11/95	4.066% S/A
Foley Square Courthouse	10/15	$15,883,111.00	12/11/95	4.000% S/A
HCFA Headquarters	10/15	$3,273,168.00	6/30/95	3.844% S/A
ICTC Building	10/18	$7,385,970.20	11/15/93	3.199% S/A
Foley Square Office Bldg.	10/22	$6,801,793.00	12/11/95	4.075% S/A
Memphis IRS Service Cent.	10/22	$68,461.20	1/3/95	3.624% S/A
Oakland Office Building	10/29	$598,619.00	9/5/23	6.050% S/A
RURAL ELECTRIFICATION ADMINISTRATION				
Guam Telephone Auth. #371	10/5	$750,000.00	12/31/14	5.784% Qtr.
Alabama Electric #334	10/15	$1,426,000.00	1/3/22	5.851% Qtr.
Alabama Electric #339	10/15	$9,049,000.00	1/3/22	5.851% Qtr.
@Seminole Electric #052	10/15	$46,275.21	1/3/11	5.442% Qtr.

S/A is a Semi-annual rate: Qtr. is a Quarterly rate.
@ interest rate buydown
* maturity extension

FEDERAL FINANCING BANK
(in millions)

Program	October 31, 1993	September 30, 1993	Net Change 10/1/93-10/31/93	FY '94 Net Change 10/1/93-10/31/93
Agency Debt:				
Export-Import Bank	$ 5,794.6	$ 5,794.6	$ 0.0	$ 0.0
Resolution Trust Corporation	29,839.1	31,687.7	-1,848.6	-1,848.6
Tennessee Valley Authority	6,325.0	6,325.0	0.0	0.0
U.S. Postal Service	9,731.5	9,731.5	0.0	0.0
sub-total*	51,690.2	53,538.8	-1,848.6	-1,848.6
Agency Assets:				
FmHA-ACIF	8,908.0	8,908.0	0.0	0.0
FmHA-RDIF	3,675.0	3,675.0	0.0	0.0
FmHA-RHIF	26,036.0	26,036.0	0.0	0.0
DHHS-Health Maintenance Org.	30.9	30.9	0.0	0.0
DHHS-Medical Facilities	51.3	51.3	0.0	0.0
Rural Electrification Admin.-CBO	4,598.9	4,598.9	0.0	0.0
Small Business Administration	2.7	2.8	-0.1	-0.1
sub-total*	43,302.8	43,303.0	-0.1	-0.1
Government-Guaranteed Loans:				
DOD-Foreign Military Sales	4,077.0	4,083.4	-6.3	-6.3
DEd.-Student Loan Marketing Assn.	4,760.0	4,790.0	-30.0	-30.0
DEPCO-Rhode Island	0.0	30.4	-30.4	-30.4
DHUD-Community Dev. Block Grant	123.2	131.4	-8.2	-8.2
DHUD-Public Housing Notes	1,801.0	1,801.0	0.0	0.0
General Services Administration +	1,627.8	1,585.7	42.1	42.1
DOI-Virgin Islands	22.9	22.9	0.0	0.0
DON-Ship Lease Financing	1,528.3	1,528.3	0.0	0.0
Rural Electrification Administration	17,560.6	17,653.3	-92.7	-92.7
SBA-Small Business Investment Cos.	87.9	90.4	-2.5	-2.5
SBA-State/Local Development Cos.	572.4	576.4	-4.1	-4.1
DOT-Section 511	16.9	16.9	0.0	0.0
DOT-WMATA	177.0	177.0	0.0	0.0
sub-total*	32,354.9	32,487.0	-132.1	-132.1
grand-total*	$127,347.9	$129,328.8	$-1,980.8	$-1,980.8

*figures may not total due to rounding
+does not include capitalized interest

FEDERAL FINANCING BANK
OCTOBER 1993 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE
AGENCY DEBT				
RESOLUTION TRUST CORPORATION				
Note 20 /Advance #1	10/1	$30,787,710,737.98	1/3/94	3.114% S/A
GOVERNMENT - GUARANTEED LOANS				
GENERAL SERVICES ADMINISTRATION				
Foley Square Office Bldg.	10/6	$8,095,979.00	12/11/95	4.066% S/A
Foley Square Courthouse	10/15	$15,883,111.00	12/11/95	4.000% S/A
HCFA Headquarters	10/15	$3,273,168.00	6/30/95	3.844% S/A
ICTC Building	10/18	$7,385,970.20	11/15/93	3.199% S/A
Foley Square Office Bldg.	10/22	$6,801,793.00	12/11/95	4.075% S/A
Memphis IRS Service Cent.	10/22	$68,461.20	1/3/95	3.624% S/A
Oakland Office Building	10/29	$598,619.00	9/5/23	6.050% S/A
RURAL ELECTRIFICATION ADMINISTRATION				
Guam Telephone Auth. #371	10/5	$750,000.00	12/31/14	5.784% Qtr.
Alabama Electric #334	10/15	$1,426,000.00	1/3/22	5.851% Qtr.
Alabama Electric #339	10/15	$9,049,000.00	1/3/22	5.851% Qtr.
@Seminole Electric #052	10/15	$46,275.21	1/3/11	5.442% Qtr.

S/A is a Semi-annual rate: Qtr. is a Quarterly rate.
@ interest rate buydown
* maturity extension

FEDERAL FINANCING BANK
(in millions)

Program	October 31, 1993	September 30, 1993	Net Change 10/1/93-10/31/93	FY '94 Net Change 10/1/93-10/31/93
Agency Debt:				
Export-Import Bank	$ 5,794.6	$ 5,794.6	$ 0.0	$ 0.0
Resolution Trust Corporation	29,839.1	31,687.7	-1,848.6	-1,848.6
Tennessee Valley Authority	6,325.0	6,325.0	0.0	0.0
U.S. Postal Service	9,731.5	9,731.5	0.0	0.0
sub-total*	51,690.2	53,538.8	-1,848.6	-1,848.6
Agency Assets:				
FmHA-ACIF	8,908.0	8,908.0	0.0	0.0
FmHA-RDIF	3,675.0	3,675.0	0.0	0.0
FmHA-RHIF	26,036.0	26,036.0	0.0	0.0
DHHS-Health Maintenance Org.	30.9	30.9	0.0	0.0
DHHS-Medical Facilities	51.3	51.3	0.0	0.0
Rural Electrification Admin.-CBO	4,598.9	4,598.9	0.0	0.0
Small Business Administration	2.7	2.8	-0.1	-0.1
sub-total*	43,302.8	43,303.0	-0.1	-0.1
Government-Guaranteed Loans:				
DOD-Foreign Military Sales	4,077.0	4,083.4	-6.3	-6.3
DEd.-Student Loan Marketing Assn.	4,760.0	4,790.0	-30.0	-30.0
DEPCO-Rhode Island	0.0	30.4	-30.4	-30.4
DHUD-Community Dev. Block Grant	123.2	131.4	-8.2	-8.2
DHUD-Public Housing Notes	1,801.0	1,801.0	0.0	0.0
General Services Administration +	1,627.8	1,585.7	42.1	42.1
DOI-Virgin Islands	22.9	22.9	0.0	0.0
DON-Ship Lease Financing	1,528.3	1,528.3	0.0	0.0
Rural Electrification Administration	17,560.6	17,653.3	-92.7	-92.7
SBA-Small Business Investment Cos.	87.9	90.4	-2.5	-2.5
SBA-State/Local Development Cos.	572.4	576.4	-4.1	-4.1
DOT-Section 511	16.9	16.9	0.0	0.0
DOT-WMATA	177.0	177.0	0.0	0.0
sub-total*	32,354.9	32,487.0	-132.1	-132.1
grand-total*	$127,347.9	$129,328.8	$-1,980.8	$-1,980.8

*figures may not total due to rounding
+does not include capitalized interest

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
December 1, 1993

CONTACT: Scott Dykema
(202) 622-2960

U.S.-NETHERLANDS TAX TREATY TO TAKE EFFECT IN 1994

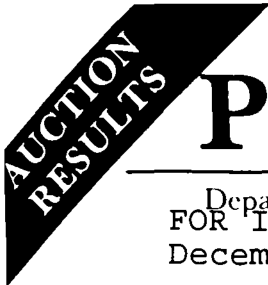
The Treasury Department announced a new tax treaty between the United States and the Netherlands will take effect January 1, 1994.

The new treaty, which the Senate approved November 20, was signed Wednesday by President Clinton. The Dutch government completed approval of the tax accord November 30.

The treaty enters into force 30 days after both governments notify each other in writing that constitutionally required formalities to approve the new tax treaty have been completed. This final step was completed Wednesday when the governments exchanged diplomatic notes. As a result, the treaty will take effect for (i.e. "have effect for") taxable years beginning on or after January 1, 1994.

Ratification of a separate protocol amending the treaty hasn't yet been completed. The protocol, signed in Washington October 13, also was approved by the Senate November 20 and signed by President Clinton Wednesday. The Dutch government expects ratification to be completed before the end of December.

-30-



PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
December 2, 1993

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 10-DAY BILLS

Tenders for $4,020 million of 10-day bills to be issued December 6, 1993 and to mature December 16, 1993 were accepted today (CUSIP: 912794E67).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	2.98%	3.03%	99.917
High	3.01%	3.07%	99.916
Average	3.00%	3.03%	99.917

Tenders at the high discount rate were allotted 66%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$35,006,000	$4,020,160
Type		
Competitive	$35,006,000	$4,020,160
Noncompetitive	0	0
Subtotal, Public	$35,006,000	$4,020,160
Federal Reserve	0	0
Foreign Official Institutions	0	0
TOTALS	$35,006,000	$4,020,160

LB-537

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release November 18, 1993

REMARKS BY THE PRESIDENT
UPON DEPARTURE

The South Lawn

11:28 A.M. EST

THE PRESIDENT: Thank you very much. Thank you, ladies and gentlemen. Thank you, Mr. Vice President.

Let me just say that I have never been involved in an effort in which there were so many diverse people working so hard with so little concern for who got the credit after the battle was over.

I thank all those who were mentioned last ..ight and were mentioned today by the Vice President. I will say again that I believe that his stunning performance in the debate on the Larry King show played a major role in our victory. (Applause.)

Now that the House has voted for the North American Free Trade Agreement, voted for America to continue to compete and win in the global economy, I want to say again how grateful I am to the members who voted with us, and how deeply I respect the opinions and convictions of those who did not and those who supported them.

It is for us now to make sure that this agreement is speedily passed by the United States Senate, and then implemented as it was intended to be implemented, with the cooperation of both labor and management to make sure that it works to the benefit of the United States and to all the working people of our country. It is also our responsibility to press on until we have the kind of education and training programs we need.

And finally, it is our responsibility to make sure that we make the most of this effort in terms of our relationships with our neighbor to the south, Mexico, the rest of Latin America, and hopefully with nations all across the world who are committed to open and free trade, to lowering the barriers that they have to our products and services and to working together for more global opportunity, jobs and growth.

Last night I called President Salinas and I told him that the Vice President and Chief of Staff McLarty would be available to go to Mexico City when NAFTA is ratified by both nations, to meet with him and his government for in-depth discussions about how best to launch this great new era in North American relations.

The President gracefully welcomed this suggestion and invited the Vice President to travel to Mexico as soon as NAFTA is approved by the United States Senate and by the Mexican Senate, which is expected to be this Tuesday.

MORE

Now I am leaving for the first ever Asian and Pacific Economic Cooperation Forum in Seattle with the strength in hand to fight for open markets throughout the world. The 15 Asian Pacific Economic Partners that I will meet are dynamic and powerful traders and competitors. From the creative tension between their nations and ours can come an economic expansion that will sustain us for years to come. The fastest growing part of the world economy is in Asia.

One thing is clear, by taking the courageous step of opening trade in our own hemisphere we have the economic, the political and the moral standing to make the case that that ought to be done throughout the world, that America is serious about lowering trade barriers and promoting growth in our country and throughout the globe.

I look forward to this trip and to continuing the fight. I will remind you again, as I have said so many times in the past, there is simply no evidence that the United States, or any other wealthy country, can grow jobs and increase incomes unless the world economy is growing and unless we have more customers for our goods and services. We took a long step in the right direction last night and I intend to take more steps on that course in the next few days in the Pacific Northwest.

Thank you very much. (Applause.)

THE WHITE HOUSE

Office of the Press Secretary
(Seattle, Washington)

For Immediate Release November 18, 1993

REMARKS BY THE PRESIDENT
UPON ARRIVAL

Boeing Field
Seattle, Washington

2:50 P.M. PST

THE PRESIDENT: Thank you very much. Thank you very much. Governor Lowry and Mayor Rice, Chairman Schronz, ladies and gentlemen. I thought I ought to bring Air Force One home. And I'm glad to be back here myself and I do love this town. Seattle has been wonderful to me. The state of Washington has been good to me. Without your support I would not have been able to take office as President and to work every day to keep the commitments I made to the American people to try to change this country for the better.

I want to thank you especially today for all the work that you and this city have done, and all the work people throughout this state have done to help this Asian Pacific Economic Cooperation meeting come off as well as sit has. Everyone says you've been a wonderful host. I thank you and your nation thanks you. (Applause.)

Frank noted that a number of my Cabinet members came here with me today, along with Congressman Norm Dicks and Heather Foley, the wife of House Speaker Tom Foley. I wanted to say also that Senator Patty Murray had planned to come home with me today. I invited her here. And I want you to know why she's not here. She's not here because she is in Washington fighting to pass a crime bill that keeps in the ban on assault weapons to make our streets safer. I'm proud of her for doing that. (Applause.)

You know, I've been to this wonderful city for many reasons. I came here as a governor to a Governors Conference. I've been here on vacation. I came here many times asking your help to become President. Today I come on a truly historic mission, for this is the first meeting ever of the leaders of the nations of the Asian Pacific Economic Cooperation group. I'll have a chance to meet with the Prime Minister of Japan, the President of China, the leaders of the other nations in this group. We'll be able to talk about regional economics and political developments. We'll be focusing on what we can do to help our own people.

Make no mistake about it: Ultimately, this meeting is about the jobs, the incomes and the futures of the American people; about exhorting American leadership in a world where there isn't a lot of growth now, so jobs are not secure, incomes are stagnant in every wealthy country on Earth. The only way we can turn this around now is to have more growth not only in America, but throughout the world.

With all of the difficulties we have today, our economy is growing more than Europe's economy. It is growing faster today than Japan's economy. Our problem in America today and Boeing's problem today is that there's not enough growth in the world economy, so people don't have enough money to buy these airplanes. And we're going to change that, beginning at this meeting for the Pacific region. I know we can do that. (Applause.)

America's workers are still the world's most productive. America can compete and win all over the world in all markets, if only given a fair chance and if there are sensible partnerships to promote growth. People cannot spend money they do not have.

So we come here today, hoping to drive down trade barriers, open up trade opportunities, and promote more growth. Seattle has long seen itself as the portal of the Pacific. Today, it is the portal to the Asian Pacific region -- the world's fastest-growing economy, the largest region in our world in terms of population, with enormous potential for American prosperity and new partnerships for peace and freedom and democracy.

Washington exports more per person than any other state in our nation. And over 80 percent of those exports go to the Asian Pacific region. You know that. You know also that Boeing is America's largest exporter, and that no country in the world better exemplifies -- no company in the world better exemplifies the potential of worldwide economic partnerships to create opportunity for people right here at home in America.

I'm proud that I worked with the Transportation Secretary and the Commerce Secretary and others in my administration to see that your aircraft get full and fair consideration in the global market. Someone sort of made fun of me the other day. They said, you know, President Clinton is almost like a rug merchant out there selling American products. Well, I'm not ashamed that I've asked other countries to buy Boeing and I'll do it again if given half the chance. (Applause.)

I was so pleased this week that Boeing reached an agreement with Gulf Air based in Bahrain to sell six of your new 777 wide-body planes with an option to purchase another six -- an agreement that could be worth $2 billion. I was pleased to read in the paper today of Boeing's agreement with Southwest Airlines. I think you all know we're working on other sales in the Middle East. And I'm also proud to say that I am delighted that Boeing was selected as the prime contractor for our America's Space Station -- something I worked hard to save from the budget axe in the last session of Congress. (Applause.) That's another global partnership because now we're going to develop that space station in partnership with the Russians in further pursuit of peace and global economic prosperity.

And finally, I want to say a special word of thanks to Congressman Norm Dicks for his initiative in getting Congress to initiate a new airlift initiative to supplement our present airlift capacity and replace some of our old planes by buying off-the-shelf commercial airlines, like the 747. I commend Norm Dicks for that initiative. It can save the Defense Department money and put people in Washington State to work. (Applause.)

I ask you here to continue your resolve in the face of adversity to be an example to the rest of our nation, that we can compete and win in this global economy.

As Frank said, and as Governor Lowry and Mayor Rice noted, we've just come through a tough fight in the Congress where good people on both sides argued about what was best for the working families of America. I did everything I could for 12 years to advance the cause of working people as a governor. I ran for president because I thought we could expand the horizons of young people and preserve the American Dream and make a strength out of our diversity in the nation as you have done in Seattle. That's why I ran.

This debate over NAFTA was very profitable, very productive, but sometimes very painful because some of the best

friends I ever had were on the other side of that debate. And they were on the other side because they were tired of seeing Americans work harder for lower wages to pay higher prices for health care, housing, and education to have less security in their basic lives. That was a genuine fear that should be honored by every person in public life today. Those are the fears we have to answer.

I disagreed on the solution because I believe that the only way a rich country can grow richer is to find more customers for its products and services. In the absence of that we cannot continue to grow.

We are getting more and more productive as we have to do to compete. But what does that mean? That means fewer people can produce more things. If fewer people produce more things and you still want more jobs at higher incomes, there must be more customers. There is no alternative.

But make no mistake about it, my fellow Americans, the fight over NAFTA shows us the best of both sides. The winning side was right; we ought to expand our trade, we've got to bring down trade barriers, we have to reach out to the rest of the world. We need a partnership, not only with Mexico, but with all of Latin America -- 700,000 million people plus in a giant trading cooperative partnership. We need that. But we also need to guarantee every American working family the education and training they need, the investment in their communities they need, the security of health care that can never be taken away, and an economic policy dedicated to growing jobs and raising incomes and benefiting the ordinary citizens of this country. That is what we have to do. (Applause.)

Our economic strategy is simple, direct, and I think correct: Put our own economic house in order, enable our people to compete and win in the global economy, and find more markets for our products and services. Just in the last 10 months the United States Congress has enacted an historic plan that has brought interest rates down to record lows, kept inflation down, increased investment, permitted millions of Americans to refinance their homes, and created more jobs in the private sector in the last 10 months than in the previous four years. It is not nearly enough, but it's a darn good beginning, and we're glad to have it. (Applause.)

We must now move on to invest in education and training and new technologies, and helping us to win from downsizing defense by converting to domestic technologies and opening the world to those markets. We can do it. And that's what this meeting is all about. So I say to you, again, you have helped America to make history here in Seattle.

The meeting of the leaders of the Asian Pacific region, if we make wise decisions and if we begin a long-term, disciplined partnership for growth and opportunity, can create jobs here and jobs across the Pacific; can raise incomes here and give hope to people who never had it all across the largest ocean on the globe. We can do this. And when we do, I hope you will always take pride in knowing that it began here in Washington, America's trading state, America's model for the future, in a town that's been awfully good to me and is now a wonderful example for the entire United States.

Thank you very much, and God bless you all. (Applause.)

END 3:02 P.M. PST

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release November 19, 1993

REMARKS BY THE PRESIDENT
TO SEATTLE APEC HOST COMMITTEE

The Spanish Ballroom
Four Seasons Hotel
Seattle, Washington

9:42 A.M. PST

THE PRESIDENT: Thank you so much for that warm welcome, and thank you, all of you, for everything you have done to make this conference of the Asian Pacific Economic Council a success. I want to thank your Governor for his leadership in coming all the way to Washington, D.C. to help me pass the NAFTA agreement and for speaking up for it, and as a leader of the state which leads America in per capita trade.

I want to thank my good friend, Mayor Rice, who heads this wonderful city which has been voted the best city in America in which to do business -- in no small measure because of your Mayor. (Applause.)

I'm glad to see my friend and former colleague, Governor Roberts, out there. I must say I sort of jumped when Governor Lowry introduced her as his neighbor to the south. I never thought of Oregon in the south before. (Laughter.) That's a lesson for this whole conference -- perspective is very important. (Laughter and applause.)

I have one member of your delegation here, Congressman Norm Dicks, who came back with me yesterday; and Speaker Foley is on the way. But I'm glad to see him here. I thank -- the Washington delegation has been enormously supportive of this administration in the cause of economic expansion, and I am very grateful for that.

Senator Murray wanted to come back with me also, but she's on the floor of the Senate even as I speak here, debating the crime bill and trying to pass it with 100,000 new police officers, and the Brady bill and an historic ban on assault weapons, which she's working hard to keep in the bill. (Applause.)

I love Seattle. I always love to come here. I called home last night and both my wife and my daughter had chewed me out because I was here and they weren't. (Laughter.) We've had some wonderful days here. This morning I got up and I went running in Green Lake Park, and I didn't turn green -- but I nearly did. It was a vigorous run. (Laughter.)

I am delighted that so many members of our administration came with me -- the Secretary of Commerce Ron Brown, my Chief of Staff Mac McLarty, and our National Economic Advisor Bob Rubin are over here to my right; but we also have the Trade Ambassador Mickey Kantor here, and the Secretary of State Warren Christopher. They've all come here to make it clear how important we believe this wonderful meeting is to our future interests, as I know you do. I'm glad to see so many of my friends here from other states in the west and, indeed, from all across America.

This organization, APEC, has historically had 15 members that together account for more than half the world's output -- Australia, Brunei, Canada, China, Indonesia, Japan, Hong Kong, Malaysia, New Zealand, the Philippines, Singapore, South Korea, Chinese Taipei, Thailand and the United States. At this meeting, we are adding Mexico and Papua, New Guinea. This will be the first time that the leaders of all of these economies have gathered together. APEC reflects the Asian Pacific values of harmony and consensus building. Our goal this week will be to do some of both.

This city is the appropriate place to have this meeting. Not only is Washington State the most trade-oriented state in the Union, but as I learned from the Governor on the way up the stairs when I asked him, 80 percent of your trade is tied to the Asian Pacific region, and 90 percent of the imports to this port in Seattle come from Asia. Over half of Boeing's planes, Microsoft's computer programs and Washington's wheat are sold abroad.

Today I want to talk with you who have done so much to make this meeting a reality about why APEC and the Asian Pacific region will play a vital role in our American quest to create jobs and opportunity and security. And I want to begin by talking about what I believe our broader purposes as a nation must be as we near the end of this tumultuous century.

Once in a great while, nations arrive at moments of choice that define their course and their character for years to come. These moments are always hard, because change is always hard, because they are steeped in controversy, because they are often full of risk. We know and regret the moments when our nation has chosen unwisely in the past such as when we turned the world toward protectionism and isolationism after World War I; or when we failed for so long to face up to the awful consequences of slavery.

We celebrate the chapters of American history in which we chose boldly -- the Declaration of Independence, the Louisiana Purchase, the containment of communism, the embrace of the civil rights movement. Now we have arrived again at such a moment. Change is upon us. We can do nothing about that. The pole stars that guided our affairs in the past years have disappeared. The Soviet Union is gone. Communist expansionism has ended.

At the same time, a new global economy, a constant innovation, and instant communication is cutting through our world like a new river, providing both power and disruption to the people and nations who live along its course.

Given the disappearance of the Soviet threat and the persistence of problems at home, from layoffs and stagnant incomes to crime rates, many Americans are tempted to pull back and to turn away from the world.

This morning, I ran with some of my friends from Seattle, and we were talking about the irony that some of us felt being so excited about this meeting and all of its promise and prosperity. And one of my friends who is a judge here was going to court to deal with candidates for parole and talking to me about all the young children who are in trouble, even in this, one of our most vibrant cities.

In times like this, it is easy to just turn away. Our people have a right to feel trouble. The challenge of the global economy and our inadequate response to it for years is shaking the moorings of middle-class security. So are the destructive social developments here at home and our inadequate response to them. But we simply cannot let our national worries blind us to our national interests. We cannot find security in a

pursue a strategy of involvement grounded in confidence in our ability to do well in the future.

Our security in this new era clearly requires us to reorder our military forces and to refine our force structure for the coming years. But our national security also depends upon enlarging the world's community of market democracies because democracies make more peaceful and constructive partners. That's why we're leading an ambitious effort to support democratic and market reforms in all the nations of the former Soviet Union.

And more than ever, our security is tied to economics. Military threats remain, and they require our vigilance and resolve. But increasingly, our place in the world will be determined as much by the skills of our workers as by the strength of our weapons; as much by our ability to pull down foreign trade barriers, as our ability to breach distant ramparts.

As President I've worked to put these economic concerns of our people at the heart of our domestic and our foreign policy. We cannot remain strong abroad unless we are strong at home. Stagnant nations eventually lose the ability to finance military readiness, to afford an activist foreign policy, or to inspire allies by their examples. You have only to look at what happened to the former Soviet Union to see that lesson writ large. It collapsed from the inside out, not from the outside in.

At the same time, creating jobs and opportunities for our people at home requires us to be engaged abroad, so that we can open foreign markets to our exports and our businesses. Today exports are the life blood of our economic growth. Since the mid-1980s, half our increases and incomes and almost all the expansion and manufacturing jobs in the United States have been tied to exports. This trend will continue. All wealthy nations, and many more than we are having difficulty creating jobs and raising incomes even when there is economic growth. Why is that? Because workers in advanced countries must become ever more productive to deal with competition from low-wage countries on the one hand, and high-skilled, high-tech countries on the other. Being more productive simply means that fewer and fewer people can produce more and more goods.

In an environment like that, if you want to increase jobs and raise incomes, the only way to do it is to find more customers for each country's product; there is no alternative. No one has yet made any convincing case that any wealthy country can lower unemployment and raise incomes by closing up its borders. The only way to do it is to expand global growth and to expand each country's fair share of global trade. This country must do both. (Applause.)

To prosper, therefore, we have to try to get all nations to pursue a strategy of growth. I have worked hard on that. For 10 years, I watched America go to these G-7 meetings and be hammered on by other nations to reduce our deficit, to stop taking money out of the global pool of investment capital, to help to contribute to global growth by showing some discipline here at home. Well, we've done that. We've done that. And now we must get our partners in Europe and Japan to also follow strategies that will promote global growth.

Much of our trade deficit problems today are the result directly of slow economic growth abroad. And this nation now is growing more rapidly than all of our wealthiest competitors. We must do that. But we must also compete, not retreat. We cannot confuse our objectives with our problems. We have no alternative, even in a time of slow global economic growth, to taking the steps to expand world trade.

MORE

We are pursuing a new global trade agreement under GATT by the end of this year. In July, we negotiated a market opening agreement at the G-7 to help advance the GATT process. That market opening agreement offers the prospect of hundreds of thousands of new jobs in the American economy.

We have placed our vital relationship with Japan on a new foundation that will allow our workers and our businesses greater access to Japanese markets when we complete the process. We have established a new dialogue for economic cooperation with Korea aimed at improving trade and the regulatory environment for the United States and other foreign businesses in that nation.

Now, after a long and difficult national debate, we're about to secure something I have fought for tooth and nail, as the previous speakers discussed, the North American Free Trade Act. I fought for NAFTA because I believe it will create American jobs, and a lot of them. And because I believe it will improve the quality of our life, and because I know it will lead us to similar agreements with the rest of the market democracies in Latin America, and because I believe that it sends a message that our hemisphere wanted to hear and that the world needs to hear: The Cold War may be over, but the United States is not about to pull up its stakes and go home. We will remain engaged in the world. (Applause.)

This, after all, is the real significance of NAFTA. It does not create a trading bloc, it is a building block in our efforts to expand world economic opportunity and global growth; and in the process, to promote jobs and opportunity for Americans.

Wednesday's vote for NAFTA enables me to begin this APEC meeting bolstered by a bold expression of America's intent to remain involved in the world. And the NAFTA vote, combined with this APEC conference greatly strengthens our push for an even bigger potential breakthrough, a new GATT agreement. I want to be clear about this -- this nation will not accept a flawed agreement, but if we can achieve one that meets our standards, the benefits to our people could be enormous.

Over the first 10 years, a good GATT agreement could create 1.4 million American jobs and boost the average American family income by $1,700 a year. Over a decade, it could expand the world's economy by $5 trillion. This, my fellow Americans, is the answer to 20 years of stagnant wages for the hard-working middle class. (Applause.)

Our willingness to fight for these initiatives -- for NAFTA, for an invigorated APEC, for a good new GATT agreement -- should make it clear to the world that America will lead the charge against global recession and the pressures for retrenchment it has created, not just here in our country, but in all the advanced nations of the world. Years from today, Americans will look back in these months as a moment when our nation looked squarely at a new economic era and did not flinch from its challenges.

As we exert our leadership in the global economy, we have to pursue a three-part strategy. We must first continue to make our economy and our people more competitive. Second, we must focus our global initiatives on the fastest-growing regions. Third, we must create new arrangements for international relations so the forces of this era benefit our people as well as our partners.

Our first challenge involves actions here at home. After years of neglect we're putting our economic house in order so we can compete and win abroad. We've enacted a sweeping deficit reduction measure that points the way back to solvency. The deficit this year was cut about $50 billion below where it was estimated to be on the day that I took office -- (applause)

MORE

-- largely because of plummeting interest rate that are directly resultant from the deficit reduction efforts.

We're investing in education and training and the knowledge and skills of our people in the technologies of the future. We're working to ensure that we have the means to adjust to a dynamic world economy. We created some special bridge programs for any workers displaced by NAFTA. And early next year, I will propose a plan to transform America's unemployment system into a reemployment system of lifetime education and training and job placement services for workers who have to change jobs many times.

Particularly as we enact NAFTA, we must recognize that we have a solemn obligation to make our involvement in international trade serve the interest of our people. That means they have to be able to adjust to change.

And if I might just add a parenthesis here to all of you who are very much future oriented, this country today is really being limited in what we can do because so many of our systems, economic and social, are organized for conditions that no longer exist. We are not organized to make the changes we all want to make.

The unemployment system is simply an example of that. The unemployment system was created at a time when the average length of unemployment was shorter than it is today, and when the average unemployed person when called back to work went back to his or her former employer, which is not the case today. So unemployment could literally be a more passive system. You could draw money out of it. Your wage would go down for awhile, but you knew you'd be called back to your old employer. That's fine for a static economy. It doesn't work for a dynamic economy where the average 18-year-old must change jobs seven times in a life time, where the average unemployed person is unemployed for longer and when most people don't get called back to the same job they gave up.

The unemployment system, in short, is now an unfair tax on employers because it doesn't function, and a rip-off for employees because it doesn't help them. Why? Because the system was organized for a reality that isn't there anymore. So what the Labor Secretary is trying to do is to set up a system where people who lose their jobs immediately, and even before they lose their jobs, if possible, begin training programs, begin job placement programs, begin thinking about what the future really holds, instead of living with a system that was yesterday's reality and is today's sham. (Applause.)

Time here does not permit this, but there are a lot of creative people in this room, and I cannot resist this opportunity to say, if you will look at the operative systems in the courts, in the juvenile system, in all the social systems in this country, in the education and training systems and in the economic arrangements of this country, you will find example after example after example after example where good, bright, creative people who know what the problems are, are struggling with organizations which thwart their ability to deal with the world as it is. This is one of our great challenges, my fellow Americans, and we must face it.

With the end of the Cold War, we're trying to open billions of dollars worth of formerly restricted high-tech goods to export markets. We're working to speed the conversion of companies, of workers, of communities from defense to commercially successful economies. With the Vice President's leadership, we're reinventing government, reducing bureaucracy. We're about to reform our health care system in ways that will relieve businesses burdened by unfairly rising costs, and provide security for families terrorized by uncertain coverage.

All these steps to make our people and our nation better prepared to thrive in this competitive economy are important. The beginning steps, while limited, are beginning to pay off. The deficit has declined. Interest rates have been at historic lows. Inflation rate remains low while investment is increasing. Housing costs have climbed for three straight months. Employment is increasing -- in the first 10 months there has been more private sector job increase than in the previous four years. To be sure, there is still much to do, but this is a good beginning. (Applause.)

The second part of this strategy must be to expand the sweep of our engagement. For decades, our foreign policy focused on containment of communism, a cause led by the United States and our European allies. I want to emphasize this here today: Europe remains at the core of our alliances. It is a central partner for the United States in security, in foreign policy, and in commerce. But as our concern shifts to economic challenges that are genuinely global, we must look across the Pacific as well as the Atlantic. We must engage the world's fastest-growing economies.

Our support for NAFTA is a recognition not only that Mexico is our closest big neighbor and a very important part of our future, but that Latin America is the second fastest-growing part of the world, and a part of the world increasingly embracing both democracy and free market economics, two things that have alluded that continent for too long. The fastest-growing region, of course, is the Asian Pacific, a region that has to be vital for our future, as it has been for our past.

A lot of people forget that we began our existence as a nation as a Pacific power. By the time of George Washington's inauguration, American ships were already visiting China. In this century, we fought three major wars in the Pacific. Thousands of our people still remain stationed in the region to provide stability and security in the armed services. And our cultural bonds are profoundly strong. There are now seven million American citizens of Asian decent.

The Asian Pacific has taken on an even greater importance as its economy has exploded. It's a diverse region spanning 16 time zones, having at least 20 different major languages, and hundreds of dialects. This is a region where many rice farmers still harvest their crops by hand and yet it is the home to the world's fastest-growing cities.

Yet amid this great diversity a distinct economy has emerged, built upon ancient cultures connected through decentralized business networks, linked by modern communications and joined by common denominators of high investment, hard work, and creative entrepreneurship.

What has happened to Asia in the past half-century is amazing and unprecedented. Just three decades ago, Asia had only eight percent of the world's GDP. Today it exceeds 25 percent. These economies are going at three times the rate of the established industrial nations. In a short time, many of these economies have gone from being dominoes to dynamos; from minor powers racked by turmoil -- (applause) -- yes, you can clap for them, it's true.

The press will ask me at the end of this speech who gave me that phrase. It came from Win Lord, our Assistant Secretary of State for Far Eastern Affairs. He also gives me good ideas, as well as good phrases. (Laughter.)

This is a hopeful time. For the first time, for the first time in this century, no great military rivalry divides the Asia Pacific region. Active hostilities have yielded to possibilities for cooperation and gain. Of course, the region still has problems and dangers. Tens of millions of Asians still

MORE

live on less than a dollar a day. There are territorial disputes, ethnic tensions, and weapons proliferation. This sudden growth has lead to serious environmental strains from smoke-choked cities to toxic dumping. And there are human rights abuses and repression which continue to affect millions of people throughout the region.

The economic explosion has been a source of anxiety for many Americans. Our workers are concerned that their jobs, their markets are being lost to Asia. Of the nations that are represented here, I believe we have a trade deficit with all but one. These trade imbalances with Japan and China alone account for more than two-thirds of our total trade deficit. And we do have a trade deficit, as I said, with virtually everyone of the nations.

Yet, ultimately the growth of Asia can and should benefit our nation. Over the past five years, our exports to everyone of these nations has increased by at least 50 percent. Much of what Asia needs to continue on its growth pattern are goods and services in which we are strong: aircraft, financial services, telecommunications, infrastructure, and others. Already, Asia is our largest trading partner. Exports account for 2.5 millon jobs here in America, to Asia. Increasing our share of that market by one percent would add 300,000 jobs to the American economy. This is an effort worth making. (Applause.)

Of course, we must continue to press the nations to be more open to our products as we are to them. We've made a good start with the economic framework agreement with Japan, and I look forward to discussing the elements of that and the progress we can make with Prime Minister Hosokawa later today.

We're also determined to work with China to eliminate its trade barriers and to raise the issue of our continuing concerns over human rights and weapons sales. I look forward to doing all that when I meet with President Jiang today, in an effort to put our relationship with China on a more constructive path, but still one that deals with all of these issues that are important to the United States.

We do not intend to bear the cost of our military presence in Asia and the burdens of regional leadership only to be shut out of the benefits of growth that that stability brings. It is not right. It's not in the long-term interest of our Asian friends. And, ultimately, it is a trade relationship that is simply not sustainable. So we must use every means available in the Pacific, as elsewhere, to promote a more open world economy through global agreements, regional efforts and negotiations with individual countries.

As we make these efforts, United States business must do more to reach out across the Pacific. I know Seattle's business community understands the potential that lies in the Asian Pacific region. But millions of our businesses do not. We cannot have customers where we are not there to make the sale. I want American businesses to see the opportunities, to hear the success stories not only here but all across the nation. I want more American businesses to follow the examples of firms like H.F. Henderson Industries in West Callwell, New Jersey, which manufactures automatic weighing systems. This small firm sales to China, South Korea, Australia, Singapore, and Hong Kong have added over two dozen jobs to its payroll of 150.

You think about that. If every company in America with 150 employees could add two dozen jobs by exports to Asia, we would have a much smaller unemployment problem in a very short time. We have to do a better job of piercing those markets even as we press for them to be open.

In July, I made my first trip overseas as President to Asia. During that trip, I proposed this leaders meeting and

described a vision of a new Pacific Community to underscore the importance we place on working for shared prosperity, for security and for democracy. As I said earlier, the Secretary of State, the Secretary of Commerce, our Trade Representative -- they've all come to Seattle, all going to give major speeches here, all going to make our presence felt. We want to be a partner with all of the other nations that are here in making this Pacific Community.

But as I said earlier about our problems here at home with the unemployment system, you could also say the same thing about the international system. We have to develop new institutional arrangements that support our national economic and security interest internationally.

If you look at the end of World War II and the success that flowed from it, that didn't happen by accident. Visionaries like Harry Truman and George Marshall, George Kennan, Dean Atcheson, Averell Harriman, worked with other nations to build institutions like NATO, the IMF, the World Bank, the GATT process. We take it for granted now. But it took them a few years to put this together. And it wasn't self-evident at the time that it had to be done. And a lot of people thought it was a waste of time or effort, and others thought that it would never work, and others thought that it wasn't even a good idea. But these people had the vision to see that collective security, expanded trade and growth around the world were in the interest of the ordinary American citizen.

We now have to bring the same level of vision to this time of change. We've done that through our vote for NAFTA. We will do so again at the NATO summit this January, where I will recommend a new partnership for peace to draw Central and Eastern Europe toward our community of security. And we're working to build a prosperous and peaceful Asian Pacific region through our work here with APEC.

This is still a young organization. I want to salute those who had the vision to establish it, such as former Australian Prime Minister Robert Hawke, and others including President Bush and those in his administration who wanted to host this regional leaders meeting in Washington State. But I want to say also that we now must imagine what this organization should be in the 21st century.

Over time, there is a lot we may be able to do through this organization that no one ever thought about before. It could become a forum for considering development priorities in Asia, for working with the Asian Development Bank to assure that all can share in the region's economic growth. It could help to focus attention on barriers to trade and growth. It could evolve into a forum for dispute resolution on economic matters.

The mission of this organization is not to create a bureaucracy that can frustrate economic growth, but to help build connections among economies to promote economic growth. Although we are still only formulating APEC's agenda, we can speculate what some of those connections might be.

This organization, for example, could help to set up common telecommunication standards so firms don't need to have a different product design for each separate country. It could help us to move toward an open skies agreement that could lower fares for airline passengers and cargo, and provide greater consumer choices over routes. It could promote solutions to the environmental problems of this populous and energy-devouring region, problems that are truly staggering today, so that we could guarantee that a polluted quality of life does not undermine a rising standard of living.

Protecting the Pacific environment also can be a particular source of American business opportunities. Asia's

purchases of environmental equipment likely will rise by $40 billion by the end of this decade. And our nation, which has pioneered many of those technologies, should be there to claim the large share of that market.

APEC can complement our nation's other efforts to open world trade. It can provide a counterbalance to our bilateral and our global efforts. If we encounter obstacles in a bilateral negotiation, we should be able to appeal to other APEC members to help us to resolve the disputes. If our efforts to secure global trade agreements falter, then APEC still offers us a way to expand markets within this, the fastest-growing region of the globe.

I expect this first meeting of APEC leaders to focus on getting acquainted and on sharing perspectives. Whatever we do must be done in a spirit of genuine partnership and mutual respect in the interest of all of the nations involved. This cannot be a United States show, this has got to be an Asian Pacific combined partnership. (Applause.)

Nonetheless, I believe it is our obligation to propose some tangible steps to move forward. We will propose that Secretary Bentsen organize a meeting of the APEC's finance ministers to advance our dialogue on the broad issues affecting economic growth. We will propose the formation of an Asia Pacific business roundtable to promote greater discussion within the region's private sectors. We will ask the leaders to endorse the establishment of an Asia Pacific education foundation to promote understanding and a sense of community among our region's young people.

These first steps are small. But we should not understate or underestimate the scope of the journey that they could begin.

Today we take for granted the importance of many institutions that seemed unlikely when they were first created. For example, we can't imagine now how we could have weathered the Cold War without NATO. In the same way, future generations may look back and say they can't imagine how the Asian Pacific region could have thrived in such a spirit of harmony without the existence of APEC. Even though this organization is in its infancy and its first leaders meeting is not intended to make decisions, we should not hesitate to think boldly about where such efforts could lead.

For this organization, these meetings and these relationships we are forging today can lead our members toward shared expectations about our common responsibilities and our common future. Even now we can begin to imagine what a new Pacific Community might look like by the end of this decade -- and that's not very far away.

Imagine an Asian Pacific region in which robust and open economic competition is a source of jobs and opportunity without becoming a source of hostility and instability, a sense of resentment or unfairness. Imagine a region in which the diversity of our economies remains a source of dynamism and enrichment, just as the diversity of our own people in America make our nation more vibrant and resilient. Imagine this region in which newly emerging economic freedoms are matched by greater individual freedoms, political freedoms and human rights; a region in which all nations -- all nations -- enjoy those human rights and free elections. (Applause.)

In such a future we could see Japan fast becoming a model of political reform as well as an economic colossus, pursuing policies that enable our economic relations to be a source of greater mutual benefit and mutual satisfaction to our peoples. We could see China expressing the greatness and power and its people and its culture by playing a constructive regional

and global leadership role while moving toward greater internal liberalization. We could see Vietnam more integrated into the region's economic and political life after providing the fullest possible accounting of those Americans who did not return from the war there.

We could even see a Korean Peninsula that no longer braces for war, but that lives in peace and security because its people, both north and south, have decided on the terms of reunification. We could see a region where weapons of mass destruction are not among the exports and where security and stability are assured by mutual strength, respect and cooperation; a region in which diverse cultures and economies show their common wisdom and humanity by joining to preserve the glory of the Pacific environment for future generations.

Such goals extend beyond tomorrow's agenda. But they must not lie beyond our vision. This week our nation has proved a willingness to reach out in the face of change to further the cause of progress. Now we must do so again. We must reach out to the economies of the Pacific. We must work with them to build a better future for our people and for theirs. At this moment in history, that is our solemn responsibility and our great opportunity. Thank you very much. (Applause.)

END 10:19 A.M. PST

Pool Report #5 11.19.93 Aumen Club

Headlines from Clinton photo op with PM Hosokawa: Clinton says he hasn't changed policy on China vis a vis supercomputer sale and weapons proliferation.
"Our policy is to try to engage China, but to be very firm with the human rights issues, to be very firm on the weapons proliferation issues. But there are 1.2 billion people in China and we don't believe we can achieve our objectives within the context of complete isolation.''

POTUS say the computer sale is sign that US is willing to work with China if "they reciprocate across a whole broad range of issues.''

Clinton applauded Japanese prime minister on "his successes in promoting political reform."

Clinton said he invited Hosokawa to US in early February to continue discussions.

In response to a question about opening up rice market, Hosokawa said he needs to successfully complete his political reforms.

Full transcript coming.

Clinton and Hosokawa sat in front of fireplace. Among those in the room were Warren Christopher, Sandy Berger, Walter Mondale, Mickey Kantor, Winston Lord.

Before the photo op, Bowman Cutter, deputy assistant to the president for economic policy and White House counselor David Gergen spoke to the pool.

They downplayed the importance of the supercomputer sale to China.

Cutter said: "The decision took into account, obviously whether or not there continued to be national security concerns, and there weren't.''

Cutter said "It is extremely unlikely'' that Clinton would discuss the computer sale with Jiang today. "We don't regard it at this point any longer of sufficient importance to do it. We only have an hour and a half.''

"The secretary of state may have discussed it earlier.''

Cutter said there was no quid pro quo.

Cutter compared the Cray computer to a Radio Shack. "They could go down to a radio shack and buy a couple of personal computers and do the same thing."

Cutter said there was nothing in the package regarding satellites.

Cutter said he thinks the computer price was $8 million.

Gergen mentioned a GM Toyota announcement that will lead to the sale of 20,000 automobiles in Japan.

"We're very pleased about this GM deal," Gergen said. "This opens up a dealership - Toyota will be selling GMs through this dealership."

this is last line

Cutter said this meeting with Clinton and Hosokawa ''is a real important meeting.'' Gergen said they will meet again February 11

Cutter said: "It is very important there be results in the three key sectors and that there be a strong macroeconomic package by then, stimulus package by then as part of the frameworks.

Cutter said in the meeting with Hosokawa Clinton will "underline his concerns at two levels - one concern is that the Japan economy begin to take up, be the second engine of growth and the U.S. economy is the only world economy that is growing right now." (sic)
Being able to accomplish that will lower their surplus and increase (inaudible.)..

"At the micro level, what he is going to underline is the principle first of all that Japan be as open as the other major industrial economies to imports and to investment. And at the same time that there be tangible results in the three specific baskets we outlined in July. Those are government procurement, autos and auto parts and life insurance.
There are now proposals on the table about a month from the U.S. government."

Cutter said Hosokawa is strengthened by the passage of his reform package. "His capacity to have some freedom of movement in general is clearly strengthened, just as NAFTA makes a world of difference to us. His capacity to deal with rice, which has been a major symbolic issue in Japan for years. And this probably doesn't affect that much.''

Cutter said he doesn't expect Hosokawa to bring up rice deal with Clinton.

On China, they said Clinton will press on three areas: human rights, proliferation and trade surplus.

Cannon
Knight-Ridder

THE WHITE HOUSE

Office of the Press Secretary
(Seattle, Washington)

For Immediate Release November 19, 1993

REMARKS BY THE PRESIDENT
AND PRIME MINISTER HOSOKAWA OF JAPAN
IN PHOTO OPPORTUNITY

North Kirkland Cutter Room
Rainier Club
Seattle, Washington

12:14 P.M. PST

Q Mr. President, having accused the Bush administration of "coddle China," what is your response to those who are upset about the computer sale and other initiatives which you are making to the Chinese?

THE PRESIDENT: That we haven't changed our policy. Our policy is to try to engage China, but to be very firm with the human rights issues, to be very firm on the weapons proliferation issues. But there are 1.2 billion people in China and we don't believe we can achieve our objectives within the context of complete isolation. And in this case, the computer sale for their weather service is something that they could get elsewhere if they didn't get it from the United States. I think it is an important indication that we are willing to work with them if they will reciprocate across a whole broad range of issues involving human rights, proliferation and trade.

And, of course, in my next meeting I'll have a chance to talk about that.

Q And, sir, what do you expect from the Japanese now? It's been a few months since Tokyo --

THE PRESIDENT: Well, first of all, let me say -- it has been a few months, but it's been a remarkable few months for Japan. I want to applaud the Prime Minister on his successes in promoting political reform. We had a very good meeting already today and we have many more things to discuss.

I have invited him to the United States and he has accepted to come in early February to continue our discussions on our bilateral economic relationships and what we can do to improve them, to deal with the trade deficit and to do a number of other things that we're trying to do. And so we're going to have another meeting in early February and we'll have more to say about that then.

But I've been very impressed, I must say, with the changes that he's making in Japan and with so much on his plate with the political issue that they still -- this government has opened its construction market more to us, something that I very much appreciate. And it's an indication that we'll be able to make more progress in the months ahead.

Q Sir, when you spoke of APEC promoting security for Asia Pacific nations, what did you have in mind? Anything along the lines of what NATO does for European security?

THE PRESIDENT: What I meant by that is I think that we all have to work together, as we are now, on the issues of concern to us. As you know, the United States is very concerned that North Korea not become a nuclear power and adhere to the Missile Technology Control Regime -- I mean, the nonproliferation of nuclear weapons issue. And we have worked very hard to try to

MORE

get our inspectors in there through IAEA. And the Japanese, and the Chinese, I might add, have been very cooperative with us and tried very hard to give us good advice and we consulted together. That's the kind of thing I think we have to do more of.

Q Can we ask the Prime Minister a question, please? Mr. Prime Minister, now that you've won your political reforms, do you think it will be possible to open up, including the rice market perhaps?

PRIME MINISTER HOSOKAWA: First of all, let me say that I haven't succeeded in completing my political reform. In the Japanese House of Counselors, the situation is more difficult. And let me give you an idea. It is something like the difficulty which was faced by the U.S. Congress recently with regard to the NAFTA issue. (Laughter.) The same level of difficulty is facing me in trying to pass political reform in the Japanese House of Counselors.

Now, with regard to the rice issue that you raised, let me point out that this is a very serious issue in Japan, and one has to be very careful in not getting this rice issue in the way of political reform.

Now, let me also say that, of course, Japan is ready to make its utmost effort to bring about the successful conclusion of the Uruguay Round. But having said all of this, I will have to continue to make and exert my best efforts in order to successfully complete Japanese political reform.

* * * * *

Q Mr. President, do you agree with the Prime Minister on the concept of the Asian Pacific Community?

THE PRESIDENT: We have some more talks to hold, but I believe we are generally in agreement that we should attempt to use this forum to broaden trade and deepen understanding and perhaps to accelerate the pace at which we can increase trade and economic growth in the region.

I must say, this is, I believe, my first opportunity to talk to the Japanese press since my United Nations speech. I have been very impressed with the work the Prime Minister and the new government have done in passing political reform -- I know it's not over yet, but it's making good progress -- and in reaching out to the United States on a number of issues. So I'm pleased with the way things are going now and very appreciative of the work the Prime Minister is doing.

Q Mr. President, is there any difference of the atmosphere of this meeting and the former meeting in September with Prime Minister Hosokawa?

THE PRESIDENT: With the meeting last September?

Q Yes.

THE PRESIDENT: I don't know how to describe it. That was also, I thought, a very good meeting. But I have an intense interest in the changes that are going on in Japan now and I am watching them with great admiration. As you know, I think, based on what I said when I was in Japan for the G-7 meeting, I strongly feel that both our nations have a lot of changes to make. And it's always difficult to make change. So I think this meeting -- there's a lot of feeling that we share a certain destiny here -- the Prime Minister working on his political reform measures, and I've been working on trying to open the trading systems through NAFTA. I really very much respect what is going on in Japan.

THE PRESS: Thank you.

END 12:25 P.M. PST

THE WHITE HOUSE

Office of the Press Secretary
(Seattle, Washington)

BACKGROUND BRIEFING
BY
SENIOR ADMINISTRATION OFFICIAL

November 19, 1993

The Ranier Club
Seattle, Washington

2:00 P.M. PST

AMBASSADOR MONDALE: The President and Prime Minister Hosokawa met for a little over an hour. They met first privately for about 20 minutes, and during that discussion they discussed NAFTA. The Prime Minister congratulated the President on that progress. And the President brought up political reform and the progress made in political reform in Japan. They discussed the political reform issue in some detail, and then the President invited the Prime Minister to come to Washington on February 11th as a part of the scheduled meetings incorporated in the framework agreement.

They discussed GATT briefly, the importance of using these two to three weeks remaining to make progress on that issue. And that was fundamentally -- basically what they discussed.

In the larger meeting they began by discussing North Korea and the importance of the United States, South Korea and Japan coordinating closely their mutual efforts to bring about change in North Korea in terms of the possibilities of developing nuclear weapons and delivery systems.

The President recounted the American position, which I think is well-known to you, that we're trying to engage the North Koreans in a way that they will permit resumed IAEA inspections of North Korea, resume a dialogue with South Korea. And I think that formulation is known to everyone here.

They discussed next the relationship of the United States with China, and the President said that we very much hope to improve relations with China. We have some issues -- trade, weapons proliferation and human rights -- that we're very serious about. We're trying to reach out to find a way of moving to improved relations with China.

Prime Minister Hosokawa said that he was encouraged by the progress in at least the nature of the dialogue as he was following it between the United States and China, and he hoped that progress could be made on that matter.

Then they discussed the framework negotiations, the so-called "basket talks" that are underway; went back to the question of meeting on February 11th to review the progress in those matters. Both spoke generally about that and both talked about the exciting development today -- announced today between G.M. and Toyota. G.M. will be distributing American-produced cars directly through, I think, some 100 Toyota retail distributors in Japan, and made a commitment to sell a certain number of cars. And both of them said this is a sign of the kind of cooperation and progress that is needed.

The President concluded his portion of the discussion by expressing his vision about developments in international economics. But I think I'll stop there and let my colleague pick up on that. And then I'll step back if you've got some more questions.

SENIOR ADMINISTRATION OFFICIAL: If I could reiterate, just underline the Toyota-G.M. deal is that it will result apparently in 20,000 more vehicles sold into Japan, which is double the amount now sold in Japan by G.M.

Let me make -- just underline the three points that the President made in stating his vision of the economic relationship between Japan and the United States as a kind of follow-on from the vision that he's been unfolding about sort of the global economy.

The first was that he wanted it to be a relationship in which the United States and Japan worked closely with Europe to develop and follow policies that will stimulate global growth. In other words, a macropoint.

The second thing he said was that he saw a day when all major industrial nations have equal openness to investment and to trade. And he said that at that point, when there is that kind of equal openness, then it would be clearly either the fault or the merit of individual companies and how they succeeded in particular competitions.

And finally, he said that he saw this framework as one that was intended to yield concrete results.

So those were the three points that he concluded the meeting with. Having said that, I'll get Ambassador Mondale back and we'll take questions.

Q -- this morning -- (inaudible) -- bilateral talked about the importance of Japan stimulating its economy. Have you heard any responses from the Japanese -- (inaudible.)

AMBASSADOR MONDALE: No, the only discussion of that in the meeting which I attended was that which my colleague mentioned. The President's description of his vision and the first element of that vision was the industrialized world harmonizing policies and, in this instance, getting the stimulation that is needed for growth. But that was the only discussion in the larger meeting.

Q -- Japan's historic resistance to importing American agricultural goods -- (inaudible.)

AMBASSADOR MONDALE: Not at the meeting I was at. They talked about GATT and the importance of making progress in GATT. The Prime Minister at the news conference -- you may have been there -- was asked about rice, and he said that it was a very, very difficult issue to be dealt with in Japan. And he mentioned that they are in the middle of a political reform fight and they would like to keep -- and thus, this issue was doubly difficult to deal with. But that was the discussion. That was on the record at the news conference.

Q Beyond talking about the need for the United States and Japan and South Korea to cooperate in trying to get North Korea in resumption of the IAEA inspections, was there a discussion on specifics such as a deadline on resumption --

SENIOR ADMINISTRATION OFFICIAL: Maybe I can go off the record a little bit. There was a question of whether there was a specific deadline. And it was pointed out that really that would depend upon circumstances; that we were worried about the deteriorating capacity to monitor developments in North Korea in the nuclear industry. This was a matter, of course, which the

IAEA handles, but they are concerned about it -- and that we hoped through diplomatic relations and discussions to solve this problem. But if the IAEA arrived at a situation where they could no longer assure the integrity of the surveillance system, then another matter might be -- a much more serious matter might be confronted by everyone.

Q Speaking of deadlines, is February 11th now more or less the deadline for finishing -- (inaudible.)

AMBASSADOR MONDALE: For the first three -- there are three baskets, as you know. One is public procurement, which is telecommunications, medical equipment, insurance, auto and auto parts. Those baskets -- those negotiations are scheduled to be completed, if I'm correct, before the February 11th meeting.

SENIOR ADMINISTRATION OFFICIAL: You're probably sick of hearing this, but if you remember, the way the discussions are intended to go is that the President and the Prime Minister will meet twice a year at the G-7 meeting, whenever it is, and then approximately halfway between that -- that for each of those, prior to each of those, there will be a sort of deputy's level meeting which we'll try to iron out any disagreements or come to conclusions. So that the February 11th meeting is the point, as Ambassador Mondale just said, is the point at which we need to begin to come to concrete results with respect to the first three areas in those baskets. But it's not the completion of the framework. There will be further discussions, and we hope that this becomes the sort of central way in which we discuss economic issues.

Q What are the other baskets besides procurement?

SENIOR ADMINISTRATION OFFICIAL: Procurement is one, and within procurement are the specifics that Ambassador Mondale just stated, which is telecommunications, medical equipment and supercomputers. The second is autos and auto parts, and the third is life insurance.

AMBASSADOR MONDALE: If I can just -- another point I had forgotten about, the President thanked Prime Minister Hosokawa for the progress that's been made in the construction industry and the new principles that have been announced. Those regulations implementing those principles have not yet been put in place, but they're important new principles, and the Prime Minister was given credit for that.

Q I just wanted to make sure I understand what you said as far as the schedule. My understanding is that January 1 deadline for the first three baskets is to be --

SENIOR ADMINISTRATION OFFICIAL: It actually never occurred to us that anybody would pose whether it slipped or not -- because the meeting was in early July, the idea would be that, roughly, every six months there would be another meeting. We never said that that was kind of an ironclad rule and that it was off track if that hadn't occurred. The President and the Prime Minister have met twice. We've had a change of prime ministers since we had that discussion. There have been ongoing discussions between all of the teams, so that we just set a meeting at what seemed to be -- not what seemed to be -- what was the most convenient time for the two of them to get together.

Q By concrete results, could you specify amounts and --

SENIOR ADMINISTRATION OFFICIAL: Well, I can't clarify it because that's sort of the topic of the negotiation. But it can mean anything from agreements with respect to specific levels of increase of imports to specific changes in law or in regulation. But concrete means concrete and specific, not conceptual.

MORE

Q (Inaudible.)

SENIOR ADMINISTRATION OFFICIAL: The U.S. has, with respect to each basket, has a proposal on the table that is currently being discussed by the team. I think that rather than get in the way -- in the middle of each of those negotiations that I'll let each of the baskets carry on with their own negotiations. But, yes, of course, we have them in mind.

Q -- Japanese -- (inaudible) -- showdown stage, and was there any discussion on the part of the Prime Minister about the Japanese ability --

AMBASSADOR MONDALE: I thought the significant thing was that the meeting began with Hosokawa raising the Korean issue. We had planned to raise it, but he raised it on his own as the first question to be discussed at the larger meeting. And his points were that we needed to be sure that trilateral cooperation was understood and pursued. We needed to see if we could find ways to engage the North Koreans. And it was in that spirit that the discussion occurred.

SENIOR ADMINISTRATION OFFICIAL: The question about timing came up here, and that was discussed. Both -- maybe I should do this off the record -- both the Prime Minister and the President hope that China would press vigorously for moderation on the part of the North Koreans. But basically, the idea here was to make certain that the consultation and close contact on these matters continued in this very difficult area.

Q So there was no indication from the Prime Minister that the Japanese felt the need to -- (inaudible.)

AMBASSADOR MONDALE: No. No, that was not discussed. That was not involved.

Q When you say off the record, you mean on background?

AMBASSADOR MONDALE: Yes. I haven't been in this field for awhile. (Laughter.) As a matter of fact, based on my many years, I don't trust either one of those -- (laughter). I thought I'd just try it for the hell of it. (Laughter.)

SENIOR ADMINISTRATION OFFICIAL: You'd be pleased to know that the reason we were laughing when we came in is that Dee Dee and Ambassador Mondale agreed that he would be on the record as Ambassador Mondale; and they both agreed that was a good thing since that was his name. (Laughter.)

AMBASSADOR MONDALE: And we agreed that my colleague would be off the record, because we don't think we can carry this burden. (Laughter.)

THE PRESS: Thank you.

END 2:14 P.M. PST

THE WHITE HOUSE

Office of the Press Secretary
(Seattle, Washington)

For Immediate Release November 19, 1993

REMARKS BY THE PRESIDENT AFTER MEETING WITH PRESIDENT JIANG OF CHINA

Rainier Club
Seattle, Washington

3:15 P.M. PST

THE PRESIDENT: Good afternoon. I have just completed a meeting with President Jiang of China, which I believe was very productive. It was an important meeting for the people of China and the people of the United States. China, after all, is home to one of every five people who live on this planet and is the world's fastest growing major economy. We have to work together on a wide range of issue of regional significance and of global significance.

President Jiang said to me in a letter that we need to talk to each other not because we have no differences, but because we do have differences and need to resolve them. Today, I tried to be as forthright and clear as I could about our common interests and about our clear differences.

We agreed on the need to work on improving our relationship. We know that what we do affects not only our own people, but all the people in the world. When we work together we're a powerful force for security and economic progress. As fellow members of the U.N. Security Council, we have worked side by side on many things, including Cambodia and Haiti.

In our meeting I reaffirmed the United States support for the three joint communiques as the bedrock of our one China policy. We agreed on the need to preserve the peace and stability of the Korean Peninsula and to work together to ensure that North Korea resolves the world's concerns over its nuclear problems.

We also discussed very frankly areas of disagreement. I emphasized to President Jiang the need for early concrete progress on aspects of China policy and practice that are of deep concern to the American people -- human rights, including Tibet, trade practices, and nonproliferation.

Over the past few months we have had a number of bilateral meetings in Beijing and Washington to explore the progress -- the possibilities for progress in these key areas. Our meeting today is a part of that ongoing process. I hope it can lead to substantial advances.

In our meeting today I especially stressed our concerns in the area of human rights. Last May I put forward key human rights conditions that must be met if Most Favored Nation status to China is to be renewed next spring.

I told President Jiang that I welcome our dialogue on human rights. I hope we can make significant progress on these issues very soon. I mentioned in particular the need for prison access by the ICRC, the question of releasing political prisoners, especially those who are sick. I particularly mentioned the case of Wang Jontao. I asked for a dialogue on Tibet with the Dalai Lama or his representatives. And I discussed the question of prison labor and the need for our

customs officials to visit other facilities as already called for in our memorandum of understanding.

In other words, on the question of human rights, I attempted to be quite specific, not implying that the United States could dictate to China or that China could dictate to the United States the general conditions or institutions of our society, but clearly recognizing that there are human rights issues that are a barrier to the full resolution of normal and complete and constructive relations between our two nations.

I also emphasized the need for progress on our trade imbalance. We discussed the needs for greater market access and for the protection of intellectual property rights. I think our trade relationships alone indicate that the United States has not attempted to isolate China, but instead has attempted to assist its movement into the global economy. After all, this year we will purchase about a third of the total Chinese exports. And we must do a better job of selling our products and services into that market.

I also stressed that we look to China to participate fully in international efforts to stem weapons proliferation. We continue to have differences on these issues. But we agreed that we should seek to resolve them through dialogue and negotiation. This is clearly in the interest of both nations.

As we approach the 21st century, the relationship between our two countries will be one of the most important in the world. I believe that my meeting today with President Jiang established our determination to build on the positive aspects of our existing relations, and to address far more candidly and personally than we have in the past the problems that remain between our two nations. I look forward to continuing that dialogue during tomorrow's APEC leaders meeting and in other ways in the coming months.

I believe we have made a good beginning. I always believe the best beginning in a challenging situation is to be as frank and forthright as possible, and I think that I did that and I believe that he did that.

Let me make just one other comment about a domestic issue, then I'll answer a couple of questions. I'd like to compliment the United States Senate in passing the crime bill today. It is absolutely imperative that we now resolve the differences between the Senate and the House bill, that we move ahead to get 100,000 police on the street as quickly as we can. It will still take several months even after the bill is signed to train the police and put them out there. It is a terribly important issue.

There are other matters in the bills, especially the boot camps, that I think are important. But I am distressed at the Senate fillibuster of the Brady bill. I know they're going to vote one more time tonight. And before they leave, I would urge the United States to pass the Brady bill -- the Senate to pass the Brady bill. It has been delayed far too long. And the attack against it that it will not solve all the gun violence in the United States ignores the fact that it will solve some of our problems by actually permitting us to do a weapons check of the criminal and mental health backgrounds of people who want to buy handguns. It will, it will turn up people who should not be able to buy guns, many of whom will have criminal records, some of whom may have outstanding warrants.

This is an important issue for our country. I understand that some people think the politics are still difficult. But clearly, it is the right thing to do. And I hope the Senate will reconsider its fillibuster and permit the majority to rule. There's plainly a heavy majority for the Brady bill. That majority should be able to carry the day.

Q Mr. President, in the photo opportunity prior to your meeting with President Jiang, he sounded reluctant to even discuss in any great detail the questions of human rights and weapons proliferation. What was his response to your concerns about those issues? And since you appear so reluctant to push China into any sort of isolation, just what do you have at your disposal to bring China around? What's your leverage there?

THE PRESIDENT: Well, first of all, I think anybody should be reluctant to isolate a country as big as China with the potential China has for good, not only good for the 1.2 billion of China who are enjoying this unprecedented economic growth, but good in the region and good throughout the world. So our reluctance to isolate them is the right reluctance.

On the other hand, I laid down a human rights policy and a policy on trade and non-proliferation that we are going to pursue: the human rights policy in the context of MFN renewal next year, and the trade and non-proliferation policies in the proper context that we are already pursuing. And I think that the leverage is not insignificant. After all, we do -- we are their major purchaser of products and services. We have been their commercial friend, as we should have been. I do not begrudge that. But we have got to have progress on these three fronts.

I would remind you these two countries have been somewhat estranged ever since Tiananman Square. And the very fact that we talked today I think is a positive sign that both of us are interested in trying to resolve our respective problems. I don't think you ever lose anything by talking to someone as long as you're honest. And I don't think there was any doubt about where the United States stands on these issues today.

Q And his response, Mr. President?

THE PRESIDENT: Well, he was -- he did engage and discuss the number of those things. I think, given the nature of the political environment in China and their historic reluctance to discuss these issues in public, the press statement that he made was consistent with their historic pattern. But I thought we began a dialogue, and that's all I think I should say today.

Q Mr. President, in your meeting with Prime Minister Hosokawa and also as you mentioned in your meeting with President Jiang, you discussed the subject of North Korea. What can you tell us about your sense of how that situation is developing, whether we're moving toward a situation in which you're going to be faced with a deadline because of the IAEA's inability to eventually continue to monitor? And what sort of assurances have you gotten from the Chinese on cooperation on that issue?

THE PRESIDENT: Well, first of all, that's precisely what we want to avoid. We want to avoid the situation where the IAEA can no longer certify that North Korea is non-nuclear. So you're in the worst of both worlds -- you don't whether it is, but you can't say that it isn't. That is what we're trying to avoid.

Secondly, you should understand that perhaps next only to South Korea, both China and Japan are deeply interested in the same objective, they do not wish to have a nuclear North Korea. And so they support the policy of trying to prevent that from happening.

All three of those countries have a great deal of sensitivity about what is most likely to bring about that result. They are worried about whether sanctions would backfire. And we have discussed with them some other options, perhaps taking a

more comprehensive approach to all the differences between us in an attempt to demonstrate again to North Korea that they have nothing to be afraid of from an honest dialogue with the South and from allowing the inspectors to come back in.

So we are looking at what some other options are now. But this is a very important issue, and the United States, I think, clearly has the responsibility to lead on this issue. And we are doing our best to do it. We are on top of it. And I know there are those who think we should have taken a different course, who think, well, maybe we just haven't been involved in this. But I would remind you that South Korea, Japan, and China are intimately interested and personally affected by those developments. And we have consulted extensively with all three of them all along the way, and we are pursuing the policy we think has the best chance of success.

Q Mr. President, in advance of this meeting, one journalist described Japan's historic posture toward the United States as one of "obsequious arrogance, namely the endless stonewalling of various trade issues. It took us no less than 22 years to get Washington apples into Japanese markets." What is your sense of the posture of the new Japanese government toward moving things on so we will not have to wait 22 years, for instance to get American rice into that market?

THE PRESIDENT: This is a different government and a different time with, I think, different objectives for the internal economy of Japan. I think that the present policy is not sustainable. On the other hand, this government was elected and this Prime Minister was elected to deal with a wide range of issues. They are working on their political reform agenda now. And I think they will conclude it soon.

The United States supports those efforts at political reform and believes that they should be encouraged. It's part of the change that is sweeping the world. After that, I believe that Prime Minister Hosokawa will move seriously on the two great economic issues that we share in common -- one is what should be done to make sure that at times like this when there's a global recession, the United States, Japan and Europe follow policies that will promote higher rates of global growth, because we can't grow unless there's a global economic growth pattern.

Secondly is, what can we do to follow up on our framework agreement in which we identified some very specific areas in which we expect mutually to work together to get real results. My vision, as I said to Prime Minister Hosokawa, for Japan is that as we move toward the 21st century, Japan will become like other great powers in terms of its openness to investment and to trade, and that together we will help to create a world of far more sustained and sustainable growth and opportunity for our own people and, in the process, for the developing nations, as well.

Q Mr. President, you just mentioned three communiques in one China policy. Does that mean somebody raised the issue of Taiwan in the bilateral meeting? And secondly, since you've visited Taiwan four times and most knowledgeable of the Taiwan issue, what you want to do in deal with U.S.-Taiwan relations?

THE PRESIDENT: I have been there many times. I've been there five times, actually. And I have been very impressed with the remarkable transformation of the country as it has gotten more prosperous and more democratic, and impressed also by the amount of investment from Taiwan into China. So it seems that the two countries are getting along on a commercial basis, even as the rest of us are confronted with political dilemmas from time to time.

We did not really discuss that today in any detail whatever. The policy of the United States on one China is the

following the Taiwan Relations Act, nor does it preclude us from the strong economic relationship we enjoy with Taiwan. There's a representative, as you know, here at this meeting. So I feel good about where we are on that. But I don't think that will be a major stumbling block in our relationship with China. I think we can work through these other things that the practical ingenuity of the Chinese people themselves seems to be at least on a course to resolve that in some form or fashion in the years ahead.

Thank you very much.

END 3:30 P.M. PST

THE WHITE HOUSE

Office of the Press Secretary
(Seattle, Washington)

For Immediate Release November 19, 1993

REMARKS BY THE PRESIDENT
IN TOAST AT WORKING DINNER WITH APEC AND BUSINESS LEADERS

Four Seasons Hotel
Seattle, Washington

8:30 P.M. PST

THE PRESIDENT: To my fellow leaders of the APEC nations and distinguished guests, we gather here tonight in Washington State at a historic moment. At least two other times during this century a great global struggle has ended and a new era has dawned. That has happened again today. It falls to each of us as it fell to leaders then to imagine and to build a new future for our people. I deeply appreciate the willingness that each of you has shown to make the long trip here to be together today.

I want to express my appreciation for the warm hospitality of the people and the elected officials of this beautiful city of Seattle in the Evergreen State of Washington. All of us in the Asian Pacific live as neighbors in a region that has long been characterized by both its commerce and its conflicts. The question for our future is whether we can reap the bounty of the Pacific without bringing it storms. There are vast differences among our economies and our people, yet these can be a great source of enrichment.

I hear the complex music of our many differing languages and I know that in each of them our words for work, for opportunity, for children, for hope carry the same meaning. I see the roots of our many ancient civilizations, whether Confuscion or Islamic or Judeo-Christian. I know there is much we can learn from each others' rich and proud cultures. Above all, I look at the perpetual motion of this region's ports, its factories, its shipping lanes, its inventors, its workers, its consumers, and I know we are all united in a desire to convert that restless energy into better lives for our people.

Tomorrow all of us will go for a day of discussion on beautiful Blake Island. I believe that discussion can help to foster among us a sense of community. Not a community of formal, legal economic integration as in Europe, but a community such as neighbors create when they sit down together over coffee or tea to talk about house repairs or their children's schools; the kind of community that families and friends create when they gather on holidays to rejoice in their common blessings. Such gatherings are not driven by charters or by-laws, but by shared interests and aspirations -- bonds that are often more powerful enduring than those which are written down.

So it is with this community I hope we can create together. We have common concerns about the conditions in our neighborhood -- about regional trade barriers, about our shared environment. We have common aspirations -- good jobs for our workers, rising standards of living for our children and peace among our nations. And now we have a common forum for pursuing our common goals. Tonight and tomorrow let us continue developing a shared sense of purpose as expansive as the ocean that unites our lands.

Our great novelist, Herman Melville, once wrote this about the Pacific Ocean. He said it rolls the midmost waters of the world, the Indian Ocean and the Atlantic being but its arms.

Thus this mysterious, divine Pacific zones the world's whole bulk about, makes all coasts bay to it, seams the tide beating of the Earth. Working as partners we have a historic opportunity to harness the tides of the Pacific so that they may lift all our people to a better future.

Tonight I ask each and every one of you hear to join me in a toast to the Pacific community -- a region at peace, prosperous and free. Hear, hear.

Thank you. (Applause.)

END 8:35 P.M. PST

THE WHITE HOUSE

Office of the Press Secretary
(Seattle, Washington)

For Immediate Release November 20, 1993

REMARKS BY THE PRESIDENT
IN STATEMENT REGARDING APEC LEADERS MEETING

Blake Island, Washington

12:45 P.M. PST

THE PRESIDENT: Good afternoon, ladies and gentlemen. As we approach the end of a week of APEC activities, we've just completed three hours of meetings among 14 APEC economic leaders. It's been a pleasure for me and an honor for the United States to host this week's events and to convene this historic meeting on this beautiful island.

The Asian Pacific region will provide an increasingly vital role for our nation and the world. The region is home to 40 percent of the world's people, include the world's fastest growing economies, and the leaders standing here represent half the world's economic output.

This week's events have been a success for all the region's peoples. We've laid a foundation for regional efforts to create jobs, raise incomes, expand business opportunities and foster regional harmony. This week we took several tangible steps toward these goals.

On Monday and Tuesday over 1,500 business people engaged in trade came together to focus on the region's potential to benefit their bottom lines. Later in the week, our ministers agreed to a package of market-opening measures designed to help bring the Uruguay Round to the GATT to a successful conclusion by December 15th. And the ministerial meeting agreed to develop an action plan in the near future to reduce barriers to business throughout our region, such as differing product standards.

The capstone of this week's activities has been this first-ever leaders meeting. Our discussions this morning, which will continue in the afternoon, give us a chance to become better acquainted and to compare our visions for our own nations and for our diverse and dynamic region. By meeting and talking we've been able to forge a stronger regional identity and a stronger purpose. That purpose is captured in the Vision Statement we just released.

The statement sets forth our shared view of a regional economy characterized by openness, cooperation, dynamic growth, expanded trade, improved transportation and communications and high-skilled, high-paying jobs. We've welcomed the challenge of the Eminent Persons Group to achieve free trade in the Asian Pacific region, advance global trade liberalization, and launch concrete specific programs to move us toward these long-term goals.

In our discussions last evening and today, I've been struck by how many priorities we share -- strong, sustainable economic growth, more open markets, better jobs, working conditions and living standards for our own people, better education for our children and our adults, and protection of the region's unique environment.

Of course, we will not always agree on how to achieve those goals. But at least now, for the first time, our

MORE

region has a means to hold serious policy discussions on such questions as how to remove trade barriers or how to sustain robust growth.

If you ask me to summarize in a sentence what we've agreed, it is this: We've agreed that the Asian Pacific region should be a united one, not divided. We've agreed that our economic policies should be opened, not closed. We've agreed to begin to express that conviction by doing everything we possibly can to get a good GATT agreement by December the 15th.

With today's meeting, we're helping the Asian Pacific to become a genuine community; not a formal, legal structure, but rather a community of shared interests, shared goals and shared commitment to mutually beneficial cooperation.

The development of that community is certainly in the interest of the American people and all the people of this region. We should be pleased with the progress we've made. And let me say again how honored I am on behalf of the United States to have had the opportunity to host all these leaders.

Thank you very much.

Q Mr. President, there was no sign of any flexibility from China in the area of -- or with Japan on the trade imbalances. Can you say, were any minds or attitudes changed during the course of this meeting?

THE PRESIDENT: You're referring to meetings that I had yesterday and discussions we had. Today I'm the host of the meeting where we discussed economic issues, and I, frankly, believe by -- I'll make you a prediction on the economic issues -- by next June or July, certainly by a year from now, I believe that the responsibilities of the United States and Japan to do more to promote global economic growth will have been in large measure advanced. And I think you will see that we've done some of the things that we should -- both of us. So today, we focused on what we could do together economically, and I think that's what I ought to respond to today.

Q Mr. President, the fact that -- representatives from Taiwan and China to join you to discuss about the issues -- I wonder, how do you find your respective vision for these areas? And in your opinion, how does this meeting affect the relationship between Taiwan and China?

THE PRESIDENT: Well, that's something for them to determine. I invited, as the host, all the members of this organization, which was the appropriate thing to do. Actually, I'm struck by how much common investment and common activity there is now, and by the common strategies of high savings and investment, hard work and entrepreneurism that are sweeping that part of the world. It is immensely impressive, I think, to anyone who has observed it.

Q Mr. President, what do you think about Malaysia's absence from this meeting. And what do you think about the EAEP -- the East Asia Economic Party?

THE PRESIDENT: Well, I'm not -- first of all, I'm in favor of anything which increases regional economic cooperation and advances the economic interests of people as long as it doesn't close off economic opportunities for others. And I wish Mr. Mahathir were here and I look forward to meeting him someday.

Q Mr. President, how serious is the situation in North Korea as a threat to this whole region? And is that something that you discussed today at the meeting?

THE PRESIDENT: We didn't discuss it today, but it was discussed yesterday. And I look forward to meeting with President Kim in Washington. He's going back to Washington and we'll be meeting there and talking about it. It is a source of concern to us, but one that we believe we can find solutions to. And we're going to be taking some initiatives in that area in the not-too-distant future.

Q Mr. President, is New Zealand now figuratively out of the cold, if not literally? Have you now restored the political relationship with New Zealand?

THE PRESIDENT: Actually, we're out in the cold today. (Laughter.)

The Prime Minister and I had a good talk about that and we agreed that we would at least take a good look at our relationship and see what else might be done. We have an awful lot in common and a lot of natural instincts toward friendship and cooperation. And I think both of us are uncomfortable with what has become of our relationship over the last several years. So we'll take another look at it; we may have something to say about it, but not today and not tomorrow.

Q Mr. President, when you are talking about NAFTA you mentioned several times Taiwan, Japan and China are the three major obstacles when you're dealing with U.S. trade deficit. A lot of people think that was not very helpful when you're trying to cooperate with Asia countries. I was wondering after this meeting --

THE PRESIDENT: Wait, wait, wait. (Laughter.) You can ask the question, but let me restate what I said.

What I said to the American people was simply the fact that they -- the people who were against NAFTA acted as if Mexico essentially was going to displace the entire industrial production of the United States, or significant portions of it. And I pointed out the fact that we have a trade surplus with Mexico, and that our largest operating trade deficits are with Japan, China and Taiwan. That's simply a fact. That's not an act of hostility, it's just a stated fact. So, go ahead, ask the question.

Q The question is, after this meeting, will you think that in the future that United States is willing to use cooperation instead of Article 301 type of trade retaliation threat to deal with these problems?

THE PRESIDENT: Well, I think, first of all, we've used Article 301 rather sparingly. And secondly, we do seek cooperation. That's the whole purpose of this meeting. That's one of the reasons that I wanted all the leaders to come here, because I think that we have so much in common in terms of our shared views about what the economy of the 21st century ought to look like, and what our roles ought to be in it that I think we can do a lot through cooperation. And we're working very hard to do that.

In the end, if we're going to develop the right kind of free market system, it is going to have to be a cooperative one. But it's going to have to be one that is plainly in the interest of all the people involved in the system. That is, everyone has to be going forward together.

Q Mr. President, how hard and fast is the December 15th deadline for successful completion of the GATT Round? It's slipped a couple of times previously. Would you be prepared to extend it if you don't have agreement by then?

THE PRESIDENT: Well, it's not entirely up to me, and, of course, we have certain legislative authority in America, as you know, that controls that.

All I can tell you is that I think we want to take this moment of opportunity that, frankly, the House of Representatives -- and I hope today that the Senate -- will give impetus to through NAFTA and that we are trying to give energy to through our meeting here and through our clear statement again that we want the Asian Pacific region to be united, not divided, economically; open, not closed; and committed to GATT. We want to seize this moment to try to get it done now. And I've always found that when you're working on an objective you shouldn't discuss what you'll do if you don't get there until after you don't get there. We still think we can be there and we're going to try.

Thank you very much.

END 12:56 P.M. PST

THE WHITE HOUSE

Office of the Press Secretary
(Seattle, Washington)

BACKGROUND BRIEFING
BY
SENIOR ADMINISTRATION OFFICIALS

November 20, 1993

Blake Island, Washington

2:00 P.M. PST

(in progress)

Q -- extension of sanctions. What I would like my colleague -- open communications -- put these set of restrictions on -- what they're doing?

SENIOR ADMINISTRATION OFFICIAL: Each delegation can brief their own delegation. First of all the meeting is still going on. We can talk about generally what President Clinton said and try to characterize more generally what others said.

SENIOR ADMINISTRATION OFFICIAL: Right, why don't you take it where we are.

SENIOR ADMINISTRATION OFFICIAL: Well, just a little bit more about the atmospherics. I think last night really was the ice-breaking event -- dinner in which you could just see the chemistry of these leaders beginning to work. The table really was too large for one conversation, so it really became a number of conversations.

But I think a feeling -- tone set by the President of informality and warmth, which I think was picked up on. At the end of the evening he gathered them all together downstairs, told them he was going dress with a leather jacket and his boots, hoped that they would all dress informally before they came out today.

The President started off this morning saying that there would be -- basically divide the discussion up into three segments. The first segment would be an opportunity for each of the leaders to talk about their general sense of priorities and challenges in the region. Then the second session, which took place after the break, dealt more with their individual domestic priorities. And then this afternoon they're talking more about things that can be done together, the mechanisms that can be used to work together more closely.

The President summed up -- spoke briefly at the outset of the session and summed up -- pulling a number of the strands of the discussion together at the end -- this morning, basically talking about the mutual responsibilities that the countries in APEC have. On the one hand, the responsibility of the developed countries, including the United States, to promote stable growth through the kinds of strategies that he has been pursuing, that other leaders in the room from developed countries spoke about.

But he also said that as we saw in the NAFTA debate, there is a sense among many Americans that the international trading system has to work more in the United States' favor, that we've had a period of increasing productivity so that we became more competitive, but that is not always creating new jobs; and that's the only way in which the industrial countries can be

MORE

creating new jobs is through two strategies: One is to be working more closely on macroeconomic policy among the larger countries, specifically mentioned Japan; and second of all, expanding markets -- that if production and productivity and growth and open markets are to continue in the developed countries, then there needs to be continued trade expansion and new customers. So the President really sought to strike that balance, I think, in his comments.

Let me just suggest three or four themes that I think have emerged from the morning generally. One is, I think, a general sense of APEC's potential. There is -- I think there's some continuum in terms of how fast these countries want to go in developing APEC, but I think there is a common view that this has been a significant step forward for APEC, for the leaders to meet together, and that they do want an Asian Pacific economic community with a small "c". That is not a European community, but a framework within which they can work on problems together, as I said before.

Second of all, the other theme is -- a second theme that emerged is the integration of the Asia Pacific region. I was stunned by a couple of statistics: 66 percent of the trade of the APEC members is among themselves, compared with about 60 percent, for example, for the European Community. This is already the most integrated region of the world economically. And I think what we're now seeing here is some institutional framework to that.

Third, I would say is the diversity. There are at least, I think, three distinct perspectives in the room. One is that developing countries, those that really are still in fairly early stages of development, have serious environmental population and poverty problems. The second is the tigers, the newly industrialized countries who are now beginning to look at the new generation of their problems; a need for infrastructure. One of the leaders said that these nations in Asia will spend a trillion dollars on infrastructure in the next 10 years -- ports and telecommunications. That's obviously enormous opportunity for the United States.

And then, finally, the developed countries, the advance countries -- we're actually, the United States, have the highest rate of growth among the developed countries who are here. They're all facing a different problem, a problem of job creation. And, again, the President's point, that requires open markets.

The last point I would say is I think there is a desire here for unity among the Asian Pacific countries. I was quite struck by one of the Asian leaders who said that he was very afraid before the NAFTA debate that there would be a line drawn down the middle of the Pacific; and that the United States was on the verge of withdrawing and retreating; and that the fact that we now are moving towards NAFTA; the fact the President had seized the leadership of this meeting reassured him that the United States was going to remain engaged in the world and there would not be a line drawn down the middle of the Pacific.

I guess the final point is that I think there was no discordant note on is the importance they all see for GATT. Now, there obviously are -- each of them would probably draft a different treaty. There are still differences on issues. But almost to a leader, they spoke of the need to complete a GATT round. It's really important to developing nations in order for them to continue to have export markets as well as for the developed nations like the United States, which need to have reduce barriers to create new markets. So I would say from the three hours this morning, those are the major themes, I think, that emerged.

SENIOR ADMINISTRATION OFFICIAL: Yes, let's go to the vision statement --

SENIOR ADMINISTRATION OFFICIAL: We're going to do it real quickly on the vision statement.

SENIOR ADMINISTRATION OFFICIAL: Let me give you a real -- picking up my colleague's point about GATT, notice in the third paragraph the commitment of leaders to have the Asia Pacific region take a leadership role, take concrete steps to produce the strongest possible outcome in Geneva. This is the first time the region is getting together as a unity and presenting some ideas in Geneva to move the process forward.

I think there are a number of important comments in the vision statement to draw attention to -- in particular where the leaders welcome the challenge that they were presented by the Persons Group to achieve free trade in Asia Pacific. Over the longer term, that's a visionary statement.

I think their agreement to have a finance ministers meeting that's going to work on promoting capital market developments has a meaning as this region integrates itself, has huge infrastructure demands that my colleague was just talking about, better capital markets, more integrated financial markets, which happen to be an area in which we're extremely competitive in financial services, go a long way toward helping to integrate the efficiency of the capital side of the economies.

Lastly, I think there's important ideas both on education. All of the leaders today talked about their focus on education both for students, children coming up through the system, but the retraining of workers and the training for new jobs as the populations adjust to the challenges of competition. So the commitment to establishing an APEC education program to develop some of these ideas will provide help over time on the training side for all 14 of the economies.

And last, they came up with the idea of a business volunteer program, which is like a jobs corps for the region as a whole, where you take some retired executives or you take existing executives and they share human capital, they share management skill and training skills with others in the region.

SENIOR ADMINISTRATION OFFICIAL: I'll tell you one thing. The President -- about six months ago, the President sent my colleague out to make the circuit of all of the countries who are here to begin to develop these kind of common themes. And so at his direction, the idea of beginning to draw this into a greater sense of common ground has been going on for about six months.

SENIOR ADMINISTRATION OFFICIAL: Could I add one other theme that I think is important -- that is the role of the private sector. I think it's fair to say everyone recognizes these are market economies and that's what make economies tick. So I think there's a common recognition that governments ought to try to remove barriers and get out of the way of the private sector.

SENIOR ADMINISTRATION OFFICIAL: Let me just go back over this, if I might, for a moment on the President's statement as he wrapped up. He talked about the kind of internal reforms he was introducing. Each one of them as they went around and talked about some of the things they were doing at home, and he went through the reforms he's undertaking that you all are familiar with. He then went on to tell them -- I've got a few quotes here -- all of us had to become -- talking about the nations -- all of us have had to become more productive in order to compete.

Then he said a few seconds later, but in the last few years, ironically, productivity has not led to more jobs and higher wages for many Americans. And he said that's true of some other industrialized countries. He pointed to the example of France, where for several years growth has actually -- growth in Germany, but unemployment in France has never gone below nine percent. He said that's one of the great challenges of the industrialized nation states.

He said, "From that I conclude wealthy countries need two things in addition to their internal reform. First, beginning with Japan, Europe and the United States, we must find ways to coordinate our macroeconomic policies to achieve more growth." And he noted that he and the Prime Minister of Japan had talked about that here in their bilateral and it was something they were working on, and he was looking forward to more conversations with him.

Secondly, wealthy countries must find ways to expand their trade, too. He talked about the fact that in the past it's been the developing nations that needed to expand their trade very rapidly as a means of growth. But given the current conditions of the wealthier countries, they need to find new markets for their products. And one of the things he's hoping to achieve here, obviously, as he was hoping to achieve through NAFTA, was a way to open markets in Asia for American products.

I wanted to come back -- there were a number of people in the room who congratulated him on NAFTA. They thought it was an important signal to the world about America's openness; they had been worried whether America was going to turn inward; and that this was an important signal to them that APEC would work as a forum because America would not be turning inward. It went to the point that my colleague was raising about the division between an Asian Pacific and an American Pacific, and that's exactly what they'd like to avoid.

Q What new ideas or pressures can this group bring to bear over the next three to four weeks that haven't been --

SENIOR ADMINISTRATION OFFICIAL: Well, a lot of these countries are agricultural producing countries -- agricultural exporting countries. They have been -- a number of them have been active in the Cairns Group, which I think now needs to become intensely active, trying to encourage the Europeans to move beyond refighting old battles over Blair House and get on the business of putting the pieces of this together.

On market access, these countries have a general interest in lower barriers. There are obviously different product mixes that we have with each of these countries, but a very, very strong commitment, and I think a great apprehension that if GATT is not completed, that the world will break into trading blocs. And I thought one of the quite interesting was no interest here in an Asian trading bloc. They very much want a multilateral trading system in which there are the building blocs as NAFTA and APEC but that are not exclusive.

SENIOR ADMINISTRATION OFFICIAL: It's also true, the very fact of meeting here today enhances the prospects of GATT.

Q I understand that, but are there any specific ideas, proposals --

SENIOR ADMINISTRATION OFFICIAL: There was a statement -- the trade ministers on Thursday or Friday announced a package of measures on market access. I'm not really familiar enough to brief on it, but there was a pretty significant market access announcement that came out of this meeting.

Q Why is there encouragement that this could have any effect now --

SENIOR ADMINISTRATION OFFICIAL: I think it gives it momentum. And I think deadline -- there's never been a trade agreement in the history that I'm aware of that has not been completed with a back against the wall of a deadline.

Q -- discussion on MFN -- and what impact that would have on the --

SENIOR ADMINISTRATION OFFICIAL: There was no discussion in this meeting of that. There were not -- discussions were not about bilateral relationships as much as they were about multilateral -- regional --

Q In the past, U.S. officials had suggested that the Japanese make concessions on the agriculture side that could help break the logjam as far as the Europeans are concerned. Was there any --

SENIOR ADMINISTRATION OFFICIAL: Again, not today, but this is certainly something the President raised with Prime Minister Hosokawa yesterday.

Q Was there any indication or any given --

Q The President was talking something about by June or July --

SENIOR ADMINISTRATION OFFICIAL: I didn't -- he was mentioning -- his reference about June or July had to do with macroeconomic. He was asked on building stronger growth rates.

SENIOR ADMINISTRATION OFFICIAL: I think -- I'm sorry -- right now Hosokawa is engaged in putting -- he's in his NAFTA battle, political reform, which he has said he will have by the end of the year. When he is done with that we would hope that they would turn very strongly to a strong economic agenda, both macro and micro.

Q The U.S.-Japan set up the framework last July, they said they would have agreements early this year and a program by next July.

SENIOR ADMINISTRATION OFFICIAL: The other thing I would just say, like Japan, if I could, is that the February 11th meeting, I think, is really important, something we wanted to happen here, because this was never seen -- this is part of APEC -- this was never seen as part of the framework discussions. But now setting a February 11th meeting date between the President and Hosokawa becomes an action forcing event in terms of the framework negotiations.

Q -- said something yesterday about negotiating rice in connection with the GATT Round. Is there any indication --

SENIOR ADMINISTRATION OFFICIAL: We certainly hope so.

Q -- (inaudible) --

SENIOR ADMINISTRATION OFFICIAL: This was never -- and I think we were all very straightforward about this, leading up to this. This was not intended, expected, anticipated to be a negotiating meeting in which, like the G-7, you come away with very, very substantial outcomes. I predict that 15 years from now, looking back on this meeting, will be far more significant than looking back on the -- any particularly G-7 summit meeting, because I think what is beginning to happen is the evolution of a

mechanism for cooperation in Asia, which has never existed before.

Q You said that you were hoping that the Japanese will begin to deal with the economic issues after they get the political reform out of the way. Is that your hope alone, or did the Japanese, did Mr. Hosokawa, actually tell you, don't worry, let me get through this, and it will be all right, and I will begin to deal with these issues?

SENIOR ADMINISTRATION OFFICIAL: Well, we think that he ought to deal with these issues -- he has said publicly in Japan that he think there needs to be economic -- substantial economic stimulus. But he has a Diet right now that is, over the next two or three weeks, in the House of Counselors, focused very much on political reform. So it's just like any other political situation where he's got to get that major piece of legislation through. I mean, we're talking about over the next three or four weeks.

Q Is it fair to say that the President wants to move faster on the beginning of Asia Pacific cooperation as many of the other countries do, especially with regard to specific goals for free markets?

SENIOR ADMINISTRATION OFFICIAL: I'll give my answer and then -- I think there is a range -- we didn't start APEC. APEC was -- this is an organization that was started by ASEAN and by Prime Minister Hawke, President Bush, Secretary Baker. And so it's been evolving since '89. My sense is that most of the people in that room want this to be a mechanism for serious cooperation, although not a trading -- not a community with a capital "c".

Q Why not?

SENIOR ADMINISTRATION OFFICIAL: Let me see if my colleagues have a different take --

SENIOR ADMINISTRATION OFFICIAL: In the first place, APEC is a consensus organization. You can show leadership and move it but you're going to have to take into the account the views of others. Secondly, it's only four years old. Thirdly, it's incredibly diverse. If you look at the people representing it -- it's such an historic event that such diverse cultures, histories and countries could agree on certain principles like free market and freer trade over time. So I think that's why the vision statement is so important. More specifically, you have some countries like Australia that want to go faster, some countries like some of the smaller ones -- not every one in every case -- some of the smaller ones would rather go slower.

Q I get the feeling from listening to you and the President and reading the vision statement that political differences and concerns and reservations are totally put aside in trying to generate a mechanism to enhance economic cooperation. Is that the case?

SENIOR ADMINISTRATION OFFICIAL: APEC is an economic operation --

Q I understand that, but there's still bilateral relationships --

SENIOR ADMINISTRATION OFFICIAL: Absolutely.

Q -- and political differences.

SENIOR ADMINISTRATION OFFICIAL: And we have extraordinarily important bilateral security interests with almost every one of the countries in that room. With some we have security pledges and security agreements. With some we have

political problems. The fact that there is a range of political relationships does not mean that we can't come together to find some areas of mutual interests --

Q So you put them aside, in other words, right -- for the purposes of promoting economic cooperation?

SENIOR ADMINISTRATION OFFICIAL: We've had bilateral meetings this week that address those kinds of questions. This is a different kind of meeting. This is talking about the future.

Q Let me ask specifically, how much would a suspension of Most Favored Nation trade status for China undermine what went on here this weekend?

SENIOR ADMINISTRATION OFFICIAL: It obviously would be an important step. But we have made it very clear to the Chinese that there are certain things that need to be done. We believe these steps can be taken. We believe they're reasonable. And I'm hopeful that they will be taken.

SENIOR ADMINISTRATION OFFICIAL: -- goes directly to this question about why -- this meeting does not put aside political differences. APEC does not do that.

Q -- (inaudible) --

SENIOR ADMINISTRATION OFFICIAL: I understand that, but there are bilateral concerns that go along with that, too.

Q Could you answer the question of what MFN means to the United States? I mean, let's say the Chinese disappoint you with -- it's not possible for you to renew status, and then Germany other countries continue to go and get these lucrative infrastructure contracts. What does it mean --

SENIOR ADMINISTRATION OFFICIAL: I'm not going to speculate on what happens if.

Q But it's -- how bad is it?

SENIOR ADMINISTRATION OFFICIAL: It's important to us that we have the progress the President has talked to in the human rights area so that we can continue an important economic relationship and build on the relationship in other areas as well.

SENIOR ADMINISTRATION OFFICIAL: Can I just go to the skepticism that's coming out of some of these questions? I just think you ought to understand coming into this kind of thing -- you come back and say, well, you didn't get this -- why didn't you come home with a deal on China?

The fact that these nations are here, talking this way to the United States, that these nations want the United States to remain engaged in the Pacific, they want the United States there for security reasons, for economic reasons, for a lot of other reasons. That's what -- they're here to encourage the United States to remain engaged. They also want access to our markets. You ought to judge this over a period of time as you think about what the prospects here are. This is the beginning of trying to create a mechanism, a forum.

What a lot of these nations said today, what the leaders said today was that they welcomed the President's statement last night about creating a community with a small -- in a sense of a family. It was not European Community capital,

important. These folks want to try to work this out. This was what I'm coming away from the conversations with.

Q Yesterday the President seemed to say in his speech is that there was a hint of this, that the U.S. wants to continue to be involved in a security sense, but he seemed to question to be saying, well, maybe we will not continue to be strategically involved unless we get a piece of the action economically. Was that misinterpreted?

SENIOR ADMINISTRATION OFFICIAL: No, I think that's a little bit overinterpreted. I think the President said we have had an important security relationship in this region, one that, by the way, has been mutually beneficial, and it's not just simply that we're doing that totally magnanimously, and that we -- as my colleague said, our presence in Asia is a force of stability. They don't want us to pull out of Asia in security terms and then face the kind of rivalries they have faced between Korea and Japan and China. The United States is a stabilizing influence and it's in our interest for there to be a stable Asia. And the President was not at all suggesting we're not about to do that. What he was saying is that we also want to share in the economic benefits as well.

Q So he's using it as leverage?

SENIOR ADMINISTRATION OFFICIAL: Well, I don't know if I would call it leverage. He's saying -- our trade to every one of these countries has increased 50 percent last year to every one of these countries or more. And we've got to do even better than that. They've got to deal with trade barriers, we've got to become more competitive. The fact that we have American business out here this week with us, it's not all government-to-government. There are 2,000 businesspeople here in Seattle. We haven't been as Asia-oriented as a private sector as have other countries. That's certainly -- and Japan has moved much more aggressively into Asian markets.

So part of what is happening here today is saying to the American people there is a vast, dynamic economy in Asia, and we had better be paying more attention to it, and there are opportunities out there. A trillion dollars of infrastructure projects -- that's telecommunications -- that's the stuff we do very well. That's port construction, that's all of the things that the United States is -- airplanes, ports -- that we're very competitive on. There are a lot of opportunities.

MS. MYERS: We need to wrap this up because I think they need to send the first boat back.

Q Why isn't the very fact of this meeting a threat to Europe? Why shouldn't Europe think that this is holding their feet to fire on GATT?

SENIOR ADMINISTRATION OFFICIAL: We're still more of a threat to Europe than Europe '92 was a threat to the rest of the world. We are trying to develop our market to the south, we're trying to develop our markets to the east, but ultimately, the solution is a GATT agreement in which you have a stronger multilateral trading system. And Europe has to understand that. We're deeply committed to it. I think these people are deeply committed to it. I think that most people in Europe are deeply committed to it. That's going to be the reason why we don't evolve into regional trading blocs.

Q You said there's a range of interest in the speed. Is China in the "go slow" group?

SENIOR ADMINISTRATION OFFICIAL: I'll get to that. But I'd like to underline the other senior official said. I want to beseech you to sort of step back and look at this event. This has never happened in the history of this region -- where 15, 20

leaders head together. It was proposed only a few months ago by the President. Indeed, there was no time nor any desire to try to construct some huge communique. The idea was quite the opposite, to start a project -- and really it's quite significant that countries ranging from China to Singapore, from Brunei to Japan, were sending their leaders here on three months notice to get together, with incredible diversity, and yet they can agree on a general vision for the future that has some real meaning. So this, to me, is the story of this day, and that's why there are other senior officials talking about looking back in a few years.

This is the first meeting of its kind, and put together in three or four months. That shows a sense of open dynamism in this region. And I think that's the story.

SENIOR ADMINISTRATION OFFICIAL: I agree. Can I just add one bit of color? Let me just add one bit of color on that. This is also giving these leaders a chance to talk a bit about their own countries to each other. Coming over in the boat with the President was interesting. They were just chatting. They weren't talking much economics, they were talking about what was going on in their own countries.

You know, we spent a fair amount of time talking about our respective health care systems and how each one was handling health care. He said there was also a conclusion by several -- several people talked about one of the problems of modern societies is how rule-oriented they've become, the excess number of rules. And they said it was interesting, the Chinese talked about the excess number of rules. And there was a general feeling -- so this was an opportunity to talk about -- get to know each other in ways that I find quite different from what we used to see during the Cold War period when it was all military and security. People are talking about these social systems now in interesting ways.

THE PRESS: Thank you.

END 2:45 P.M. PST

THE WHITE HOUSE

Office of the Press Secretary
(Seattle, Washington)

For Immediate Release November 20, 1993

REMARKS BY THE PRESIDENT IN PHOTO OPPORTUNITY UPON DEPARTURE FROM BLAKE ISLAND

Blake Island, Washington

3:05 P.M. PST

Q Mr. Clinton, are you pleased at the outcome of today's meeting?

THE PRESIDENT: Yes, and we agreed to meet again next year in Indonesia.

Q When you look back on this how will you --

THE PRESIDENT: I think 10 years from now people will look back on this meeting as a very historic meeting because we agreed to meet and then we agreed to meet again next year to work on a number of issues of mutual concern to our people. I think this is really the assurance that the people need that our region will remain unified and committed to an open economy.

Q Standing here with leaders of the Pacific Rim, what's your message to the European Community?

THE PRESIDENT: That we want them to be part of an open economy, too. This is not an exclusive operation. We want the Asia Pacific Community to be united, but not closed; united, but open. And what we want to say to Europe is we're committed to doing everything we can to get a good GATT agreement between now and December 15th; we want your help, let's do it.

Q What about us? (Laughter.)

THE PRESIDENT: I thought it was the pool --

Q No, no --

THE PRESIDENT: -- in Indonesia. President Soeharto has invited us to meet in Indonesia next year. We decided to do it. We agreed on a number of very specific things that we would work on over the coming year. And the message again is that we want this community to be united, not divided; and open, not closed.

I was asked a question over there, "What's the message to Europe?" The message to Europe is we want this to be a united but open community and we want Europe to work with us to get a good GATT agreement by the end of the year. That's the message we want to send to our European friends. We don't want an exclusive trading bloc, we want them to join us in a new world trading system.

Q Do you feel these countries are all as open to the United States as you'd like them to be?

MORE

THE PRESIDENT: Well, we talked about that. That's one of the reasons that we're meeting here so that we can do more business with each other. And we talked about some specific things we might do to work toward that -- the development of some non-binding, but agreed upon principles for investment and access; the development of some technology transfer programs that could really help the United States in working with other countries with severe environmental problems, for example.

So we have made the commitments that I think we need to make at this meeting to move to a position where this community will be an even better thing for the United States to be a part of on terms that everyone can win on. So we're very hopeful. But the first thing we hope we can do is get a new world trade agreement by the end of the year.

Q So will this be an annual event, the leaders of the APEC --

THE PRESIDENT: Well, no -- it's going to happen twice. You'll see us next year. We'll see if we'll decide to do it again. (Laughter.) Now we're all going to Jakarta. This will be -- for the Americans it will be interesting. Sign up for the trip now. (Laughter.)

Q -- difficult for you to communicate from various areas of Asia Pacific area -- is it difficult for you to communicate to us naturally or a very comfortable situation?

THE PRESIDENT: Oh, I think it's like all other human relations -- the more we're together the more natural it is. It got better as it went along. Like life. (Laughter.)

END 3:10 P.M. PST

THE WHITE HOUSE

Office of the Press Secretary
(Pasadena, California)

For Immediate Release November 21, 1993

REMARKS BY THE PRESIDENT
TO U.S. COAST GUARD PERSONNEL

Pier 36
Seattle, Washington

4:59 P.M. PST

THE PRESIDENT: Thank you very much. This is a warm reception in more ways than one. (Laughter.) And after a cold day on the boat, it's a wonderful thing to behold.

I want to thank Admiral Lockwood and Captain Murray, and all the men and women of the Coast Guard for the wonderful assistance that I have received today and that our nation receives every day.

The Blake Island meeting I think was a great success. Indeed, these have been a good few days for the United States. We had the leaders of 14 of the Asian Pacific nations here in Seattle for a couple of days. We represent 40 percent of the world's people, half the world's economy, the fastest growing economies in the world. And I can tell you that the spirit of this meeting was incredibly positive -- people believing that we had to reach out even more to one another; we had to lower our barriers; we had to make it possible for all of us to grow in peace and harmony and prosperity. It's the sort of thing that people join the Coast Guard of the United States to make sure happens. And you should feel very good about it.

And, of course, when the Congress -- the House of Representatives passed the North American Free Trade Agreement the other night, you say, well, what in the world -- you say that's about Mexico and Canada -- what does that have to do with all these other countries?

The Prime Minister of Singapore got up in our meeting and he said, "I don't know what would have happened if Congress had voted that treaty down because the rest of us would have thought that America was going to turn away from the world. We would have said that you weren't going to be there." (Applause.)

Instead you had the President of Korea, the President of the Philippines, you had the President of Indonesia, the Prime Minister of Thailand, all these people saying, "We want you to be involved in our future. We want the future of Pacific to be a united Pacific, not a divided Pacific. We want it to be an open future, not a closed future. We want our diversity to be a source of strength."

Even in our differences, we found a way to talk. As you know, the discussion I had with the President of China was the first discussion that the leader of the United States has had with the leader of the world's most populous country and the fastest growing economy on the Earth since the unfortunate incidents at Tiananmen Square. So we began at least to have a conversation about our differences as well as what we have in common. This was a remarkable meeting.

To have the Prime Minister of Japan, a genuine reformer, a person who is committed to changing his country in the way it relates to the rest of the world, including the United

... -- the other leaders and talk about what kind of common ground we could find -- it was very moving.

And then when we got off the boat tonight, they told me, Congressman McDermott, that the Senate passed NAFTA a few minutes ago and then passed the Brady bill. (Applause.) So it's been a good day for the United States. (Applause.)

So I would say that the 200 years that the Coast Guard has been there for America and her people have been well rewarded by the work that has been done for America in these last few days.

I would say, Captain Murray, your obvious and genuine heartfelt emotion at this moment is justified by what a wonderful country this is and what great people we have in the United States Coast Guard.

I know you were there to help the victims of Hurricane Andrew; to assist those who were washed away by the flooding in the midwest, the worst flood in well over a 100 years; to work with the Red Cross and the people of California to help to fight the deadly wildfires.

On any day, the Coast Guard, on average, will save the lives of 16 people and help 360 others in distress. That's a pretty good record. In a place like Seattle, people understand the importance of your work. I hope by my coming here today and the publicity that this visit will generate, that Americans everywhere will understand how much they owe to the United States Coast Guard. (Applause.)

A lot of Americans don't know about your efforts to stem the flow of illegal drugs, but it helps to make every community safer. And I want to tell you that we're looking for new and innovative ways to do more of that and ways that are more effective. Your work in tracking foreign fishing fleets helps protect the important American industry and strengths our economy. Your work in responding to some 8,000 oil and chemical spills a year helps protect the environment that all Americans cherish and enjoy. Your support for scientific work, such as with your ice breakers in the Arctic adds to the entire nation's research base at a time when we need desperately to invest more in research and develcpment for our future economy as well as for our environmental security. Your efforts in monitoring the seas for the growing influx of illegal immigrants also serves our national interests in a difficult area. And in times of war, you and the entire Coast Guard stand ready to protect our nation in the most fundamental ways. The Coast Guard has long helped to augment our naval forces through work like anti-submarine and surface warfare. For all of these efforts your nation and your President are in your debt.

Your work underscores a crucial point: In order to make life better of people within our borders, we often need to take actions beyond our borders. As modern transportation and communications make the world smaller and smaller, we must engage abroad to succeed at home. And that was the whole point of this meeting we had on Blake Island.

I spent the better part of a year and a half campaigning to the American people in the race for President. And everywhere I went I said that we had reached a time when there was no longer an easy dividing line between foreign policy and domestic policy, between defense policy and economic policy; that clearly, we could not be strong abroad if we were not strong at home; but that it was no longer possible for a wealthy country to have a strong economy at home without being involved abroad and succeeding and winning in the global competitive economy.

everyday and especially during the budgetary season, I will be required to make some very difficult decisions. Some of the calls will be right and occasionally I will doubtless make some of them wrong. But I want you to know that every call will be determined on the basis of what I honestly believe is best for the long-term security and prosperity of the American people based on those simple ideas.

There is no longer a simple dividing line between defense policy and economic policy, no longer a clear line between foreign policy and domestic policy. America, like it or not, is part of a world that is increasing more interdependent, a world in which we are rewarded when we are productive and aggressive in selling our products and services, and in which we are punished if we refuse to compete.

There are those who long for a world in which the American people could be more secure and more immune from change. I, at least, long for the world in which we are more secure. But we cannot do it by trying to immunize ourselves from change. No free society is immune from the winds blowing through the world today. We have to find a way to make these changes our friend and not our enemy. We have to find a way to train every American as well as the men and women of the Coast Guard are trained to do their job. We have to find a way to give people the sense that they will have access to learning and relearning for a lifetime. We have to find a way to invest in those things which will give the promise of real hope and opportunity.

And I say to you as Americans, we have got to find a way to give structure, order, discipline, hope and love back to those millions of American children who do not have the daily supports that you take for granted if you're a member of the United States Coast Guard, but without which life is very difficult to live on successful terms. (Applause.)

I hope today as we look out on these beautiful waters and remember that our history and our heritage are rooted to the sea, that most of our Americans came across the oceans to get here to become Americans, that we must, just like we did in the beginning, be a nation that reaches out across the seas to new markets and new opportunities and new horizons.

To those of our friends and neighbors in the Pacific and elsewhere, we're going through a difficult and challenging time. Not all our roads are easy. But this is a time which we should be grateful to live in, for after all, the Cold War is over, the threat of nuclear destruction recedes, the hopes of people really have a chance to be realized in a peaceful environment, and many of the problems we have are problems of our own making that we can unmake if we have the discipline and will and vision and sheer persistence to face them and work them through.

Therefore, I say to you that I value your service and your sacrifice, your talent and your dedication, not only because you help to make our nation stronger, but because I hope that every time an American citizen sees you in this uniform that that will help us to remember what kind of people we are and where we need to go.

Thank you, and God bless you all. (Applause.)

END 5:12 P.M. PST

CONVENTION BETWEEN THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF THE REPUBLIC OF KAZAKHSTAN FOR THE AVOIDANCE OF DOUBLE TAXATION AND THE PREVENTION OF FISCAL EVASION WITH RESPECT TO TAXES ON INCOME AND CAPITAL

The Government of the United States of America and the Government of the Republic of Kazakhstan, confirming their desire to develop and strengthen the economic, scientific, technical and cultural cooperation between both States, and desiring to conclude a convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and capital, have agreed as follows:

ARTICLE 1

General Scope

1. This Convention shall apply to persons who are residents of one or both of the Contracting States and to other persons as specifically 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 Contracting State; or

b) by any other agreement between the Contracting States.

3. Notwithstanding any provision of the Convention except paragraph 4, a Contracting State may tax, in accordance with its domestic law, residents (as determined under Article 4 (Residence)) and citizens or former citizens of that State.

4. The following benefits shall be conferred by a Contracting State notwithstanding the provisions of paragraph 3:

a) under paragraph 2 of Article 7 (Associated Enterprises), paragraph 5 of Article 18 (Pensions, Etc.) and Articles 23 (Relief from Double Taxation), 24 (Non-discrimination) and 25 (Mutual Agreement Procedure); and

b) under Articles 17 (Government Service), 19 (Students, Trainees and Researchers), and 27

(Diplomatic Agents and Consular Officers) for individuals who are neither citizens of that State nor, in the case of the United States of America, individuals having immigrant status therein.

ARTICLE 2

Taxes Covered

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

a) in the United States of America: the Federal income taxes imposed by the Internal Revenue Code, but excluding the accumulated earnings tax, the personal holding company tax, and social security taxes (hereafter referred to as United States tax).

b) in the Republic of Kazakhstan: taxes on profits and income provided by the laws "On Taxation of Enterprises, Associations and Organizations" and "On the Income Tax on Citizens of the Kazakh SSR, Foreign Citizens and Stateless Persons" (hereafter referred to as Kazakhstan tax).

2. The Convention shall apply also to any substantially similar taxes which are imposed after the date of signature of the Convention in addition to, or in place of, the existing taxes, including taxes which are substantially similar to those currently imposed by one Contracting State but not by the other Contracting State and which are subsequently imposed by the other State. The

competent authorities of the Contracting States shall notify each other of any significant changes which have been made in their respective taxation laws and of any official published material concerning the application of the Convention, including explanations, regulations, rulings, or judicial decisions.

3. The Convention shall also apply to any tax on capital described in subparagraph (g) of paragraph 1 of Article 3 (General Definitions) that is imposed by either Contracting State as of the date of signature of the Convention or thereafter, but only if such capital tax is provided by Federal or Republic legislation.

ARTICLE 3

General Definitions

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

a) the term "Contracting State" means the United States of America (the United States) or the Republic of Kazakhstan (Kazakhstan), as the context requires;

b) 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. When used in a geographical sense, the term "United States" includes the territorial sea, and also the exclusive economic zone

and continental shelf in which the United States, for certain purposes, may exercise sovereign rights and jurisdiction in accordance with international law and in which the laws relating to United States tax are applicable;

c) the term "Kazakhstan" means the Republic of Kazakhstan. When used in a geographical sense, the term "Kazakhstan" includes the territorial sea, and also the exclusive economic zone and continental shelf in which Kazakhstan, for certain purposes, may exercise sovereign rights and jurisdiction in accordance with international law and in which the laws relating to Kazakhstan tax are applicable;

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

e) the term "company" means any entity which is treated as a body corporate for tax purposes. In the case of Kazakhstan, this term means a joint stock company, a limited liability company or any other legal entity or other organization which is liable to a tax on profits;

f) the term "international traffic" means any transport by a ship or aircraft, except when such

transport is solely between places in the other Contracting State;

g) for purposes of Article 22 (Capital), the term "capital" means movable and real property, and includes (but is not limited to) cash, stock or other evidences of ownership rights, notes, bonds or other evidences of indebtedness, and patents, trademarks, copyrights or other like right or property;

h) the term "competent authority" means:

i) in the United States: the Secretary of the Treasury or his authorized representative; and

ii) in Kazakhstan: the Minister of Finance or his authorized representative.

2. As regards the application of the Convention by a Contracting State, 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 25 (Mutual Agreement Procedure), have the meaning which it has under the laws of that State concerning the taxes to which the Convention applies.

ARTICLE 4

Residence

1. For the purposes of this Convention, the term "resident of a Contracting State" means any person who, under the laws of that State, is liable to tax therein by

reason of his domicile, residence, citizenship, place of management, place of incorporation, or any other criterion of a similar nature.

a) However, this term does not include any person who is liable to tax in that State in respect only of income from sources in that State or capital situated therein.

b) In the case of income derived by a partnership, trust, or estate, residence is determined in accordance with the residence of the person liable to tax with respect to such income.

2. Where by reason of the provisions of paragraph 1 an individual is a resident of both Contracting 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 (center of vital interests);

b) if the State in which he has his center of vital interests cannot be determined, or if he does not have 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 citizen;

d) if each State considers him as its citizen or if he is a citizen of neither of them, the competent authorities of the Contracting States shall settle the question by mutual agreement.

3. Where by reason of the provisions of paragraph 1 a company is a resident of both Contracting States, the competent authorities of the Contracting States shall endeavor to settle the question by mutual agreement, but if the competent authorities are unable to reach such an agreement, the company shall be treated as a resident of neither Contracting State for the purposes of deriving benefits under this Convention.

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

ARTICLE 5

Permanent Establishment

1. For the purposes of this Convention, the term "permanent establishment" means a fixed place of business

through which a resident of a Contracting State, whether or not a legal entity, carries on business activities in the other Contracting State.

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. The term "permanent establishment" also includes:

a) a building site or construction, installation or assembly project, supervisory services connected therewith, or an installation or drilling rig or ship used for the exploration or exploitation of natural resources, but only if such site, project, or rig lasts or such services continue for a period of more than 12 months; or

b) the furnishing of services, including consultancy services, by residents through employees or other personnel engaged by the residents for such purpose, but only where activities of that nature continue (for the same or a connected project) within the country for a period of more than 12 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 resident;

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

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

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

e) the maintenance of a fixed place of business solely for the purpose of carrying on, for the resident, 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).

5. Notwithstanding the provisions of paragraphs 1 and 2, where a resident of a Contracting State carries on activities in the other Contracting State through an agent,

that resident shall be deemed to have a permanent establishment in that other State in respect of any activities which the agent undertakes for that resident, if the agent meets each of the following conditions:

a) he has an authority to conclude contracts in that other State in the name of the resident;

b) he habitually exercises that authority;

c) he is not an agent of an independent status to whom the provisions of paragraph 6 apply; and

d) his activities are not limited to those mentioned in paragraph 4.

6. A resident of a Contracting State shall not be deemed to have a permanent establishment in the other Contracting State merely because it carries on business in that other 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 a Contracting State controls or is controlled by a company which is a resident of the other Contracting 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.

ARTICLE 6

Business Profits

1. The business profits of a resident of a Contracting State shall be taxable only in that State unless the resident carries on or has carried on business in the other Contracting State through a permanent establishment situated therein. If the resident carries on or has carried on business as aforesaid, the business profits of the resident may be taxed in the other State but only so much of them as is attributable to:

a) that permanent establishment;

b) sales in that other State of goods or merchandise of the same kind as those sold through that permanent establishment; or

c) other business activities carried on in that other State of the same kind as those effected through that permanent establishment.

2. Subject to the provisions of paragraph 3, where a resident of a Contracting State carries on or has carried on business in the other Contracting State through a permanent establishment situated therein, there shall in each Contracting State be attributed to that permanent establishment the business profits which it might be expected to make if it were a distinct and independent person engaged in the same or similar activities under the same or similar conditions.

3. In determining the business profits of a permanent establishment, there shall be allowed as deductions expenses which are incurred for the purposes of the permanent establishment. There shall be allowed a reasonable allocation, between a resident of a Contracting State and a permanent establishment of such resident situated in the other Contracting State, of properly documented expenses incurred for the purpose of the resident's business activities. Such allocable expenses include executive and general administrative expenses, research and development expenses, interest, and charges for management, consultancy, or technical assistance, whether incurred in the State in which the permanent establishment is situated or elsewhere. The permanent establishment shall not be allowed a deduction for amounts paid to its head office or any of the other offices of the resident by way of royalties, fees or other similar payments in return for the use of patents or other rights, or by way of commission, for specific services performed or for management, or by way of interest on moneys lent to the permanent establishment. The business profits attributed to a permanent establishment shall be determined by the same method year by year unless there is good and sufficient reason to the contrary.

4. No business profits shall be attributed to a permanent establishment by reason of the mere purchase by

that permanent establishment of goods or merchandise for the resident.

5. Where the information available to or readily obtainable by the competent authority of a Contracting State is not adequate to determine the expenses of a permanent establishment, profits may be calculated in accordance with the tax laws of that State. For purposes of this paragraph 5, information will be considered to be readily obtainable if the taxpayer provides the information to the requesting competent authority within 91 days of a written request by the competent authority for such information.

6. For purposes of this Article, the term "business profits" means profits derived from the active conduct of business. It includes, for example, profits from manufacturing, mercantile, transportation, communication, or extractive activities, and from the furnishing of services of another person. It does not include income received by an individual for his performance of personal services (either as an employee or in an independent capacity). Income of an individual from the performance of services as an employee is dealt with in Article 15 (Income from Employment). Income of an individual from the performance of services in an independent capacity is dealt with in Article 14 (Independent Personal Services).

7. Where business 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.

ARTICLE 7

Associated Enterprises

1. Where:

a) a person which is a resident of a Contracting State participates directly or indirectly in the management, control or capital of a person which is a resident of the other Contracting State; or

b) the same persons participate directly or indirectly in the management, control or capital of a resident of a Contracting State and any other person; and

c) in either case conditions are made or imposed between the two persons in their commercial or financial relations which differ from those which would be made between independent persons,

then any income, which would have accrued to one of the persons in the absence of those conditions, but has not so accrued because of those conditions, may be included in the income of that person and taxed accordingly.

2. Where a Contracting State includes in the profits of a resident of that State, and taxes accordingly, profits on which a resident of the other Contracting State has been charged to tax in that other State, and the profits so

included are profits which would have accrued to the resident of the first-mentioned State if the conditions made between the two persons 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 paid to the other provisions of this Convention and the competent authorities of the Contracting States shall if necessary consult each other.

3. The provisions of paragraph 1 shall not limit either Contracting State in applying its domestic law to make adjustments to income, deductions, credits, or allowances between persons, whether or not residents of a Contracting State, when necessary to prevent evasion of taxes or clearly to reflect the income of any such persons.

ARTICLE 8

Shipping and Air Transport

1. Income of a resident of a Contracting State from the operation of ships or aircraft in international traffic shall be taxable only in that State.

2. Income of a resident of a Contracting State from the following activities shall be taxable only in that State:

a) income from the rental of ships or aircraft operated in international traffic by the lessee;

b) income from the rental of ships and aircraft, whether or not operated in international traffic, if such rental activity is incidental to the operation of ships or aircraft in international traffic by the lessor; and

c) income (including demurrage) from the use, or rental for use, of containers in international traffic (including trailers, barges, and related equipment for the transport of containers).

3. The provisions of paragraphs 1 and 2 shall also apply to income from participation in a pool, a joint business, or an international transportation agency.

ARTICLE 9

Income From Real Property

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

2. For purposes of this Convention, the term "real property" includes any interest owned or held in tenancy by any individual or any legal entity in land, unsevered products of land as well as any fixture built on that land (buildings, structures, etc.) and other property considered real property under the law of the Contracting State in

which the property in question is situated. Ships, boats 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. A resident of a Contracting State who is liable to tax in the other Contracting State on income from real property situated in that other State may elect, subject to the procedures of the domestic law of that other State, to compute the tax on such income on a net basis as if such income were attributable to a permanent establishment in that other State. Any such election shall be binding for the taxable year of the election and all subsequent taxable years unless revoked pursuant to the procedures under the domestic law of the Contracting State in which the property is situated.

ARTICLE 10

Dividends

1. Dividends that are paid by a company which is a resident of a Contracting State and that are beneficially owned by a resident of the other Contracting State may be taxed in that other State.

2. However, such dividends may also be taxed in the first Contracting State, and according to the laws of that State, but 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 owns at least 10 percent of the voting stock of the company paying the dividends; and

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

This paragraph shall not affect the taxation of the company in respect of the profits out of which the dividends are paid.

3. The term "dividends" as used in this Article means income from shares or other rights, not being debt-claims, 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. The term "dividends" also includes income from arrangements, including debt obligations, carrying the right to participate in profits, to the extent so characterized under the law of the Contracting State in which the income arises. In the case of Kazakhstan, this term includes, in particular, income transmitted abroad to the foreign participants of a joint venture created under the laws of Kazakhstan.

4. The provisions of paragraphs 1 and 2 shall not apply if the beneficial owner of the dividends, being a resident of a Contracting State, carries on or has carried

on business in the other Contracting State, of which the company paying the dividends is a resident, through a permanent establishment situated therein, or performs or has performed in that other State independent personal services from a fixed base situated therein, and the dividends are attributable to such permanent establishment or fixed base. In such case the provisions of Article 6 (Business Profits) or Article 14 (Independent Personal Services), as the case may be, shall apply.

5. A company which is a resident of a Contracting State and which has a permanent establishment in the other Contracting State or which is subject to tax on a net basis in that other State under paragraph 4 of Article 9 (Income from Real Property), paragraphs 2 and 3(b) of Article 12 (Royalties), or paragraphs 1 or 2 of Article 13 (Gains) may be subject in that other State to a tax in addition to the tax on profits. Such tax, however, may not exceed 5 percent of the portion of the profits of the company subject to tax in the other Contracting State which represents the "dividend equivalent amount" of such profits.

ARTICLE 11

Interest

1. Interest arising in a Contracting State and derived by a resident of the other Contracting State may be taxed in that other State.

2. However, such interest may also be taxed in the Contracting State in which it arises and according to the laws of that State, but if the beneficial owner of the interest is a resident of the other Contracting State, the tax so charged shall not exceed 10 percent of the gross amount thereof.

3. Notwithstanding the provisions of paragraph 2:

a) interest beneficially owned or paid by a Contracting State, subdivision or local authority thereof, and such government instrumentalities as may be agreed upon by the competent authorities, shall be taxable only in that State;

b) interest arising in a Contracting State and paid to a resident of the other Contracting State in respect of a loan for a period of not less than three years made, guaranteed, or insured by any export credit agency wholly owned by that other Contracting State shall only be taxable in that other State.

4. The provisions of paragraphs 1, 2 and 3 shall not apply if the beneficial owner of the interest, being a resident of a Contracting State, carries on or has carried on business in the other Contracting State through a permanent establishment situated therein, or performs or has performed in that other State independent personal services from a fixed base situated therein, and the interest is attributable to such permanent establishment or fixed base.

In such case the provisions of Article 6 (Business Profits) or Article 14 (Independent Personal Services), as the case may be, shall apply.

5. Interest shall be deemed to arise in a Contracting State when the payer is that State itself, a political subdivision, a local authority or a resident of that State. Where, however, the person paying the interest, whether a resident of a Contracting State or not, has in a Contracting State a permanent establishment or a fixed base or derives profits that are taxable on a net basis in that State under paragraph 4 of Article 9 (Income from Real Property), paragraphs 2 and 3(b) of Article 12 (Royalties), or paragraph 1 or 2 of Article 13 (Gains), and such interest is borne by such permanent establishment or trade or business subject to tax on a net basis, then such interest shall be deemed to arise in the State in which the permanent establishment or trade or business is situated.

6. 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

Contracting State, due regard being had to the other provisions of the Convention.

7. A resident of a Contracting State may be subject in the other Contracting State to a tax, in respect of interest, in addition to the tax on business profits allowable under the other provisions of this Convention. Such additional tax, however, may not exceed 10 percent of the "excess interest amount."

ARTICLE 12

Royalties

1. Royalties arising in a Contracting State and paid to a resident of the other Contracting State may be taxed in that other State.

2. However, such royalties may also be taxed in the Contracting State in which they arise, and according to the laws of that State, but if the beneficial owner is a resident of the other Contracting State, the tax so charged shall not exceed 10 percent of the gross amount of the royalties. In the case of royalties described in subparagraph b) of paragraph 3, the beneficial owner may elect to compute the tax on such income on a net basis as if such income were attributable to a permanent establishment or fixed base in the Contracting State in which the royalties arise.

3. The term "royalties" as used in this Convention means:

a) 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, including computer programs, video cassettes, and cinematograph films and tapes for radio and television broadcasting, any patent, trademark, design or model, plan, secret formula or process, or other like right or property, or for information concerning industrial, commercial, or scientific experience; and

b) payments for the use of, or the right to use, industrial, commercial, or scientific equipment.

4. The provisions of paragraphs 1 and 2 shall not apply if the beneficial owner of the royalties, being a resident of a Contracting State, carries on or has carried on business in the other Contracting State through a permanent establishment situated therein, or performs or has performed 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 6 (Business Profits) or Article 14 (Independent Personal Services), as the case may be, shall apply.

5. Royalties shall be deemed to arise in a Contracting State when paid for the use of or the right to use the right or property in that State.

6. 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 Contracting State, due regard being had to the other provisions of the Convention.

ARTICLE 13

Gains

1. Gains derived by a resident of a Contracting State from the alienation of real property referred to in Article 9 (Income from Real Property) and situated in the other Contracting State may be taxed in that other State.

2. Gains from the alienation of

a) stock, participations or other rights in the capital of a company or other legal person (whether or not a resident of a Contracting State) the property of

which consists principally of real property situated in a Contracting State; or

b) an interest in a partnership, trust, or estate (whether or not a resident of a Contracting State) to the extent attributable to real property situated in a Contracting State may be taxed in that State. For the purposes of this paragraph, the term "real property" includes the shares of a company referred to in subparagraph (a) or an interest in a partnership, trust, or estate referred to in subparagraph (b), and in case of the United States includes a United States real property interest, as defined in section 897 of the Internal Revenue Code (or any successor statute).

3. In addition to gains from the alienation of shares described in paragraph 2 of this Article, gains derived by a resident of a Contracting State from the alienation of stock, participations, or other rights in the capital of a company or other legal person which is a resident of the other Contracting State may be taxed in that other Contracting State if the recipient of the gain, at any time during the 12-month period preceding such alienation, had a participation, directly or indirectly, of at least 25 percent of the vote or value of that company or other legal person. Such gains shall be deemed to arise in that other State to the extent necessary to avoid double taxation.

4. Gains from the alienation of personal property which are attributable to a permanent establishment which an enterprise of a Contracting State has in the other Contracting State or which are attributable to a fixed base available to a resident of a Contracting State in the other Contracting State for the purpose of performing independent personal services, and gains from the alienation of such permanent establishment (alone or with the whole enterprise) or such fixed base, may be taxed in that other State.

5. Gains derived by a resident enterprise of a Contracting State from the alienation of ships, aircraft, or containers operated in international traffic shall be taxable only in that State.

6. Gains from the alienation of any property other than property referred to in paragraphs 1 through 5 shall be taxable only in the Contracting State of which the alienator is a resident.

ARTICLE 14

Independent Personal Services

1. Income derived by an individual who is a resident of a Contracting State from the performance of independent personal services shall be taxable only in that State, unless

a) such services are performed or were performed in the other Contracting State; and either

b) the income is attributable to a fixed base which the individual has or had regularly available to him in that other State, or

c) such individual is present or was present in that other State for a period or periods exceeding in the aggregate 183 days in any consecutive twelve month period.

In such a case the income attributable to the services may be taxed in that other State in accordance with principles similar to those of Article 6 (Business Profits) for determining the amount of business profits and attributing business profits to a permanent establishment.

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

ARTICLE 15

Income from Employment

1. Subject to the provisions of Articles 16 (Directors' Fees), 17 (Government Service), and 18 (Pensions, Etc.), salaries, wages, and other similar remuneration derived by a resident of a Contracting State in respect of an employment shall be taxable only in that State unless the employment is exercised in the other Contracting

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 a Contracting State in respect of an employment exercised in the other Contracting 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 any twelve month period; and

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. Remuneration derived by a resident of a Contracting State that would otherwise be taxable in the other Contracting State under the preceding provisions of this Article may be taxed only in the first-mentioned State when the remuneration is in respect of employment as a member of the regular complement of a ship or aircraft operated in international traffic.

ARTICLE 16

Directors' Fees

Directors' fees and similar payments derived by a resident of a Contracting State in his capacity as a member of the board of directors or similar body of a company which is a resident of the other Contracting State may be taxed in that other State.

ARTICLE 17

Government Service

1. a) Remuneration, other than a pension, paid from the public funds of a Contracting State, a subdivision or local authority thereof to an individual in respect of services rendered in the discharge of functions of a governmental nature shall be taxable only in that State.

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

i) is a citizen of that State; or

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

2. Notwithstanding the provisions of paragraph 1, the provisions of Article 14 (Independent Personal Services) or Article 15 (Income from Employment), as the case may be,

shall apply to remuneration paid in respect of services rendered in connection with a business.

ARTICLE 18

Pensions, Etc.

1. Subject to the provisions of paragraph 2,

a) pensions and similar remuneration derived and beneficially owned by a resident of a Contracting State in consideration of past employment may be taxed only in that State; and

b) social security benefits and other public pensions paid by a Contracting State may be taxed only in that State.

2. a) Any pension paid to an individual in respect of services rendered to a Contracting State, subdivision, or authority in the discharge of functions of a governmental nature and paid by, or out of funds created by, that State, subdivision or local authority shall be taxable only in that Contracting State.

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

3. Annuities derived and beneficially owned by an individual who is a resident of a Contracting State shall be taxable only in that State. The term "annuities" as used in

this paragraph means a stated sum paid periodically as stated times during a specified number of years, under an obligation to make the payments in return for adequate and full consideration (other than services rendered.)

4. Alimony paid to a resident of a Contracting State 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, which payments are taxable to the recipient under the laws of the State of which he is a resident.

5. Periodic payments for the support of a minor child made pursuant to a written separation agreement or a decree of divorce, separate maintenance, or compulsory support, paid by a resident of a Contracting State to a resident of the other Contracting State shall be taxable only in the first-mentioned State.

ARTICLE 19

Students, Trainees and Researchers

1. An individual who is a resident of a Contracting State at the beginning of his visit to the other Contracting State and who is temporarily present in that other State for the primary purpose of:

a) studying at a university or other accredited educational institution in that other State, or

b) securing training required to qualify him to practice a profession or professional specialty, or

c) studying or doing research as a recipient of a grant, allowance, or other similar payments from a governmental, religious, charitable, scientific, literary, or educational organization,

shall be exempt from tax by that other State with respect to payments from abroad for the purpose of his maintenance, education, study, research, or training, and with respect to the grant, allowance, or other similar payments.

2. The exemption in paragraph 1 shall apply only for such period of time as is ordinarily necessary to complete the study, training or research, except that no exemption for training and/or research shall extend for a period exceeding five years.

3. 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 20

Other Income

Items of income of a resident of a Contracting State, arising in the other Contracting State and not dealt with in the foregoing Articles of this Convention, may be taxed in that other State.

ARTICLE 21

Limitation on Benefits

1. A person that is a resident of a Contracting State and derives income from the other Contracting State shall be entitled under this Convention to relief from taxation in that other State only if such person is:

a) an individual;

b) engaged in the active conduct of 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 the income derived from that other State is derived in connection with, or is incidental to, that business;

c) a company the shares of which are traded in the first-mentioned State on a substantial and regular basis on an officially recognized securities exchange or a company which is wholly owned, directly or indirectly, by another company that is a resident of the first-mentioned State and the shares of which are so traded;

d) a not-for-profit organization that is generally exempt from income taxation in its Contracting State of residence, provided that more than half of the beneficiaries, members or participants, if any, in such

organization are entitled, under this Article, to the benefits of this Convention; or

e) a person that satisfies both of the following conditions:

i) more than 50 percent of the beneficial interest in such person, or in the case of a company, more than 50 percent of the number of shares of each class of the company's shares, is owned directly or indirectly by persons entitled to the benefits of this Convention under subparagraphs a), c) or d), and

ii) not more than 50 percent of the gross income of such person is used, directly or indirectly, to meet liabilities (including liabilities for interest or royalties) to persons not entitled to the benefits of this Convention under subparagraphs a), c) or d).

2. A person that is not entitled to the benefits of the Convention pursuant to the provisions of paragraph 1 may, nevertheless, be granted the benefits of the Convention if the competent authority of the State in which the income arises so determines.

3. For purposes of subparagraph (e)(ii) of paragraph 1, the term "gross income" means gross receipts, or where a person is engaged in a business which includes the manufacture or production of goods, gross receipts reduced

by the direct costs of labor and materials attributable to such manufacture or production and paid or payable out of such receipts.

ARTICLE 22

Capital

1. Capital represented by real property referred to in Article 9 (Income from Real Property) owned by a resident of a Contracting State and situated in the other Contracting State, may be taxed in that other State.

2. Capital represented by movable property forming part of the business property of a permanent establishment which a resident of a Contracting State has in the other Contracting State, or by movable property pertaining to a fixed base available to a resident of a Contracting State in the other Contracting State for the purpose of performing independent personal services, may be taxed in that other State.

3. Capital represented by ships, aircraft, and containers owned by a resident of a Contracting State and operated in international traffic, and by movable property pertaining to the operation of such ships, aircraft, and containers shall be taxable only in that State.

4. All other elements of capital of a resident of a Contracting State (as determined under Article 4 (Residence)) shall be taxable only in that State.

ARTICLE 23

Relief From Double Taxation

In accordance with the provisions and subject to the limitations of the law of each Contracting State (as it may be amended from time to time without changing the general principle hereof), each State shall allow to its residents (and, in the case of the United States, its citizens), as a credit against the income tax of that State:

a) the income tax paid to the other Contracting State by or on behalf of such residents or citizens; and

b) in the case of a company owning at least 10 percent of the voting stock of a company which is a resident of the other Contracting State and from which the first-mentioned company receives dividends, the income tax paid to the other State by or on behalf of the distributing company with respect to the profits out of which the dividends are paid.

For purposes of this Article, the United States taxes referred to in paragraphs 1 a) and 2 of Article 2 (Taxes Covered), and the Kazakhstan taxes referred to in paragraphs 1 b) and 2 of Article 2 (Taxes Covered), as described in paragraph 8 of the Protocol to this Convention, shall be considered income taxes.

ARTICLE 24

Non-discrimination

1. A citizen of a Contracting State shall not be subjected in the other Contracting State to any taxation or any requirement connected therewith which is other or more burdensome than the taxation and connected requirements to which a citizen of that other State or of a third State, who is in the same circumstances, is or may be subjected. This provision shall apply to persons who are not residents of one or both of the Contracting States. This provision shall not be construed as obliging a Contracting State to grant to citizens of the other Contracting State tax benefits granted by special agreements to citizens of a third State.

2. A resident of a Contracting State which has a permanent establishment in the other Contracting State shall not, in that other State and with respect to income attributable to that permanent establishment, be subjected to more burdensome taxes than are generally imposed on residents of that other State or of a third State which are carrying on the same activities. This provision shall not be construed as obliging a Contracting State to grant to permanent establishments of the residents of the other Contracting State tax benefits granted by special agreements to permanent establishments of the residents of a third State.

3. Except where the provisions of paragraph 1 of Article 7 (Associated Enterprises), paragraph 4 of Article 11 (Interest), or paragraph 6 of Article 12 (Royalties) apply, interest, royalties, and other disbursements paid by a resident of a Contracting State to a resident of the other Contracting 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. Similarly, any debts of a resident of a Contracting State to a resident of the other Contracting State shall, for the purposes of determining the taxable capital of the first-mentioned resident, be deductible under the same conditions as if they had been contracted to a resident of the first-mentioned State.

4. A company which is a resident of a Contracting State, the capital of which is wholly or partly owned or controlled, directly or indirectly, by one or more residents of the other Contracting State, shall not be subjected in the first-mentioned State to any taxation or any requirement connected therewith which is more burdensome than the taxation and connected requirements to which other similar companies which are residents of the first-mentioned State (whether owned by residents of that State or of a third State) are or may be subjected.

5. Nothing in this Article shall prevent a Contracting State from imposing the tax described in paragraph 5 of Article 10 (Dividends) or paragraph 7 of Article 11 (Interest).

6. The provisions of this Article shall, notwithstanding the provisions of Article 2 (Taxes Covered), apply to taxes of every kind and description.

ARTICLE 25

Mutual Agreement Procedure

1. Where a person considers that the actions of one or both of the Contracting 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 Contracting State of which he is a resident or citizen.

2. The competent authority shall endeavor, 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 Contracting 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 Contracting States.

3. The competent authorities of the Contracting States shall endeavor 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 Contracting States may agree:

a) to the same attribution of income, deductions, credits, or allowances of a resident of a Contracting State to its permanent establishment situated in the other Contracting 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; and

f) 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 Contracting 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 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 that 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 procedures shall be established between the States by notes to be exchanged through diplomatic channels. After a period of three years after the entry into force of this Convention, the competent authorities shall consult in order to determine whether it is appropriate to make the exchange of diplomatic notes. The provisions of this paragraph shall have effect after the States have so agreed through the exchange of diplomatic notes.

ARTICLE 26

Exchange of Information

1. The competent authorities of the Contracting States shall exchange such information as is necessary for carrying out the provisions of this Convention or of the domestic laws of the Contracting States concerning taxes covered by the Convention insofar as the taxation thereunder is not

contrary to the Convention. The exchange of information is not restricted by Article 1 (General Scope). Any information received by a Contracting State shall be treated as confidential 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 assessment, collection, or administration of, the enforcement or prosecution in respect of, or the determination of appeals in relation to, the 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.

2. In no case shall the provisions of paragraph 1 be construed so as to impose on a Contracting State the obligation:

a) to carry out administrative measures at variance with the laws and administrative practice of that or of the other Contracting 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 Contracting 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.

3. If information is requested by a Contracting State in accordance with this Article, the other Contracting 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 that other State. If specifically requested by the competent authority of a Contracting State, the competent authority of the other Contracting State shall provide information under this Article in the form of depositions of witnesses and authenticated copies of complete 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.

4. For the purposes of this Article, the Convention shall apply, notwithstanding the provisions of Article 2 (Taxes Covered), to taxes of every kind imposed by a Contracting State.

ARTICLE 27

Diplomatic Agents and Consular Officers

Nothing in this Convention shall affect the fiscal privileges of members of diplomatic missions and consular

officers or employees of a consular establishment under the general rules of international law or under the provisions of special agreements.

ARTICLE 28

Entry Into Force

1. This Convention shall be subject to ratification in each Contracting State and instruments of ratification shall be exchanged at ____________________ as soon as possible.

2. The Convention shall enter into force on the date of the exchange of instruments of ratification and its provisions shall have effect:

a) in respect of taxes withheld at source on dividends, interest or royalties, for amounts paid or credited on or after the first day of the second month following the month in which the Convention enters into force;

b) in respect of other taxes, for taxable periods beginning on or after the first day of January of the year in which the Convention enters into force.

ARTICLE 29

Termination

1. This Convention shall remain in force until terminated by a Contracting State. Either Contracting State

may terminate the Convention at any time after 5 years from the date on which the Convention enters into force, by giving, through diplomatic channels, at least 6 months prior notice of termination in writing. In such event, the Convention shall cease to have effect:

a) in respect of taxes withheld at source, for amounts paid or credited on or after the first of January following the expiration of the 6 month period;

b) in respect of other taxes, for taxable periods beginning on or after the first of January following the expiration of the 6 month period.

IN WITNESS WHEREOF, the undersigned, being duly authorized by their respective Governments, have signed this Convention.

DONE at Almaty this 24th day of October 1993, in duplicate, in the English and Russian languages, both texts being equally authentic. A Kazakh language text shall be prepared, which shall be considered equally authentic upon an exchange of diplomatic notes confirming its conformity with the English language text.

FOR THE GOVERNMENT OF THE
UNITED STATES OF AMERICA:

FOR THE GOVERNMENT OF THE
REPUBLIC OF KAZAKHSTAN:

PROTOCOL

At the signing today of the Convention between the Government of the United States of America and the Government of the Republic of Kazakhstan for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital, the undersigned have agreed upon the following provisions, which shall form an integral part of the Convention:

1. With regard to Article 5.

It is understood that a fixed place of business through which a resident of a Contracting State carries on business in the other Contracting State constitutes a permanent establishment, whether or not such place of business is owned by the resident. For example, the operation of a mine, an oil or gas well, a quarry or any other place of extraction of natural resources constitutes a permanent establishment of the operator, without regard to whether the operator owns the property from which the natural resources are extracted.

2. With regard to Article 10,

(a) In the case of dividends from a United States Regulated Investment Company, subparagraph (b), and not subparagraph (a) of paragraph 2 shall apply. In the case of dividends from a United States Real Estate Investment Trust, the rate of withholding applicable under domestic law shall apply.

(b) The term "dividend equivalent amount," as used in paragraph 5, refers to the portion of the profits of a permanent establishment subject to a tax under Article 6 (Business Profits), or that portion of the profits of a resident of one State subject to tax on a net basis in the other State under paragraph 4 of Article 9 (Income from Real Property), paragraphs 2 and 3(b) of Article 12 (Royalties), or paragraphs 1 or 2 of Article 13 (Gains), that is comparable to the amount that would be distributed as a dividend if such income were earned by a locally incorporated subsidiary. In the case of the United States, the term "dividend equivalent amount" shall have the same meaning that it has under the law of the United States as it may be amended from time to time without changing the general principle of this paragraph 2(b) of the Protocol.

3. With regard to Article 11,

a) If Kazakhstan agrees in a treaty with another country which is a member of the Organization for Economic Cooperation and Development to impose a lower rate on interest than the rate specified in paragraph 2, both Contracting States shall apply that lower rate instead of the rate specified in paragraph 2.

b) For purposes of paragraph 3(b), the agencies and instrumentalities referred to shall be the Export-Import Bank and the Overseas Private Investment Corporation of the United States and similar agencies of either Contracting

State as may be agreed upon in future by the competent authorities. The provisions of this paragraph shall apply provided that the lender does not have a right of recourse for payment of principal or interest to any person other than the borrower or a governmental body in the country of the borrower.

c) Notwithstanding the provisions of paragraph 1, the United States may tax an excess inclusion with respect to a Real Estate Mortgage Interest Conduit ("REMIC") in accordance with its domestic law.

d) Where a resident of Kazakhstan conducts business in the United States through a permanent establishment in the United States or derives income subject to tax in the United States on a net basis by reason of paragraph 4 of Article 9 (Income from Real Property), paragraphs 2 and 3(b) of Article 12 (Royalties), paragraphs 1 or 2 of Article 13 (Gains), or Article 14 (Independent Personal Services), the "excess interest amount" shall be the excess if any, of (i) interest borne by the permanent establishment or trade or business subject to tax on a net basis in the United States, over (ii) the interest paid by such permanent establishment or trade or business subject to tax on a net basis. Where a resident of the United States conducts business in Kazakhstan through a permanent establishment in Kazakhstan or derives income subject to tax in Kazakhstan on a net basis by reason of paragraph 4 of Article 9 (Income from

Real Property), paragraphs 2 and 3(b) of Article 12 (Royalties), paragraph 1 or 2 of Article 13 (Gains), or Article 14 (Independent Personal Services), the "excess interest amount" shall be the amount of interest expense that is deductible in computing the resident's profits attributable to the permanent establishment in Kazakhstan or to the trade or business subject to tax in Kazakhstan on a net basis and that is comparable to the meaning of "excess interest amount" in the preceding sentence.

4. With regard to Articles 10, 11 and 12.

Taxes may be withheld at the source in a Contracting State at the rates provided by domestic law, but any excess amount will be refunded in a timely manner on application by the taxpayer if the right to collect the said taxes is waived or limited by the provisions of the Convention.

5. Regarding Articles 9 and 12.

Where a resident of a Contracting State elects to compute the tax due under Article 9 or 12 on a net basis, as provided for in those articles, the competent authorities of each Contracting State may adopt reasonable rules for the determination and reporting of taxable income. Each competent authority may also adopt procedures to ensure that a person deriving such income provides books and records as necessary to determine the proper amount of the tax.

6. <u>With regard to paragraph 3 of Article 13.</u>

If either Contracting State introduces such a tax, it shall inform the other Contracting State in a timely manner, and agrees to consult with that other State as to whether it is appropriate to amend the treaty to provide nonrecognition treatment in certain cases.

7. <u>With regard to Article 21</u>,

In the United States, the term "officially recognized securities exchange" means the NASDAQ System owned by the National Association of Securities Dealers, Inc., and any stock exchange registered with the Securities Exchange Commission as a national securities exchange for purposes of the Securities Exchange Act of 1934.

8. <u>With regard to Article 23</u>,

a) It is understood that in the case of an individual resident in Kazakhstan who is also a citizen of the United States, the credit required to be granted against Kazakhstan tax on income shall include a credit for the income tax paid by such individuals to the United States imposed solely by reason of citizenship, subject only to a limitation of such credit to Kazakhstan tax on income from all sources outside Kazakhstan.

b) The Republic of Kazakhstan confirms that in computing the taxes on profits and income under current law, an entity that is a resident of Kazakhstan and is a joint venture with participation by residents of the United States

or which is wholly owned by residents of the United States, or a permanent establishment (subject to the provisions of Article 6), is permitted deductions for actual wages paid and for interest expense whether or not paid to a bank and without regard to the term of the debt. The deduction may not exceed the limitation under Kazakh tax law, as long as the limitation is not less than an arm's length rate taking into account a reasonable risk premium.

c) It is understood that income tax paid by a Kazakh person which is treated as a partnership under U.S. Federal income tax rules shall be treated for purposes of this Article as paid by the U.S. partner, pursuant to the rules of the Internal Revenue Code.

d) Both sides agree that a tax sparing credit shall not be provided in Article 25 (Relief from Double Taxation) of the Convention at this time. However, the Convention shall be promptly amended to incorporate a tax sparing credit provision if the United States hereafter amends its laws concerning the provision of tax sparing credits, or the United States reaches agreement on the provision of a tax sparing credit with any other country.

9. With regard to Article 25.

When the competent authority of one of the Contracting States considers that the law of the other Contracting State is or may be applied in a manner that eliminates or significantly limits a benefit provided by the Convention,

that State shall inform the other Contracting State in a timely manner and may request consultations with a view to restoring the balance of benefits of the Convention. If so requested, the other State shall begin such consultations within three months of the date of such request.

If the Contracting States are unable to agree on the way in which the Convention should be modified to restore the balance of benefits, the affected State may terminate the Convention in accordance with the procedures of paragraph 1, notwithstanding the five year period referred to in that paragraph, or take such other action regarding this Convention as may be permitted under the general principles of international law.

10. With regard to Article 28.

Where any legal rules applicable as of the dates of entry into force of this Convention provided greater benefits with respect to taxation than are provided under this Convention, the taxpayer may elect to apply those rules, in their entirety, for the first taxable year with respect to which the provisions of this Convention would otherwise have effect under paragraph 2.

FOR THE GOVERNMENT OF THE UNITED STATES OF AMERICA:

FOR THE GOVERNMENT OF THE REPUBLIC OF KAZAKHSTAN: