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U.S., SWEDEN SIGN INCOME TAX TREATY

The Treasury Department announced that the United States and Sweden signed an income tax treaty Thursday.

The treaty was signed in Stockholm by U.S. Ambassador Thomas L. Siebert and Swedish Minister for Fiscal and Financial Affairs Bo Lundgren. It replaces the income tax treaty signed in 1939, one of the first ever signed by the United States. The new treaty must be approved by the Senate.

The new treaty retains many provisions of the existing one but is updated to reflect current tax laws and recent income tax treaty policies of both countries.

Like the existing treaty, the new treaty maintains the tax at source on payments of dividends, interest and royalties at current rates. However, it expands the types of income considered interest, royalties and dividends. It maintains the tax at source on dividends of not more than 15 percent for portfolio dividends and 5 percent for direct investment dividends, where the recipient company owns at least 10 percent of the voting stock of the company paying the dividends. The treaty also provides for exemption at source for interest and royalties. And it provides for the imposition of the branch profits tax, and limits the rate at which the tax may be imposed to 5 percent.

Unlike the existing treaty, the new treaty contains a tie-breaker rule for deciding the country of residence for dual residents. The new treaty recognizes the right of each country to tax gains from the sale of real property located in their own country. It updates rules regarding the taxation of business profits, personal service income, transportation income, real property income and capital gains and the granting of relief from double taxation and the protection against discriminatory taxation. The new treaty also addresses the taxation of pensions and adds important provisions limiting the abuse of the treaty by persons who are not qualifying residents.

Also included are rules to administer the treaty, including rules for the resolution of disputes under the treaty, the interaction of the new treaty with other agreements and the exchange of information between the U.S. and Sweden.

LB-1051

The treaty will enter into force when both governments have completed their respective constitutional and statutory procedures and have notified each other to that effect. All provisions generally will have effect on the first day of January after the treaty enters into force.

Copies of the treaty may be obtained by writing the Office of Public Affairs, U.S. Treasury Department, Room 2315, Washington, D.C., 20220, or calling (202) 622-2960.

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

The Government of Sweden and the Government of the United States of America, desiring to conclude a convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income, have agreed as follows:

Article 1

Personal 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. Notwithstanding the provisions of paragraph 2 b):

a) Notwithstanding any other agreement to which the Contracting States may be parties, a dispute concerning whether a measure is within the scope of this Convention shall be considered only by the competent authorities of the Contracting States, as defined in subparagraph 1 e) of Article 3 (General definitions) of this Convention, and the procedures under this Convention exclusively shall apply to the dispute.

b) Unless the competent authorities determine that a taxation measure is not within the scope of this Convention, the nondiscrimination obligations of this Convention exclusively shall apply with respect to that measure, except for such national treatment or most-favored-nation obligations as may apply to trade in goods under the General Agreement on Tariffs and Trade. No national treatment or most-favored-nation obligation

under any other agreement shall apply with respect to that measure.

c) For the purpose of this paragraph, a "measure" is a law, regulation, rule, procedure, decision, administrative action, or any other form of measure.

4. Notwithstanding any provision of the Convention except paragraph 5, the United States may tax its residents [as determined under Article 4 (Residence)], and by reason of citizenship may tax its citizens, as if the Convention had not come into effect. For this purpose, the term "citizen" shall include a former citizen whose loss of citizenship had as one if its principal purposes the avoidance of tax, but only for a period of 10 years following such loss.

5. The provisions of paragraph 4 shall not affect

a) the benefits conferred by the United States under paragraph 2 of Article 9 (Associated enterprises), under paragraph 2 of Article 19 (Pensions and annuities), and under Articles 23 (Relief from double taxation), 24 (Non-discrimination) and 25 (Mutual agreement procedure); and

b) the benefits conferred by the United States under Articles 20 (Government service), 21 (Students and trainees) and 28 (Diplomatic agents and consular officers) upon individuals who are neither citizens of, nor have immigrant status in, the United States.

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

b) in Sweden:

(i) the State income tax, including the sailor's tax and the coupon tax;

(ii) the special income tax on non-residents;

(iii) the special income tax on non-resident entertainers and artistes;

(iv) the communal income tax;

(v) for the purpose of paragraph 3 of this Article, the State capital tax; and

(vi) the excise tax imposed on insurance premiums paid to foreign insurers.

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 taxes referred to above. 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 officially published material of substantial significance concerning the application of the Convention, including explanations, regulations, rulings, or judicial decisions.

3. The following persons shall be subject to the Swedish State capital tax only in respect of real property situated in Sweden and movable property attributable to a permanent establishment of such person in Sweden or to a fixed base available to such person in Sweden for the purpose of performing independent personal service;

a) a resident of the United States, as determined under Article 4 (Residence), who is a citizen of the United States but not a citizen of Sweden;

b) a resident of the United States, as determined under Article 4, whether or not a citizen of the United States, who has been such a resident for three successive years prior to the first taxable year for which the provisions of the Convention have effect, and for each taxable year thereafter;

c) a citizen of the United States, who is not a citizen of Sweden, who temporarily visits Sweden for a period not exceeding two years, and who is, or immediately prior to such visit was, a resident of the United States, as determined under Article 4;

d) an estate of a person described in subparagraph a), b) or c); or

e) a company that is a resident of the United States, as determined under Article 4.

Article 3

General definitions

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

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

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

c) 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;

d) the term "international traffic" means any transport by a ship or aircraft, except where such transport is solely between places within a Contracting State;

e) the term "competent authority" means

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

(ii) in the case of Sweden, the Minister of Finance, his authorized representative or the authority which is designated as a competent authority for the purposes of this Convention;

f) the term "United States" means the United States of

America, but such term (i) does not include Puerto Rico, the Virgin Islands, Guam, or other United States possessions or territories, and (ii) includes (A) the territorial sea of the United States and (B) the seabed and subsoil of the submarine areas adjacent to the territorial sea, over which the United States of America exercises sovereign rights, in accordance with international law, for the purpose of exploration for and exploitation of the natural resources of such areas;

g) the term "Sweden" means the Kingdom of Sweden and, when used in a geographical sense, includes the national territory, the territorial sea as well as other maritime areas over which Sweden, in accordance with international law, exercises sovereign rights or jurisdiction.

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, place of management, place of incorporation, or any other criterion of a similar nature, provided, however, that

a) 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; and

b) in the case of 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.

A United States citizen or an alien lawfully admitted for permanent residence is a resident of the United States, but only if such person has a substantial presence, permanent home, or habitual abode in the United States. If such person is also a resident of Sweden under this paragraph, such person will also be treated as a United States resident under this paragraph and such person's status shall be determined under paragraph 2.

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 he is a citizen of both States or 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, then if it is created under the laws of a Contracting State or a political subdivision thereof, it shall be deemed to be a resident only of that State.

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.

Article 5

Permanent establishment

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

2. The term "permanent establishment" includes especially

a) a place of management;
b) a branch;
c) an office;
d) a factory;
e) a workshop; and
f) a mine, an oil or gas well, a quarry or any other place of extraction of natural resources.

3. A building site or construction or installation project constitutes a permanent establishment only if it lasts more than twelve months. The use of an installation or drilling rig or ship in a Contracting State to explore for or exploit natural resources constitutes a permanent establishment only if such use is for more than twelve months.

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

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

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

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

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

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

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

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, sources 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.

Article 7

Business profits

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

2. Subject to the provisions of paragraph 3, where an enterprise of a Contracting State carries 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 profits which it might be expected to make if it were a distinct and separate enterprise engaged in the same or similar activities under the same or similar conditions.

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

4. Profits shall not 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 profits to be attributed to the permanent establishment shall include only the profits derived from the assets or activities of the permanent establishment and shall be determined by the same method year by year unless there is good and sufficient reason to the contrary.

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

7. The term "profits" as used in this Article means income derived from any trade or business whether carried on by an individual, company or any other person, or group of persons, including the rental of tangible movable property.

8. a) The United States tax on insurance premiums paid to foreign insurers shall not be imposed on insurance and reinsurance premiums which are the receipts of a business of insurance carried on by a resident of Sweden whether or not that business is carried on through a permanent establishment in the United States (but only to the extent that the relevant risk is not reinsured, directly or indirectly, with a person not entitled to relief from such tax).

b) The Swedish tax on insurance premiums paid to foreign insurers shall not be imposed on insurance premiums which

are the receipts of a business of insurance carried on by a resident of the United States whether or not that business is carried on through a permanent establishment in Sweden.

9. Notwithstanding paragraph 6 of this Article, for the implementation of paragraphs 1 and 2 of this Article, paragraph 3 of Article 13 (Gains), Article 14 (Independent personal services) and Article 22 (Other income) any income, gain, or expense attributable to a permanent establishment or a fixed base during its existence is taxable or deductible in the Contracting State where such a permanent establishment or fixed base is situated even if the payments are deferred until such permanent establishment or fixed base has ceased to exist.

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, profits from the operation of ships or aircraft in international traffic include profits derived from the rental of ships or aircraft if such rental profits are incidental to other profits 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 paragraphs 1 and 3 shall also apply to profits from participation in a pool, a joint business, or an international operating agency. With respect to profits derived by the air transport consortium Scandinavian Airlines System (SAS) the provisions of paragraphs 1 and 3 shall apply, but only to such part of the profits as corresponds to the participation held in that consortium by AB Aerotransport (ABA), the Swedish partner of Scandinavian Airlines System (SAS).

Article 9

<u>Associated enterprises</u>

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 would, but for those conditions, have accrued to one of the enterprises, but by reason of those conditions have not so accrued, may be included in the profits of that enterprise and taxed accordingly.

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 1 shall not limit any provisions of the law of either Contracting State which permit the distribution, apportionment, or allocation of income, deductions, credits, or allowances between persons, whether or not residents of a Contracting State, owned or controlled directly or indirectly by the same interests when necessary in order to prevent evasion of taxes or clearly to reflect the income of any of such persons.

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 stock 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 U.S. Regulated Investment Company or a Real Estate Investment Trust. Subparagraph b) of paragraph 2 shall apply in the case of such dividends, but in the case of dividends paid by a Real Estate Investment Trust only if the beneficial owner of the dividends is an individual holding less than 10 percent of the Real Estate Investment Trust.

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, and income from arrangements, including debt obligations, carrying the right to participate in profits, to the extent so characterized under the laws 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 business in the other Contracting State, of which the company paying the dividends is a resident, through a permanent establishment situated therein, or performs in that other State independent personal services from a fixed base situated therein, and the 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 Contracting State may not impose any tax on dividends paid by a company which is not a resident of that State, except insofar as

a) the dividends are paid to a resident of that State; or

b) the dividends are attributable to a permanent establishment or a fixed base situated in that State.

7. A religious, scientific, literary, educational or charitable organization which is resident in Sweden and

which has received substantially all of its support from persons other than citizens or residents of the United States shall be exempt in the United States from the United States excise taxes imposed with respect to private foundations.

8. A company that is a resident of a Contracting State and that has a permanent establishment in the other Contracting State, or that is subject to tax in that other Contracting State on items of income that may be taxed in that other State under Article 6 (Income from real property) or under paragraph 1 of Article 13 (Gains), may be subject in that other Contracting State to a tax in addition to the tax allowable under the other provisions of this Convention. Such tax, however, may

a) in the case of the United States be imposed only on

(i) the portion of the business profits of the company attributable to the permanent establishment, and

(ii) the portion of the income referred to in the preceding sentence that is subject to tax under Article 6 or paragraph 1 of Article 13,

that represents the "dividend equivalent amount" of those profits and income; the term "dividend equivalent amount" shall, for the purposes of this subparagraph, have the 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 thereof; and

b) in the case of Sweden be imposed only on that portion of the income described in subparagraph a) that is

comparable to the amount that would be distributed as a dividend by a locally incorporated subsidiary.

9. The tax referred to in paragraph 8 a) and b) shall not be imposed at a rate exceeding the rate specified in paragraph 2 a).

Article 11

Interest

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

2. The term "interest" as used in this Article means income from debt-claims of every kind, whether or not secured by mortgage, and 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 and including an excess inclusion with respect to a residual interest in a real estate mortgage investment conduit. Penalty charges for late payment shall not be regarded as interest for the purposes of the Convention. However, the term "interest" does not include income dealt with in Article 10 (Dividends).

3. The provisions of paragraph 1 shall not apply if the beneficial owner of the interest, being a resident of a Contracting State, carries on business in the other Contracting State, in which the interest arises, through a permanent establishment situated therein, or performs in that other State independent personal services from a fixed base situated therein, and the interest 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.

4. Interest shall be deemed to arise in a Contracting State when the payer is that State itself or a political subdivision, local authority, or 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.

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

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

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

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

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

7. Notwithstanding the provisions of paragraph 1 of this Article an excess inclusion with respect to a residual interest in a real estate mortgage investment conduit may be taxed in the Contracting State where the excess inclusion arises according to the laws of that State.

Article 12

Royalties

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

2. The term "royalties" as used in this Article means payments of any kind received as a consideration for the use of, or the right to use, any copyright of literary, artistic or scientific work (including motion pictures and works on film, tape or other means of reproduction used for radio or television broadcasting), any patent, trade mark, design or model, plan, secret formula or process, or other like right or property, or for information concerning industrial, commercial or scientific experience. The term "royalties" also includes gains derived from the alienation of any such right or property which are contingent on the productivity, use, or disposition thereof.

3. The provisions of paragraph 1 shall not apply if the beneficial owner of the royalties, being a resident of a Contracting State, carries on business in the other Contracting State, in which the royalties arise, through a permanent establishment situated therein, or performs in that other State independent personal services from a fixed base situated therein, and the royalties are attributable to such permanent establishment or fixed base. In such case
the provisions of Article 7 (Business profits) or Article 14 (Independent personal services), as the case may be, shall apply.

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

Article 13

Gains

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

2. For purposes of paragraph 1

a) the term "real property situated in the other Contracting State", where the United States is the other Contracting State, includes real property referred to in Article 6 which is situated in the United States, a United States real property interest, and an interest in a partnership, trust or estate, to the extent attributable to a United States real property interest situated in the United States;

b) the term "real property situated in the other Contracting State", where Sweden is the other Contracting State, includes property that is real property under the law of Sweden situated in Sweden, and, without limiting the foregoing, shall include

(i) real property referred to in Article 6 which is situated in Sweden; and

(ii) shares or similar rights in a company the assets of which consist, directly or indirectly, mainly of such real property.

3. Gains from the disposition of movable 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 disposition 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 disposition of ships or aircraft operated by the enterprise in international traffic or movable property attributable to the operation of such ships or aircraft shall be taxable only in that State. The provisions of this paragraph shall apply to gains derived by the air transport consortium Scandinavian Airlines System (SAS), but only to such part of the gains as corresponds to the participation held in that consortium by AB Aerotransport (ABA), the Swedish partner of Scandinavian Airlines System (SAS).

Gains derived by an enterprise of a Contracting State from the disposition of containers used in international traffic and movable property attributable to the operation of such containers (including trailers, barges, and related equipment for the transport of containers) shall be taxable only in that State.

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

6. Except as provided in paragraph 7, gains from the disposition of any property other than property referred to in paragraphs 1 through 5 shall be taxable only in the

Contracting State of which the person disposing of the property is resident.

7. In the case of an individual who had been a resident of Sweden and who has become a resident of the United States, the provisions of paragraph 6 shall not affect the right of Sweden to tax gains from the disposition of any property derived by such individual at any time during the ten years following the date on which the individual has ceased to be a resident of Sweden.

Article 14

Independent personal services

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. However, such income may also be taxed in the other Contracting State to the extent that such services are or were performed in that other State and the income is attributable to a fixed base regularly available to the individual in that other State for the purpose of performing his activities.

Article 15

<u>Dependent personal services</u>

1. Subject to the provisions of Articles 16 (Directors' fees), 19 (Pensions and annuities) and 20 (Government service), 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 consecutive 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 derived by a resident of a Contracting State in respect of an employment as a member of the regular complement of a ship or aircraft operated

in international traffic, including an aircraft operated in international traffic by the air transport consortium Scandinavian Airlines System (SAS), shall be taxable only in that State, except that remuneration derived in respect of an employment as a member of the regular complement of a ship operated in international traffic by a Swedish enterprise may be taxed in Sweden.

Article 16

Directors' fees

Directors' fees derived by a resident of a Contracting State in his capacity as a member of the board of directors of a company which is a resident of the other Contracting State may be taxed in that other State. However, such fees shall be taxable only in the first-mentioned Contracting State to the extent such fees are derived in respect of services performed in that 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 State only if such person is:

a) an individual;

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

c) engaged in an active conduct of a trade or business in the first-mentioned Contracting 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 person, other than an individual, if:

(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 benefits of this Convention under subparagraphs a), b), e) or f) of this paragraph or who are citizens of the United States; 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 who are not entitled to benefits of this Convention under subparagraph a), b), e) or f) of this paragraph and are not citizens of the United States;

e) a company in whose principal class of shares there is substantial and regular trading on a recognized stock exchange; or

f) an entity which is a not-for-profit organization (including pension funds and private foundations), and which, by virtue of that status, is generally exempt from income taxation in the Contracting State of which it is a resident, provided that more than one half of the beneficiaries, members or participants, if any, in such organization are persons that are entitled, under this Article, to the benefits of the Convention.

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 Contracting State in which the income in question arises so determines.

3. For the purposes of subparagraph e) of paragraph 1, the term "a recognized stock 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 the purposes of the Securities Exchange Act of 1934;

b) the Stockholm Stock Exchange (Stockholms Fondbörs); and

c) any other stock exchange agreed upon by the competent authorities of the Contracting States.

4. The competent authorities of the Contracting States shall consult together with a view to developing a commonly agreed application of the provisions of this Article. The competent authorities shall, in accordance with the provisions of Article 26 (Exchange of information), exchange such information as is necessary for carrying out the provisions of this Article and safeguarding, in cases envisioned therein, the application of their domestic law.

Article 18

Artistes and athletes

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 theatre, motion picture, radio, or television artiste, or a musician, or as an athlete, 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 athlete, including expenses reimbursed to him or borne on his behalf, from such activities does not exceed six thousand United States dollars ($6,000) or its equivalent in Swedish kronor for any 12 month period.

2. Where income in respect of activities exercised by an entertainer or an athlete in his capacity as such accrues not to the entertainer or athlete but to another person, that income of that other person may, notwithstanding the provisions of Articles 7 (Business profits) and 14 (Independent personal services), be taxed in the Contracting State in which the activities of the entertainer or athlete are exercised, unless it is established that neither the entertainer or athlete nor persons related thereto participate directly or indirectly in any profits of that other person in any manner, including the receipt of deferred remuneration, bonuses, fees, dividends, partnership distributions or other distributions.

Article 19

Pensions and annuities

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

2. Notwithstanding the provisions of paragraph 2 of Article 20, pensions (including the Swedish "allmän tilläggspension") and other benefits paid out under provisions of the social security or similar legislation of 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.

3. The term "annuities" as used in this Article means a stated sum paid periodically at stated times during life or during a specified or ascertainable number of years, under an obligation to make the payments in return for adequate and full consideration (other than services rendered or to be rendered).

4. a) In determining the taxable income of an individual who renders personal services and who is a resident of a Contracting State but not a national of that State, contributions paid by, or on behalf of, such individual to a pension or other retirement arrangement that is established and maintained and recognized for tax purposes in the other Contracting State shall be treated in the same way for tax purposes in the first-mentioned State as a contribution paid to a pension or other

retirement arrangement that is established and maintained and recognized for tax purposes in that first-mentioned State, provided that:

(i) contributions were paid by, or on behalf of, such individual to such arrangement before he became a resident of the first-mentioned State; and

(ii) the competent authority of the first-mentioned State agrees that the pension or other retirement arrangement generally corresponds to a pension or other retirement arrangement recognized for tax purposes by that State.

b) A pension or other retirement arrangement is recognized for tax purposes in a State if the contributions to the arrangement would qualify for tax relief in that State.

Article 20

Government service

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

b) However, such remuneration shall be taxable only in the other 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. a) Any pension paid by, or out of funds created by, a Contracting State or a political subdivision or a local authority thereof to an individual in respect of services rendered to that State or subdivision or authority shall be taxable only in that State.

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

3. The provisions of Articles 14 (Independent personal services), 15 (Dependent personal services), 16 (Directors' fees), 18 (Artistes and athletes) and 19 (Pensions and annuities) shall apply to remuneration and pensions in respect of services rendered in connection

with a business carried on by a Contracting State or a political subdivision or a local authority thereof.

Article 21

Students and trainees

Payments received for the purpose of maintenance, education, or training by a student, apprentice, or business trainee who is or was immediately before visiting a Contracting State a resident of the other Contracting State and who is present in the first-mentioned State for the purpose of his full-time education or training shall not be taxed in that State, provided that such payments arise from sources outside that State.

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), if the beneficial owner of the income, being a resident of a Contracting State, carries on business in the other Contracting State through a permanent establishment situated therein, or performs in that other State independent personal services from a fixed base situated therein, and the income is attributable to such permanent establishment or fixed base. In such case the provisions of Article 7 (Business profits) or Article 14 (Independent personal services), as the case may be, shall apply.

Article 23

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

a) the income tax paid to Sweden by or on behalf of such citizen or resident; and

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

For the purposes of this paragraph and paragraphs 3 and 4, the taxes referred to in paragraphs 1 b) and 2 of Article 2 (Taxes covered) shall be considered income taxes except for the taxes referred to in paragraphs 1) b) v) and vi).

2. a) Where a resident of Sweden derives income which may be taxed in the United States in accordance with the provisions of this Convention [except when income is taxed only in accordance with the provisions of paragraph 4 of Article 1 (Personal scope)], Sweden shall allow - subject to the provisions of the law of Sweden (as it may be amended from time to time without changing the general principle hereof) - as a deduction from Swedish tax on

the income of that resident an amount equal to the income tax paid in the United States.

The provisions of this sub-paragraph shall apply equally to the computation of tax on income of an individual resident of the United States from gains taxed in Sweden in accordance with paragraph 7 of Article 13 (Gains).

b) Where a resident of Sweden derives income which shall be taxable only in the United States in accordance with the provisions of paragraph 2 of Article 19 (Pensions and annuities) Article 20 (Government service) Sweden may, when determining the graduated rate of Swedish tax, take into account the income which shall be taxable only in the United States.

c) Dividends paid by a company being a resident of the United States to a company which is a resident of Sweden shall be exempt from Swedish tax to the extent that the dividends would have been exempt under Swedish law if both companies had been Swedish companies. This provision shall not apply unless the profits out of which the dividends are paid have been subjected to the normal corporate tax in the United States.

3. Where a United States citizen is a resident of Sweden, the following rules shall apply

a) Sweden shall allow, subject to the provisions of the law of Sweden (as it may be amended from time to time without changing the general principle thereof), as a deduction from Swedish tax the income tax paid to the United States in respect of profits, income or gains which arise in the United States, except that such deduction shall not exceed the amount of the tax that

would be paid to the United States according to this Convention if the resident were not a United States citizen;

b) for the purpose of computing the United States tax, the United States shall allow, 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), as a credit against United States income tax the income tax paid or accrued to Sweden after the deduction referred to in subparagraph a), provided that the credit so allowed shall not reduce that portion of the United States tax that is deductible from Swedish tax in accordance with subparagraph a); and

c) for the purposes of subparagraph b) profits, income or gains shall be deemed to arise in Sweden to the extent necessary to avoid double taxation of such income.

4. For the purposes of allowing relief from double taxation pursuant to this Article and subject to such source rules in the domestic laws of the Contracting States as apply for the purpose of limiting the foreign tax credit, income shall be deemed to arise exclusively as follows

a) income derived by a resident of a Contracting State shall be deemed to arise in the other Contracting State if it may be taxed in that other State in accordance with this Convention unless it is taxable in that other State solely by reason of (i) citizenship in accordance with paragraph 4 of Article 1 (Personal scope) or (ii) former residency in accordance with paragraph 7 of Article 13;

b) income derived by a resident of a Contracting State which may not be taxed in the other Contracting State in accordance with the Convention shall be deemed to arise in the first-mentioned State.

The rules of this paragraph shall not apply in determining credits against United States tax for foreign taxes other than the taxes referred to in paragraphs 1 b) and 2 of Article 2 (Taxes covered).

Article 24

Non-discrimination

1. A citizen of a Contracting State or a legal person, partnership or association deriving its status as such from the laws in force in 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 a legal person, partnership or association deriving its status as such from the laws in force in that other State in the same circumstances is or may be subjected. This provision shall, notwithstanding the provisions of Article 1 (Personal scope), also apply to persons who are not residents of one or both of the Contracting States. However, for the purposes of United States tax, a United States citizen who is not a resident of the United States and a Swedish citizen who is not a resident of the United States are not in the same circumstances.

2. The taxation on a permanent establishment which an enterprise of 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.

3. Except where the provisions of paragraph 1 of Article

9 (Associated enterprises), paragraph 5 of Article 11 (Interest), or paragraph 4 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. 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.

5. Nothing in this Article shall be construed as preventing imposition of a tax described in paragraph 8 of Article 10 (Dividends).

6. 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 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 on

a) the attribution of income, deductions, credits, or allowances of an enterprise of a Contracting State to its permanent establishment situated in the other Contracting State;

b) the allocation of income, deductions, credits, or allowances between persons;

c) the characterization of particular items of income;

d) the application of source rules with respect to particular items of income; and

e) a common meaning of a term.

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 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 (Personal 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. The competent authorities may by mutual agreement settle the mode of application of the preceding paragraphs of this Article. Such agreements may include but need not be limited to procedures for implementing routine, spontaneous and industrywide exchanges of information, information exchanges on request, simultaneous tax examinations and such other methods of exchanging information as may be necessary or appropriate to carry out the purposes of paragraph 1.

5. 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

<u>Administrative assistance</u>

1. The Contracting States undertake to lend assistance and support to each other in the collection of the taxes to which this Convention applies, together with interest, costs, and additions to such taxes.

2. In the case of applications for enforcement of taxes, revenue claims of each of the Contracting States which have been finally determined may be accepted for enforcement by the other Contracting State and may be collected in that State in accordance with the laws applicable to the enforcement and collection of its own taxes.

3. Any application shall include a certification that under the laws of the State making the application the taxes have been finally determined.

4. The assistance provided for in this Article shall not be accorded with respect to the citizens, companies, or other entities of the State to which the application is made, except as is necessary to insure that the exemption or reduced rate of tax granted under this Convention to such citizens, companies, or other entities shall not be enjoyed by persons not entitled to such benefits.

5. This Article shall not impose upon either of the Contracting States the obligation to carry out administrative measures which are of a different nature from those used in the collection of its own taxes, or

which would be contrary to its sovereignty, security, or public policy.

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

<u>Entry into force</u>

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 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 the case of the United States

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

(ii) in respect of other taxes, for taxable years beginning on or after the first day of January next following the date on which the Convention enters into force; and

b) in the case of Sweden

(i) in respect of taxes on income, for income derived on or after the first day of January next following the date on which the Convention enters into force;

(ii) in respect of the State capital tax, for tax which is assessed in or after the second

calendar year following that in which the Convention enters into force;

(iii) in respect of the excise tax imposed on insurance premiums paid to foreign insurers, for premiums paid on or after the first day of January next following the date on which the Convention enters into force.

3. Upon the coming into effect of this Convention, the Convention and accompanying Protocol between the Government of the United States of America and the Kingdom of Sweden for the avoidance of double taxation and the establishment of rules of reciprocal administrative assistance in the case of income and other taxes, signed at Washington on March 23, 1939, as modified by a Supplementary Convention signed at Stockholm on October 22, 1963, shall terminate. The provisions of the 1939 Convention, as modified, shall cease to have effect with respect to the United States and Sweden from the date on which the corresponding provisions of this Convention shall, for the first time, have effect according to the provisions of paragraph 2 of this Article. With regard to the Swedish State capital tax, the 1939 Convention shall be applied for the last time for tax assessed the first year after the year in which this Convention enters into force.

Article 30

Termination

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 the case of the United States

(i) 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 months period;

(ii) in respect of other taxes, for taxable years beginning on or after the first day of January next following the expiration of the 6 months period; and

b) in the case of Sweden

(i) in respect of taxes on income, for income derived on or after the first day of January next following the expiration of the 6 months period;

(ii) in respect of the State capital tax, for tax which is assessed in or after the second calendar year following the expiration of the 6 months period;

(iii) in respect of the excise tax imposed on insurance premiums paid to foreign insurers, for premiums paid on or after the first day of January next following the expiration of the 6 months period.

IN WITNESS WHEREOF, the undersigned, being duly authorized by their respective governments, have signed the Convention.

DONE at Stockholm, in duplicate, in the English language, this day of

FOR THE GOVERNMENT OF SWEDEN:	FOR THE GOVERNMENT OF THE UNITED STATES OF AMERICA:

Embassy of the United States of America
Stockholm

Excellency:

I have the honor to refer to the Convention between the Government of the United States of America and the Government of Sweden for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income, which was signed today, and to confirm, on behalf of the Government of the United States of America, the following understandings reached between our two Governments.

1. Scandinavian Airlines System (SAS) is a consortium within the meaning of Article 8 (Shipping and air transport), its participating members being Det Danske Luftfartsselskab A/S (DDL), Det Norske Luftfarts-selskap A/S (DNL), and AB Aerotransport (ABA). In order to avoid the problems inherent in operating in the United States through a consortium, the members of the consortium in 1946 established a New York corporation, Scandinavian Airlines of North America Inc. (SANA Inc.) - originally under the name Scandinavian Airlines System, Inc. to act on their behalf in the United States pursuant to an agency agreement dated September 18, 1946. A similar agreement was entered into by SAS directly and SANA Inc. on March 14, 1951 and revised on August 4, 1970.

Pursuant to the agency agreement, SANA Inc. is authorized to perform only such functions as SAS assigns to it, all in connection with international air traffic. Under that agreement, all revenues collected by SANA Inc. are automatically credited to SAS. Operating expenses incurred by SANA Inc. are debited to SAS in accordance with the terms of the agency agreement. SAS is obligated under the terms of the agency agreement to reimburse SANA Inc. for all of its expenses irrespective of the revenues of SANA Inc. SANA Inc. does not perform any functions except those connected with or incidental to the business of SAS as an operator of aircraft in international traffic.

In view of the special nature of the SAS consortium and in view of the agency agreement as described above, the United States for purposes of Article 8 (Shipping and Air Transport) of the Convention signed today shall treat all of the income earned by SANA Inc. which is derived from the operation in international traffic of aircraft as the income of the SAS consortium.

2. It is understood that the reference in paragraph 2 of Article 19 (Pensions and annuities) to legislation similar to the social security legislation of a Contracting State is intended, in the case of the United States, to refer to tier 1 Railroad Retirement benefits.

If this is in accordance with your understanding, I would appreciate an acknowledgment from you to that effect.

Accept, Excellency, the renewed assurances of my highest consideration.

Ambassador Thomas L. Siebert

Mr. Bo Lundgren
Minister for Fiscal and Financial Affairs
Kingdom of Sweden

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
Text as Prepared for Delivery
September 1, 1994

REMARKS OF ALEX RODRIGUEZ
DEPUTY ASSISTANT SECRETARY (ADMINISTRATION)
UNITED STATES HISPANIC CHAMBER OF COMMERCE
SAN FRANCISCO

The Community Reinvestment Act was passed by Congress in 1977 to try to make banks invest in their local communities. Considering the wide range of benefits that the government provides banks with and considering that all that this legislation requires is that the bank does business with the people that provide it with capital, this hardly seemed like an unreasonable or difficult request. However, after 16 years, the bill has not lived up to its potential.

The actual legislation was very short -- only two pages long -- and therefore its interpretation was left up to the regulators. The regulating agencies developed a twelve assessment factor test that was criticized by both community leaders and banks. However, one cannot blame all the problems of the CRA on this regulation. Other problems are that the regulating agencies have not enforced the measure strictly enough and the banking community has controlled the entire debate on the subject.

The Clinton Administration is dedicated to making CRA work. President Clinton requested that the regulating agencies reform the existing regulation and that they enforce it more strictly. The CRA reform effort is just part of the Administration's larger agenda of community development. Community leaders must also play their part. You cannot allow the banks to control the debate on the issue.

LB-1052

In December, the four regulating agencies came up with a proposed regulation that responds to many of the complaints from both sides. The proposed revision involves replacing the current twelve assessment factors with three tests: the lending test, the service test, and the investment test. The lending test measures the number of loans made to low and moderate income areas in the bank's community and compares its lending numbers with other CRA institutions in the same area. The service test measures the extent to which the bank's facilities are accessible to its community, by looking at branch location and services that enhance credit availability. The investment test measures the amount of the bank's investments that benefit low and moderate income areas. Smaller banks, those with assets totaling less than $250 million, have a streamlined test that requires them to have a 60% loan to deposit ratio.

Banks have been firing a machine gun of complaints about the new tests while community leaders have basically been silent. Now the plan, which was previously viewed as completely anti-community, is seen as largely anti-bank. Lost in the discussion is the fact that community leaders are not completely in favor of the agencies' new plan either; many leaders feel that this new plan does not go far enough.

The Community Reinvestment Act and other similar federal policies are excellent opportunities to improve the financial resources of middle and lower income communities. But to function effectively they need to be monitored by the communities that they are meant to serve. The banks should not be the only ones commenting.

Also, you should be very familiar with the current CRA review procedure, so that until it is revised, it can be used effectively. There are five areas which are reviewed: the ascertainment of community credit needs; the marketing and types of credit offered and extended to the community; the geographic distribution of and a record of opening and closing offices; discrimination and other illegal credit practices; and community development. After the examination is completed, institution's are placed in one of five performance categories: outstanding, high satisfactory, low satisfactory, needs to improve and substantial non-compliance. Satisfactory is considered a passing grade and there often is no effective distinction between low and high satisfactory.

Institutions must ensure that their CRA statement available to the public, written comments about an institution's performance may be submitted to the institution or its supervisory agency, that a file of public comments be made available, that the public be able to request announcements of the institution's applications covered by CRA from the advisory agencies and that the latest CRA evaluation be made available.

Although it may not appear that there is much that community leaders can do, they can, in fact, play a major role in the CRA examination process. Part of the examination process involves discussions with community leaders about the bank's performance. Local leaders need to take advantage of this opportunity. They should be candid and make clear to an investigator how they feel about a bank's performance.

Community leaders should also be familiar with each bank's delineated "community" and with what types of credit each bank is willing to extend. And of course leaders should take full advantage of a bank's CRA file. Read their CRA statement, examine their last evaluation, find out when the bank will be making corporate applications, read the public comments, make public comments. Community leaders can make a real impact during a bank's application process. Make noise.

It may seem that I have just described how the CRA process should work, not how it actually works. There is plenty of evidence that the process that I have just described is not the way the law is actually applied. For instance, there have been many examples of bank mergers or approved bank applications for banks with low CRA ratings. There are also examples of cases in which substantive community complaints have been ignored. In 1992, there were forty six protests against applications for mergers, acquisitions and new branches and only three applications were denied. A third problem is that the rating system is not very effective as about 90% of the banks receive the passing grade of at least satisfactory.

These numbers may sound disheartening, but rather than silence you, they should make you even more vocal about this law. In 1993, despite community protests about Banc One Corporation of Cleveland's CRA performance, the Federal Reserve Board approved a merger between Banc One and Valley National Corporation of Phoenix. However, to silence community protests, Banc One has agreed to make about $7 million worth of investments and loans in inner-city Cleveland over the next few years. This is proof that making your opinion heard is still your best policy.

Bank financed economic development is a key factor in the escape from poverty, so you must not give up on the CRA. The Clinton Administration is doing what it can to make the Community Reinvestment Act an effective bill. We are working on reforming the current regulation and on making the enforcement standards much tighter. However, we cannot do this alone. Your comments need to guide our reform effort. Also, your comments will strengthen the case that CRA reform is needed in the first place. So keep talking and talking loudly.

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FOR IMMEDIATE RELEASE
September 2, 1994

Contact: Chris Peacock
(202) 622-2960

TREASURY'S CUBA HOTLINE CONTINUES

The Treasury Department's hotline for questions about restrictions on travel and cash remittances to Cuba enters its second week Monday.

The toll-free number is 1-800-306-CUBA, or 1-800-306-2822.

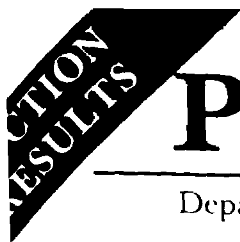
On August 20, 1994 President Clinton announced further steps the U.S. government is taking in response to the Cuban government's attempt to export a problem of its own making to the U.S. and risking the lives of Cuba's own countrymen in the process.

Those steps, implemented by Treasury's Office of Foreign Assets Control, took effect at 11 a.m., Friday, August 26.

The 24-hour hotline was set up for callers seeking assistance in understanding the tightened sanctions. Callers hear a detailed recorded response -- in English or Spanish -- to frequently asked questions. Most callers' questions have been answered this way. Treasury staff then responds personally to callers with additional questions.

-30-

LB-1053



PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
September 6, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $11,630 million of 13-week bills to be issued September 8, 1994 and to mature December 8, 1994 were accepted today (CUSIP: 912794P40).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	4.57%	4.69%	98.845
High	4.58%	4.70%	98.842
Average	4.58%	4.70%	98.842

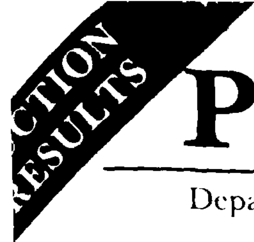
Tenders at the high discount rate were allotted 53%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$56,426,428	$11,630,455
Type		
Competitive	$51,247,221	$6,451,248
Noncompetitive	1,378,111	1,378,111
Subtotal, Public	$52,625,332	$7,829,359
Federal Reserve	3,312,355	3,312,355
Foreign Official Institutions	488,741	488,741
TOTALS	$56,426,428	$11,630,455

An additional $233,859 thousand of bills will be issued to foreign official institutions for new cash.

LB-1054



PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
September 6, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $11,684 million of 26-week bills to be issued September 8, 1994 and to mature March 9, 1995 were accepted today (CUSIP: 912794Q80).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	4.87%	5.06%	97.538
High	4.89%	5.08%	97.528
Average	4.89%	5.08%	97.528

Tenders at the high discount rate were allotted 16%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$53,729,124	$11,683,678
Type		
Competitive	$48,087,133	$6,041,687
Noncompetitive	1,234,032	1,234,032
Subtotal, Public	$49,321,165	$7,275,719
Federal Reserve	3,250,000	3,250,000
Foreign Official Institutions	1,157,959	1,157,959
TOTALS	$53,729,124	$11,683,678

An additional $554,441 thousand of bills will be issued to foreign official institutions for new cash.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR RELEASE AT 2:30 P.M.
September 6, 1994

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $23,200 million, to be issued September 15, 1994. This offering will result in a paydown for the Treasury of about $2,100 million, as the maturing weekly bills are outstanding in the amount of $25,311 million.

Federal Reserve Banks hold $6,444 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 $2,594 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) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

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

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Attachment

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED SEPTEMBER 15, 1994

September 6, 1994

Offering Amount	$11,600 million	$11,600 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 M2 7	912794 Q9 8
Auction date	September 12, 1994	September 12, 1994
Issue date	September 15, 1994	September 15, 1994
Maturity date	December 15, 1994	March 16, 1995
Original issue date	December 16, 1993	September 15, 1994
Currently outstanding	$28,515 million	---
Minimum bid amount	$10,000	$10,000
Multiples	$ 1,000	$ 1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

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

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

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

Maximum Award . . . . 35% of public offering

Receipt of Tenders:

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

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

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

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
September 9, 1994

REMARKS OF TREASURY SECRETARY LLOYD BENTSEN
SOUTHWEST VOTER REGISTRATION EDUCATION PROJECT
SAN ANTONIO, TEXAS

Happy 20th anniversary. I don't know if you remember where you were 20 years ago this week. I know where I was. In the Rose Garden watching President Ford sign the law that enabled people to set up IRAs, and that changed our pension system.

I helped write that legislation. The vote wasn't like the cliff hangers we have today. It passed unanimously -- but it wasn't easy.

I wanted to change the pension system because there was someone from my church in Houston who had worked 29 years for the same company. In the 30th year, he would have been vested in a pension, but they fired him so they wouldn't have to pay it. You can't do that anymore.

Now there are about $650 billion invested in IRAs. From zero 20 years ago, to $650 billion. That's savings that provide retirement security for millions of Americans and help promote investment and economic growth.

Twenty years ago, benefit payments from private employer pension plans totaled about $15 billion a year. Today, they're $150 billion -- 10 times as much.

In 1974, private pension plans had $260 billion in assets. Today, they hold over $2 trillion. Back then, participants in private sector plans numbered 45 million. Now, it's almost 80 million.

And back then, if your employer went out of business, you not only lost your job, you lost your pension. Today, pensions are protected.

LB-1057

The point is, 20 years ago, we chose to do something. We said government can make a difference, government can create a better future, it can make some lasting contributions -- if the policies are useful and fair. And that one was.

I don't know a field where you can make a bigger difference than public service. You can teach. You can preach. You can heal. But there's no job where you affect more peoples' lives.

I'm preaching to the choir tonight. You wouldn't have registered two million voters over two decades if you had any doubts.

Susan Anthony used to say the Constitution reads "We the People," not "We the white male citizens." Voting has made a difference to the Hispanic community. I remember when I entered the House in 1949 -- there was just one Hispanic member -- Antonio Manuel Fernandez of New Mexico. I served in the House three terms, and he was it.

Now we have Martinez, and Gutierrez, and Menendez, and Velazquez, and many that end in A's and O's.

From one member to 18 Hispanic members today from eight states, although 10 are from Texas and California.

Think about that: Texas and California have about 30 percent of electoral votes in this country. In a presidential election year, if you get the Hispanic voters out, you can tip an election. That's power.

And what about our friend Henry Cisneros? What about the thousands of Hispanic officials holding local and state offices? Do you think they'd be where they are today, if Hispanics hadn't gone to the polls?

Do you think there would be a NADBank in San Antonio ready to fund $2-3 billion in clean-up projects along the border?

Do you think people in Iowa or Wisconsin would know our border even needed to be cleaned up if NAFTA hadn't been debated?

Do you think Mexico would be our second largest export market, passing Japan for the last two months, if NAFTA hadn't passed?

We still can make a difference on the issues. But -- and this is the message I hope you take home tonight -- we can't fix every problem. Nor should we be blamed for every problem. Nor should we be taking credit for things we had no responsibility over in the first place. We do that too often in Washington.

Many people are cynical of Washington. On the front pages and the TV screens, that's all you hear. How Washington is partisan. All they do is bicker. They can't get any work done.

I don't buy that. I never met a politician who came in with the intent to draw up bad legislation, with the intent to mess up the economy, or the justice system.

What you see in Washington is a diverse set of people, who see things differently, who represent different interests -- and that's why all the arguing. But you know better than I that diversity has always made this country great. It has always been our strength, not our weakness.

Look at what Congress has achieved in the last 19 months. We've put our economic house in order. We passed NAFTA.

We passed a crime bill that puts 100,000 cops on the streets, and tells criminals -- three strikes and you're out. We gave tax relief to 15 million working families. And we passed tax incentives for small businesses.

Now, we hope to ratify GATT, a trade agreement that's five times bigger than NAFTA. It will add 500,000 jobs in 10 years.

And, of course, there's health care on the agenda. Probably no issue is as important for you, since one of every three Hispanics lack health insurance. Health care will be tough to get through.

But add all these programs together, and it's been a good year.

By the way, I don't buy another argument you hear all the time -- that because of special interests, it's too tough for the lawmakers to cast the tough vote. You're going to hear that one on health care.

Do you think it's any harder today than it was in 1938 when Lyndon Johnson voted for a 25-cent an hour minimum wage bill, and everybody told him that if he did, it would end his political career?

I remember they told me if I voted to eliminate the poll tax, I'd have no future.

Do you think the lawmakers in the 1800s who said let's provide education for all Americans had an easy vote?

Every time there is a piece of progressive legislation -- be it Social Security, be it Medicare and Medicaid -- you hear that same worn-out argument. It's too tough.

Well, I don't buy it.

You talk about tough votes. We passed an economic plan last year by one vote. It eliminates over 100 government programs outright and cuts 200 others. Cutting programs is not a favorite activity. If you're running for re-election -- do you think you'll get many votes if you tell voters -- I closed the Army base in town?

Yet, there's no better example of what Washington can accomplish -- how we can make a difference -- than what we've accomplished with the economy.

We've created more than 4 million jobs -- 400,000 in Texas. Inflation is the lowest it's been in 20 years. Interest rates have risen a little lately, but in historical terms they're still low. I remember when the prime rate was 19 percent and inflation was 13 percent -- and you try selling a house then.

I was in Europe with the President in July, and out of the six other world leaders we met with -- from both Europe and Japan -- our economy was growing the fastest.

We're cutting the red ink. The last President to balance a budget was Lyndon Johnson -- 25 years ago. I don't see that happening any time soon.

Ten months into the fiscal year, and our budget deficit is $184 billion. Last year at this point, it was $241 billion. So we're making progress.

Let me talk about another tough vote -- NAFTA. In the Hispanic Caucus, half voted for it -- half against. We appreciated the help you gave us to get it passed.

NAFTA is working. Our exports to Mexico are up 17 percent. The sucking sound I hear are trailer rigs filled with products crossing the border.

Texas has more to gain from this than any other state. I know if I were a CEO of a company and I needed to recruit employees, or locate a new plant, I'd be looking right here.

What an advantage you have -- with the language skills, the understanding of the culture. I hope you market your talents and put those skills to use.

Earlier, I said the message I hope you leave with is that we can make a difference in government, but we can't fix every problem.

One reason I say that is if you think back over the 20 years since this organization was founded, we're not the same country, and we don't live in the same world.

We don't control what happens in other countries. Who would have thought that half of Russian industry would become private businesses, that I'd be talking with Asian nations about financing $1 trillion in infrastructure projects, that our exports to developing nations would grow faster than they have to Europe, that Ron Brown would take two dozen businessmen to China and come back with billions of dollars in business.

Or look how our country has changed socially. Look at how many babies are now born to single mothers, or at how many American children use drugs, or how many carry a gun to school.

A President, a Treasury Secretary, 535 members of Congress can't solve those kinds of problems. We only have one President, and he can't be a father to every child in this country.

But we have a responsibility to make some fundamental decisions on what kind of a future we want for American children.

Being cynical about it, being negative about it, throwing up your hands because you can't come to an agreement -- isn't being responsible.

We have a responsibility in Washington to vote programs up or down. And every American has a responsibility to vote on who should do the voting.

I want to end on this. It bothers me that only half of Americans vote -- and that's in a good year, a presidential election year.

It bothers me, because we're suppose to be the model. We're suppose to be the example for democracy.

I remember the pictures from South Africa -- where they lined up for a mile in front of voting booths. Do you know that close to 90 percent of that country's eligible voters cast a ballot?

Look at Latvia or the Ukraine, where it was a 70 percent turnout.

I was in Mexico City yesterday, meeting with President-Elect Zedillo. In that election, 77 percent of the country turned out.

And here, we're barely at 50 percent.

Yet what country would you want to live in that is better than this one? That is richer? That has a higher standard of living? That is fairer? That is more just? That understands the importance of diversity?

I've taken a look at the other systems. And I'm always glad to come back home.

So, do me a favor, will you? Get those 2 million people you've registered to go out and vote. Maybe we can't make as big a difference as we'd like, but we can still make a difference. Thank you very much.

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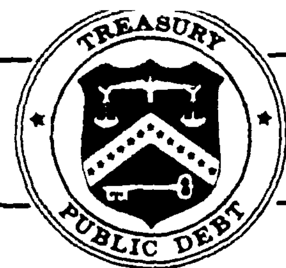
PUBLIC DEBT NEWS



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

FOR RELEASE AT 3:00 PM
September 7, 1994

Contact: Peter Hollenbach
(202) 219-3302

PUBLIC DEBT ANNOUNCES ACTIVITY FOR SECURITIES IN THE STRIPS PROGRAM FOR AUGUST 1994

Treasury's Bureau of the Public Debt announced activity figures for the month of August 1994, of securities within the Separate Trading of Registered Interest and Principal of Securities program (STRIPS).

Dollar Amounts in Thousands	
Principal Outstanding (Eligible Securities)	$803,415,305
Held in Unstripped Form	$580,518,081
Held in Stripped Form	$222,897,224
Reconstituted in August	$12,400,995

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

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

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PA-155
(LB-1058)

TABLE VI--HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, AUGUST 31, 1994
(In thousands)

Loan Description	Maturity Date	Principal Amount Outstanding: Total	Portion Held in Unstripped Form	Portion Held in Stripped Form	Reconstituted This Month#1
11-5/8% Note C-1994.....	.....11/15/94.....	$6,658,554	$4,724,154	$1,934,400	$716,800
11-1/4% Note A-1995.....	.....2/15/95......	6,933,861	5,713,061	1,220,800	48,960
11-1/4% Note B-1995.....	.....5/15/95......	7,127,086	4,543,246	2,583,840	12,000
10-1/2% Note C-1995.....	.....8/15/95......	7,955,901	5,145,501	2,810,400	-0-
9-1/2% Note D-1995......	.....11/15/95.....	7,318,550	3,778,150	3,540,400	118,400
8-7/8% Note A-1996......	.....2/15/96......	8,446,008	6,975,608	1,470,400	-0-
7-3/8% Note C-1996......	.....5/15/96......	20,085,643	18,376,843	1,708,800	32,000
7-1/4% Note D-1996......	.....11/15/96.....	20,258,810	17,784,410	2,474,400	44,000
8-1/2% Note A-1997......	.....5/15/97......	9,921,237	8,733,637	1,187,600	20,000
8-5/8% Note B-1997......	.....8/15/97......	9,362,836	7,900,436	1,462,400	57,600
8-7/8% Note C-1997......	.....11/15/97.....	9,808,329	7,777,929	2,030,400	11,200
8-1/8% Note A-1998......	.....2/15/98......	9,159,068	8,299,548	859,520	73,920
9% Note B-1998..........	.....5/15/98......	9,165,387	6,748,787	2,416,600	34,000
9-1/4% Note C-1998......	.....8/15/98......	11,342,646	9,104,246	2,238,400	63,200
8-7/8% Note D-1998......	.....11/15/98.....	9,902,875	7,077,275	2,825,600	27,200
8-7/8% Note A-1999......	.....2/15/99......	9,719,623	8,201,223	1,518,400	102,400
9-1/8% Note B-1999......	.....5/15/99......	10,047,103	6,642,303	3,404,800	-0-
8% Note C-1999..........	.....8/15/99......	10,163,644	8,031,819	2,131,825	65,900
7-7/8% Note D-1999......	.....11/15/99.....	10,773,960	7,885,960	2,888,000	118,400
8-1/2% Note A-2000......	.....2/15/00......	10,673,033	9,280,633	1,392,400	-0-
8-7/8% Note B-2000......	.....5/15/00......	10,496,230	6,181,030	4,315,200	14,400
8-3/4% Note C-2000......	.....8/15/00......	11,080,646	7,953,286	3,127,360	28,000
8-1/2% Note D-2000......	.....11/15/00.....	11,519,682	9,034,882	2,484,800	9,600
7-3/4% Note A-2001......	.....2/15/01......	11,312,802	9,387,202	1,925,600	26,400
8% Note B-2001..........	.....5/15/01......	12,398,083	10,051,858	2,346,225	31,500
7-7/8% Note C-2001......	.....8/15/01......	12,339,185	10,510,385	1,828,800	19,200
7-1/2% Note D-2001......	.....11/15/01.....	24,226,102	22,940,182	1,285,920	83,040
7-1/2% Note A-2002......	.....5/15/02......	11,714,397	10,965,837	748,560	16,000
6-3/8% Note B-2002......	.....8/15/02......	23,859,015	23,457,415	401,600	11,200
6-1/4% Note A-2003......	.....2/15/03......	23,562,691	23,534,339	28,352	-0-
5-3/4% Note B-2003......	.....8/15/03......	28,011,028	27,867,828	143,200	-0-
5-7/8% Note A-2004......	.....2/15/04......	12,955,077	12,955,077	-0-	-0-
7-1/4% Note B-2004......	.....5/15/04......	14,440,372	14,440,372	-0-	-0-
7-1/4% Note C-2004......	.....8/15/04......	13,346,464	13,346,464	-0-	-0-
11-5/8% Bond 2004.......	.....11/15/04.....	8,301,806	5,514,606	2,787,200	110,400
12% Bond 2005...........	.....5/15/05......	4,260,758	3,264,058	996,700	105,800
10-3/4% Bond 2005.......	.....8/15/05......	9,269,713	8,439,313	830,400	15,200
9-3/8% Bond 2006........	.....2/15/06......	4,755,916	4,755,276	640	-0-
11-3/4% Bond 2009-14....	.....11/15/14.....	6,005,584	1,830,384	4,175,200	1,245,600
11-1/4% Bond 2015.......	.....2/15/15......	12,667,799	4,898,839	7,768,960	700,000
10-5/8% Bond 2015.......	.....8/15/15......	7,149,916	2,240,476	4,909,440	232,000
9-7/8% Bond 2015........	.....11/15/15.....	6,899,859	2,645,459	4,254,400	398,400
9-1/4% Bond 2016........	.....2/15/16......	7,266,854	6,442,854	824,000	210,400
7-1/4% Bond 2016........	.....5/15/16......	18,823,551	18,157,951	665,600	1,600

TABLE VI--HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, AUGUST 31, 1994
(In thousands)

Loan Description	Maturity Date	Principal Amount Outstanding: Total	Principal Amount Outstanding: Portion Held in Unstripped Form	Principal Amount Outstanding: Portion Held in Stripped Form	Reconstituted This Month#1
7-1/2% Bond 2016	11/15/16	18,864,448	17,962,048	902,400	73,360
8-3/4% Bond 2017	5/15/17	18,194,169	7,857,049	10,337,120	2,183,200
8-7/8% Bond 2017	8/15/17	14,016,858	7,392,858	6,624,000	988,800
9-1/8% Bond 2018	5/15/18	8,708,639	1,983,839	6,724,800	177,600
9% Bond 2018	11/15/18	9,032,870	1,328,470	7,704,400	374,800
8-7/8% Bond 2019	2/15/19	19,250,798	4,410,798	14,840,000	457,600
8-1/8% Bond 2019	8/15/19	20,213,832	17,062,472	3,151,360	302,720
8-1/2% Bond 2020	2/15/20	10,228,868	4,388,868	5,840,000	178,000
8-3/4% Bond 2020	5/15/20	10,158,883	3,279,043	6,879,840	99,680
8-3/4% Bond 2020	8/15/20	21,418,606	4,052,686	17,365,920	523,840
7-7/8% Bond 2021	2/15/21	11,113,373	9,222,173	1,891,200	131,200
8-1/8% Bond 2021	5/15/21	11,958,888	4,513,768	7,445,120	423,040
8-1/8% Bond 2021	8/15/21	12,163,482	4,568,602	7,594,880	199,360
8% Bond 2021	11/15/21	32,798,394	6,917,944	25,880,450	351,875
7-1/4% Bond 2022	8/15/22	10,352,790	8,653,590	1,699,200	331,200
7-5/8% Bond 2022	11/15/22	10,699,626	4,088,426	6,611,200	224,000
7-1/8% Bond 2023	2/15/23	18,374,361	14,990,361	3,384,000	576,000
6-1/4% Bond 2023	8/15/23	22,909,044	22,835,252	73,792	-0-
7-1/2% Bond 2024	11/15/24	11,469,692	11,469,692	-0-	-0-
Total		803,415,305	580,518,081	222,897,224	12,400,995

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

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

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
September 8, 1994

CONTACT: Scott Dykema
(202) 622-2960

U.S., MEXICO SIGN TAX AGREEMENTS

MEXICO CITY -- The Treasury Department announced the United States and Mexico signed agreements Thursday that will facilitate exchange of tax information.

The agreements were signed in Mexico City by Treasury Secretary Lloyd Bentsen and Mexican Finance Minister Pedro Aspe.

"What we've done today is good for both countries," Bentsen said. "Sharing tax information more broadly can help increase compliance with state and local tax laws. Such improved cooperation also should enhance NAFTA's economic benefits by reducing government paperwork," the secretary said.

While all states benefit, the agreements are particularly important to tax authorities in U.S. border states -- California, Arizona, New Mexico and Texas. The U.S. government will be allowed to share the information it gets from the Mexican government with the states. U.S. officials also will be permitted to ask Mexico for specific information in connection with state tax compliance efforts.

The two protocols signed today would amend the current U.S.-Mexico income tax treaty, signed September 18, 1992, and a separate exchange of information agreement signed November 9, 1989. They would permit exchanging of information to enforce state and local tax laws in the United States and Mexico. The U.S. Senate must approve the treaty protocol before it takes effect but the protocol dealing with the 1989 exchange of information agreement takes effect when both governments exchange diplomatic notes.

Copies of the new protocols may be obtained by writing the Office of Public Affairs, U.S. Treasury Department, Room 2315, Washington, D.C. 20220, or by calling (202) 622-2960.

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LB-1059

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
September 8, 1994

CONTACT: Office of Financing
202/219-3350

TREASURY TO AUCTION CASH MANAGEMENT BILL

The Treasury will auction approximately $4,000 million of 7-day Treasury cash management bills to be issued September 9, 1994.

Competitive tenders will be received at all Federal Reserve Banks and Branches. Noncompetitive tenders will not be accepted. Tenders will not be accepted for bills to be maintained on the book-entry records of the Department of the Treasury (TREASURY DIRECT). Tenders will not be received at the Bureau of the Public Debt, Washington, D. C.

For this auction, a bidder must report the amount of its net long position when the total of all of its bids in this auction, plus the bidder's net long position in the 7-day cash management bill, equals or exceeds $1 billion.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) 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-1060

HIGHLIGHTS OF TREASURY OFFERING
OF 7-DAY CASH MANAGEMENT BILL

September 8, 1994

Offering Amount	$4,000 million
Description of Offering:	
Term and type of security .	7-day Cash Management Bill
CUSIP number	912794 2C 7
Auction date	September 9, 1994
Issue date	September 9, 1994
Maturity date	September 16, 1994
Original issue date	September 9, 1994
Minimum bid amount	$10,000,000
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 $1 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 11:00 a.m. Eastern Daylight Saving time on auction day
Payment Terms	Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
September 8, 1994

TREASURY AND VETERANS AFFAIRS TO SIGN FINANCIAL AGREEMENT

Treasury Under Secretary Frank Newman and Veterans Affairs Under Secretary Hershel Gober will sign a memorandum of understanding tomorrow, Friday, September 9, at 11 a.m. at the Department of Veterans Affairs, 810 Vermont Avenue NW, in the second floor conference room.

The memorandum will outline the joint efforts of the departments to improve existing financial operations by taking advantage of new automation technology. The agreement supports National Performance Review initiatives and will enhance VA systems for benefit, administrative and vendor payments. Treasury Fiscal Assistant Secretary Gerald Murphy, VA Assistant Secretary for Finance and Information Resources Management D. Mark Catlett and National Performance Review Project Director Bob Stone will also attend the event.

Contacts: Treasury, Jon Murchinson (202) 622-2960
Financial Management Service, Mary Hewitt (202) 874-7085
Veterans Affairs, Donna St. John (202) 273-5700

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LB-1061

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
Text as Prepared for Delivery
September 9, 1994

**REMARKS OF UNDER SECRETARY FRANK NEWMAN
SIGNING OF VETERANS AFFAIRS MEMORANDUM OF UNDERSTANDING**

Good Morning. I am delighted to be here today to celebrate with you the results of the partnership between the Department of the Treasury, the Financial Management Service, and the Department of Veterans Affairs. This partnership and initiative will improve payment operations related to VA's Compensation and Pension benefit payments. These efforts include implementing various Electronic Commerce initiatives for vendor payments. Another objective is to increase participation in Direct Deposit/Electronic Funds Transfer for Federal salary payments. This Memorandum of Understanding serves as a Performance Standard Agreement. It will be used by both agencies (pleased to see many of you here), as a measurement tool for matching performance against agreed upon service to our mutual customers.

The missions of the Departments of Treasury and Veterans Affairs are deep-rooted in our Nation's history. In the year 1789, Congress recognized the need for sound financial management and created the Department of Treasury. FMS performs many of the oldest and most basic Treasury functions as it receives and disburses public monies, maintains government accounts, and prepares reports on the status of government finances.
During the current Fiscal Year, FMS will issue over 800 million Government payments and manage a cash flow of $2.5 trillion. The VA's mission is also long-standing. As a point of historical interest, the Continental Congress provided pension benefits to disabled veterans of our Revolutionary War. The Department of Veterans Affairs has continued to honor and assist those who have served in America's armed forces.

-More-

LB-1062

Today, beneficiaries include 27 million veterans and their families -- approximately 70 million people, or about one-fourth of the entire U.S. population. Thus, this Agreement impacts the lives of many U.S. citizens, our ultimate customers.

This celebration occurs nearly one year to the day from the issuance of the National Performance Review Summary Report. This Agreement reflects our long-standing mission to put the customer first. As you may know, this is one of the basic precepts of the National Performance Review. The objective of this Agreement is to streamline both FMS and VA processes by taking advantage of technological improvements. By streamlining our processes, we will reduce costs and improve service to the payment recipient. This is the first step of many in an on-going process to seek joint opportunities to lower costs, increase efficiency, and improve service to our customer.

FMS' and VA's customer service efforts in Washington and at the Austin Regional Financial Center will have far-reaching implications for streamlining and improving the payment process. I am very pleased to be signing this Agreement today which signifies the beginning of improvements which will occur over several years. This agreement is a very big step towards giving the American public the service it deserves and needs. All of these improvements will ensure that veterans benefits and services are to be delivered in an even more high quality, cost-effective, and timely manner to veterans and their families.

Thank you for joining me here today in the signing of this significant agreement.

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REPORT

ON

U.S. CRITICAL TECHNOLOGY COMPANIES

Report to Congress on
Foreign Acquisition of and
Espionage Activities against
U.S. Critical Technology Companies

1994

Report

on

U.S. Critical Technology Companies

Report to Congress on
Foreign Acquisition of and
Espionage Activities against
U.S. Critical Technology Companies

1994

REPORT
ON
WHETHER FOREIGN GOVERNMENTS OR COMPANIES HAVE A COORDINATED STRATEGY TO ACQUIRE U.S. CRITICAL TECHNOLOGY COMPANIES

AND

WHETHER FOREIGN GOVERNMENTS USE ESPIONAGE ACTIVITIES TO OBTAIN COMMERCIAL U.S. CRITICAL TECHNOLOGY SECRETS

EXECUTIVE SUMMARY

Section 163 of the Defense Production Act of 1992 required a report on whether foreign companies or governments employ a coordinated acquisition strategy targeting U.S. critical technology companies and whether foreign governments use espionage activities to obtain the commercial critical technologies of U.S. companies. The President and agencies that he designates were given the responsibility for completing the report. Accordingly, the National Economic Council (NEC) formed a working group, chaired by the Department of Treasury, to prepare the report. The members of the working group were the Departments of Treasury, State, Defense, Commerce, and Justice, the Office of Management and Budget, the Office of the U.S. Trade Representative, the Council of Economic Advisers, the Office of Science and Technology Policy, the National Security Council and the National Economic Council itself. Also, named to the working group were the Central Intelligence Agency (CIA) and the Federal Bureau of Investigation (FBI).

The working group addressed the issues raised in Section 163:

1) by analyzing the pattern of recent acquisitions of U.S. companies with critical technologies by firms based in countries that are major economic competitors of the United States.

- o The working group concentrated on foreign acquisitions through merger and acquisition of commercial and dual-use, but not solely military, U.S. critical technologies.

- o It did not attempt to evaluate issues concerning other avenues of foreign access to U.S. commercial critical technologies, such as licensing, joint ventures or other cooperative arrangements.

2) by assessing attempts by governments of major U.S. economic competitors to obtain commercial and dual-use U.S. critical technologies, recognizing the distinction between espionage and legal economic intelligence gathering.

- o The working group did not attempt to evaluate foreign espionage in areas other than commercial and dual-use U.S. critical technologies or against non-United States companies.

- o The working group reviewed briefly other countries, not major economic competitors of the United States, that have historically sought information on U.S. critical technologies through the use of their intelligence services.

BACKGROUND AND OVERVIEW

The report has four sections. After the introductory Section I, Section II provides the overview placing foreign investment in U.S. high-technology industries, both acquisitions and

greenfield investments (start-up companies), in context. It discusses an analysis of official data from the Department of Commerce, the Bureau of Economic Analysis (BEA) and the Bureau of the Census, on foreign direct investment in the United States (FDIUS) in U.S. high-technology industries. This analysis indicates that foreign firms are not concentrated in, and do not dominate, major U.S. high-technology industries, although they do invest in these, along with other sectors of the U.S. economy. As of the end of 1990, 15 percent of all foreign direct investment in the United States was in high-technology industries. The percentage of sales by high-technology companies relative to all manufacturing companies is about the same for both foreign-owned and U.S.-owned firms. For example, in 1987, high-technology firms accounted for 20.0 percent of sales by U.S.-owned manufacturing firms and 23.5 percent of sales by foreign-owned manufacturing firms. Because there is a time-lag between acquisitions and publication of the data, the discussion in Section II does not fully cover the slowdown in FDIUS in recent years.

COORDINATED FOREIGN ACQUISITION STRATEGY

For purposes of this report, a coordinated foreign acquisition strategy was considered to be directed efforts between and among a country and its national companies or between and among national companies to acquire U.S. companies with critical technologies. The efforts of a single company in pursuit of business goals were not, in the absence of direction from outside the company, considered to be a coordinated strategy. Individual company strategies encompass such goals as entry into the U.S. market, increased market share, increased sales, access to new technologies, and diversification out of mature industries.

The working group undertook an analysis of 984 mergers and acquisitions between foreign companies and U.S. companies with critical technology capabilities covering the period January 1, 1985 to October 1, 1993. This data is derived from an extensive review of M&A publications, public on-line data bases, business prospectuses, industry surveys, and other sources. The working group is confident that the vast majority of deals are included and that the data base is the most comprehensive of its kind available. This survey concentrates on those companies from countries that are most active in mergers and acquisitions of U.S. high-technology companies. This includes the G-7 nations (Japan, Germany, France, Italy, the United Kingdom and Canada) as well as the Netherlands, Sweden, Switzerland, South Korea and Taiwan. Section III contains the working group's analysis.

In categorizing transactions, the working group was guided by the National Critical Technology List, but it also sought to provide additional specificity to merger and acquisition activity in key technologies by providing a more descriptive breakdown of some technology categories. A comparison of the National Critical Technology List and the more detailed list used by the working group is provided in Appendix A. Because of a paucity of merger and acquisition activity in energy and environmental critical technologies, these areas are not included.

The working group did not find credible evidence demonstrating a coordinated strategy on

the part of either foreign governments or companies to acquire U.S. companies with critical technologies. The working group found that foreign merger and acquisition activity in the United States is first and foremost a private sector decision depending on a variety of circumstances and motivations, and that these acquisitions are consistent with the goals and strategies of individual businesses. For example, foreign companies can acquire U.S. critical technology companies to gain access to new technologies and products, to expand U.S. market share, and to diversify their businesses away from more mature industries into emerging growth industries such as biotechnology. The absence of credible evidence demonstrating a coordinated strategy, nevertheless, should not be viewed as conclusive proof that a coordinated strategy does not exist.

In some cases, however, foreign governments give indirect assistance and guidance to domestic firms acquiring U.S. companies. The main methods of government involvement include extending tax credits to promote foreign merger and acquisition (M&A) activity; exercising controlling government interest in major firms to promote foreign M&A activity; and identifying technologies that are critical to national economic development. Acquisitions by Taiwan firms, for example, may be influenced by the Taiwan authorities in the form of financial assistance and by the designation of key high-technology industries as critical to Taiwan's future. The Government of France has attempted to play a role in influencing French acquisitions and has provided financing. Japan's Ministry of International Trade and Technology (MITI) often issues official assessments of select industries which it believes will be key to Japan's economic future.

ESPIONAGE

Section IV discusses economic intelligence gathering, including espionage, used to obtain commercial secrets involving critical technologies. This report uses the word espionage in a broad sense to include actions that are not in fact espionage under U.S. law (18 U.S.C., Chapter 37). For espionage in the legal sense to occur, there must be foreign government involvement in the collection by illicit means of protected (usually classified) information having significance for U.S. national defense. The theft of proprietary information that is not significant for U.S. national defense is banned by laws protecting intellectual and other property.

The legislative request for this report asked for an evaluation of industrial espionage activities directed by foreign governments against private United States companies aimed at obtaining commercial critical technology secrets. The term "industrial espionage" has a generally accepted meaning in the intelligence community that precludes its use in connection with foreign governments' activities. The definition of "industrial/ commercial espionage" (hereafter shortened to commercial espionage) is:

o Intelligence activity sponsored by private business, which is designed to unlawfully obtain classified and/or proprietary information for the purpose of enhancing a private firm's competitive advantage against U.S. economic interests in the marketplace.

This report discusses espionage sponsored by governments in the critical technologies area as "economic espionage" defined as:

> o Government-sponsored or coordinated intelligence activity designed to unlawfully and covertly obtain classified data and/or sensitive policy or proprietary information from a U.S. Government agency or company, potentially having the effect of enhancing a foreign country's economic competitiveness and damaging U.S. economic security.

The target of government-sponsored activities is the collection of either or both:

> o *Economic Intelligence*: Raw reporting or aggregated and analyzed information on a country's economy or technologies -- whether drawn from classified, proprietary, or open sources -- which is intended for public policy purposes.
>
> o *Economic Information*: Overt economic data, generally lacking intelligence value as collected, which has not been integrated with data from other sources, subjected to analysis, or prepared for policymaking purposes.

In contrast to espionage, nearly all governments engage in economic intelligence gathering and extensively analyze economic information that is publicly available. Since U.S. companies with critical technologies in many cases are industry leaders, they are the primary targets of foreign economic intelligence efforts.

Section IV concentrates on the major U.S. economic competitors. This section also briefly discusses other countries, not major economic competitors of the United States, that have historically sought information on U.S. critical technologies through the use of their intelligence services.

I. Introduction

BACKGROUND

Section 163 of the Defense Production Act Amendments of 1992 added the following new subsection:

> "(k) Quadrennial Report. --
>
> > "(1) In general. -- In order to assist the Congress in its oversight responsibilities with respect to this section, the President and such agencies as the President shall designate shall complete and furnish to the Congress, not later than 1 year after the date of enactment of this section and upon the expiration of every 4 years thereafter, a report which --

"(A) evaluates whether there is credible evidence of a coordinated strategy by 1 or more countries or companies to acquire United States companies involved in research, development, or production of critical technologies for which the United States is a leading producer; and

"(B) evaluates whether there are industrial espionage activities directed by foreign governments against private United States companies aimed at obtaining commercial secrets related to critical technologies.

"(2) Definition. -- For the purpose of this subsection, the term 'critical technologies' means technologies identified under title VI of the National Science and Technology Policy, Organization, and Priorities Act of 1976 or other critical technology, critical components, or critical technology items essential to national defense identified pursuant to this section.

"(3) Release of unclassified study. -- The report required by this subsection may be classified. An unclassified version of the report shall be made available to the public."

APPROACH FOR EVALUATION OF CRITICAL TECHNOLOGY ACQUISITIONS OF U.S. COMPANIES

The National Economic Council formed a working group, chaired by the Department of Treasury, to prepare the report. The NEC named the members of the working group including the Departments of Treasury, State, Defense, Commerce, and Justice, the Office of Management and Budget, the Office of the U.S. Trade Representative, the Council of Economic Advisers, the Office of Science and Technology Policy, the National Security Council and the National Economic Council itself. Also, named to the working group were the Central Intelligence Agency (CIA) and the Federal Bureau of Investigation (FBI).

The working group addressed the issues raised in Section 163:

1) by analyzing the pattern of recent acquisitions of U.S. companies with critical technologies by firms based in countries that are major economic competitors of the United States.

o The working group concentrated on foreign acquisitions through merger and acquisition of commercial and dual-use[1], but not solely military, U.S. critical technologies.

o It did not attempt to evaluate issues concerning other avenues of foreign

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[1] "Commercial technologies" will be used in this report to include dual-use technologies.

access to U.S. commercial critical technologies, such as licensing, joint ventures or other cooperative arrangements.

2) by assessing attempts by governments of major U.S. economic competitors to obtain commercial and dual-use U.S. critical technologies, recognizing the distinction between espionage and legal economic intelligence gathering.

o The working group did not attempt to evaluate foreign espionage in areas other than commercial and dual-use U.S. critical technologies or against non-United States companies.

o The working group reviewed briefly other countries, not major economic competitors of the United States, that have historically sought information on U.S. critical technologies through the use of their intelligence services.

In formulating its approach, the working group relied on the definition of critical technologies as contained in the March 1991 report of the National Critical Technologies Panel. The Panel report defined technologies as critical when they generate future innovations in a wide range of goods and services. Critical technologies are those that satisfy long-term national economic and scientific objectives, such as strong national defense, improved economic competitiveness, a rising standard of living, improved public health, and energy independence.

To get a sense of the information obtainable on critical technology acquisitions, the working group surveyed the data bases publicly available from U.S. Government sources, including official data published by the Department of Commerce on FDIUS. In addition, the working group examined as many individual mergers and acquisitions between foreign companies and U.S. companies in critical technology categories as possible relying on mergers and acquisitions publications, public on-line data bases, business prospectuses, industry surveys and other sources. When combined with official U.S. Government data, the working group was able to identify 984 foreign mergers and acquisitions (M&As) involving U.S. companies with critical technologies during the relevant time period.

The working group concentrated on the G-7 nations (Japan, Germany, France, Italy, the United Kingdom, and Canada) as well as the Netherlands, Sweden, Switzerland, South Korea and Taiwan. These countries were selected because their companies are most active in business relationships with U.S. high-technology companies. It focused on the time period from January 1, 1985 to October 1, 1993, because the majority of M&A activity involving U.S. companies in critical technologies has occurred since 1985. In order to lend more specificity to M&A activity in key technology areas on the National Critical Technology List, the working group also prepared a more detailed descriptive breakdown of some technology categories and these are outlined in Appendix A. Because of the paucity of M&A activity in energy and environmental critical technologies, these areas are not included.

SCOPE OF THE REPORT

The report is divided into the following sections:

I. Introduction

II. Foreign Direct Investment in U.S. High-Technology Industries

III. Whether There is Evidence of a Coordinated Strategy to Acquire U.S. Critical Technology Companies

IV. Whether Foreign Governments Use Espionage Activities to Obtain Commercial U.S. Secrets Related to Critical Technologies

Section I explains the background, approach and scope of this report.

Section II is based on a review of publicly available data from the Department of Commerce. It summarizes, in general, the experience of foreign direct investment activity in U.S. high-technology companies in recent years. It shows that foreign firms are not concentrated in, and do not dominate, major U.S. high-technology industries.

For purposes of this report, a coordinated foreign acquisition strategy was considered to be directed efforts between and among a country and its national companies or between and among national companies to acquire U.S. companies with critical technologies. The efforts of a single company in pursuit of business goals were not, in the absence of direction from outside the company, considered to be a coordinated strategy. Individual company strategies encompass such goals as entry into the U.S. market, increased market share, increased sales, access to new technologies, and diversification out of mature industries.

Section III presents the analysis of a comprehensive survey of 984 mergers and acquisitions between foreign companies and U.S. companies with critical technology capabilities covering the period from January 1, 1985 through October 1, 1993. This survey concentrates on companies from countries that are most active in mergers and acquisitions with U.S. high-technology companies. This includes the G-7 nations (Japan, Germany, France, Italy, the United Kingdom and Canada) as well as the Netherlands, Sweden, Switzerland, South Korea and Taiwan. The working group in categorizing these acquisitions sought more specificity than available from the National Critical Technology Panel's list. Therefore, it provided a more descriptive breakdown for some technology categories. A comparison of the National Critical Technology List and the more detailed list used by the working group is provided in Appendix A.

Appendix B provides a country-by-country review of foreign mergers and acquisitions involving U.S. critical technology companies and evaluates the evidence of government involvement and a private sector strategy. Appendix C contains charts and graphs.

Section IV discusses economic intelligence-gathering, including espionage, used to obtain commercial secrets involving critical technologies. The scope of the report is not limited to the legal meaning of espionage. This section also briefly discusses other countries, not major economic competitors of the United States, that have historically sought information on U.S. critical technologies through the use of their intelligence services.

II. Extent of Foreign Direct Investment in U.S. High-Technology Industries[2]

Key Findings

Comparisons, based on publicly available data from the Department of Commerce, of foreign-owned and U.S.-owned firms indicate that foreign firms are not concentrating in, and do not dominate, major U.S. high-technology industries. Only a small share of overall foreign direct investment has been made in high-technology industries, and foreign-owned firms account for only a small, but, at least through 1990, rising share of these industries. Moreover, overall Foreign Direct Investment in the United States (FDIUS) as a share of total net national worth remains far smaller in the United States than in all other major industrial countries, except in Japan.

Have Foreign Firms Concentrated in U.S. High-Technology Industries?

Over the past decade, foreign firms do not appear to have been concentrating acquisitions in high-technology industries. As of the end of 1990, 15 percent of total FDIUS was in high-technology industries. Moreover, foreign-owned firms' share of high-technology industry has risen only gradually despite the surge in total FDIUS over the 1980s. U.S. affiliates[3] of foreign firms are only slightly more concentrated in high-technology industries than are U.S.-owned firms. For example, in 1987, high-technology firms accounted for 20.0 percent of sales by U.S.-owned manufacturing firms and 23.5 percent of sales by foreign-owned, manufacturing firms.

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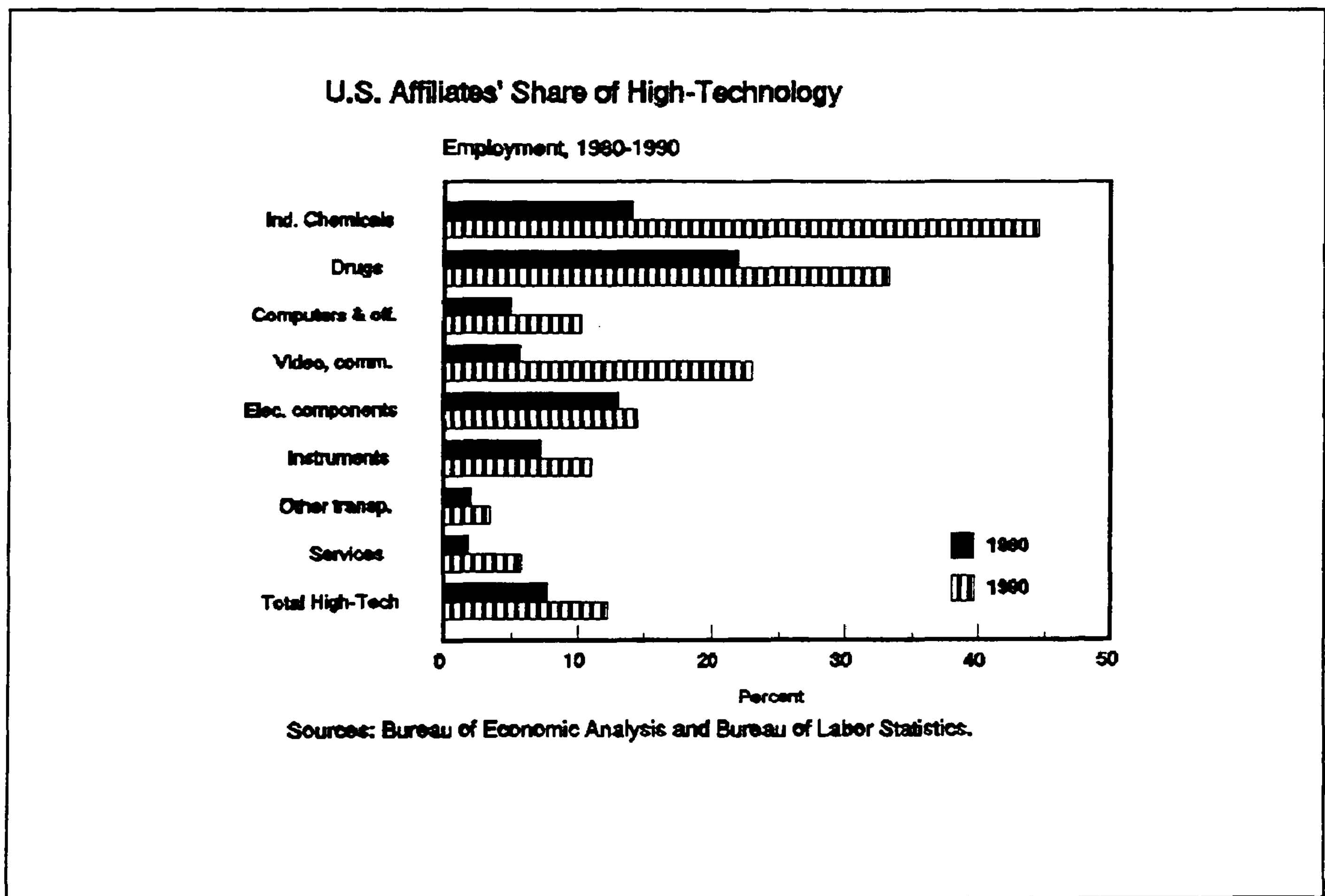
[2] Summary based on "Influence of Foreign Direct Investment on the Development and Transfer of Technology," Chapter 6, in *Foreign Direct Investment in the United States: An Update*, Economics and Statistics Administration, U.S. Department of Commerce, June 1993.

[3] A U.S. affiliate is a U.S. business enterprise in which there is foreign investment - that is, in which a single foreign person owns or controls directly or indirectly 10 percent or more of the voting securities if an incorporated business enterprise or an equivalent interest if an unincorporated business enterprise. The affiliate is called a U.S. affiliate to denote that it is located in the United States, although it is owned by a foreign person.

U.S. Affiliate Shares of U.S. High-Technology Industries

U.S. affiliates of foreign firms are a relatively small proportion of U.S. high-technology firms, particularly in the manufacturing sector -- accounting for 14.4 percent of their employment, 14.4 percent of their payroll, and 16.9 percent of their sales in 1990. Employment by high-technology affiliates grew 108 percent between 1980 and 1990, from 329,300 to 686,600 workers, compared to 33 percent employment growth of all U.S. high-technology firms -- up from 4.3 million to 5.7 million workers. A large part of this increase in employment share resulted from a large number of acquisitions of U.S. high-technology firms, rather than from growth of employment in existing U.S. affiliates. Their largest and fastest growing employment share was in "industrial chemicals and synthetics," and the smallest, slowest growing share was in "other transportation equipment" (see figure).



A significantly different picture emerges from the more detailed establishment level data for 1987 produced by the BEA-Census data link project. U.S.-owned firms dominated sales in nearly all individual U.S. high-technology industries, except for the audio and video

equipment industry (see table). U.S. affiliates have long dominated sales in this industry, and accounted for more than 50 percent of total U.S. industry sales. Foreign-owned firms also have increased their sales in three other industries: "plastics and synthetics," "industrial inorganic chemicals," and "drugs and medicines." In contrast, foreign-owned firms' share was the smallest -- 2 percent -- in "aircraft and parts." In 1987 (latest available data), the affiliates' share in "high-technology services" was only 4 percent. The affiliates' shares in terms of total number of establishments and total employment provide similar patterns.

Table

Foreign-owned, High-Technology Manufacturing Affiliates
as a Share of All U.S. Businesses in 1990
(in percent)

Industry	Number of Establishments	Employment	Payroll	Sales
High-Technology Manufacturing	6.3	14.4	14.4	16.9
Industrial inorganic chemicals	26.1	22.7	21.3	29.4
Plastics materials and synthetics	21.0	41.8	41.4	38.8
Drugs	12.4	35.7	39.7	36.3
Ordnance and accessories	4.4	12.6	8.7	13.0
Engines and turbines	10.1	19.7	19.6	18.8
Computer and office equipment	4.7	10.7	11.4	11.1
Household audio and video equipment	5.2	43.2	44.2	63.2
Communications equipment	5.3	14.4	14.7	17.0
Electronic components and accessories	4.0	13.9	14.4	14.7
Aircraft and parts	2.9	3.1	2.6	2.3
Guided missiles, spacecraft	1.4	(D)	(D)	(D)
Instruments and related parts	4.6	12.8	12.2	12.8

Source: Department of Commerce, Bureau of Economic Analysis

Note: (D) - Not published by BEA to uphold the legal requirement to preserve the confidentiality of the data of individual companies.

III. Whether There is Evidence of Coordinated Strategy to Acquire U.S. Critical Technology Companies

Key Findings

Summary of foreign M&A activity in the United States. The working group identified 984 foreign mergers and acquisitions involving critical technologies of U.S. companies from January 1, 1985 through October 1, 1993. Almost all of these involve companies from key industrial countries with 31 percent of the total accounted for by United Kingdom companies and 20 percent by Japanese companies. West European and Canadian companies were involved in 756 transactions, led by 309 British acquisitions. Japanese companies accounted for 201 of the 228 M&As involving Pacific Rim countries. Over 60 percent of the M&As involved U.S. firms in advanced materials, computers -- including software and peripherals -- and biotechnology, areas of relative U.S. technical strength.

Evidence of foreign governmental direction to acquire U.S. high-technology companies. Despite examples of government involvement, the working group did not find credible evidence demonstrating a coordinated strategy on the part of foreign governments to acquire U.S. companies with critical technologies. The absence of credible evidence demonstrating a coordinated strategy, nevertheless, should not be viewed as conclusive proof that a coordinated strategy does not exist. Based on its analysis of the data base of foreign acquisitions of U.S. critical technology companies, the working group concluded that these acquisitions are consistent with reasonable goals and strategies of individual businesses.

In some cases, however, foreign governments give indirect assistance and guidance to domestic firms acquiring U.S. companies. The main methods of government involvement include:

- extending tax credits to promote foreign M&A activity,
- exercising controlling government interest in major firms to influence foreign M&A activity, and
- identifying technologies that are critical to national economic development, and thus, prime targets for acquisition through M&As.

The Governments of France, Germany, Italy, Japan, and South Korea, and the Taiwan authorities exert varying degrees of influence over corporate M&A activity by their firms in the United States. For example:

- South Korea plans to provide special financing and tax incentives to domestic firms that want to merge with or acquire foreign -- including U.S. -- high-technology firms.

- Japan's Ministry of International Trade and Industry (MITI) often issues official assessments -- known as "visions" -- of the direction in which an industry is or should be evolving and of the markets and technologies that will be key to Japan's economic future. These "visions" may help focus Japan's manufacturers on the need to acquire U.S. companies in these key areas. MITI's 1990s "vision", for example, stressed the continued promotion of cutting-edge technologies such as biotechnology, which is a key focus of Japanese M&A activity.

Evidence of private sector strategy to acquire U.S. high-technology companies. Again, the working group did not find credible evidence demonstrating a coordinated strategy among firms in the private sectors of any major foreign competitors to acquire U.S. critical technology firms. Of course, as stated before, the absence of credible evidence demonstrating a coordinated strategy is not conclusive proof that a coordinated strategy does not exist. However, the working group concluded that these acquisitions are consistent with the goals and strategies of individual businesses. Merger and acquisition activity remains very much a private sector decision, and depends on a variety of circumstances and motivations. Most of the M&As surveyed from 1985 to the present, for example, were motivated by corporate decisions to bolster core product lines by gaining access to new technologies and products -- thereby avoiding often prohibitive in-house R&D expenses -- as well as to expand U.S. market share. Many firms -- particularly those involved in steel, textiles, and chemicals -- were also motivated by the desire to diversify, with biotechnology the field most often pursued.

INTRODUCTION

Merger and acquisition (M&A)[4] activity tends to be common in industries characterized by fierce competition and rapid technological change. Indeed, M&As are frequently seen as a way for firms to avoid the enormous research and development costs needed to compete in rapidly evolving fields such as biotechnology and advanced materials. Although less permanent relationships such as strategic alliances and joint ventures are more common

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[4] A **merger** occurs when two companies terminate their existence and jointly form a new, single firm. An **acquisition** represents the absorption of one company by another; usually, one company retains its name and identity while acquiring 51 percent or more of the interest in or stock of the other company.

mechanisms for foreign corporate access to U.S. leading-edge technologies, M&As provide the greatest amount of control over the U.S. firm's technology, marketing, and future direction. In this setting, U.S. companies with leading-edge technologies and potentially lucrative products are attractive to investors.

Motivations

Although the decision to acquire a U.S. critical technology firm varies from company to company, there are two principal motivations:

Securing new technologies or products. Most industry experts agree that a majority of foreign companies seeking mergers or acquisitions with U.S. firms do so to secure new technology or products. Foreign firms hoping to diversify or to expand in-house capabilities may acquire U.S. firms for their research, patents, products, expertise, or facilities. Indeed, industry observers believe many foreign -- particularly European -- firms lack the expertise necessary to perform research in the entire range of technologies important to future growth and profitability. M&As usually provide greater long-term control over tangible assets such as patents, products, and facilities than do strategic alliances. Moreover, acquisitions may enable foreign firms to tap into years of research and development. In many cases, foreign firms prefer to let their acquisitions maintain their creativity and entrepreneurial edge -- characteristics that the acquiring firms often lack -- while reaping the resulting technology. M&As also may be used to keep leading-edge technology out of the hands of competitors.

Expanding market access. Increasing competition for markets is another force spurring foreign acquisition of U.S. critical technology firms. According to industry observers, many foreign firms seek a presence in the United States to realize economies of scale. In other cases, controlling firms hope to build market share by selling U.S.-developed products worldwide. Lastly, there have been instances in which a foreign firm has sought to strengthen its U.S. market share by acquiring its competitor in the U.S. market.

Acquisition Alternatives. In addition to M&As, foreign firms have several other options that provide many of the same benefits as M&As without the attendant financial risks. For example:

- Foreign firms interested in obtaining technology often seek licensing or other technology sharing agreements.

- Foreign firms enter into strategic alliances such as joint ventures with U.S. firms to design, develop, manufacture and/or distribute a new product.

- Foreign companies often buy minority stakes in target U.S. companies as a way to gain a degree of control over technologies and markets. Since the mid-1980s, many foreign firms have provided venture capital to U.S. high-technology start-ups as a means of obtaining access to their technologies.

- Foreign firms frequently form alliances with U.S. universities and federal laboratories to acquire inexpensive, high-quality research.

Summary of Foreign M&A Activity in the United States

The working group identified 984 foreign M&As involving U.S. critical technology companies, valued at approximately $76 billion, from January 1, 1985 through October 1, 1993. Its review of available evidence[5] indicates that almost all of the acquisitions were considered "friendly" in that the U.S. firm's management team did not formally oppose the acquisition. We were able to identify only 4 deals which were considered hostile buyouts, all of which involved European firms.

On an annual basis, the number of M&As surveyed surged in the late 1980s, more than tripling from 53 deals in 1985 to a peak of 197 in 1989. The pace of M&A activity has slowed considerably since 1989, however, due mainly to the global economic downturn and, to a lesser degree, the negative publicity in the United States surrounding high-profile foreign acquisitions of U.S. firms.

Over 60 percent of these M&As involved U.S. firms in advanced materials, computers -- including software and peripherals -- and biotechnology, areas of relative U.S. technical strength. The remaining deals involved U.S. firms in electronics and semiconductors, professional and scientific instrumentation, communications equipment, advanced manufacturing, and aircraft and parts.

Of the M&A deals surveyed, West European and Canadian companies were involved in 756, or about 77 percent. This is not surprising given the long history of West European and Canadian corporate expansion and diversification through M&A activity with U.S. firms. British companies were by far the most active, making 309 acquisitions or 31 percent of the total, followed by French and German companies, each with 87 deals.

Of the 228 M&As involving companies from the Pacific Rim, Japanese companies accounted for 201 deals, which was 20 percent of the total M&As during the survey period. Although Japanese business has traditionally favored loose associations and cross holdings of stock between firms rather than mergers or acquisitions, they nevertheless acquired a growing number of U.S. firms up to 1990, when their activity dropped off in the wake of the Tokyo stock market decline. Taiwan, South Korea, Hong Kong, Thailand, and Singapore remained well behind Japan with 10 or fewer acquisitions per country since 1985.

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[5] Our data is derived from an extensive review of M&A publications, public on-line data bases, business prospectuses, industry surveys, and other sources. We are confident that the vast majority of deals are included and that our data base is the most comprehensive of its kind available.

The working group relied on the definition and categories of critical technologies as contained in the March 1991 report of the National Critical Technologies Panel. The Panel report defined technologies as critical when they generate future innovations in a wide range of goods and services. Critical technologies are those that satisfy long-term national economic and scientific objectives, such as strong national defense, improved economic competitiveness, a rising standard of living, improved public health, and energy independence. In order to lend more specificity to M&A activity in key technology areas on the National Critical Technology List, the working group prepared a more detailed descriptive breakdown of some technology categories and these are outlined and compared in Appendix A. Because of the paucity of M&A activity in energy and environmental critical technologies, these areas are not included.

IV. Whether Foreign Governments Use Espionage Activities to Obtain Commercial U.S. Secrets Related to Critical Technologies

This report uses the word espionage in a broad sense to include actions that are not in fact espionage under U.S. law (18 U.S.C., Chapter 37). For espionage in the legal sense to occur, there must be foreign government involvement in the collection by illicit means of protected (usually classified) information having significance for U.S. national defense. The theft of proprietary information that is not significant for U.S. national defense is banned by laws protecting intellectual and other property.

The legislative request for this report asked for an evaluation of industrial espionage activities directed by foreign governments against private United States companies aimed at obtaining commercial critical technology secrets. The term "industrial espionage" has a generally accepted meaning in the intelligence community that precludes its use in connection with foreign governments' activities. The definition of "industrial/ commercial espionage" (hereafter shortened to commercial espionage) is:

> o Intelligence activity sponsored by private business, which is designed to unlawfully obtain classified and/or proprietary information for the purpose of enhancing a private firm's competitive advantage against U.S. economic interests in the marketplace.

This report discusses espionage sponsored by governments in the critical technologies area as "economic espionage" defined as:

> o Government-sponsored or coordinated intelligence activity designed to unlawfully and covertly obtain classified data and/or sensitive policy or proprietary information from a U.S. Government agency or company, potentially having the effect of enhancing a foreign country's economic competitiveness and damaging U.S. economic security.

The target of government-sponsored activities is the collection of either or both:

> o *Economic Intelligence*: Raw reporting or aggregated and analyzed information on a country's economy or technologies -- whether drawn from classified, proprietary, or open sources -- which is intended for public policy purposes.

> o *Economic Information*: Overt economic data, generally lacking intelligence value as collected, which has not been integrated with data from other sources, subjected to analysis, or prepared for policymaking purposes.

Key Findings

In contrast to espionage activities, nearly all governments engage in economic intelligence and information gathering and extensively analyze economic information that is publicly available. Since U.S. companies with critical technologies in many cases are industry leaders, they are the primary targets of foreign economic intelligence efforts.

Foreign economic intelligence-gathering differs widely in motivation, approach, modus operandi, and effectiveness:

- Most major economic competitors of the United States focus their collection efforts on those cutting-edge technologies in which the United States has a technological lead or in which there is rough parity, with the intent to close any gaps.

- Styles of approach include an updated version of classic Cold War recruitment and technical operations, the coordinated collection and processing of economic data by an informal network of public and private organizations, and economic intelligence collection that targets present and former nationals.

- Operational techniques range from classic agent recruitment to computer and telecommunications systems attacks, "bag operations," surveillance, elicitation of fellow nationals, and overt collection of open-source information using commercial computer data bases and bulletin boards.

- The countries most effective in closing potential technology gaps are those that rely primarily on normal business transactions and open source information gathering rather than espionage or clandestine collection techniques.

INTRODUCTION

U.S. high-technology industries are the primary target of foreign economic intelligence collection efforts. The technologies of principal interest include aerospace, biotechnology, computer, electronics, energy, and telecommunications. Although most U.S. economic data can be collected openly using non-intelligence means such as open business and scientific contacts, about 20 nations regularly use their official intelligence resources to obtain sensitive U.S. economic data. Of these, a dozen or so routinely resort to state-sponsored espionage using covert collection techniques.

Foreign espionage operations directed against U.S. economic targets involve varying degrees of intelligence service or other official direction, control, or sponsorship. To qualify as economic espionage, the activity in question must have some degree of government sponsorship, whether direct or indirect, the use of illicit means targeted against classified or

proprietary information and significance for national defense. Commercial espionage, on the other hand, refers to the same types of activity conducted by private-sector organizations. In the absence of an official government connection of some sort, the use of illicit means targeted against classified or proprietary information, and significance for U.S. national defense, espionage -- in the legal sense of the term -- cannot take place, but the activity may be in violation of other laws.

U.S. Private Sector Information

Valuable U.S. private-sector economic information can take many forms, ranging from patents, processes, and production technology to more mundane data dealing with:

- o Customer lists.
- o New products and services.
- o Cost and price structures.
- o Plans for facilities expansion.
- o New marketing strategies.
- o Sales and profitability information.
- o Key management and technical personalities.
- o Bids on contracts or takeovers.

Economic Intelligence: The Collectors

Most of the United States' major economic competitors do not conduct economic espionage operations for a variety of reasons:

- o In many cases, the risk of exposure, prosecution and resulting negative publicity outweigh possible advantages gained by economic espionage.
- o These countries' domestic firms often have extensive information collection capabilities of their own and do not rely on government assistance.
- o Much of the information sought by these countries can be obtained through overt means.

Where Economic Intelligence Collection Occurs

Overt and covert collection of economic intelligence may be conducted within the host country, in the United States, or in third countries, depending on the initiating country's political and economic relationship to the United States and its willingness to accept the risk of exposure, prosecution and resulting negative publicity. The operations of U.S. firms on foreign soil, where foreign intelligence operatives have more freedom to act without concern for discovery by U.S. counterintelligence are more vulnerable to intelligence penetrations than those at home. Moreover, because foreign governments control most national phone

networks and other common carriers, unprotected U.S. computer data bases and business telecommunications overseas can be more readily accessed by foreign intelligence services.

Disseminating Economic Intelligence

The degree to which government-collected economic intelligence is shared with the private sector and the means by which this is done vary widely from country to country. Some countries collect economic intelligence as much for the benefit of industry as for internal government use. In addition to private firms, foreign governments often provide economic intelligence to international trade delegations and banks and other financial institutions.

APPENDIX A

For our study, we categorized the high-technology US firms acquired by foreign interests into the following nine categories. These categories are based closely on the list prepared by the National Critical Technologies Panel in 1991.

National Critical Technologies	Technologies in This Study
Materials	**Advanced Materials**
Materials synthesis/processing	Processes for specialty metals, plastics, etc.
Electronic and photonic materials	Semiconductor materials
Ceramics	Ceramics
Composites	Fiber-reinforced composites
High-performance metals and alloys	Specialty metals
	Polymer materials, plastic fabricators, homogenous injections/ extrusions, etc.
Manufacturing	**Advanced Manufacturing**
Flexible computer integrated manufacturing	Industrial automation, robotics
Intelligent processing equipment	Industrial measurement and sensing equipment
Systems management and technologies	Process control equipment and systems
Micro- and nanofabrication	
Information and Communications	**Computer Related**
Software	Computers and software
Microelectronics	Electronic components
High-performance computing and networking	Communications/networking
High-definition imaging and displays	Computer graphics and scanning, CAD/CAM,CAE systems
Computer simulation and modeling	
Sensors and signal processing	
Data storage and peripherals	Peripherals, including data storage

National Critical Technologies	Technologies In This Study
	Communications
	Telephone-related equipment
	Data communications
	Satellite microwave communications
	Fiber optics
	Semiconductors
	Semiconductors, controllers, and circuit boards
	Electronics Related
	Semiconductor fabrication equipment, wafer products, and component testing equipment
Biotechnology and Life Sciences	**Biotechnology**
Applied molecular biology	Human, animal, agricultural and industrial biotechnology
	Biotech research and production equipment
Medical technology	Medical diagnostics
	Pharmaceuticals
	Professional/Scientific Instruments
	Laser related equipment
	Analytical and scientific instrumentation
	Advanced medical equipment
Aeronautics and Surface Transportation	**Aircraft and Parts**
Aeronautics	Commercial aircraft products
Surface transportation technologies	
Energy and Environment	
Energy technologies	
Pollution minimization, remediation, and waste management	

APPENDIX B

APPENDIX B ACQUISITIONS: COUNTRY-BY-COUNTRY EVALUATION

United Kingdom

Summary of M&A activities in the United States: We have identified 309 British corporate acquisitions -- representing the greatest foreign M&A activity in the United States -- of U.S. high-technology companies between January, 1985 and October, 1993. Of these, 89 deals were with U.S. firms in the advanced materials industry followed by 54 acquisitions in computer-related fields. British companies were most active in 1989 with 67 deals, followed by 49 deals in 1988 and 41 deals in 1987. The United Kingdom was relatively more active prior to 1989 than other countries, and relatively less active following 1989.

Evidence of governmental direction: The working group did not find credible evidence demonstrating a coordinated strategy on the part of the British government to direct its firms to acquire U.S. companies with critical technologies.

Evidence of private sector strategy: Although British firms were by far the most active acquirers of U.S. high-technology companies -- accounting for 31 percent of all foreign M&As -- the working group did not find credible evidence demonstrating a coordinated strategy. British firms historically have been very active in the U.S. market; M&As, strategic alliances, and joint ventures between U.S. and British firms are not unusual. A closer review of reported M&As shows that British companies led all foreign M&A activities in 7 of the 9 technologies covered in this study, and were second to Japanese firms in the semiconductor and computer industries. For instance:

- o Pittencrieff PLC led all foreign M&A activity in communications with 7 deals. These acquisitions -- all of which involved U.S. firms specializing in mobile telecommunications -- illustrate Pittencrieff's effort to position itself in the U.S. telecommunications market.

- o MTM PLC and Medeva PLC have been among the two most active foreign firms in acquiring U.S. biotechnology companies with 3 acquisitions each. Moreover, the largest foreign acquisition of a U.S. high-technology firm took place in 1989 when Beecham acquired SmithKline Beckman, a producer of medical diagnostic biotechnology products, for $7.922 billion.

- o ICI PLC and Courtaulds PLC were among the most active foreign companies in advanced materials with 7 and 6 deals each, respectively.

Japan

Summary of M&A activities in the United States: We have identified 201 Japanese corporate acquisitions of U.S. high-technology companies between January, 1985 and October, 1993.

Of these, 54 were in computer-related industries and 50 were in advanced materials. Japanese activity peaked in 1990 with 48 acquisitions.

Evidence of governmental direction: The working group did not find credible evidence demonstrating a coordinated strategy on the part of the Japanese government to direct its firms to acquire U.S. companies with critical technologies. Japanese government officials provide strategic and tactical advice that Japanese firms often follow in seeking M&As in the United States. For example:

- o The Ministry of International Trade and Industry (MITI) often issues official assessments -- known as "visions" -- of the direction in which an industry is and should be evolving and of the markets and technologies that will be key to Japan's economic future. These "visions" may help focus Japan's manufacturers on the need to acquire U.S. companies in these key areas. MITI's 1990s "vision", for example, stressed the continued promotion of cutting-edge technologies such as biotechnology, which has become a focus of Japanese M&A activity in the United States.

Evidence of private sector strategy: The working group did not find credible evidence demonstrating a coordinated strategy among firms in the Japanese private sector to acquire U.S. critical technology firms. On an individual basis, Japanese corporations view M&As as an excellent means of improving market access and of acquiring U.S. technologies. According to available data, Japanese acquisitions are focused on the computer, semiconductor, and advanced materials industries.

In addition, some Japanese companies -- especially those in industries such as steel -- have undertaken buyouts of small U.S. biotechnology, microelectronics, and polysilicon firms as a means of diversification. For example:

- o In the mid-1980s, Kubota -- a leading Japanese manufacturer of agricultural equipment and building materials -- began to target several technologies, including advanced computers, for future investment in order to diversify its product line out of agricultural equipment.

- o The Mitsubishi Group -- one of the largest and most powerful of Japan's six major industrial groups -- is turning to high-technology businesses to arrest a decade-long slide vis-a-vis its major rivals. Mitsubishi's strategy involved supplementing internal technology development activities with the acquisition of U.S. firms in order to gain needed technologies and market share. Mitsubishi has acquired 8 U.S. high-technology firms since 1985.

It should be noted, however, that direct purchase of U.S. high-technology firms has been a relatively minor means for the Japanese to acquire U.S. technology. Japanese firms are more likely to use licensing, joint ventures, strategic alliances, minority equity investments,

and venture capital as means of accessing needed technology and to increase their presence in the U.S. market, but frequently at less cost and with less likelihood of negative publicity.

France

Summary of M&A activities in the United States: We have identified 87 French acquisitions of U.S. high-technology companies between January, 1985 and October, 1993. Of these, 23 were in advanced materials and 21 in computer-related industries. French acquisitions peaked in 1990 with 19 deals.

Evidence of governmental direction: Because it owns a controlling or minority stake in most major French high-technology manufacturing companies -- particularly in the defense industry -- the French Government has played a role in influencing French acquisitions of U.S. high-technology firms. It has tried to steer its manufacturers towards some M&A opportunities in the United States and away from others.

Evidence of private sector strategy: The working group did not find credible evidence demonstrating a coordinated strategy among French firms -- either government-controlled or entirely private -- to acquire U.S. critical technology firms. On an individual basis, both government-owned and private French firms generally use M&As to expand product lines and increase access to U.S. markets and technology. For example:

- While Thomson-CSF's focus has largely been on acquiring European firms, it has acquired two U.S. electronics manufacturers since 1985.

- Carbone Lorraine (CL), a subsidiary of state-owned Pechiney, acquired the chemical equipment division of Kearney Industries in late 1989. By acquiring Kearney -- a manufacturer of graphite-based mechanical components -- CL gained a U.S. outlet for its production of graphite-based chemicals.

- Aerospatiale, the French Government-owned aerospace manufacturer, spearheaded the effort of itself and three other European companies to purchase minority stakes in a U.S. manufacturer of commercial satellites in 1990 as a means of improving its satellite production capability.

Germany

Summary of M&A activities in the United States: We have identified 87 German corporate acquisitions of U.S. high-technology companies between January, 1985 and October, 1993. German firms were most active in advanced materials and biotechnology, with 30 and 14 deals respectively. German M&A activity peaked in 1989 and 1990 with 15 deals each year.

Evidence of governmental direction: The working group did not find credible evidence demonstrating a coordinated strategy by the German Government to direct its domestic firms

to acquire U.S. critical technology companies. The Government may offer indirect assistance in terms of identifying key technologies and has tax breaks in place for overseas R&D efforts. We believe, however, that the high costs of unification make significant direct government financial assistance unlikely in the near future.

Evidence of private sector strategy: The working group did not find credible evidence demonstrating a coordinated strategy among firms in the German private sector to acquire U.S. critical technology firms. On an individual basis, a review of corporate M&As with U.S. high-technology firms shows that German firms use acquisitions to expand product lines, lessen development costs, and increase access to advanced technology and the U.S. market. According to available data, over one-third of the deals involved three of the largest German conglomerates -- Siemens, BASF, and Hoechst -- which used M&As primarily to bolster their core product lines. Siemens, for example, was the most active foreign firm with 12 deals in 6 industries. Hoechst and BASF, with 9 and 8 acquisitions respectively, focused almost exclusively on advanced materials, thereby enhancing their technical capabilities and market share in their core technologies.

In the case of biotechnology, however, German firms used M&As to diversify and to better position themselves in the lucrative U.S. market. For example:

- BASF and Hoechst have each acquired a biotechnology firm to help diversify beyond their traditional chemical and textile product lines.

- As part of a push into the U.S. pharmaceutical market, Boehringer Mannheim acquired Microgenics, a producer of diagnostics used in cancer, heart disease, and diabetics treatment. The U.S. firm had previously granted Boehringer only European marketing rights before the acquisition, according to the trade press.

Moreover, some German firms are acquiring U.S. firms in part to circumvent a restrictive gene technology research law in Germany that requires public hearings for many corporate biotechnology projects, and corporate facilities and records must be made open to the public, according to press reports.

Canada

Summary of M&A activities in the United States: We have identified 85 Canadian corporate acquisitions of U.S. high-technology companies between January, 1985 and October, 1993. Nearly one-third (29) of the deals were in computer-related industries, followed by 20 percent in advanced materials. Nearly half the transactions have occurred since early 1990 which tracks the general increase in trade following the 1988 Free Trade Agreement.

Evidence of governmental direction: The working group did not find credible evidence demonstrating a coordinated strategy by the Canadian Government to direct its domestic firms to acquire U.S. critical technology firms.

Evidence of private sector strategy: The working group did not find credible evidence demonstrating a coordinated strategy among firms in the Canadian private sector to acquire U.S. critical technology firms. On an individual basis, Canadian firms typically use M&As with U.S. companies to acquire U.S. technology needed to expand product lines or to expand their market presence in the United States. For example:

- Derlan Industries, a holding company with subsidiaries in the automotive, aerospace, and construction industries, purchased three small U.S. manufacturers of electronic components between 1988 and 1989, probably to help it diversify into electronics.

- Memotec Data, a firm specializing in communications equipment and services, acquired three communication systems firms in Massachusetts, most likely to help in its drive to improve its technology base.

Switzerland

Summary of M&A activities in the United States: We have identified 53 Swiss corporate acquisitions of U.S. high-technology companies between January, 1985 and October, 1993. Swiss M&A activity has remained steady throughout the past several years, reaching a high of 11 acquisitions in 1988. Acquisitions have occurred in a number of technologies, the most frequent being professional and scientific equipment (13 deals), biotechnology (11 deals) and advanced materials (10 deals).

Evidence of governmental direction: The working group did not find credible evidence demonstrating a coordinated strategy by the Swiss Government to direct its domestic firms to acquire U.S. critical technology firms.

Evidence of private sector strategy: The working group did not find credible evidence demonstrating a coordinated strategy among firms in the Swiss private sector to acquire U.S. critical technology firms. Much of Swiss M&A activity can be attributed to a few large conglomerates -- particularly Ciba-Geigy and Sandoz (7 deals each) -- trying to acquire new technologies and expand their business activities in the United States. For example:

- Sandoz acquired SyStemix Inc. in February 1992 and gained access to SyStemix's work in cellular processes and products used to treat toxic side effects from chemotherapy and other medical therapies.

- o Hoffmann-LaRoche acquired Genentech in 1990 to gain access to the firm's research and manufacturing facilities. According to industry experts, the buyout was in part to sidestep strict limits on biotechnology activities in Switzerland and other European countries.

Netherlands

Summary of M&A activities in the United States: We have identified 40 Dutch corporate acquisitions of U.S. high-technology companies between January, 1985 and October, 1993, nearly half of which were involved in advanced materials. Dutch activity has remained steady over the years, peaking slightly in 1989 and 1990 with 8 deals each year.

Evidence of governmental direction: The working group did not find credible evidence demonstrating a coordinated strategy by the Dutch Government to direct its domestic firms to acquire U.S. critical technology companies.

Evidence of private sector strategy: The working group did not find credible evidence demonstrating a coordinated strategy among firms in the Dutch private sector to acquire U.S. critical technology firms. On an individual basis, Dutch corporate M&A strategy centers around routine business activities. For example:

- o Akzo, a chemicals group, was the most active Dutch firm with 6 acquisitions in advanced materials and 3 in biotechnology companies. The former were intended to strengthen Akzo's core product line while the latter were for diversification into biotechnology.

- o The electronics conglomerate Philips acquired two U.S. semiconductor firms, a computer firm, and a precision instrument firm to strengthen Philips' position in the U.S. market while ensuring access to new technologies.

Sweden

Summary of M&A activities in the United States: We have identified 39 Swedish corporate acquisitions of U.S. high-technology companies between January 1985 and October, 1993, nearly half of which occurred in 1989 and 1990. Swedish firms were active in most high-technology industries, with the greatest number of deals in biotechnology and computer industries (10 and 9 deals, respectively).

Evidence of governmental direction: The working group did not find credible evidence demonstrating a coordinated strategy by the Swedish Government to direct its domestic firms to acquire U.S. critical technology firms.

Evidence of private sector strategy: The working group did not find credible evidence demonstrating a coordinated strategy among firms in the Swedish private sector to acquire

U.S. critical technology firms. The bulk of Swedish M&A activity in the United States has involved a handful of multinational companies such as specialty chemicals group Perstorp AB (4 transactions), Axel Johnson (3 transactions), and telecommunications giant Ericsson (2 transactions). According to available information, these companies view M&As in the United States as a means to bolster core technical strengths and gain leading-edge technology to enter specialized markets. According to U.S. Embassy reporting, for example, some Swedish firms are pursuing niche markets in biotechnology:

- Biopool International, a manufacturer of surgical and medical instruments, acquired technology in diagnostic testing equipment and reagents through its Canadian subsidiary by acquiring two small U.S. manufacturers between 1990 and 1992.

- Perstorp acquired the gas chromatograph business of Orion Diagnostics in April 1985 and Alpkem Corporation in 1991, according to an industry study.

Italy

Summary of M&A activities in the United States: We have identified 25 Italian corporate acquisitions of U.S. high-technology companies between January, 1985 and October, 1993. Nine deals involved biotechnology firms, followed by 5 in advanced materials and 4 in computer-related industries. Italian corporate M&A activity in the United States peaked in 1989 with 7 acquisitions.

Evidence of governmental direction: The working group did not find credible evidence demonstrating a coordinated strategy by the Italian Government to direct its domestic firms to acquire U.S. critical technology companies. The Government of Italy has designated certain technologies as critical to Italy's economic competitiveness.

Evidence of private sector strategy: The working group did not find credible evidence demonstrating a coordinated strategy among firms in the Italian private sector to acquire U.S. critical technology firms. On an individual basis, several large Italian firms acquired U.S. companies for a variety of reasons. The majority of Italian M&A activities was conducted by multinationals such as Montedison, a chemicals and agro-industry company, and the computer firm Olivetti. Montedison and Recordati -- a pharmaceutical company -- accounted for 4 of the 9 biotechnology M&As. Recordati, for instance, acquired Technogenetics and Leeco Diagnostics in part to strengthen research and production capabilities in health care and diagnostics. Olivetti, which was involved in 3 deals, evidently was seeking to strengthen its position in computer-related industries. In 1989, for example, Olivetti merged with ISC Systems and garnered 28 percent of the U.S. market for hardware and software used by financial services institutions.

Taiwan

Summary of M&A activities in the United States: We have identified 10 Taiwan corporate acquisitions of U.S. high-technology companies between January, 1985 and October, 1993. Seven acquisitions were in computer-related industries, and three deals involved semiconductors. All Taiwan M&A activity has taken place since early 1989, with the majority occurring in 1990.

Evidence of governmental direction: Taiwan firms' M&A activity in the United States -- which has focused exclusively on semiconductor and computer companies -- may be partially driven by the Taiwan authorities. In 1990, the authorities designated the information technology and semiconductor industries as two of the ten most important industries for Taiwan's future. As part of its strategy to help Taiwan manufacturers grow in those areas, the Taiwan Authorities has helped finance buyouts of U.S. firms. For example:

- o The Executive Yuan Development Fund, which is under the direct supervision of Taiwan's cabinet, committed 20 percent of the funds needed in March 1990 to purchase Wyse Technology, a U.S. manufacturer of micro-processor-based video display products, according to the American Institute in Taiwan (AIT).

- o Taiwan's Central Bank declared in late October 1989 that it would help Taiwan firms acquire foreign companies by using its huge foreign exchange reserves -- then estimated at over $73 billion -- to back Taiwan bids, which could be in the form of guaranteed loans or assistance in securing financing from other banks according to the AIT report.

Evidence of private sector strategy: The working group did not find credible evidence demonstrating a coordinated strategy among firms in the Taiwan private sector to acquire U.S. critical technology firms. On an individual basis, Taiwan companies acquire U.S. firms mainly to help obtain the technology and market access needed to diversify into new niches of the computer and semiconductor industries. For example:

- o Acer Inc. -- Taiwan's largest computer manufacturer -- purchased two U.S. computer-related companies to help it break into new product lines. In September 1990, Acer paid $94 million for Altos Computer systems, a U.S. maker of UNIX-based minicomputers to help it become a brand-name maker of sophisticated PCs and minicomputers, according to trade journals. In June 1989, Acer acquired Princeton Publishing Labs Inc., a manufacturer and developer of computer hardware and software, to help it diversify into computer software, according to industry reports.

- o Channel International, a consortium of Taiwan companies, purchased Wyse Technology in March 1990 to take over Wyse's product line, brand name

reputation, technology, and marketing network, according to public statements by Channel's president.

South Korea

Summary of M&A activities in the United States: We have identified only 7 South Korean corporate acquisitions of U.S. high-technology companies between January, 1985 and October, 1993. These agreements have been in semiconductors, the computer industry, and advanced materials (2 agreements each), and a single acquisition in electronics. We believe South Korea's low level of M&A activity indicates their preference for strategic alliances as a means of accessing U.S. markets and technology. For example, almost all of the licensing agreements between South Korea and U.S. firms since 1985 involved the transfer of advanced technology to South Korea -- primarily semiconductors and advanced materials.

Evidence of governmental direction: The working group did not find credible evidence demonstrating a coordinated strategy by the South Korean Government to direct its domestic firms to acquire U.S. critical technology firms. Available evidence suggests that the South Korean Government has given indirect assistance to Korean firms seeking to acquire U.S. high-technology companies. The government encourages overseas corporate activities through general guidance, tax credits, and relaxed reporting requirements. The government's most recent technology development effort, for example, is aimed at overcoming shortcomings in 11 technologies -- including semiconductors, HDTV, and biotechnology -- by increasing domestic R&D spending and providing financial incentives to Korean high-technology firms. As part of this effort:

- o The South Korean Government has in place authority to provide special financing and tax breaks to domestic firms that want to merge with or acquire foreign -- including U.S. -- high-technology firms.

- o The government will no longer require extensive government approval for foreign investments of up to $5 million, according to press reports.

Evidence of private sector strategy: The working group did not find credible evidence demonstrating a coordinated strategy among firms in the South Korean private sector to acquire U.S. critical technology firms. Overall, Korean firms have been, to date, minor players in the foreign acquisition of U.S. high-technology firms. Although Korea's major industrial conglomerates (chaebols) -- Daewoo, Hyundai, Lucky-Goldstar, and Samsung -- have relied primarily on U.S. technology for their modernization strategies, they generally have lacked the financial wherewithal to acquire U.S. high-technology companies. Instead, their preferred technology acquisition methods are to form joint production ventures and to directly purchase technologies.

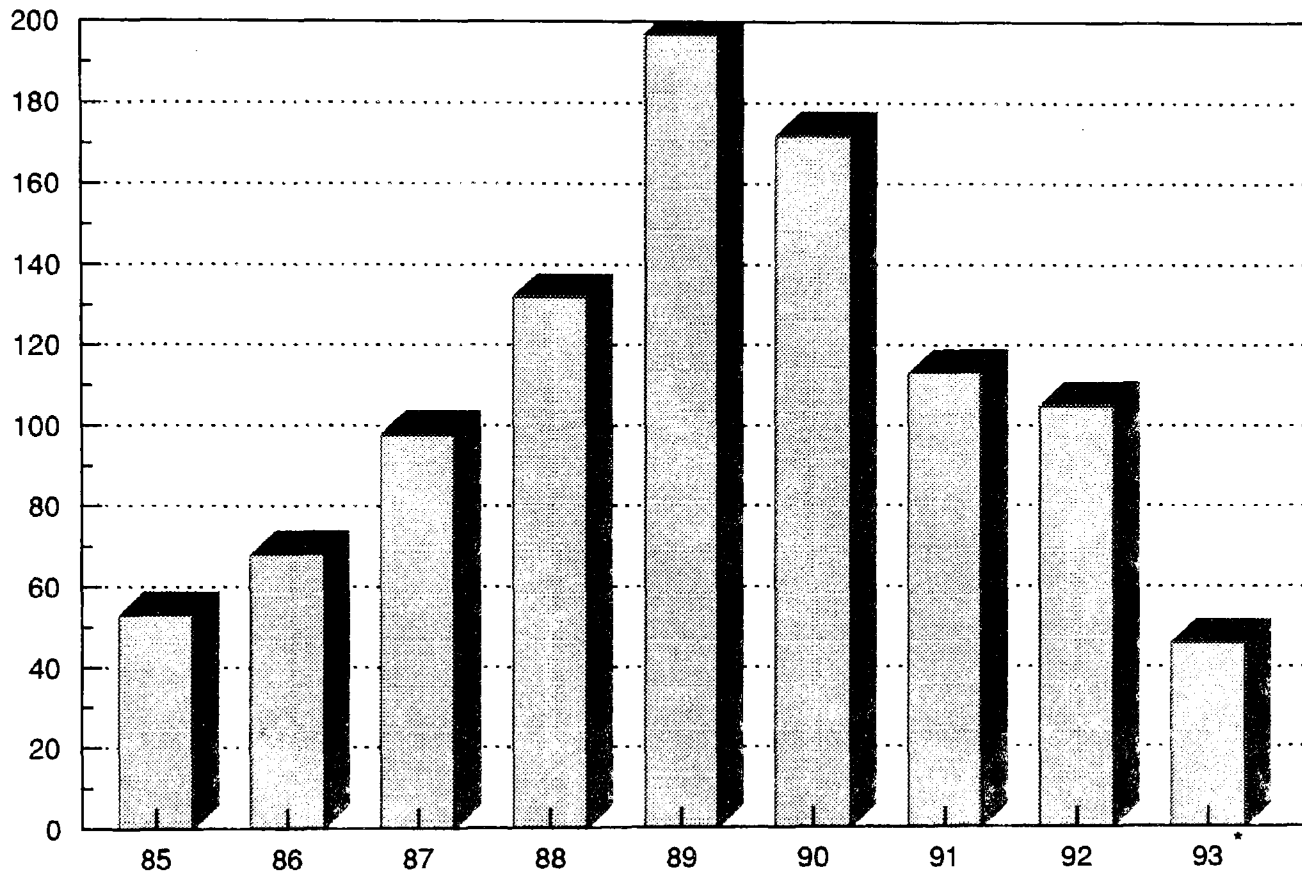
The seven instances in which Korean firms have acquired a U.S. firm indicate that the Korean firms are focusing on their core product lines: semiconductors, computers, and

advanced materials. Daewoo, for example, bought ZyMos Corporation in 1986 in part to acquire the U.S. firm's expertise in metal oxide semiconductors. Similarly, Newmax bought the U.S. semiconductor firm Micronetics in late 1990. Many industry observers believe that these acquisitions were motivated by the Korean firms' desire to replace labor intensive businesses, which are becoming uncompetitive due to rising wages, with companies in high value added, high-technology industries. Moreover, Korean firms are seeking to become less dependent on Japanese technology and to acquire U.S. technology that will enable them to better compete with Japanese firms.

APPENDIX C

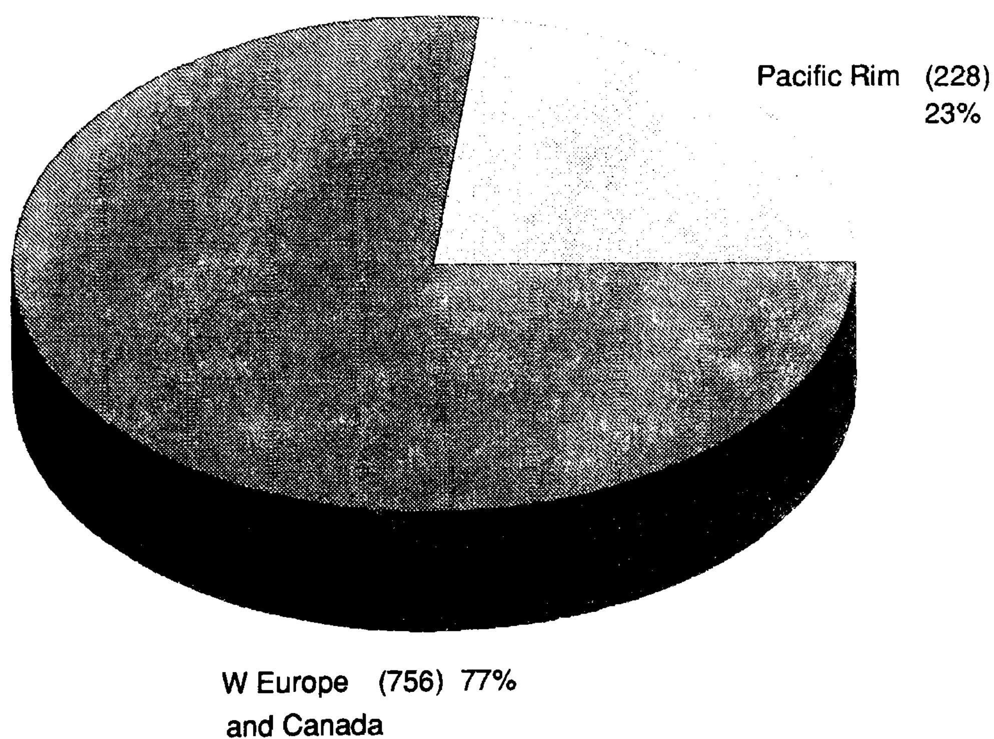
Number of Foreign M&A Deals with US High Technology Companies, by Year

Number of Deals



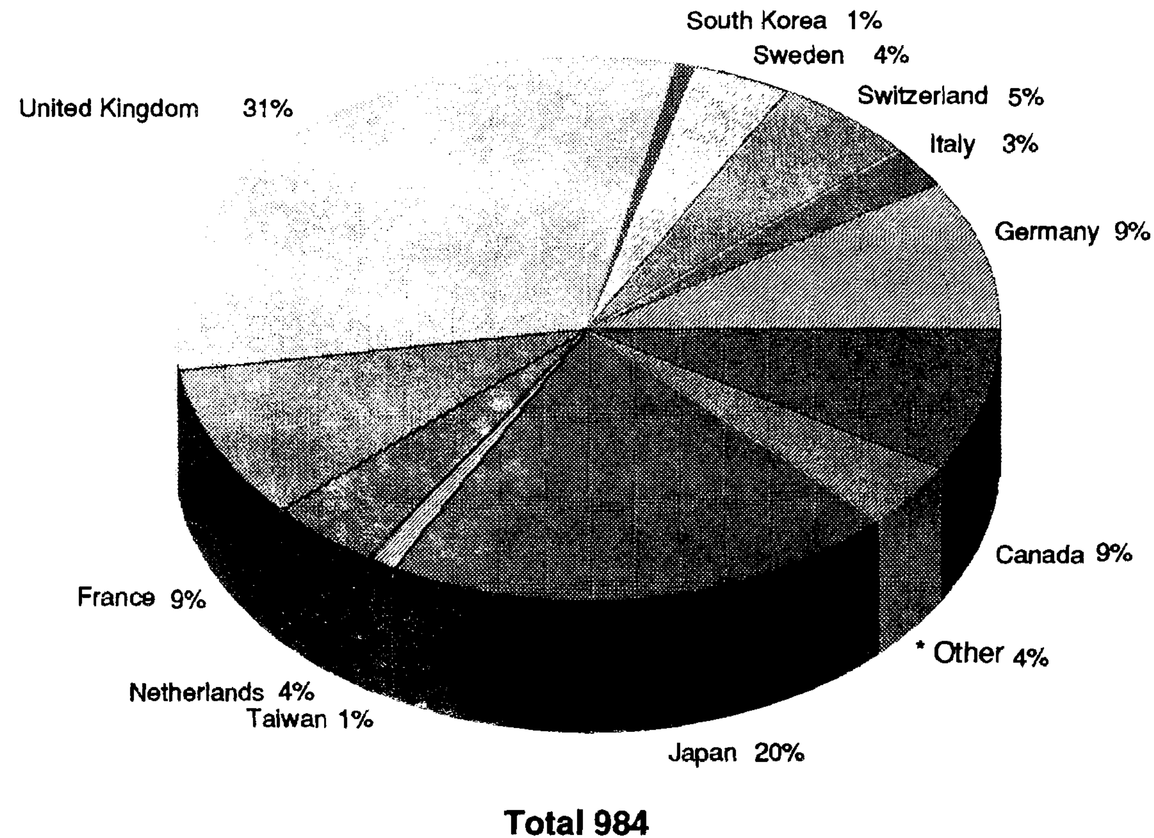
* January 1, 1993 to October 1, 1993

Foreign M&A Deals with US High Technology Companies, by Region



Data collection: January 1, 1985 - October 1, 1993

M&A Deals with US High Technology Companies by Country

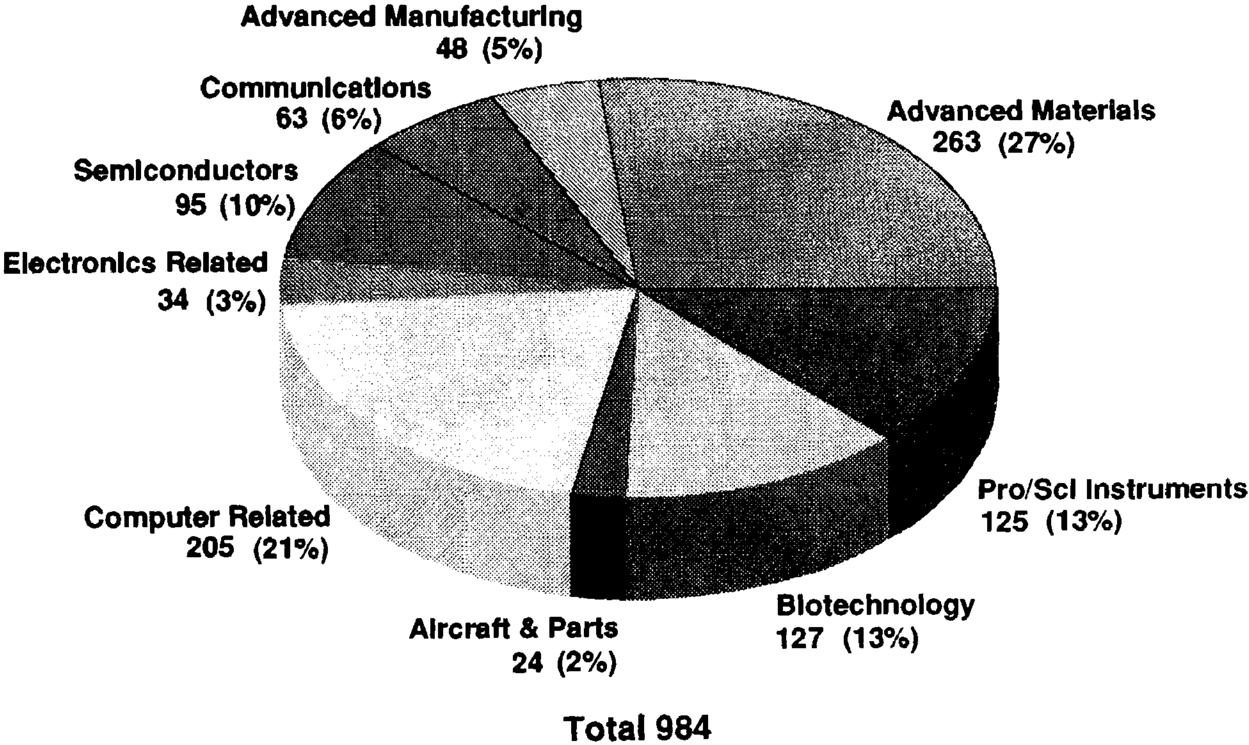


Total 984

* Other countries include Finland, Denmark, Norway, Belgium, Austria, Spain, Luxembourg, Hong Kong, Thailand, and Singapore

Data collection: January 1, 1985 - October 1, 1993

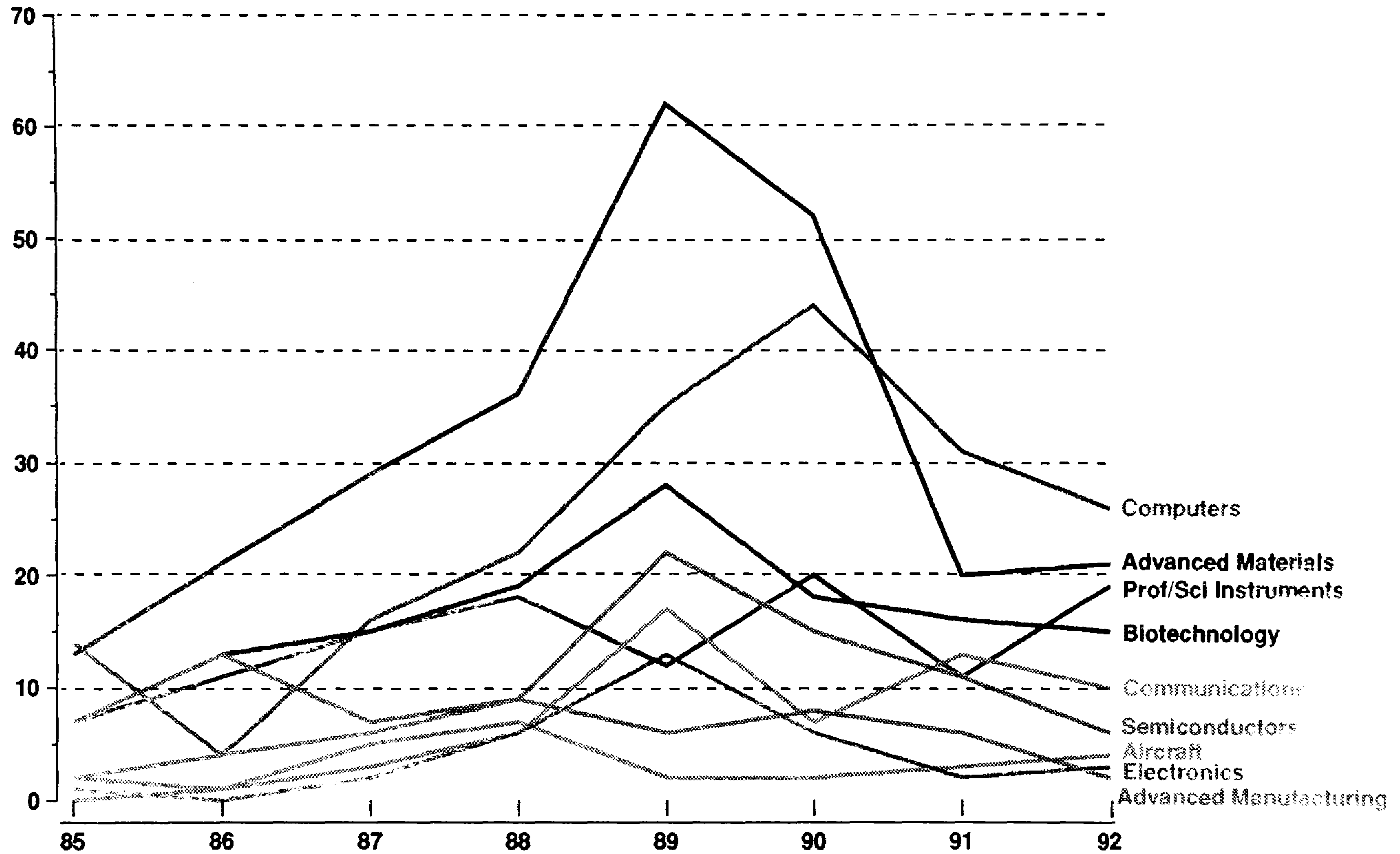
Foreign M&A Deals with US High Technology Companies, by Industry



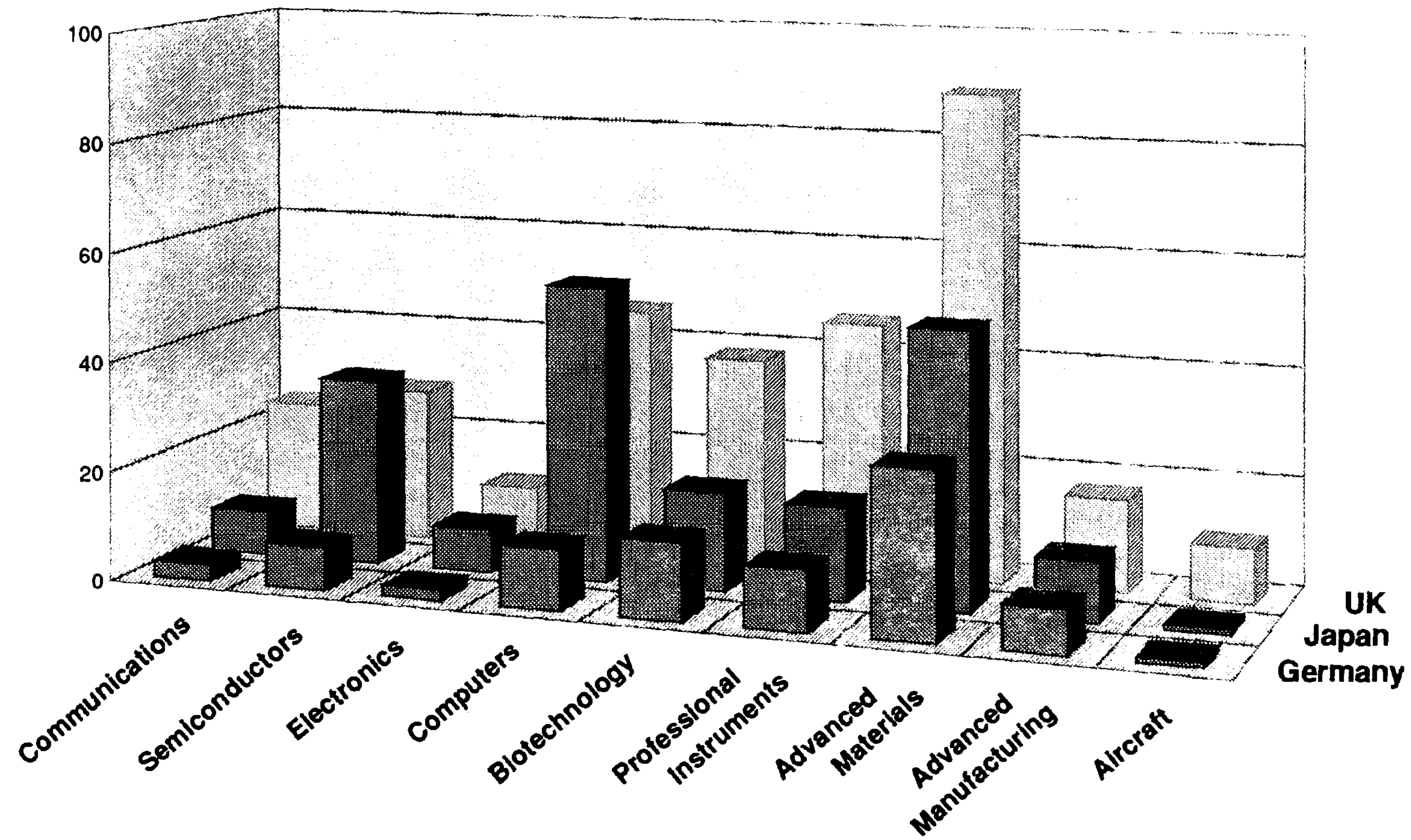
Total 984

Data collection January 1, 1985 - October 1, 1993

Foreign M&A Deals with US High Technology Companies, by Technology and Year



M&A Deals with US High Technology Companies by Country and Industry

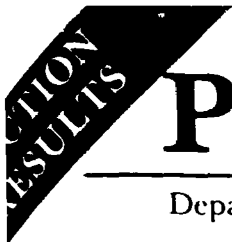


Data collection: January 1, 1985 - October 1, 1993

Foreign Companies Most Active in Acquiring US High Technology Firms

Name of Firm	Country	Number of Acquisitions*
Siemens	Germany	12
Ciba-Geigy	Switzerland	10
Akzo	Netherlands	9
Hoechst	Germany	9
ICI	United Kingdom	9
Mitsubishi	Japan	9
BASF	Germany	8
Bowthorpe	United Kingdom	8
Lucas Industries	United Kingdom	8
Pittencrieff	United Kingdom	8
Thomson	France	8

* These include acquisitions by the parent corporation as well as its subsidiaries.



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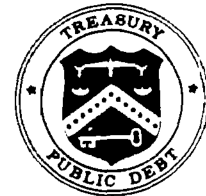

FOR IMMEDIATE RELEASE
September 9, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 7-DAY BILLS

Tenders for $4,003 million of 7-day bills to be issued September 9, 1994 and to mature September 16, 1994 were accepted today (CUSIP: 9127942C7).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	4.64%	4.70%	99.910
High	4.67%	4.75%	99.909
Average	4.65%	4.70%	99.910

$950,000,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 92%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$25,060,000	$4,003,000
Type		
Competitive	$25,060,000	$4,003,000
Noncompetitive	0	0
TOTALS	$25,060,000	$4,003,000

In addition to the above, the following amounts were received and accepted.

Federal Reserve	0	0
Foreign Official Institutions	0	0

LB-1063

DEPARTMENT OF THE TREASURY

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FOR RELEASE AT 2:30 P.M.
September 9, 1994

CONTACT: Office of Financing
202/219-3350

TREASURY'S 52-WEEK BILL OFFERING

The Treasury will auction approximately $16,750 million of 52-week Treasury bills to be issued September 22, 1994. This offering will provide about $1,400 million of new cash for the Treasury, as the maturing 52-week bill is currently outstanding in the amount of $15,341 million. In addition to the maturing 52-week bills, there are $25,469 million of maturing 13-week and 26-week bills, as well as $6,034 million of maturing 69-day, $7,005 million of maturing 38-day, and $7,005 million of maturing 16-day cash management bills.

Federal Reserve Banks hold $10,315 million of bills for their own accounts in the six maturing issues. These may be refunded at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold $6,150 million of the six 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 $445 million of the maturing 52-week issue.

Tenders for the bills will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) 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-1064

HIGHLIGHTS OF TREASURY OFFERING OF 52-WEEK BILLS TO BE ISSUED SEPTEMBER 22, 1994

September 9, 1994

Offering Amount . . . . . . $16,750 million

Description of Offering:

Term and type of security .	364-day bill
CUSIP number	912794 T3 8
Auction date	September 15, 1994
Issue date	September 22, 1994
Maturity date	September 21, 1995
Original issue date	September 22, 1994
Maturing amount.	$15,341 million
Minimum bid amount	$10,000
Multiples	$1,000

Submission of Bids:

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

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

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

Maximum Award . . . . 35% of public offering

Receipt of Tenders:

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

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

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

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FOR IMMEDIATE RELEASE
September 9, 1994

Contact: Rebecca Lowenthal
(202) 622-2960

HAULSEY NAMED TREASURY'S FACILITIES MANAGEMENT DIRECTOR

James Haulsey has been named Director of the Facilities Management Division at the Department of the Treasury.

In announcing Haulsey's appointment to the post, Assistant Secretary for Management George Muñoz said, "Jim and his staff are committed to providing quality customer service. In a landmarked building that demands tremendous care, Jim's appointment ensures that our valuable space will be managed with foresight and professionalism."

Haulsey joined Treasury in 1992 as Deputy Director for Facilities, and had been Acting Director for the last 18 months. He came to Treasury from the General Services Administration, where he had been a space alteration specialist and building manager since 1984. He was a construction inspector with the U.S. Army Corps of Engineers from 1982 to 1983. Haulsey spent 10 years with Safeway stores, first as a draftsman and construction inspector, and then as a building manager for 160 stores. He began his career as a crew chief and mechanic in the U.S. Air Force.

Haulsey received an A.A. degree in architectural drafting from Virginia Highland Community College in 1970.

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FOR IMMEDIATE RELEASE
September 12, 1994

STATEMENT OF TREASURY SECRETARY LLOYD BENTSEN

I have directed the Secret Service and Under Secretary for Enforcement Ron Noble to provide me with a full report on this matter. The Secret Service, which is responsible for Presidential protection, is investigating this incident.

We are always concerned when the issue of the President's safety is involved, but it is too early to come to any conclusions.

We are grateful that the President and his family were not endangered.

-30-

LB-1066

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FOR IMMEDIATE RELEASE
September 12, 1994

STATEMENT BY TREASURY SECRETARY LLOYD BENTSEN

There will be two phases of inquiry into the aircraft crash that took place at the White House early this morning.

First, the Secret Service, Federal Bureau of Investigation, Federal Aviation Administration, National Transportation Safety Board, and Metropolitan Police Department have combined their resources to investigate this incident and pursue any appropriate law enforcement action. The investigation will focus on this particular case. For the present time, the Secret Service will coordinate public information on this investigation.

Second, I have asked Ronald K. Noble, Under Secretary for Enforcement, and Eljay Bowron, Director of the Secret Service to lead a thorough review of the procedures used to protect the President and First Family in such incidents.

This review will be coordinated with the White House and all relevant federal, state and local agencies, and will call upon the advice of outside experts as appropriate. The review will be completed in 90 days.

Nothing is more important to me and to the Secret Service than the protection of the President, the Vice President and their families, and I expect that this comprehensive review will help the Secret Service carry out this mission.

As I am sure everyone can appreciate, it has long been standard practice at the Treasury Department and the Secret Service not to comment on the security measures surrounding the protection of the President and First Family. Any comment on the security procedures used by the Secret Service would run directly contrary to their protective responsibilities.

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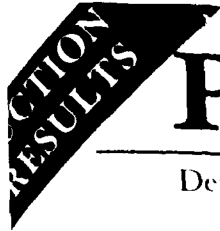

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FOR IMMEDIATE RELEASE
September 12, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $11,612 million of 13-week bills to be issued September 15, 1994 and to mature December 15, 1994 were accepted today (CUSIP: 912794M27).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	4.60%	4.72%	98.837
High	4.62%	4.74%	98.832
Average	4.61%	4.73%	98.835

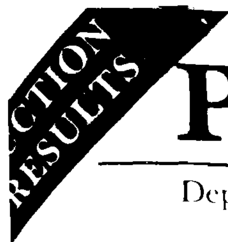
$10,000,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 15%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$51,224,487	$11,612,109
Type		
Competitive	$45,536,037	$5,923,659
Noncompetitive	1,225,857	1,225,857
Subtotal, Public	$46,761,894	$7,149,516
Federal Reserve	3,344,280	3,344,280
Foreign Official Institutions	1,118,313	1,118,313
TOTALS	$51,224,487	$11,612,109

An additional $373,887 thousand of bills will be issued to foreign official institutions for new cash.

LB-1068



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FOR IMMEDIATE RELEASE
September 12, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $11,677 million of 26-week bills to be issued September 15, 1994 and to mature March 16, 1995 were accepted today (CUSIP: 912794Q98).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	4.98%	5.18%	97.482
High	4.99%	5.19%	97.477
Average	4.99%	5.19%	97.477

Tenders at the high discount rate were allotted 45%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$48,206,907	$11,677,202
Type		
Competitive	$43,369,298	$6,839,593
Noncompetitive	1,022,322	1,022,322
Subtotal, Public	$44,391,620	$7,861,915
Federal Reserve	3,100,000	3,100,000
Foreign Official Institutions	715,287	715,287
TOTALS	$48,206,907	$11,677,202

An additional $239,013 thousand of bills will be issued to foreign official institutions for new cash.

LB-1069

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FOR IMMEDIATE RELEASE
September 14, 1994

STATEMENT OF EDWARD S. KNIGHT
NOMINEE FOR TREASURY DEPARTMENT GENERAL COUNSEL
BEFORE THE SENATE FINANCE COMMITTEE

Thank you, Mr. Chairman, Senator Packwood and members of the Committee for the opportunity to appear before you today. It is a great privilege to be here, and I want to express my appreciation to you for scheduling this hearing so expeditiously.

I am deeply honored to be President Clinton's nominee to be General Counsel of the Treasury Department. And I am sincerely grateful to Secretary Bentsen for recommending me to the President.

The General Counsel serves as the chief legal officer of the Treasury Department, and one of the critical duties of this position is providing advice to the Secretary and other senior Department officials. This advice is on matters ranging from government financial operations and law enforcement to domestic and international economic, monetary and financial affairs.

As you are well aware, Secretary Bentsen was once a member and chairman of this committee. My service on his Senate staff, 14 years of private law practice -- and especially the past 20 months as Executive Secretary of the Department and Senior Advisor to the Secretary -- have given me broad exposure to all of these areas of Treasury's legal practice. The responsibilities of the position are both substantial and challenging.

My service at the Department also has given me great respect for all of my colleagues at Treasury and, particularly, for the staff of the Office of the General Counsel. We have worked extremely closely in recent months, and I assure you there's a great deal of superior legal expertise in the office.

(MORE)

LB-1070

This has been a difficult summer for the Department. But I am proud to say we have not lost sight of the fact that we have important matters on our agenda, such as the two banking bills, and the Uruguay Round and the Superfund reauthorization legislation on which we have been working so closely and productively with this Committee. Secretary Bentsen has made it clear that he intends to move forward forcefully to achieve our goals. I intend to help him in any way I can.

I look forward to working closely with the Congress, especially with you, Mr. Chairman, and the members of the Finance Committee. I have the greatest respect for this institution. I am deeply committed to maintaining a close working relationship between the executive and legislative branches of government.

Before I close, I want to thank the most important people in my life -- my wife, Amy, and son, Travis. Without their understanding and support I wouldn't be before you today.

Mr. Chairman, that concludes my statement and I'd be happy to answer any questions the Committee may have.

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FOR IMMEDIATE RELEASE
September 13, 1994

CONTACT: Scott Dykema
(202) 622-2960

U.S., ISRAEL AGREE ON TAX INFORMATION EXCHANGE

The Treasury Department said Tuesday that the United States and Israel confirmed a mutual commitment to tax compliance and enforcement goals of the pending U.S.-Israel income tax treaty.

In an exchange of correspondence, senior officials spelled out their intention to cooperate fully in exchanging tax information, including, where relevant, bank information.

Based on these assurances, the Treasury Department is requesting the Senate to give its advice and consent to the ratification of the pending income tax treaty protocol. Treasury last year had asked the Senate to hold off approving the pending protocol until these assurances had been received.

The United States and Israel share a mutual expectation that the treaty, as amended by this protocol, will benefit the economies of both countries by facilitating increased cross-border flows of goods, services, capital and technology.

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FOR IMMEDIATE RELEASE
September 13, 1994

Contact: David Icikson
(202) 622-2960

TREASURY COLLECTS NEARLY $1 MILLION IN PENALTIES

Treasury Secretary Lloyd Bentsen announced Tuesday that the Department of the Treasury has collected $914,500 in civil money penalties from seven financial institutions for violating the Bank Secrecy Act.

Bentsen said that penalties were collected from the following financial institutions:

- Mark Twain Bank (St. Louis, Mo.), $750,000
- Claridge Casino Hotel (Atlantic City, N.J.), $120,000
- First National Bank of Chicago Heights (Ill.), $20,000
- Jonestown Bank and Trust Company (Pa.), $12,500
- LaSalle National Bank (Ill.), $5,000
- New Damen and Grand Currency Exchange (Chicago,Ill.), $5,000
- Public Employees Credit Union (Austin, Texas), $2,000

"These penalties send a strong message that the Treasury Department is committed to fighting money laundering and other financial crimes," Bentsen said. "Our first line of defense is an effective Bank Secrecy Act program that ensures a viable paper trail of financial transactions and adequately identified customers. Treasury will continue to hold financial institutions accountable when they fail to comply with the act."

Secretary Bentsen also acknowledged the joint efforts of federal banking regulators and the Internal Revenue Service Examination Division for their reviews of Bank Secrecy Act compliance by the institutions they supervise.

The Bank Secrecy Act requires banks and other nonbank financial institutions to keep certain records, to file reports with the Treasury on cash transactions in excess of $10,000 and to file reports on the international transportation of currency and certain monetary instruments in bearer form. The purpose of these reports and records is to assist the government's efforts in civil, criminal, tax and regulatory investigations.

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FOR IMMEDIATE RELEASE
September 13, 1994

Contact: David Icikson
(202) 622-2960

PENALTY LEVIED AGAINST MARK TWAIN BANK

The Treasury Department announced Tuesday that Mark Twain Bank of St. Louis, Missouri, has paid a $750,000 civil money penalty for failing to file reports as required by the Bank Secrecy Act.

The settlement is for violations which occurred from October 1988 to March 1994, and involved large currency transactions conducted by various customers including one who operated a check cashing/money order sales business. Previous Federal Deposit Insurance Corporation (FDIC) examinations and several internal audits had noted deficiencies by the bank in complying with the Bank Secrecy Act.

In determining the amount of the penalty, Treasury considered the cooperation of, and steps taken by the bank to enhance its Bank Secrecy Act program, including improvements to its training and auditing programs. Treasury has no evidence that the bank or any of its officers, directors or employees engaged in criminal activity in connection with these reporting violations.

In announcing the penalty, Ronald K. Noble, Under Secretary for Enforcement, said, "This penalty should emphasize the importance of implementing effective compliance and audit programs to ensure that a financial institution's responsibilities under the Bank Secrecy Act are fully met." He also acknowledged the commitment of the bank's management to ensure compliance in the future.

Noble acknowledged the FDIC's assistance and its diligence in effective reviews of Bank Secrecy Act compliance during bank examinations.

The Bank Secrecy Act requires banks and other financial institutions to keep certain records, to file CTRs with Treasury on cash transactions in excess of $10,000 and, under certain circumstances, to file reports on the international transportation of currency, traveler's checks and other monetary instruments in bearer form. The purpose of these reports and records is to assist the government in combating money laundering as well as for use in criminal, tax and regulatory investigations.

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DEPARTMENT OF THE TREASURY

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FOR IMMEDIATE RELEASE
September 13, 1994

Contact: David Icikson
(202) 622-2960

PENALTY LEVIED AGAINST CLARIDGE CASINO HOTEL

The Treasury Department announced Tuesday that the Claridge Casino Hotel, Atlantic City, New Jersey, has paid a $120,000 civil money penalty for failing to report to the Internal Revenue Service (IRS) currency transactions as required by the Bank Secrecy Act.

The cash transactions were conducted by customers of the casino from December 1985 to October 1987. In determining the amount of the penalty, Treasury considered the substantial corrective actions taken by Claridge and the extensive improvements to the Bank Secrecy Act compliance program subsequently implemented by its management. Treasury has no evidence that the casino engaged in any criminal activities in connection with these reporting violations.

Ronald K. Noble, Under Secretary for Enforcement, stated, "Reporting failures, whatever their cause, are extremely serious. This impairs our ability to monitor potentially suspect conduct and frustrates Treasury efforts to close the doors of all financial institutions, including casinos, to the activities of money launderers, tax evaders and other perpetrators of financial crime who prey on such institutions."

Noble acknowledged the efforts of the IRS for its compliance examinations which led to referral of this matter to Treasury. "Today's action could not have been undertaken without the dedication and skill of the agents of the IRS Examination Division in Mays Landing, New Jersey."

Since 1974, banks and other financial institutions have been required to maintain certain records and to file reports of currency transactions in excess of $10,000 with the government to assist in money laundering and tax investigations. In 1985, Treasury imposed similar requirements upon casinos in recognition that casinos are a predominantly cash-based business which have been used for money laundering in the past.

The Bank Secrecy Act regulations require that whenever a person conducts a transaction in currency in excess of $10,000, whether at the cashier's window or on the gaming floor of a casino, a report must be filed with the IRS.

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DEPARTMENT OF THE TREASURY

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FOR IMMEDIATE RELEASE
September 13, 1994

Contact: David Icikson
(202) 622-2960

PENALTY LEVIED AGAINST FIRST NATIONAL BANK OF CHICAGO HEIGHTS

The Department of the Treasury announced Tuesday that the First National Bank of Chicago Heights, Chicago Heights, Illinois, has paid a $20,000 civil money penalty for failing to file Currency Transaction Reports (CTRs) as required by the Bank Secrecy Act.

The violations, which occurred in 1988, involved reportable currency transactions by both personal and commercial customers of the bank.

In accepting the bank's settlement offer, Treasury considered the change in bank management since the time of the violations, the cooperation of the bank's current management and improvements in the bank's Bank Secrecy Act compliance program.

Treasury has no evidence that the bank or any of its officers, directors or employees engaged in criminal activity in connection with the reporting violations. "This settlement represents a complete resolution of the bank's Bank Secrecy Act civil liability for these violations and should encourage all financial institutions to implement effective Bank Security Act compliance programs," said Stanley E. Morris, Director of Treasury's Financial Crimes Enforcement Network.

The Bank Secrecy Act requires banks and other financial institutions to keep certain records, file CTRs with Treasury for currency transactions in excess of $10,000 and file reports of international transportation of currency, traveler's checks and other monetary instruments in bearer form. These records and reports assist the government's efforts in combatting money laundering and are used in civil, criminal, tax and regulatory investigations.

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LB-1075

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
September 13, 1994

Contact: David Icikson
(202) 622-2960

PENALTY LEVIED AGAINST JONESTOWN BANK AND TRUST

The Department of the Treasury announced Tuesday that the Jonestown Bank & Trust Company, Jonestown, Pennsylvania has paid a $12,500 civil money penalty for failing to file Currency Transaction Reports (CTR) within the time frame required by the Bank Secrecy Act.

The violations involved reportable currency transactions conducted by individual and commercial customers of the bank.

In determining the amount of the penalty, Treasury considered the change in bank management, corrective actions by the bank, and improvements to its Bank Secrecy Act compliance program since the time of the violations. Treasury also considered the bank's cooperation with law enforcement.

Treasury has no evidence that the bank or any of its officers, directors or employees engaged in criminal activity in connection with the reporting violations.

In announcing the penalty, Stanley E. Morris, Director of Treasury's Financial Crimes Enforcement Network, said, "Management involvement in the compliance process is a key element to the success of a comprehensive Bank Secrecy Act compliance program."

The Bank Secrecy Act requires banks and other financial institutions to keep certain records, file CTRs with Treasury for currency transactions in excess of $10,000, and file reports of international transportation of currency, traveler's checks, and other monetary instruments in bearer form. These records and reports assist the government's efforts in combatting money laundering and are used in civil, criminal, tax and regulatory proceedings.

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LB-1076

DEPARTMENT OF THE TREASURY

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FOR IMMEDIATE RELEASE
September 14, 1994

STATEMENT OF FRANK N. NEWMAN
NOMINEE FOR DEPUTY SECRETARY OF THE TREASURY
BEFORE THE SENATE FINANCE COMMITTEE

Mr. Chairman, Senator Packwood, and members of the committee, it is genuinely a privilege and a pleasure to appear before you today. While the circumstances that led to my nomination were unfortunate in many ways, it is an honor to be recommended by Secretary Bentsen and nominated by the President to be Deputy Secretary of the Treasury.

I look forward to working cooperatively with the Committee on issues of mutual concern and opportunity. I realize that there are often a number of different perspectives on matters of importance; expression and consideration of those varying views are part of the strength of our system of democracy. I came to Washington determined to listen carefully, and to try to understand and appreciate different views on issues, as I participate in the development of the balance and combination of alternatives.

My primary responsibilities as Under Secretary for Domestic Finance have focused on policy and regulatory matters regarding financial institutions, management of the federal debt, and financing provided by the Treasury, as well as the operations supporting these functions. In addition, Secretary Bentsen has asked me to represent the Treasury Department in various interagency efforts, including the Working Group on Financial Markets, and the President's Management Council.

If confirmed as Deputy Secretary, I hope to serve primarily in three broad areas. First, to support Secretary Bentsen in ways that he deems most useful, including on major programs at the Treasury Department, as well as Treasury's role in key Administration initiatives.

(MORE)

LB-1077

Second, to assist the Secretary in the management of the range of policy offices and bureaus within the Department. The scope of the Department's activities is extremely broad, and the functions it performs are some of the most basic of government -- collecting taxes, enforcing many laws, and producing our coins and currency, to name a few. I believe that serious attention to running the government well is a vitally important function for those of us who sign on to the Executive Branch.

And third, although I will obviously have less time to spend on matters of Domestic Finance, I hope to continue to be active in issues regarding the financial system. The key objectives are to allow the providers of financial services to be more efficient and adaptive to modern financial markets, to protect the safety and soundness of the system, and to assure that the system serves fairly the financial needs of a broad range of people and businesses of the nation.

If confirmed, I will undertake the challenging responsibilities of the office of Deputy Secretary with diligence, with a constant sense of financial responsibility, with an open mind, and with a commitment to integrity.

Thank you, Mr. Chairman. I would be pleased to respond to questions of the Committee.

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DEPARTMENT OF THE TREASURY

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FOR IMMEDIATE RELEASE
September 13, 1994

CONTACT: David Icikson
(202) 622-2960

PENALTY LEVIED AGAINST NEW DAMEN AND GRAND CURRENCY EXCHANGE

The Department of the Treasury announced Tuesday that New Damen and Grand Currency Exchange, a check cashing service in Chicago, Illinois, has paid a $5,000 civil money penalty for failing to file a Currency Transaction Report as required by the Bank Secrecy Act.

The violation occurred in 1987 and involved multiple checks cashed concurrently for a single customer. Treasury determined the amount of the penalty after considering the check casher's cooperation and improvement in reporting currency transactions.

Stanley E. Morris, Director of Treasury's Financial Crimes Enforcement Network, said this penalty reflects Treasury's continuing effort to enforce compliance with the act by nonbank financial institutions. "Treasury encourages all financial institutions to develop effective Bank Secrecy Act compliance programs to help detect and deter money laundering," he said.

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

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LB-1078

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FOR IMMEDIATE RELEASE
September 13, 1994

Contact: David Icikson
(202) 622-2960

PENALTY LEVIED AGAINST LASALLE NATIONAL BANK

The Treasury Department announced Tuesday that LaSalle National Bank, LaSalle, Illinois, has paid a $5,000 civil money penalty for failing to report certain cash transactions within the time required by the Bank Secrecy Act.

The violations which occurred between August 1990 and December 1991 involved single and multiple currency transactions in excess of $10,000 which were not reported on Currency Transaction Reports (CTRs). The violations were identified by the bank during an internal audit.

Treasury and the bank agreed upon the amount of the penalty in complete settlement of the bank's civil liability under the Bank Secrecy Act. In determining the amount of the penalty, Treasury considered the bank's voluntary disclosure of the violations, full cooperation, and subsequent improvements in its compliance with the act and its Bank Secrecy Act compliance program.

Treasury has no evidence that the bank or any of its employees or officers engaged in any criminal activities in connection with these reporting violations.

Stanley Morris, Director of the Financial Crimes Enforcement Network, in announcing the penalty, said, "I compliment the bank on its voluntary notification of and cooperation with Treasury on this matter. The bank's actions have enhanced its ability to comply with the requirements of the Bank Secrecy Act."

The Bank Secrecy Act requires banks and other financial institutions to keep certain records, file CTRs with Treasury on cash transactions in excess of $10,000 and file reports on the international transportation of currency, traveler's checks and other monetary instruments in bearer form. The purpose of these records and reports is to assist the government in combatting money laundering as well as for use in civil, criminal, tax and regulatory investigations.

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LB-1079

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FOR IMMEDIATE RELEASE
September 13, 1994

Contact: David Icikson
(202) 622-2960

PENALTY LEVIED AGAINST PUBLIC EMPLOYEES CREDIT UNION

The Department of the Treasury announced Tuesday that the Public Employees Credit Union, Austin, Texas, has paid a $2,000 civil money penalty for failing to file a Currency Transaction Report (CTR) as required by the Bank Secrecy Act.

The violation, which occurred in 1988, involved a reportable withdrawal of currency from the account of a credit union employee.

In determining the amount of the penalty, Treasury considered the full cooperation of the credit union, corrective action taken by the credit union, the credit union's cooperation with law enforcement and improvements to the credit union's Bank Secrecy Act compliance program.

In announcing the penalty, Stanley E. Morris, Director of Treasury's Financial Crimes Enforcement Network, said, "In ensuring Bank Secrecy Act compliance, it is important to monitor the activities of both customers and insiders."

Treasury has no evidence that the credit union or any of its officers, directors or employees engaged in criminal activity in connection with the reporting violation.

The Bank Secrecy Act requires banks and other financial institutions to keep certain records, file CTRs with Treasury for currency transactions in excess of $10,000, and file reports of international transportation of currency, traveler's checks and other monetary instruments in bearer form. These records and reports assist the government's efforts in combatting money laundering and are used in civil, criminal, tax and regulatory investigations.

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LB-1080

DEPARTMENT OF THE TREASURY

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FOR RELEASE AT 2:30 P.M.
September 13, 1994

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $23,200 million, to be issued September 22, 1994. This offering will result in a paydown for the Treasury of about $22,325 million, as the maturing bills total $45,513 million (including the 69-day cash management bills issued July 15, 1994, in the amount of $6,034 million, the 38-day cash management bills issued August 15, 1994, in the amount of $7,005 million, and the 16-day cash management bills issued September 6, 1994, in the amount of $7,005 million). In addition to the maturing 13-week, 26-week, 69-day, 38-day, and 16-day bills, there are $15,341 million of maturing 52-week bills. The disposition of this latter amount was announced last week.

Federal Reserve Banks hold $10,315 million of bills for their own accounts in the six maturing issues. These may be refunded at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold $6,558 million of the six 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 $6,113 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) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

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

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Attachment

LB-1081

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED SEPTEMBER 22, 1994

September 13, 1994

Offering Amount	$11,600 million	$11,600 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 P5 7	912794 R2 2
Auction date	September 19, 1994	September 19, 1994
Issue date	September 22, 1994	September 22, 1994
Maturity date	December 22, 1994	March 23, 1995
Original issue date	June 23, 1994	September 22, 1994
Currently outstanding	$12,950 million	- - -
Minimum bid amount	$10,000	$10,000
Multiples	$ 1,000	$ 1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

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

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

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

Maximum Award . . . . 35% of public offering

Receipt of Tenders:

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

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

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

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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For Release Upon Delivery
Expected at 10:30 a.m.
September 14, 1994

STATEMENT OF
LESLIE B. SAMUELS
ASSISTANT SECRETARY (TAX POLICY)
DEPARTMENT OF THE TREASURY
BEFORE THE
SENATE FINANCE COMMITTEE

Mr. Chairman and Members of the Committee:

I am pleased to discuss today the Administration's proposals for funding the reauthorization and amendment of the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA) contained in the Superfund Reform Act of 1994 (S. 1834). CERCLA created the Superfund program, which is the Federal government's primary program for addressing dangerous environmental and health conditions created by the release of hazardous substances into the environment.

Before describing the specific financing elements connected with the Administration's proposal, I would like to briefly summarize the Superfund reform legislation and the state of affairs under current law.

CURRENT LAW

Superfund Trust Fund

CERCLA provides the Federal government with the authority to respond to and clean up releases of hazardous substances into the environment. Under CERCLA, the Environmental Protection Agency (EPA) has two tools for cleaning up hazardous waste sites. First, EPA can take legal action to force responsible parties to clean up contaminated sites or to reimburse the Federal government for the cost of the cleanup. Second, EPA can use funds in the Hazardous Substance Superfund trust fund to finance the cleanup of hazardous waste sites where a responsible party cannot be found or is not financially viable (orphaned

sites). The trust fund can also be tapped to expedite the cleanup of other sites where costs will ultimately be recovered from potentially responsible parties (PRPs).

The Superfund trust fund is currently financed primarily by excise taxes on domestic crude oil, imported petroleum products, certain chemicals and imported derivative products, a corporate environmental tax, and annual appropriations from general revenues. More specifically, the trust fund is financed by the following taxes: (1) an excise tax on crude oil and imported petroleum products equal to 9.7 cents per barrel for domestic crude oil received at a United States refinery or exported, on imported crude oil, and imported petroleum products entered into the United States for consumption, use, or warehousing; (2) excise taxes imposed on listed chemicals sold domestically or used by the manufacturer, producer, or importer of the listed chemicals at rates ranging from $0.22 to $4.87 per ton; (3) excise taxes on certain imported derivative products generally at rates applicable to taxable chemicals used as materials in the manufacture of the imported substances; and (4) the corporate environmental tax equal to 0.12 percent of modified alternative minimum taxable income in excess of $2 million.

These taxes are scheduled to expire on December 31, 1995. However, the taxes may terminate earlier if amounts in the Superfund trust fund reach certain levels. The Superfund taxes may expire before January 1, 1996 if (1) on December 31, 1994, the unobligated balance in the Superfund exceeds $3.5 billion and will exceed $3.5 billion at the end of the following year if no Superfund taxes were imposed during the year, or (2) if the amount of cumulative Superfund taxes collected exceeds $11.97 billion.

The Superfund taxes provide an adequate and stable source of funds for the trust fund. In enacting CERCLA, Congress decided that the cleanup costs incurred by the Federal government where a private party could not be identified or was not financially viable should be paid by current producers and users of hazardous substances. By taxing the materials used to make hazardous products and waste, these costs would be borne by persons producing or using hazardous materials. Accordingly, Congress enacted the excise taxes on petroleum and chemicals.

Under the Superfund Amendments and Reauthorization Act of 1986, Congress decided to expand the Superfund financing sources to include the corporate environmental tax. The addition of this broad-based funding source reflected the view that the production and use of hazardous substances and the benefits from cleanup were widely dispersed.

Litigation

CERCLA imposes liability for cleanup costs on current owners and operators of disposal sites, owners and operators at the time of a release, and generators and transporters of hazardous substances. Responsible parties are subject to strict, joint, and several liability standards with respect to costs associated with the removal and cleanup of hazardous substances. This liability system currently generates a significant amount of litigation for

recoveries between EPA and PRPs (enforcement litigation), between initially identified PRPs and other PRPs (contribution litigation), and PRPs and their insurers (insurance litigation). As a result, litigation costs have been and continue to be significant.

Insurers that wrote commercial liability and comprehensive general liability coverage prior to January 1, 1986 sometimes have to pay claims related to a policyholder's liability for cleanup costs, either because the insurance contracts specifically included coverage for environmental liability losses or the judicial system determines that the insurer is liable under the terms of the insurance contract for cleanup costs incurred by the policyholder. The costs incurred by PRPs and insurers in insurance litigation are significant. That money would be better spent cleaning up hazardous waste sites.

OVERVIEW OF PROPOSED LEGISLATION

Superfund Trust Fund

S. 1834 contains reform initiatives that fulfill the Administration's commitment to protecting human health and the environment and to making Superfund cleanups faster, fairer, and more efficient. It is our belief that the Administration's proposed financing provisions provide an adequate and stable financial base for the Superfund.

S. 1834 would reauthorize the Superfund program at $9.6 billion for the five year period beginning October 1, 1994 and ending September 30, 1999. The legislation would extend the existing Superfund taxes for five years and would authorize the present level of appropriations from general revenues for the Superfund ($250 million per year for FY 1995 through FY 1999).

The present excise taxes would be extended until December 31, 2000. The corporate environmental tax would be extended through taxable years beginning before January 1, 2001. No changes are proposed in the present tax rates or taxable substances. However, under the Administration's proposal the ceiling on total Superfund taxes that can be collected without causing the taxes to cease would increase from $11.97 billion to $22 billion. This increase in the ceiling should permit the reauthorized taxes to be collected; otherwise the taxes could terminate prematurely when the lower ceiling is hit.

Litigation

Title VIII of S. 1834 is designed to reduce the costly litigation between PRPs and their insurers. A new Environmental Insurance Resolution Fund (EIRF) would be established with the objective of facilitating settlement of the vast majority of litigation involving insurance claims related to Superfund or environmental liability.

Under present law, protracted disputes between insurance companies and their policyholders regarding the applicability of coverage to liability under CERCLA are a major

source of litigation related to Superfund. The legislation will reduce this litigation and allow monies that would otherwise be spent in adversarial proceedings to be used for cleanup.

The EIRF would make a single, comprehensive offer to each eligible responsible party to resolve all pending and future claims of the policyholder against its insurers arising under the Superfund law for eligible costs of the policyholder. A policyholder that accepted the EIRF's offer would be reimbursed at a fixed percentage of its eligible costs and would be required to waive all current and future CERCLA-related claims against its insurers. If a policyholder rejects the EIRF's offer, the EIRF would reimburse insurers for litigation costs and judgement amounts associated with any litigation brought by that policyholder, up to the amount of the offer.

The Administration's original funding proposal for the EIRF was designed to raise \$3.1 billion over five years, consistent with the terms of the Administration's original reform proposal. When the Senate Committee on Environment and Public Works favorably reported the bill, the term of the reform proposal was extended beyond five years to an anticipated term of ten years. As a result of the extension of the EIRF's term, and in conjunction with the consideration of the bill by the House Committee on Ways and Means, we revised our proposal to raise \$810 million per year over the term of the EIRF.

Now, I would like to describe the Administration's proposed financing mechanism for the EIRF and the rationale behind it. The proposal that I will describe is the proposal that was favorably reported by the House Committee on Ways and Means with some modifications. The modifications reflect extensive discussions that have taken place over the last few weeks. First, I will describe the modified proposal and I will conclude by summarizing the changes from the bill reported by the Committee on Ways and Means.

OVERVIEW OF ENVIRONMENTAL INSURANCE RESOLUTION REFORM FUNDING

To determine how to finance equitably the EIRF, we met with many insurance industry representatives to gain a better understanding of the Superfund problems and issues arising from various proposals. In the context of these extensive and ongoing discussions, we developed three principles that provided guidance for financing proposals for the EIRF. The fundamental principles are: (1) insurers that potentially benefit from the environmental insurance resolution reform--those that have potential Superfund liabilities through commercial insurance coverage written in the past--should provide a significant portion of the EIRF's funding; (2) the commercial insurance industry as a whole, its policyholders, and society also will benefit from the reform and should pay some portion of the EIRF's funding; and (3) all commercial insurers and reinsurers, whether domestic or foreign, that insure risks in the United States benefit from the reform and should participate in its funding.

Given these three principles, we reached what we believe is a reasonable approach for financing the EIRF whose framework is supported by a significant segment of the

industry. Under the proposal, the financing of the Fund would be split nearly equally, on a present value basis, between retrospective and prospective taxes.

During the first four years, approximately 69 percent of the financing for the EIRF would be obtained from separate retrospective taxes on those insurers and reinsurers that wrote certain commercial liability coverage in the past, with 46 percent of the total financing coming from a tax on direct insurers and 23 percent of such financing coming from a tax on reinsurers. Approximately 31 percent of the financing for the EIRF would be raised by a prospective tax on direct premiums written by insurers for insurance coverage of U.S. risks in commercial lines of business after the date of enactment.

During years five through ten, 66 percent of the funding would be raised by the prospective tax on direct premiums written for insurance coverage of U.S. risks in commercial lines of business. The remaining 34 percent would be obtained from a retrospective tax on reinsurance premiums (23 percent of total revenues), and an assessment on insurers that wrote coverage that gave rise to actual Superfund claims for which the EIRF makes awards (11 percent of total revenues).

The annual financing of the Fund would be as follows:

Years	Retrospective Tax on Direct Insurance	Retrospective Tax on Reinsurance	Prospective Tax	Assessments on Insurers
1-4	$374 million	$188 million	$248 million	$ 0
5-10	$ 0	$188 million	$537 million	$85 million

To provide the insurance industry with assurances that the taxes to be collected would not exceed their revenue targets, the amount of taxes collected under the prospective tax, the retrospective tax on direct insurers, and the retrospective tax on reinsurance premiums would be subject to separate multi-year caps that would limit the actual collections to the targeted amounts. Each tax would trigger off when the appropriate revenue is raised within multi-year timeframes. Those timeframes have not yet been determined. However, we would suggest that the Committee consider two multi-year periods--years one through four and years five through ten. If the amount collected for a particular tax reached its revenue cap, that tax would not be collected for the remainder of the period for which the cap applies.

In addition, separate multi-year caps would apply to the retrospective tax collected on domestic and foreign reinsurance premiums. These separate caps would be proportional to the reasonably estimated share of the domestic and foreign markets and established to reduce the risk of a revenue shortfall for the Fund. In addition, the retrospective taxes on

reinsurance premiums would also be subject to an overall multi-year cap of 23 percent of the EIRF's total revenues.

The Fund could have continuing obligations beyond its anticipated 10-year term. Treasury would conduct a study in the ninth year of the Fund to make recommendations with respect to the insurance industry's financing of the Fund after the tenth year. Absent Congressional action, the funding provided in the proposal would continue until all ongoing obligations of the Fund are satisfied.

Under this proposal and consistent with our first principle that those that potentially benefit the most from reform should pay for a significant share of the reform, the taxes and assessments that are retrospectively based would be paid by those insurers and reinsurers that could potentially benefit most from reform. The assessments would be imposed on insurers that wrote coverage that gave rise to actual Superfund claims for which the EIRF makes awards. The excise taxes that use a retrospective computation basis would be imposed on net premiums written by domestic and foreign insurers and reinsurers for contracts insuring certain U.S. commercial liability risks during the period from 1968 through 1985.

We believe that the base period of 1968 through 1985 for determining commercial net written premiums is a reasonable approach to develop the retrospective tax base. Any insurer or reinsurer that wrote coverage for losses arising from comprehensive general liability or commercial multiperil liability risks situated in the United States prior to 1986 has potential exposure to environmental liability claims as policyholders discover that they are PRPs. This exposure generally ceased in 1986 because insurers began including in their insurance contracts a specific exclusion for coverage of claims related to environmental liability. Although the exposure ends in 1986 but extends back in time, we thought it would be inappropriate to require insurers to search back in time for records that may be difficult to locate or may not be reliable. Publicly available data prior to 1968 are less reliable and so we only extended the start of the base period for determining this retrospective tax back to 1968.

Consistent with the second principle that the entire insurance industry, policyholders, and society benefit from reform and should participate in the EIRF's financing, the prospective tax would be borne both by insurers that benefit from reform and more broadly by others. The prospective tax would be imposed on future direct premiums from insurance of U.S. risks written in commercial lines of business by domestic and foreign insurers.

A tax imposed on future direct premiums written by insurers has merit in funding a portion of the EIRF. The health of the industry would be improved by environmental insurance resolution reform and the potential for state guaranty fund involvement would be reduced. If insurance companies liable for environmental claims become insolvent, State guaranty funds can assess solvent insurers to pay outstanding policyholder claims of insolvent insurers. Thus, all insurers (and their policyholders) may ultimately benefit from the proposed reform, regardless of whether an insurer wrote coverage that directly generates

environmental exposure. Also, given the possibility that a part of the tax on future premiums might be passed through to policyholders, the tax would be borne more generally by consumers of the insurance coverage. For these reasons, a portion of the financing should be provided by insurers writing commercial coverage today.

The prospective tax would be imposed on a broader base of premiums than the retrospective tax primarily to preserve the stability and predictability of the tax base. A prospective tax relies on premiums being reported in the lines of business subject to the tax. If the tax is imposed on too few lines of business, there could be potential for erosion of the premium base as insurance is repackaged and sold in a different manner. Also, if the tax is imposed on too few lines, the premium base is small and forces the tax rate to be high. Due to the competitiveness and price sensitivity in the commercial insurance market, a high tax rate on too few lines of business could cause an erosion of the tax base as policyholders may choose to self insure.

Consistent with the third principle, that all insurers and reinsurers should participate in the EIRF funding, the Administration's proposal requires foreign insurers and reinsurers to contribute their fair share through taxes and assessments. Foreign insurers and reinsurers that are currently subject to net-basis U.S. income taxation would pay the retrospective taxes on the same basis as would domestic insurers and reinsurers. Alien insurers and reinsurers (*i.e.*, foreign insurers that are not subject to net-basis U.S. income taxation) would be required to participate in the EIRF funding in a different manner. To ensure that alien insurers and reinsurers contribute to the EIRF, their U.S. insurance contracts would be subject to a prospective tax on coverage limits, collected by a U.S. withholding agent, in lieu of the retrospective tax. Alternatively, an alien insurer or reinsurer could elect to be subject to the retrospective tax and assessments, in lieu of the tax on coverage limits, by making an election, if certain conditions are met, or entering into a closing agreement with the Internal Revenue Service. In addition, insurers and reinsurers would be required to identify to the Internal Revenue Service at the time of their first retrospective tax filing their foreign reinsurers and, with good faith effort, the amounts of qualified commercial insurance ceded to those foreign reinsurers during the period from 1968 to 1985.

Both foreign and alien insurers would pay the prospective tax imposed on certain direct insurance premiums on the same basis as domestic insurers. In the case of alien insurers, the tax would be collected by a U.S. withholding agent.

FUNDING SPECIFICS OF ENVIRONMENTAL INSURANCE RESOLUTION REFORM

Retrospective Taxes

The retrospective taxes are designed to raise $3.376 billion over ten years ($2.248 billion for years one through four and $1.128 for years five through ten). These taxes would be determined by multiplying the applicable tax rate by the adjusted base-period commercial

premiums written for contracts or agreements providing insurance or reinsurance with respect to qualified commercial coverage of risks within the United States (including Puerto Rico, and any U.S. possessions and territories) during the period beginning January 1, 1968, and ending on December 31, 1985. For years one through four, an applicable tax rate would be determined that would raise $374 million annually from net direct insurance premiums and $188 million from net reinsurance premiums. After year four, the applicable reinsurance premium tax rate would remain the same and the applicable direct tax rate would be zero.

Separate multi-year caps would limit the amount of tax collected from premiums for net direct insurance premiums to $374 million per year for four years and from net reinsurance premiums to $188 million per year for ten years. We would suggest that the caps be imposed in four and six-year intervals. In years one through four, the cap at which the taxes trigger off would be four times the annual target revenue. In years five through ten, the cap at which the taxes trigger off would be six times the annual target revenues. In addition, separate multi-year caps would apply to the retrospective tax collected on foreign and domestic reinsurance premiums. These caps would be proportional based upon the foreign and domestic reinsurers' reasonably estimated market shares and established to reduce the risk of an overall revenue shortfall to the Fund. They would also be subject to the overall multi-year cap of $188 million per year on the retrospective tax on net reinsurance premiums.

1. Adjusted base-period commercial premiums. In determining the total adjusted base-period commercial premiums written for 1968 through 1985 to which the funding rates are applied, the net premiums written for each year during the period for qualified commercial insurance contracts and reinsurance of qualified commercial insurance coverage would be adjusted by an inflation factor based on the consumer price index. This inflation adjustment would restate all premiums written to 1985 dollars so that they are taxed on a comparable basis.

2. Exclusions. In determining adjusted base-period commercial premiums, $50 million would be excludable from inflation-adjusted base-period commercial direct premiums. One $50 million exclusion would be available to certain "related" parties. This exclusion is intended to provide relief to small insurers and mitigate any mistargeting of the premiums proxy. No exclusion is provided for reinsurance premiums. However, the Secretary of the Treasury would have the authority to specify an exception that would exclude base-period reinsurance premiums of a de minimis amount.

3. Net premiums written for qualified commercial insurance contracts. Net premiums written for qualified commercial insurance contracts means net premiums written for contracts providing insurance of qualified commercial coverage of U.S. situs risks generally computed on the basis of the annual statements approved by the National Association of Insurance Commissioners (NAIC).

Qualified commercial coverage means insurance coverage that was, or should have been, characterized in the NAIC annual statement as "commercial multiple peril" or "other liability" lines of business. However, contracts included in the "other liability" line of business that insured only specific coverages unrelated to general commercial liability, and thus would not generate exposure to environmental insurance claims, would be excluded. For example, medical malpractice insurance would be an excludable coverage. However, commercial property damage insurance, for example, could not be excluded from the commercial multiple peril line of business.

For insurers and reinsurers not filing NAIC annual statements, net written premiums should be computed on a basis comparable to that required by the NAIC using reasonable methods (as approved or provided by the Secretary) to approximate comparability where necessary due to inadequate books and records.

4. Net premiums written for allocated reinsurance of qualified commercial coverage. Premiums related to allocated reinsurance (i.e., generally first dollar pro rata reinsurance) are identified by line of business. Accordingly, net premiums written for allocated reinsurance of qualified commercial coverage means net premiums written for reinsurance which were reported (or, in the case of a company not filing an annual statement, would have been required to be so reported) on the annual statement approved by the NAIC by the line of business related to the underlying policies covered by such reinsurance, rather than on the reinsurance line of business of the annual statement.

5. Net premiums written for unallocated reinsurance of qualified commercial coverage. For certain reinsurance coverage (e.g., reinsurance in excess of a retention by the ceding company), the reinsurer may not have separately reported net premiums written by line of business on the annual statement. The reinsurer often cannot identify or directly trace the type of insurance coverage to which the premiums relate because several types of insurance coverage could be combined in the reinsurance agreement. Thus, the net premiums written for this unallocated reinsurance would be determined using a formula, or proxy approach, based on the insurance industry's ceded premiums for qualified commercial coverage from January 1, 1968, through December 31, 1985.

To derive the net premiums written related to unallocated reinsurance of qualified commercial coverage, a reinsurance ratio of 21 percent would be multiplied by the net premiums written, as reported on the NAIC annual statement (or equivalent computational basis if an NAIC annual statement was not prepared) for the reinsurance line of business.

6. Foreign insurers and reinsurers. Foreign persons (including foreign companies, partnerships, trusts, and estates and nonresident alien individuals) that insure or reinsure U.S. risks would be subject to the retrospective taxes if they are currently engaged in any trade or business within the United States and their taxable income that is effectively connected with that trade or business is subject to net-basis U.S. income taxation and is not exempt by treaty

from such taxation. The retrospective taxes would be computed in the same manner as for U.S. insurers and reinsurers.

All other foreign insurers and reinsurers ("alien insurers and reinsurers") would be subject to a prospective "limits" tax in lieu of the retrospective taxes and assessments, unless they elect to be subject to the retrospective taxes and assessments. This prospective limits tax would be imposed at a rate of 0.50 percent of the maximum limit of liability on each policy of casualty insurance insuring or reinsuring U.S. risks. The tax would be imposed on all lines of casualty business, broadly defined, to prevent alien insurers and reinsurers from avoiding the tax simply by ceasing to write qualified commercial insurance coverage in the United States. The tax would be withheld and remitted to the Internal Revenue Service by the U.S. premium payor or other U.S. withholding agent.

Alternatively, alien insurers and reinsurers could elect to be subject to the retrospective taxes and assessments. If such an election were made, the retrospective taxes and assessments would apply in the same manner as they apply to U.S. insurers and reinsurers (and to other foreign insurers and reinsurers). Electing aliens would be required to enter into a closing agreement with the Internal Revenue Service to ensure collection of the retrospective taxes and assessments. However, foreign persons would preliminarily elect, pending execution of a closing agreement, to be subject to the retrospective taxes in lieu of the limits tax. Under such an agreement, in place of requiring immediate payment and withholding of the limits tax, the insurer or reinsurer would be required to post adequate security in a designated form with the Treasury for payment of the taxes. If a closing agreement was not executed within a reasonable period of time, the Treasury would be entitled to collect the full amount of limits tax, including the retention of any posted security.

Electing alien insurers that do not have adjusted base-period commercial premiums would not be required to enter into a closing agreement with respect to the retrospective taxes and assessments if certain expedited procedures are followed.

7. Corporate reorganizations. Special rules designed to prevent erosion of the retrospective tax base are also provided to ensure that the tax follows the commercial insurance business of a company in any corporate reorganization involving an acquisition or disposition of all, or a part, of a company's commercial insurance business. Rules also address movement of the tax in assumption reinsurance transactions and the commutation of reinsurance transactions.

Prospective Tax

The prospective tax is designed to raise $4.214 billion over ten years ($0.992 billion for years one through four and $3.222 billion for years six through ten). A tax on an insurer's direct premiums written after the date of enactment, in excess of an exemption amount, for insurance in commercial lines of business would finance the Fund. The prospective tax rate would be determined that would raise $248 million annually for the first

four years, and $537 million annually for years five through ten. The exemption amount is generally $5 million per year and must be shared by certain "related" parties. It is designed to lessen the burden on small insurers and takes many small insurers completely out of the tax.

The prospective tax would be subject to multi-year caps that would limit the amounts collected to the targeted revenue amounts. We would suggest a cap for the first four years of $992 million ($248 million times four) and $3.222 billion ($537 million times 6) for the next six years.

The tax would apply in the same manner with respect to insurance contracts written by foreign insurers of U.S. risks. It would be collected through withholding in the case of alien insurers.

Direct premiums written for commercial insurance contracts means gross premiums written and other consideration for contracts providing insurance of coverage of risks wholly or partly within the U.S. (including Puerto Rico, and any U.S. possessions and territories) for which the premiums are, or should be, reported in a commercial line of business. Gross premiums written would be computed on the basis of the annual statement approved by the NAIC or on an equivalent basis.

Insurance in commercial lines of business would include insurance that is, or would be, categorized in the NAIC annual statement exhibit of premiums and losses as fire, allied lines, farmowners multiple peril, commercial multiple peril, ocean marine, inland marine, products liability, other liability, commercial auto no-fault, other commercial auto liability, commercial auto physical damage, aircraft, surety, glass, burglary and theft, and boiler and machinery. Other lines of business would be excluded: multiple peril crop, homeowners multiple peril, financial guaranty, mortgage guaranty, medical malpractice, earthquake, accident and health, workers' compensation, private passenger auto no-fault, other private passenger auto liability, private passenger auto physical damage, fidelity, and credit. Premiums written for an insurance policy that provides directors and officers liability insurance, professional liability insurance, and insurance for fire, other perils, or extended coverage on residential or farm owner-occupied housing units would not be subject to the prospective tax, even though the premiums for such coverage would be reported in a covered line of business. In addition, the following personal insurance policies, the premiums from which are included in covered lines of business, would be excluded: personal liability umbrella, personal articles, personal owner-used boats, and property damage and liability coverage for owner-occupied condominium associations.

The Secretary of the Treasury would have the authority to extend the prospective tax to lines of coverage other than those specifically identified only as necessary to respond to changes in the construction of the annual statement lines originally covered. The Secretary's authority would not extend to the inclusion of any reinsurance coverage.

Assessments on Direct Insurers

The assessments on direct insurers are designed to raise $85 million annually beginning in the fifth year. The assessments would be based on awards paid by the EIRF with respect to policies issued during certain periods by the insurer.

The amount of the annual assessment is determined by multiplying the insurer's share of the aggregate coverage limits of all assessable policies by $85 million. The insurer's applicable share is determined by dividing the coverage limits on all the insurer's assessable policies by the total coverage limits for such policies for all direct insurers.

An assessable policy must be a valid insurance contract that was presented to the EIRF for an award and with respect to which the EIRF made a resolution payment to an eligible party during any of the four years preceding the year in which the assessment is imposed. The coverage limit on a policy is generally the aggregate limit of coverage under the policy, determined without regard to deductibles or any self-insured retention. Insurers would be permitted to reduce the coverage limit of an assessable policy by 80 percent of the amount of the coverage that is reinsured.

Effective dates

The prospective and retrospective taxes and assessments generally would be effective on January 1, 1995, unless otherwise provided in the proposal. The prospective tax would apply to policies for which direct premiums are written on or after January 1, 1995. The limits tax on foreign persons would be imposed on policies for which premiums are written after the date the Fund becomes operational as described below. The assessments on insurers would become payable beginning in 1999, the fifth year of the Fund.

The Fund could have continuing obligations beyond its anticipated ten-year term. A Treasury study would be conducted in the ninth year of the Fund to make recommendations with respect to the insurance industry's financing of the Fund after the tenth year. Absent Congressional action, the funding provided for in the proposal would continue until all ongoing obligations of the Fund are satisfied. No inference is intended by the proposed allocation in any year, or combination of years, between retrospective and prospective taxes and assessments with regard to the structure of any tax or assessment that the Congress may find necessary to enact in the future.

The authorizing legislation (S. 1834) accompanying this proposal provides that the Fund would not become operative if more than 20 percent of all eligible potentially responsible persons reject resolution offers from the Fund. If between 15 and 20 percent of such persons decline to participate in the Fund, the Fund could decide whether to continue or terminate the Fund. This determination would be required to be made within 225 days from the date of the bill's enactment.

To finance the operations of the Fund during this 225-day contingency period, start-up filing fees of approximately $1 million would be imposed on insurers by the Fund. These fees would not be creditable against any retrospective or prospective tax or assessment imposed under the Internal Revenue Code.

The retrospective and prospective taxes would accrue during the 225-day contingency period but would not be payable during such period. The taxes would not be collected until it is determined that the Fund has adequate participation. On the 14th day of the month beginning after the end of the contingency period, if adequate participation is achieved, the retrospective and prospective taxes that accrued during the contingency period would be due and payable.

Once the Fund becomes operational, the retrospective, prospective, and limits taxes would be payable on a monthly basis. For purposes of the prospective tax, estimated amounts could be paid for months in which premium data is not readily available. However, accurate calculation and payment of the prospective tax would be required on a quarterly basis.

Although generally the prospective tax would apply to premiums written after date of enactment but would not become payable by insurers until the contingency period ends, the effective date for imposition of the prospective tax for insurers not otherwise subject to U.S. income tax would be delayed until the contingency period ends. These insurers would be subject to the prospective tax for premiums written until the date that is the number of days in the contingency period beyond December 31, 1994, or the date that all of the Fund's obligations are satisfied, if later.

If the Fund does not become operational, any remaining amounts in the Fund would revert to the general revenues of the Treasury.

Tax Exemption

The EIRF would be exempt from Federal income tax under Section 501.

Summary

In summary, the proposal submitted to the Committee today satisfies the three principles discussed earlier. It would require insurers that could potentially benefit the most from the environmental insurance resolution to provide a significant share of the funding. Approximately 50 percent of the financing would be raised from retrospective taxes and from assessments on direct insurers that wrote coverage for which the EIRF makes resolutions. The retrospective taxes are paid in the future. They replace an existing, but uncertain liability arising from commercial insurance coverage written in the past--the policies with potential environmental liability exposure. The retrospective taxes will likely reduce profits of insurers subject to the taxes and be borne largely by their current shareholders, who also

would bear the continued cost of environmental liability claims and litigation costs associated with these claims. The proposal provides some relief by allowing an exclusion of $50 million from the retrospective base of direct premiums and an exclusion for certain types of coverage in the "other liability" line of business that have no potential exposure to environmental liability claims.

The other 50 percent of the financing is more broadly based and is raised from a prospective tax on premiums written for insurance categorized in commercial lines of business. The broad base of commercial insurance business subject to this tax reflects the industrywide nature of the environmental problem. To ensure a predictable and stable revenue source for the EIRF, the premium base broadly encompasses most lines of business that are commercial in nature. An annual $5 million exemption of premiums mitigates for small insurers some of the effect of the tax.

We understand that as a result of market forces insurers are not expected to be able to pass the prospective tax through to their reinsurers. Because reinsurers would not pay the prospective tax, but would potentially benefit from reform, they would contribute to the financing through retrospective taxes. The direct writers would contribute to the financing through a combination of retrospective taxes and assessments, as well as through prospective taxes.

The proposal would also assure that foreign insurers and reinsurers that potentially benefit from the proposed reform participate in its funding. While a foreign insurer could avoid participation in the financing of the EIRF if that insurer stopped writing all types of property/casualty insurance coverage in the United States, we believe that this is highly unlikely given the importance of the U.S. market.

The proposal I have described contains certain changes from the bill reported by the Committee on Ways and Means. The following briefly highlights those changes: (1) Reinsurers would participate in the financing through a retrospective tax rather than a combination of retrospective taxes and assessments. Reinsurers originally requested to be subject to assessments but later reconsidered because the assessments created considerable complexity; (2) The $50 million exclusion amount from the retrospective tax base would be allocated entirely to direct insurance premiums, rather than allocated proportionately between direct and reinsurance premiums. Thus, the $50 million exemption would not be available for reinsurance. This change would broaden the tax base and permit lower tax rates on reinsurance premiums under the retrospective tax; (3) The Secretary of the Treasury's authority to extend the prospective tax to lines of coverage other than those originally identified as covered lines would be clarified to provide that such authority is intended to allow the Secretary to respond to changes in the construction of the lines, and does not extend to reinsurance; (4) The target revenue amounts to be raised from the prospective tax, the retrospective tax on direct premiums, and the retrospective tax on reinsurance premiums, would be adjusted slightly (the target for the retrospective tax on reinsurance would be reduced by $12 million per year and this $12 million would be allocated to the other taxes

and assessments) and separate multi-year caps would be imposed to limit actual collections to the target revenue amounts; (5) Separate multi-year caps would be established for the taxes paid by domestic and foreign reinsurance premiums based on their reasonably estimated, proportional market shares and to reduce the risk of a revenue shortfall for the EIRF. These multi-year caps ensure that domestic and foreign reinsurers do not overcontribute to the Fund; (6) Insurers and reinsurers would be required to identify using good faith efforts their foreign reinsurers and amounts of insurance ceded to foreign reinsurers from 1968 through 1985. This change is intended to improve compliance with the retrospective tax; (7) The prospective tax base would be modified to exclude certain policies of personal insurance and financial guaranty and fidelity insurance; (8) Absent Congressional action, the funding provided for in the proposal would continue until all ongoing obligations of the Fund are satisfied; and (9) Periodic reports would provide data on taxes received from each of the proposal's sources of tax and from domestic and foreign sources.

CONCLUSION

There has been considerable controversy within the insurance industry about how the funding for the EIRF should be structured. Some insurers have argued that the funding mechanism should be entirely retrospective, i.e., based on commercial insurance business written in the past. Others have argued that the funding should be entirely prospective, i.e., based on commercial insurance business written in the future. We believe that our proposal represents a reasonable approach. Insurers and reinsurers that write approximately 60 percent of the Fund's taxable premiums support the framework I have described to finance the Fund. Understandably, they continue to be concerned about the caps applicable to the reinsurers' retrospective tax and the tax rates which will be revised to generate the new revenue targets and to reflect the modifications to the tax base and new information that has recently become available. We hope that the insurers' and reinsurers' concerns will be addressed. Of course, the proposed caps on amounts collected from the various taxes should also relieve some of the concern over the tax rates.

We believe that passing the Superfund reauthorization legislation this year is crucial. This financing proposal constitutes the missing piece necessary to complete the Superfund reform puzzle. We would encourage the Committee to keep in mind the significant benefits to the country from the reform provisions and not let the financing of the EIRF become an obstacle.

Mr. Chairman, thank you for the opportunity to address this Committee. I will be pleased to answer any questions you or other members of the Committee may have.

DEPARTMENT OF THE TREASURY

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STATEMENT OF ALICIA H. MUNNELL
ASSISTANT SECRETARY FOR ECONOMIC POLICY
DEPARTMENT OF THE TREASURY
BEFORE THE SENATE FINANCE COMMITTEE
SEPTEMBER 14, 1994

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to appear before you today. Before Assistant Secretary Samuels discusses the specific funding proposals that are the subject of today's hearings, we thought that some background information on the broader subject of Superfund reform might be useful. As you know, Superfund—the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA)—was enacted in 1980 in response to public outcry over Love Canal, Valley of the Drums, and other environmental disasters. The original vision was that the program would involve relatively inexpensive clean-ups of a few hundred sites. Actual events have turned out to be quite different. Currently, EPA has roughly 1,300 sites on the national priority list. Most observers envision an eventual number of at least 3,000 and cost estimates are running as high as $150 to $300 billion.

Major problems with the program are that fewer than 20 percent of the identified priority sites have been cleaned-up to date and for every dollar spent, more than 25 percent goes to lawyers and transaction costs. The incentives in the system are all wrong. They lead to pressure for Cadillac-type clean-ups and endless wrangling over who's going to pay and how much.

The current system is in desperate need of reform. Under Superfund, liability for the costs of cleaning up hazardous substances is strict, joint and several, and retroactive. While this scheme provides great benefits for the efficient operation of EPA's cleanup program, there is no question that it also spawns a tremendous amount of litigation. This litigation is so extensive and costly that the President has twice called for a solution to the problem, most recently in his State of the Union Address this year.

Under current law, a settlement by the Environmental Protection Agency (EPA) with a potentially responsible party (PRP) at a site with multiple PRPs (either voluntarily or through litigation) results in those liable parties seeking to distribute the costs of clean up by initiating contribution litigation against other PRPs. Since insurance companies generally have taken the position that their policies do not cover Superfund response costs, the PRPs frequently must sue their insurance companies in order to try to recover their costs. This litigation among PRPs and among PRPs and their insurance companies has proven to be extensive and very costly and is a major impetus for many of the Administration's proposals for Superfund reform.

One of the Administration's major objectives in Superfund reform is to eliminate—or at least drastically reduce—all of these lawsuits, without eliminating the beneficial effect of joint and several liability, specifically the ability of EPA to order PRPs to begin cleanups. These lawsuits impose substantial transactions costs on policyholders and insurance companies. The Administration has addressed lawsuits among PRPs by proposing a more reasonable mechanism for allocating costs among parties. The bill provides for early settlement for small contributors, generators and transporters of municipal solid waste, and parties with limited ability to pay. Under these provisions, most small businesses will be out early and without great expense.

The bill also establishes a process for allocating shares of all remaining PRPs at a site in a single proceeding. In this process, the remaining PRPs will sit at a table, and a mediator will allocate liability based on factors such as the volume and toxicity of their waste. Parties who accept the allocation 1) will be protected from suits by other PRPs; 2) benefit from EPA's funding of orphan shares—shares established in either the early settlement process or attributable to insolvent parties; and 3), for a fee, will be protected from future liability for remedy failure or some undiscovered harm. Under these provisions, the large businesses that run most of the clean-ups will be treated much more fairly.

To address lawsuits by policyholders against insurance companies, the Administration has proposed establishing the Environmental Insurance Resolution Fund. The Resolution Fund, detailed in Title VIII of the reauthorization bill, is a compromise proposal developed by policyholders and insurers and, as such, it represents the framework by which to solve a particularly vexing problem. The Administration brought the parties together, worked with them to develop the principles underlying the proposal and resolve differences in the details, and

drafted initial legislative language that was included in the Administration's original Superfund-reform proposal. Since the Administration presented this proposal in early February, representatives of insurers and policyholders have continued to work to refine the mechanics of the Resolution Fund proposal, and it is this revised proposal that is included in the bill that you are considering.

In addition, the Treasury Department has continued to examine the administrative structure of the Resolution Fund to ensure that there is appropriate oversight and control over the Fund's operations. We believe that the Resolution Fund meets the needs of all stakeholders, is consistent with the Administration's policies, and can be implemented and administered by the Administration.

The Resolution Fund is designed to dramatically reduce lawsuits among policyholders and insurers arising out of Superfund liability through a two-step process. First, the proposal would stay all Superfund insurance litigation. Second, the Resolution Fund will make to each eligible policyholder a one-time comprehensive offer to resolve all pending and future claims of that policyholder against its insurers arising under the Superfund law for all eligible costs of the policyholder.

The one-time offer is designed to avoid adverse selection by policyholders, whereby they would accept offers for sites where their probability of litigation success was low and elect to sue their insurers where their probability of litigation success was high. If policyholders could make a separate choice at each site, insurers would end up paying fees and assessments to the Resolution Fund, and also paying policyholders in litigation. To minimize this problem, the offer made by the Resolution Fund to a policyholder would be for all the eligible costs of a policyholder at all of its eligible sites.

- To be eligible to receive an offer from the Resolution Fund, a policyholder must demonstrate that it purchased the types of insurance coverage that give rise to claims based on Superfund liability. (In the event that a policyholder can submit only partial documentation, the insurance companies that it names will make a good faith attempt to provide copies of the relevant policies.)
- An eligible site is (1) any site placed on the National Priorities List (NPL) and (2) any site that is the subject of a removal under Superfund.
- Eligible costs are those incurred by a policyholder, at any site that accepted waste prior to 1986, for response or removal actions, natural resource damages, and activities that would be covered by a duty-to-defend clause in an insurance contract.
- The limits of coverage by the Fund will be determined by summing up all of the liability limits contained in the insurance policies presented as proof of eligibility, and subtracting the sum of all deductibles and self-insurance retentions applicable to those policies.

The offer made by the Resolution Fund will be for a percentage of the policyholder's eligible costs at all eligible sites. To arrive at this offer, the Fund will take into account both the geographic location of the sites and any litigation venues that the policyholder has established. Each site and litigation venue will be assigned an offer percentage, according to which of three groups of states it belongs. These percentages will then be weighted together—with varying degrees of complexity depending on the circumstances of the policyholder—to arrive at a single percentage offer that will apply to all of the policyholder's sites. Finally, only for claims presented to the Fund for "owned-property" sites, the compensation from the Fund will be reduced by 30 percent.

The percentages contained in the proposal are necessarily subjective, reflecting levels that take into account both the perceived probability of litigation success and the inducements considered necessary to persuade policyholders to accept offers made by the Resolution Fund. (The adjustment for compensation for costs incurred by policyholders at "owned-property sites" is an example of the attempts made to reflect reality in the plan for the EIRF.) What is most important, however, is to be sure that the percentage offers made by the Resolution Fund are sufficient to obtain maximum policyholder participation in the program, while at the same time minimizing windfalls to policyholders that have virtually no probability of succeeding in litigation against their insurers. Without this balance, the Resolution Fund would not succeed.

Participation in the Resolution Fund by a policyholder is entirely voluntary; a policyholder may either accept or decline the offer made by the Resolution Fund. If a policyholder accepts the offer made by the Fund, it must agree to stay or dismiss all pending litigation against its insurer for claims arising under Superfund, and must waive future claims against its insurers for pre-1986 costs. The policyholder will then submit documentation of its eligible costs to the Resolution Fund for payment. If the eligible costs were incurred before the policyholder accepted the offer, those costs will be paid by the Resolution Fund in equal installments over 10 years. If the eligible costs are incurred after the policyholder accepted the offer, they will be paid by the Resolution Fund as they are submitted in the context of an ongoing cleanup. If, during the first ten years after enactment, the Fund does not have sufficient funds to pay these costs as they are presented, the shortfall can be amortized over five years.

If a policyholder declines the offer made by the Resolution Fund, only then may it pursue litigation against its insurers. But, if the policyholder is not successful in that litigation, it may not revive the offer from the Resolution Fund. If the policyholder is successful in the litigation, the Resolution Fund will reimburse the insurer for its liability, up to the amount of the offer made by the Resolution Fund to the policyholder. In addition, if the policyholder is successful in the litigation, but obtains a judgment that is less favorable than the offer made by the Resolution Fund, the Resolution Fund has the discretion to reimburse the insurer for all or some of its litigation costs.

The terms for the Fund that I have described are not the same as those contained in the Administration's original bill. The changes reflect substantial additional negotiations among interested parties, and restructure the necessary compromises much more efficiently. From my point of view, the most substantial change in the program was its transformation from a five-year authorization for resolution payments to one in which the Fund will make offers of resolution for ten years, and honor the commitments inherent in those offers until they are fully discharged. These changes obviously expand the scope of the proposal, but they also greatly reduce the uncertainty for both insurers and policyholders. Once the Fund is up and running and achieves whatever participation level is necessary for its continuation, it will proceed to resolve the vast proportion of claims.

To conclude, no one is happy with every aspect of the proposed Superfund Reauthorization Bill. No one wants to have to invest scarce resources to clean up problems left over from the past, but it has to be done, not only because Superfund sites are a health hazard, but because they are also an economic hazard. These sites need to be cleaned up and redeveloped so that they can *add* to the well-being of the communities in which they are located, not *subtract*. We have spent an enormous amount of time and effort trying to reach appropriate compromises on difficult and delicate issues. The time is right for the passage of Superfund reauthorization. The proposed bill makes great strides in addressing the shortcomings of the current system. That is why the Administration is happy to support it and, even more important, why it has received such widespread support from those with an important stake in Superfund reform.

To claim the credit for an employee, an employer must receive a written certification that the employee is a targeted group member. Certifications for employees are generally provided by State Employment Security Agencies. The employer must have received or filed a written request for a certification on or before the date a targeted member begins work. If the employer has received a written preliminary determination that the employee is a member of a targeted group, the employer may file a written certification request within five calendar days after the targeted member begins work.

III. Criticisms of the TJTC and Options for Reform

While the goals of the TJTC are laudable, the TJTC has been subject to criticism. The most recent example of criticism of the program is an August 1994 report by the Labor Department's Office of Inspector General. Although the report notes that the TJTC provides some benefits, the report concludes that the TJTC is not cost effective and recommends that the Secretary of Labor discourage further extensions of the credit.

To help crystallize discussions on the TJTC, I would like to highlight three of the credit's main problems and offer very general options and principles for addressing those concerns. These problems are that the credit (i) provides a windfall to employers, (ii) may encourage the churning of employees, and (iii) promotes only limited training of employees for advanced career positions.

A. Employer windfall

Perhaps the most significant problem with the TJTC is that it often provides a "windfall" to employers. The credit provides a windfall to the extent it confers a benefit on employers (the TJTC) for doing what they would have done (hire targeted individuals) without that benefit.

The most direct way to reduce the windfall is to require certification of eligibility before the hiring decision is made. In this way, the TJTC can serve as an incentive in the hiring decision. We are not unmindful that pre-hiring certification may be perceived as conferring a stigma on job applicants. However, the TJTC was designed to overcome any negative employer perception (stigma) about the likely productivity of targeted workers by rewarding employers for hiring them. In order for the program to work at maximum effectiveness, employers need to be aware that they are hiring targeted workers at the time the hiring decision is made. A pre-certification system would ensure that the credit was limited to employers that knowingly hired targeted workers.

One drawback of a pre-certification system is that it would place a larger burden on the Employment Agencies that perform the certifications. As part of our review, we plan to look at ways of streamlining the work of these agencies and the level of funding required in order for them to perform their roles at an acceptable level.

Treasury would be very wary of endorsing any "self-certification" system under which individuals or their employers would certify targeted status with reduced oversight by government agencies. We would be concerned that such an "honor system" is too susceptible to fraud. Under the current regime, the principal checks against fraud are that Employment Agencies make the certifications and their actions are subject to audit by the Department of Labor. We believe these checks are important to curbing potential abuse and should not be replaced by more lax measures.

B. Churning of employees

Another serious criticism of the TJTC is that it may encourage the "churning" or "turnover" of employees to maximize the amount of the credit. A related problem is that short-term positions subsidized by the credit are less likely to promote job skills that are beneficial to more advanced job positions.

We have explored two broad approaches to the churning problem. Under one approach, churning would be curbed by increasing the number of hours an employee must work with an employer before his or her wages could be taken into account in computing the credit. The current minimum employment period, which is the lesser of 90 days or 120 hours, translates into as little as three weeks of full-time work.

The other approach would limit churning by "backloading" the credit. Under current law, the credit is 40 percent of the first $6,000 in wages paid to a targeted individual. Under the backloading approach, the credit rate applying to wages above some threshold would be higher than the credit rate applying to the initial wages. This shifts the incentive of employers in the direction of paying higher wages and keeping their employees on the job longer.

One possible downside of these reform proposals may be to reduce the initial hiring incentive for some economically disadvantaged individuals compared to the incentive that exists under the current credit. We also need to weigh any increased administrative burden resulting from a more complex credit.

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994

Interstate Banking and Branching:

- Permits a bank holding company to acquire a bank located in any state, beginning one year after enactment.

- Allows a bank to merge with a bank in another state, beginning June 1, 1997, so long as neither state has taken legislative action to prohibit interstate mergers between the date of enactment and May 31, 1997. States may authorize interstate mergers prior to June 1, 1997.

- Limits acquisitions and mergers other than initial entries into a state, if the resulting holding company or bank would control: more than 10 percent of the deposits held by insured depository institutions nationwide or 30 percent of the deposits in any state. Allows states to waive the 30 percent deposit concentration limit.

- Permits banks to establish branches in states in which the bank does not maintain a branch only if a state authorizes *de novo* branching. Establishment of the initial branch is subject to the same requirements, other than the deposit concentration limits, that apply to the acquisition of a bank located in the state in which the branch is to be established.

- Applies to national bank branches the laws of the state in which the acquired or established branch is located regarding community reinvestment, consumer protection, fair lending and the establishment of intrastate branches. These laws apply to the same extent as such state laws apply to a branch of a bank chartered by that state, except when Federal law preempts, or when the Office of the Comptroller of the Currency determines that the law has a discriminatory effect on the branch in comparison to branches of state-chartered banks.

- Allows foreign banks to establish branches, either *de novo* or by acquisition and merger, in any state outside the state in which the bank has its U.S. headquarters to the same extent that a domestic bank may establish such branches. Ensures a level playing field between wholesale direct branches of foreign banks and domestic banks by:

    1) Requiring a foreign bank to establish a separate subsidiary bank in order to engage in interstate branching if the Federal Reserve Board or the OCC deem it necessary to verify adherence to capital requirements; and

    2) Continuing to apply the Community Reinvestment Act to a foreign bank branch resulting from the initial acquisition across state lines of an existing entity already subject to the CRA.

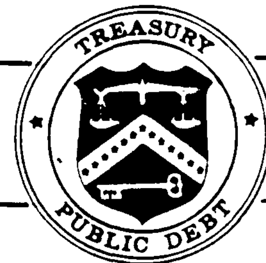
Other Provisions:

- Allows the Federal Deposit Insurance Corporation or the Resolution Trust Corporation, as a conservator or receiver of failed depository institutions, to "revive," under certain circumstances, tort claims that had expired under a state statute of limitations within five years of the appointment of the conservator or receiver. This applies only to egregious conduct, such as fraud or intentional misconduct resulting in unjust enrichment or substantial loss to the institution.

- Requires the Secretary of the Treasury to conduct a study of the strengths and weaknesses of the U.S. financial services system in meeting the needs of users of the system and submit a final report within 15 months of enactment. Directs the Secretary to appoint between nine and 14 members of an Advisory Commission on Financial Services, with which the Secretary is to consult in conducting the study.

Department of the Treasury
September 13, 1994

PUBLIC DEBT NEWS



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

FOR IMMEDIATE RELEASE
September 14, 1994

Contact: Peter Hollenbach
(202) 219-3302

AUGUST SAVINGS BONDS SALES REACH $645 MILLION

Savings Bonds sales in August reached $645 million, pushing the value of U.S. Savings Bonds held by Americans to $178.2 billion, up 6 percent over a year ago.

Savings Bonds issued on or after March 1, 1993, and held five years or longer, earn the market-based interest rate if it averages more than the guaranteed minimum of 4 percent. If redeemed during the first five years, bonds earn 4 percent. Bonds issued before March 1993 retain their existing guaranteed minimum rates until they enter a new extended maturity period. The current semiannual market-based rate effective May 1, 1994, through October 31, 1994, is 4.70 percent.

Interest earnings on Savings Bonds are exempt from State and local income taxes, and Federal income taxes on the interest earnings can be deferred.

Current rate information can be obtained by calling the Savings Bonds Marketing Office's toll-free number, 1-800-4US-BOND.

-more-

PA-156

(LB-1085)

STATISTICAL SUMMARY
Series EE and HH U. S. Savings Bonds
Month of August 1994

ISSUES, REDEMPTIONS AND OUTSTANDING	August 1994	August 1993
	(In millions of dollars)	
Sales: Series EE	$ 645	$ 818
Accrued Discount (Interest earned and added to Amount Outstanding) Series E & EE	756	786
Redemptions (Including Accrued Discount) All Series	970	765
Cash Adjustments from Series HH Savings Bonds Exchanges	3	1
Amount Outstanding Net Decrease August	434	840
Total Outstanding	1994	1993
Series E & EE	$166,763	$157,169
Series H & HH	11,377	11,079
Total All Series	$178,140	$168,248

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
September 15, 1994

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U.S., PORTUGAL INCOME TAX TREATY SIGNED

The Treasury Department said Thursday that the United States and Portugal have signed the first income tax treaty between both nations.

The treaty is seen as an important step in expanding their tax treaty networks, which facilitate commerce by lowering trade barriers and reducing the cost of doing business overseas. Portugal has been the only member of the European Union without an income tax treaty with the United States.

The treaty had been initialed July 14 and the formal signing was announced Thursday in a ceremony in Washington attended by U.S. Secretary of State Warren Christopher and Portuguese Foreign Minister Durão Barroso. The U.S. Senate must now approve the new treaty before it can take effect.

The treaty would lower taxes on cross-border payments of dividends, interest, branch profits and royalties. The current top rate on such dividends is 15 percent. Beginning in 1997, that rate would decline to 10 percent for dividends paid by 25 percent-owned subsidiaries to their parent corporations; and it could decline to as low as 5 percent in such cases in later years, if Portugal grants a lower rate on dividends paid by Portuguese corporations to their parent corporations in other European Union countries. The top tax rate at source is 10 percent on interest and royalties, with an exemption of interest in selected cases. Branch profits tax rates also would decline.

All these tax rates are significantly lower than would be imposed in the absence of a treaty, and thus should improve the climate for bilateral investment.

The treaty also reduces taxes on other kinds of income, including business profits, capital gains and personal service income. A number of administrative procedures also are covered by the treaty, such as the exchange of tax information and the resolution of disputes. Each country provides a foreign tax credit to prevent double taxation.

(MORE)

The benefits of the treaty are available only to residents of the two countries who satisfy certain requirements. The benefits are not available to those entitled to the benefits of certain tax-free zones.

The proposed treaty reflects current laws and tax treaty policies of the two countries and follows a model draft income tax convention published by the Organization for Economic Cooperation and Development. It is similar in many respects to the U.S. income tax treaty with Spain.

The proposed treaty is subject to ratification. It will enter into force on the date the instruments of ratification are exchanged, and its provisions will generally have effect on the following January 1.

Copies of the treaty may be obtained by writing the Office of Public Affairs, U.S. Treasury Department, Room 2315, Washington, D.C. 20220, or calling (202) 622-2960.

-30-

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

The Government of the United States of America and the Government of the Portuguese Republic, desiring to conclude a convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income, have agreed as follows:

ARTICLE 1

Personal Scope

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

ARTICLE 2

Taxes Covered

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

(a) in Portugal:

(i) Personal income tax (Imposto sobre o Rendimento das Pessoas Singulares - IRS);

(ii) Corporate income tax (Imposto sobre o Rendimento das Pessoas Colectivas - IRC); and

(iii) Local surtax on corporate income tax (Derrama),

(hereinafter referred to as "Portuguese tax").

(b) in the United States:

(i) the Federal income taxes imposed by the Internal Revenue Code (but excluding social security contributions); and

(ii) the excise tax with respect to the investment income of private foundations under section 4940 of the Internal Revenue Code, as it

may be amended from time to time without changing the general principle thereof,

(hereinafter referred to as "United States 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 State shall notify each other of any significant changes that have been made in their respective taxation laws and of any official published material concerning the application of the Convention.

ARTICLE 3

General Definitions

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

(a) the terms "a Contracting State" and "the other Contracting State" mean Portugal or the United States as the context requires;

(b) the term "Portugal" means the territory of the Portuguese Republic situated in the European Continent, the archipelagoes of Azores and Madeira, the respective territorial sea and any other zone in which, in accordance with the laws of Portugal and international law, the Portuguese Republic has sovereign rights with respect to the exploration and

exploitation of the natural resources of the seabed and subsoil, and of the superjacent waters;

(c) the term "United States" means the United States of America and, when used geographically, means the States thereof, the District of Columbia, the territorial sea adjacent to those States, and any other zone adjacent thereto in which, in accordance with the laws of the United States and international law, the United States has sovereign rights with respect to the exploration and exploitation of the natural resources of the seabed and subsoil, and of the superjacent waters;

(d) the term "person" includes but is not limited to an individual, a company, and any other body of persons;

(e) the term "company" means any body corporate or any

entity that 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 "national" means:

(i) any individual possessing the nationality of a Contracting State; and

(ii) any legal person, association, or other entity deriving its status as such from the laws in force in a Contracting State;

(h) the term "international traffic" means any transport by a ship or aircraft operated by an enterprise of a Contracting State except when such transport is solely between places in the other Contracting State;

(i) the term "competent authority" means:

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

(ii) in the case of Portugal: the Minister of Finance, the Director General of Taxation (Director Geral das Contribuições e Impostos), or their 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, 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, place of management, place of incorporation, or any other criterion of a similar nature. However, this term does not include any person that is liable to tax in that State in respect only of income from sources in that State.

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 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.

3. Where, by reason of the provisions of paragraph 1, a person other than an individual is a resident of both Contracting States, the competent authorities of the Contracting States shall endeavor to settle the question by mutual agreement. If the competent authorities are unable to make such a determination, the person shall not be considered to be a resident of either Contracting State for the purposes of enjoying benefits under this Convention.

ARTICLE 5

Permanent Establishment

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

2. The term "permanent establishment" includes especially

(a) a place of management;

(b) a branch;

(c) an office;

(d) a factory;

(e) a workshop; and

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

3. A building site or a construction, installation, or assembly project, or supervisory activities in connection with such a site or project, or an installation or drilling rig or ship used for the exploration or development of natural resources, constitutes a permanent establishment only if such site, project, or activities last more than 6 months.

4. Notwithstanding the preceding provisions of this Article, an enterprise of a Contracting State that carries on business of a permanent nature in the other Contracting State through its own employees or any other personnel engaged for such purpose for a period or periods amounting to or exceeding in the aggregate 9 months in any 12-month period commencing or ending in the taxable year concerned shall be deemed to have a permanent establishment in the other State.

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

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

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

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

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

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

(f) the maintenance of a fixed place of business solely for any combination of the activities mentioned in subparagraphs (a) to (e), provided that the overall activity of the fixed place of business resulting from this combination is of a preparatory or auxiliary character.

6. Notwithstanding the provisions of paragraphs 1 and 2, where a person - other than an agent of an independent status to whom paragraph 7 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 5 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.

7. Notwithstanding the provisions of paragraph 3 regarding supervisory services or the provisions of paragraph 4, 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.

8. The fact that a company which is a resident of a Contracting State controls or is controlled by a company that is a resident of the other Contracting State, or that 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 Immovable Property (Real Property)

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

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

4. The provisions of paragraphs 1 and 3 shall also apply to the income from immovable property (real property) of an enterprise and to income from immovable property (real

property) used for the performance of independent personal services.

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 and dealing wholly independently with the enterprise of which it is a permanent establishment and with any other associated enterprise.

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, including research and development expenses, interest, and other similar expenses and a reasonable allocation of executive and general 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 the preceding paragraphs, the business profits to be attributed to the permanent establishment shall be determined by the same method year by year unless there is good and sufficient reason to the contrary.

6. Where business profits include items of income that are dealt with separately in other Articles of the Convention, 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. The provisions of the preceding paragraph 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 that would be made between independent enterprises, then any profits that, 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 competent authority of that other State agrees that the profits so included are profits that would have accrued to the enterprise of the first-mentioned State if the conditions made between the two enterprises had been those that 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 the application of any provisions of the law of either Contracting State relating to the determination of the tax liability of a person, provided that the determination of that tax liability is consistent with the principles stated in this Article.

ARTICLE 10

Dividends

1. Dividends paid by a company that 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 15 percent of the gross amount of the dividends. The competent authorities of the Contracting States shall by mutual agreement settle the mode of application of this limitation. This paragraph shall not affect the taxation of the company in respect of the profits out of which the dividends are paid.

3. Notwithstanding the provisions of paragraph 2, if the beneficial owner is a company that is a resident of the other Contracting State and that, for an uninterrupted period of 2 years prior to the payment of the dividend, owns directly at least 25 percent of the capital (capital social) of the company paying the dividends, the tax so charged shall not exceed:

(a) with respect to dividends paid after December 31, 1996, and before January 1, 2000, 10 percent of the gross amount of such dividends; and

(b) with respect to dividends paid after December 31, 1999, the rate that Portugal may apply to such dividends paid to residents of European Union member states, provided, however, that the applicable rate shall not be less than 5 percent.

4. Paragraph 3 shall not apply in the case of dividends paid by a United States Regulated Investment Company or a Real Estate Investment Trust. In the case of dividends from a Regulated Investment Company, paragraph 2 shall apply. In the case of dividends from a Real Estate Investment Trust, paragraph 2 shall apply if the beneficial owner of the dividends is an individual holding a less than 25 percent interest in the Real Estate Investment Trust; otherwise, the rate of withholding applicable under domestic law shall apply.

5. The term "dividends" as used in this Article means income from shares, "jouissance" shares, founders' shares, or other rights, not being debt-claims, participating in profits, as well as income from other corporate rights that 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 Portugal, the term also includes profits attributed under an arrangement for participation in profits (associação em participação).

6. The provisions of paragraphs 1, 2, and 3 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 holding in respect of which the dividends are paid is effectively connected with such permanent establishment or fixed base. In such case the provisions of Article 7 (Business Profits) or Article 15 (Independent Personal Services), as the case may be, shall apply.

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 is effectively connected with a permanent establishment or a fixed base situated in that other State.

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 of such interest.
The competent authorities of the Contracting States shall by mutual agreement settle the mode of application of this limitation.

3. Notwithstanding the provisions of paragraph 2, interest arising in one of the Contracting States and beneficially owned by a resident of the other Contracting State shall be exempt from tax in the first-mentioned State, provided that:

(a) the debtor of such interest is the Government of that Contracting State, a political or administrative subdivision thereof, or any of its local authorities; or

(b) the interest is paid to the Government of the other Contracting State, to a political or administrative subdivision thereof, or to any of its

local authorities, or to an institution or organization (including financial institutions) wholly owned by them; or

(c) it is interest on a long-term loan (5 or more years) granted by a bank or other financial institution that is a resident of the other Contracting State.

4. Notwithstanding the provisions of paragraphs 2 and 3, interest arising in one of the Contracting States that is determined by reference to the profits of the issuer or of one of its associated enterprises and that is beneficially owned by a resident of the other Contracting State may be taxed in the State in which it arises, and according to the laws of that State, but the tax so charged shall not exceed the rate prescribed in paragraph 2 of Article 10 (Dividends).

5. 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 5 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 assimilated to income from money lent by the taxation law of the State in which the income arises.

6. The provisions of paragraphs 1, 2, and 4 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 debt-claim in respect of which the interest paid is effectively connected with such permanent establishment or fixed base. In such case the provisions of Article 7 (Business Profits) or Article 15 (Independent Personal Services), as the case may be, shall apply.

7. For purposes of this Article, interest shall be deemed to arise in a Contracting State when the payer is that State itself or a political or administrative subdivision, local authority, or 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 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.

8. 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 that 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

Branch Tax

1. A corporation that is a resident of Portugal may be subject in the United States to a tax in addition to the tax allowable under the other provisions of this Convention. Such tax, however, may be imposed only on:

(a) the portion of the business profits of the corporation attributable to a permanent establishment in the United States, or subject to tax in the United States under Article 6 (Income from Immovable Property (Real Property)) or paragraph 1 of Article 14 (Capital Gains), that represents the "dividend equivalent amount," as defined in section 884 of the Internal Revenue Code, as it may be amended from time to time without changing the general principle thereof; and

(b) the excess, if any, of interest deductible in the United States in computing the business profits

attributable to a permanent establishment in the United States or taxable in the United States under Article 6 (Income from Immovable Property (Real Property)) or paragraph 1 of Article 14 (Capital Gains), over the interest paid by the permanent establishment or trade or business in the United States.

2. The rate of the tax referred to in paragraph 1(a) shall not exceed the rate specified in paragraph 2 or, when applicable, paragraph 3 of Article 10 (Dividends). The rate of the tax referred to in paragraph 1(b) shall not exceed 5 percent in the case of a bank that is a resident of Portugal and 10 percent in all other cases.

ARTICLE 13

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 of the royalties is a resident of the other Contracting State, the tax so charged shall not exceed 10 percent of the gross amount of the royalties. The competent authorities of the Contracting States shall by mutual agreement settle the mode of application of this limitation.

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, any copyright of literary, artistic, or scientific work, including cinematographic films, or films, tapes, and other means of image or sound reproduction, any patent, trademark, design, or model, plan, secret formula, or process, or other like right or property, or for the use of or the right to use, industrial, commercial, or scientific equipment, or for information concerning industrial, commercial, or scientific experience. It also includes payments for technical assistance performed in a Contracting State by a resident of the other State where such assistance is related to the application of any such right or property. The term "royalties" also includes gains derived from the use of such right or property in the case of an alienation of such right or property to the extent that such gains are contingent on the productivity, use, or 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 right or property in respect of which the

royalties are paid is effectively connected with such permanent establishment or fixed base. In such case the provisions of Article 7 (Business Profits) or Article 15 (Independent Personal Services), as the case may be, shall apply.

5. For purposes of this Article, royalties shall be deemed to arise in a Contracting State when the payer is that State itself, a political or administrative subdivision, local authority, or resident of that State. Where, however, the person paying the royalties, whether a resident of one of the Contracting States or not, has in one of the Contracting States 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. Where the person paying the royalties is not a resident of either Contracting State, and the royalties are not borne by a permanent establishment or fixed base in either Contracting State, but the royalties relate to the use of, or the right to use, in one of the Contracting States, any property or right described in paragraph 3, the royalties shall be treated as arising 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 14

Capital Gains

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

2. For the purposes of paragraph 1, immovable property situated in Portugal includes stock, participations, or other rights in a company or other legal person the property of which consists, directly or indirectly, principally of immovable property situated in Portugal; and real property situated in the United States includes a United States real property interest.

3. Gains from the alienation of movable (personal) property forming part of the business property of a permanent establishment that an enterprise of a Contracting

State has or had in the other Contracting State, or of movable property pertaining to a fixed base that is or was available to a resident of a Contracting State in the other Contracting State for the purpose of performing independent personal services, including 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 or aircraft operated in international traffic or movable property pertaining thereto shall be taxable only in that State.

5. Gains described in the last sentence of paragraph 3 of Article 13 (Royalties) shall be taxable only in accordance with the provisions of Article 13.

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 15

Independent Personal Services

1. Income derived by a resident of a Contracting State in respect of professional services or other activities of an independent character shall be taxable only in that State

except in the following circumstances, when such income may also be taxed in the other Contracting State:

(a) if he has or had a fixed base regularly available to him in the other Contracting State for the purpose of performing his activities; in that case, only so much of the income as is or was attributable to that fixed base may be taxed in that other State; or

(b) if his stay in the other Contracting State is for a period or periods amounting to or exceeding in the aggregate 183 days in any 12-month period commencing or ending in the taxable year concerned; in that case, only so much of the income as is derived from his activities performed in that other State may be taxed in that other State.

2. The term "professional 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 16

Dependent Personal Services

1. Subject to the provisions of Articles 18 (Directors Fees), 19 (Artistes and Sportsmen), 20 (Pensions, Annuities, Alimony, and Child Support), 21 (Government Service), 22 (Teachers and Researchers), and 23 (Students and Trainees),

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 12-month period commencing or ending in the taxable year concerned; 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. Notwithstanding the preceding provisions of this Article, remuneration derived by a resident of a Contracting State in respect of an employment as a member of the regular complement of a ship or aircraft operated in international traffic shall be taxable only in that State.

ARTICLE 17

Limitation on Benefits

1. A resident of a Contracting State shall be entitled to the benefits of this Convention only if such person is:

(a) an individual; or

(b) a Contracting State, a political or administrative subdivision or local authority thereof, or an institution or organization wholly owned by them; or

(c) a company

(i) that is a resident of a Contracting State in whose principal class of shares there is substantial and regular trading on a recognized securities exchange, or

(ii) more than 50 percent of each class of whose shares is owned by companies that are residents of either Contracting State, in whose principal class of shares there is substantial and regular trading on a recognized securities exchange, or by persons referred to in subparagraph (b); or

(d) an organization, trust, or other arrangement referred to in subparagraph 3(b) of the Protocol, provided that more than half of the members, participants, or beneficiaries, if any, in such organization, trust, or arrangement are residents of

that Contracting State who are entitled, under this Article, to the benefits of this Convention; or

(e) a person with respect to which both of the following conditions are satisfied:

(i) the ultimate beneficial owners of more than 50 percent of the beneficial interest in such person (or, in the case of a company, more than 50 percent of the vote and value of each class of the company's shares) are persons entitled to the benefits of this Convention under this paragraph 1 or citizens of the United States; and

(ii) less than 50 percent of the gross income of such person is used, directly or indirectly, to meet liabilities (including liabilities for interest or royalties) other than to persons entitled to the benefits of this Convention under this paragraph 1 or citizens of the United States.

2. A resident of a Contracting State that is not entitled to the benefits of this Convention under paragraph 1 shall, nevertheless, be entitled to the benefits of this Convention with respect to an item of income derived from the other State if:

(a) the resident is engaged in the active conduct of a trade or business in the first-mentioned State (other than the business of making or managing investments, unless these activities are banking or

insurance activities carried on by a bank or insurance company); and

(b) the item of income is connected with or incidental to the trade or business in the first-mentioned State; and

(c) such trade or business is substantial in relation to the activity in the other State that generated the income.

3. A person that is not entitled to the benefits of the Convention pursuant to the provisions of paragraph 1 or 2 may, nevertheless, be granted the benefits of the Convention if the competent authority of the State in which the income in question arises so determines. For this purpose, one of the factors the competent authorities shall take into account is whether the establishment, acquisition, and maintenance of such person and the conduct of its operations did not have as one of its principal purposes the obtaining of benefits under the Convention.

4. For purposes of subparagraph (c) 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 Lisbon and Oporto Stock Exchanges; and

(c) any other stock exchange agreed upon by the competent authorities of the Contracting States.

5. For purposes of subparagraph (e)(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.

6. Notwithstanding the provisions of paragraphs 1 through 5, the benefits of this Convention shall not be allowed to any person that is entitled to income tax benefits under the provisions of the legislation and other measures relating to the tax-free zones (zonas francas) of Madeira and Santa Maria Island, or to benefits similar to those provided with respect to such tax-free zones that are made available under any legislation or other measure adopted by either Contracting State after the date of signature of this Convention. The competent authorities shall notify each other of any such legislation or measure and shall consult as to whether such benefits are similar.

ARTICLE 18

Directors' Fees

Directors' fees and other similar payments derived by a resident of a Contracting State for services performed outside that Contracting State in his capacity as a member of the board of directors or supervisory board (in Portugal, conselho fiscal) or of another similar organ of a company that is a resident of the other Contracting State may be taxed in that other State.

ARTICLE 19

Artistes and Sportsmen

1. Notwithstanding the provisions of Articles 15 (Independent Personal Services) and 16 (Dependent Personal Services), income derived by a resident of a Contracting State as an entertainer, such as a theatre, motion picture, radio or television artiste, or a musician, or as an athlete, from his personal activities as such exercised in the other Contracting State, may be taxed in that other State except where the amount of the compensation derived by such entertainer or athlete, including expenses reimbursed to him or borne on his behalf, from such activities does not exceed 10,000 United States dollars or its equivalent in Portuguese escudos for the taxable year concerned.

2. Where income in respect of personal activities exercised by an entertainer or an athlete in his capacity as

such accrues not to the entertainer or athlete but to another person, that income of that other person may, notwithstanding the provisions of Articles 7 (Business Profits) and 15 (Independent Personal Services), be taxed in the Contracting State in which the activities of the entertainer or athlete are exercised, unless it is established that neither the entertainer or athlete nor persons related thereto participate directly or indirectly in the profits of that other person in any manner, including the 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 athlete 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 or administrative subdivision or local authority thereof.

ARTICLE 20

Pensions, Annuities, Alimony, and Child Support

1. Subject to the provisions of Article 21 (Government Service):

(a) pensions and other similar remuneration derived and beneficially owned by a resident of a Contracting State in consideration of past employment 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 may be taxed 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 specific time period, 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. 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 21

Government Service

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

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

(i) is a national of that State; or

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

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

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

3. The provisions of Articles 15 (Independent Personal Services), 16 (Dependent Personal Services), 18 (Directors' Fees), 19 (Artistes and Sportsmen), and 20 (Pensions, Annuities, Alimony, and Child Support) shall apply to remuneration and pensions in respect of services rendered in connection with a business carried on by a Contracting State or a political or administrative subdivision or a local authority thereof.

ARTICLE 22

Teachers and Researchers

1. An individual who is a resident of a Contracting State immediately before visiting the other Contracting State and who, at the invitation of the Government of the other Contracting State or of a university or other accredited educational institution or recognized scientific research institution of that other Contracting State, or under an official program of cultural exchange, visits that other State solely for the purpose of teaching or carrying out research at such a university or educational institution shall be exempt from tax in both Contracting States on his remuneration from such activity for a period not exceeding 2 years from the date of his arrival in the other State. An

individual shall be entitled to the benefits of this paragraph only once and in no event shall any individual have the benefits of both this Article and Article 23 (Students and Trainees), either simultaneously or consecutively.

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

ARTICLE 23

Students and Trainees

1. (a) An individual who is a resident of a Contracting State immediately before 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;

(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 5 years from the date of his arrival in that other State.

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

(i) payments from abroad for the purpose of the individual's 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 or its equivalent in Portuguese escudos for any taxable year.

2. An individual who is a resident of a Contracting State immediately before 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 or its equivalent in Portuguese escudos.

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 24

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 unless they arise in the other Contracting State, in which case they may also be taxed in that other State.

2. The provisions of paragraph 1 shall not apply to income, other than income from immovable property (real property) as defined in paragraph 2 of Article 6 (Income

from Immovable Property (Real 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 right or property in respect of which the income is paid is effectively connected with such permanent establishment or fixed base. In such case the provisions of Article 7 (Business Profits) or Article 15 (Independent Personal Services), as the case may be, shall apply.

ARTICLE 25

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:

(a) the income tax paid to Portugal by or on behalf of such citizen or resident; and

(b) in the case of a United States company owning at least 10 percent of the voting stock of a company that is a resident of Portugal and from which the United States company receives dividends, the income

tax paid to Portugal by or on behalf of the distributing company with respect to the profits out of which the dividends are paid.

2. In the case of an individual who is a citizen of the United States and a resident of Portugal, income that may be taxed by the United States solely by reason of citizenship shall be deemed to arise in Portugal to the extent necessary to avoid double taxation, provided that the tax paid to the United States will not be less than the tax that would be paid under the articles of this Convention if the individual were not a citizen of the United States.

3. In the case of Portugal:

(a) Where a resident of Portugal derives income that, in accordance with the provisions of this Convention may be taxed in the United States (other than solely by reason of citizenship), Portugal shall allow as a deduction from the tax on the income of that resident an amount equal to the income tax paid in the United States. Such deduction shall not, however, exceed that part of the income tax, as computed before the deduction is given, that is attributable to the income that may be taxed in the United States;

(b) In the case of a Portuguese company that receives dividends from a United States company in the capital of which it holds directly a participation of at least 25 percent, Portugal shall allow a deduction

for 95 percent of such dividends included in the tax base, provided that that participation was held for the preceding 2 years, or from the date of the organization of the Portuguese company if that occurred later, but in either case only if the participation was held continuously throughout that period.

(c) Where, in accordance with any provision of the Convention, income derived by a resident of Portugal is exempt from tax in Portugal, Portugal may, nevertheless, in calculating the amount of tax on the remaining income of such resident, take into account the exempted income.

ARTICLE 26

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 also apply to persons who are not residents of one or both of the Contracting States. However, for the purposes of United States tax, and subject to Article 25 (Relief from Double Taxation), a United States national who is not a resident of the United States and a Portuguese national who

is not a resident of the United States are not in the same circumstances.

2. The taxation on a permanent establishment that 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 that it grants to its own residents.

3. Nothing in this Article shall be construed as preventing either Contracting State from imposing a tax as described in Article 12 (Branch Tax).

4. Except where the provisions of paragraph 1 of Article 9 (Associated Enterprises), paragraph 8 of Article 11 (Interest), or paragraph 6 of Article 13 (Royalties) apply, interest, royalties, and other disbursements paid by an enterprise of a Contracting State to a resident of the other Contracting State shall, for the purposes of determining the taxable profits of such enterprise, be deductible under the same conditions as if they had been paid to a resident of the first-mentioned State.

5. 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 that is other or more burdensome than the taxation and connected requirements to which other similarly situated enterprises of the first-mentioned State are or may be subjected.

6. 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 or administrative subdivision or local authority thereof.

ARTICLE 27

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 5 years from the first notification of the action resulting in taxation not in accordance with the provisions of this 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 that 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. In particular, the competent authorities of the Contracting States may agree on the procedures for the application of the limits imposed by the taxation at source of dividends, interest, and royalties by Articles 10 (Dividends), 11 (Interest) and 13 (Royalties), respectively.

4. The competent authorities of the Contracting States may communicate with each other directly for the purpose of reaching agreement in the sense of the preceding paragraphs.

ARTICLE 28

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 (Personal 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 that 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 that 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 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 at the national level by a Contracting State.

ARTICLE 29

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 30

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 Lisbon 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 January next following the date on which the Convention enters into force; and

(b) in respect of other taxes, for taxable years beginning on or after the first day of January next

following the date on which the Convention enters into force.

ARTICLE 31

Termination

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 years 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 by their respective Governments, have signed this Convention.

DONE at Washington, in duplicate, in the English and Portuguese languages, both texts being equally authentic, this sixth day of September, 1994.

FOR THE UNITED STATES OF AMERICA:

FOR THE PORTUGUESE REPUBLIC:

PROTOCOL

At the signing today of the Convention between the United States of America and the Portuguese Republic for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income, the Contracting States have agreed upon the following provisions, which shall form an integral part of the Convention:

1. With reference to Article 1 (Personal Scope):

(a) (i) It is understood that the Convention will not impose a tax that is not otherwise imposed under the laws of the Contracting State concerned. This means that the Convention shall not restrict in any manner any exclusion, exemption, deduction, credit, other allowance, or tax incentive now or hereafter accorded by the laws of the Contracting States. The Convention shall not restrict the benefits conferred under any other agreement between the Contracting States that entered into force prior to the date of signature of this Protocol.

(ii) Notwithstanding any other agreement to which the Contracting States may be parties, a dispute concerning whether a measure is within the scope of this Convention shall be considered only by the competent authorities of the Contracting States, as defined in subparagraph 1(i) of Article 3 (General Definitions) of this Convention, and the procedures under this Convention exclusively shall apply to the

under this Convention exclusively shall apply to the dispute.

(iii) Unless the competent authorities determine that a taxation measure is not within the scope of this Convention, the nondiscrimination obligations of this Convention exclusively shall apply with respect to that measure, except for such national treatment or most-favored-nation obligations as may apply to trade in goods under the General Agreement on Tariffs and Trade. No national treatment or most-favored-nation obligation of any other agreement shall apply with respect to that measure.

(iv) For the purpose of this paragraph, a "measure" is a law, regulation, rule, procedure, decision, administrative action, or any other form of measure.

(b) Notwithstanding any provision of the Convention except paragraph (c) of this provision, a Contracting State may tax its residents (as determined under Article 4 (Residence)), and the United States may tax its citizens, as if the Convention had not come into effect. For this purpose, the term "citizen" shall include a former citizen whose loss of citizenship had as one of its principal purposes the avoidance of tax, but only for a period of 10 years following such loss. For the application of the

preceding sentence to a resident of Portugal, the competent authorities shall consult under Article 27 (Mutual Agreement Procedure), upon request by the Portuguese competent authority, on the purposes of such loss of citizenship.

(c) The provisions of the preceding subparagraph (b) shall not affect:

(i) the benefits conferred by a Contracting State under paragraph 2 of Article 9 (Associated Enterprises), under paragraphs 1(b) and 4 of Article 20 (Pensions, Annuities, Alimony, and Child Support), and under Articles 25 (Relief From Double Taxation), 26 (Non-Discrimination), and 27 (Mutual Agreement Procedure); and

(ii) the benefits conferred by a Contracting State under Articles 21 (Government Service), 22 (Teachers and Researchers), 23 (Students and Trainees), and 29 (Diplomatic Agents and Consular Officers), upon individuals who are neither citizens of, nor have immigrant status in, that State.

2. With reference to Article 2 (Taxes Covered):

(a) Article 2 does not apply to social security contributions established under Portuguese law.

(b) Notwithstanding the provisions of paragraph 1(b) of Article 2:

(i) a company that is a resident of Portugal shall be exempt from the United States personal holding company tax in any taxable year only if all its stock is owned by one or more individuals, who are not residents or citizens of the United States, in their individual capacities for that entire year; and

(ii) a company that is a resident of Portugal shall be exempt from the accumulated earnings tax in any taxable year only if it is a company described in paragraph 1(c) of Article 17 (Limitation on Benefits).

3. With reference to paragraph 1 of Article 4 (Residence):

(a) The term "resident of a Contracting State" applies to partnerships, similar pass-through entities, estates, and trusts only to the extent that income derived by such partnership, similar entity, 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.

(b) The term "resident of a Contracting State" includes:

(i) any not-for-profit organization constituted and maintained in that State, provided that the laws of such State or of a

political or administrative subdivision thereof limit the use of the organization's resources, both currently and upon the dissolution or liquidation of such organization, to the accomplishment of the purposes that serve as the basis for such organization's exemption from income tax; and

(ii) a pension trust and any other organization or arrangement constituted in that State and operated exclusively to administer or provide pension, retirement, or employee benefits, that is established or sponsored by a person that is otherwise a resident under Article 4 (Residence), notwithstanding that all or part of the income of such organization, trust, or arrangement may be exempt from income taxation in that State.

(c) Portugal shall treat a United States citizen or an alien admitted to the United States for permanent residence (a "green card" holder) as a resident of the United States only if he has a substantial presence in the United States, or would be a resident of the United States and not of a third country under the principles of subparagraph (a) and (b) of paragraph 2 of Article 4 (Residence).

4. <u>With reference to Article 5 (Permanent Establishment)</u>:

The provisions of paragraph 4 shall apply only for the first 5 years in which the provisions of the Convention have effect, as provided in paragraph 2(b) of Article 30 (Entry into Force).

5. <u>With reference to Article 6 (Income from Immovable Property (Real Property))</u>:

It is understood that the provisions described therein shall also apply to income from associated movable (personal) property and from the provision of services for the maintenance or operation of immovable property (real property).

6. <u>With reference to paragraph 3 of Article 7 (Business Profits)</u>:

It is understood that each Contracting State may apply its own domestic law, whether based on tracing or allocation, for attributing research and development expenses, interest, and other similar expenses to a permanent establishment situated in its territory, provided that such rules are consistent with the provisions of Article 7.

7. <u>With reference to Article 8 (Shipping and Air Transport)</u>:

The term "income from the operation of ships or aircraft in international traffic" will be defined in

accordance with paragraphs 5 through 12 of the Commentary on Article 8 (Shipping, Inland Waterways Transport and Air Transport) of the 1992 Model Convention for the Avoidance of Double Taxation with Respect to Taxes on Income and on Capital of the Organization for Economic Cooperation and Development.

8. <u>With reference to Article 10 (Dividends)</u>:

Although the substitute gift and inheritance tax (imposto sobre sucessoes e doacóes por avenca) imposed by Portugal is in fact a gift and inheritance tax and not an income tax, it is agreed that if the rate of such tax is increased above the rate applicable on the date of signature of this Convention, such increase shall not apply to dividends beneficially owned by residents of the United States. It is understood that shares that have been subject to the substitute gift and inheritance tax are not subject to taxes imposed by Portugal upon transfer by death or gift.

9. <u>With reference to Article 11 (Interest)</u>:

Paragraphs 2 and 3 shall not apply to the U.S. taxation of an excess inclusion derived by a resident of Portugal with respect to a residual interest in a Real Estate Mortgage Investment Conduit ("REMIC"). Such amounts shall be taxable at the rate provided by domestic law.

10. <u>With reference to Article 12 (Branch Tax)</u>:

If Portugal establishes hereafter, under its taxation law, a tax comparable to the United States "branch tax," the

provisions of this Convention in respect of the "branch tax" shall also apply in respect of such taxation, after any necessary adjustment.

11. With reference to paragraph 2 of Article 13 (Royalties):

Royalties received in consideration for the use of, or the right to use, containers in international traffic shall be taxable only in the Contracting State of which the recipient is a resident.

12. With reference to paragraph 3 of Article 14 (Capital Gains):

(a) The term "activo" as used in paragraph 3 of the Portuguese text means "business property". However, the term "activo" is also used in paragraph 2 as the translation of the term "property", it being understood that, in some cases, the term "business property" has a narrower meaning than the term "property".

(b) It is understood that gains from the alienation or transfer of movable (personal) property that is effectively connected with a permanent establishment or fixed base that a resident of a Contracting State has or had in the other Contracting State and that is removed from the other Contracting State may be taxed in that other Contracting State in accordance with its law, but only to the extent of the

gain that has accrued as of the time of such removal, and may be taxed in the first-mentioned Contracting State in accordance with its law, but only to the extent of the gain accruing subsequent to that time of removal.

(c) The tax liability, if any, imposed by Portugal on the incorporation of a permanent establishment of a U.S. company will be determined in accordance with Decree Law 6/93, implementing the provisions of Directive 90/434/EEC of 23 July, 1990, with respect to the incorporation of branches in Portugal of companies resident in other member states of the European Union.

13. With reference to Article 15 (Independent Personal Services):

The term "fixed base" shall be interpreted according to paragraphs 3 and 4 of the Commentary on Article 14 (Independent Personal Services) of the 1992 Model Convention for the Avoidance of Double Taxation with Respect to Taxes on Income and Capital of the Organization for Economic Cooperation and Development and of any guidelines that, for the application of such term, may be developed by such Organization in the future.

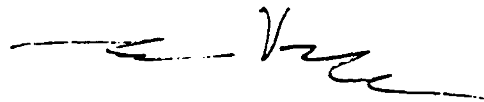
14. With reference to Article 28 (Exchange of Information):

It is understood that the information that may be exchanged includes information from records of financial

institutions, including records relating to third parties involved in transactions with the taxpayer(s) and records relating to persons referred to in paragraph 6 of Article 17 (Limitation on Benefits), and that such information will be made available to the same extent as permitted by the domestic law of the Contracting State from which the information is requested. It is further understood that the appropriate tax authorities are empowered to request and agree to assist in obtaining such records pursuant to requests made by the other Contracting State in accordance with the provisions of Article 28 and the preceding sentence of this paragraph.

FOR THE UNITED STATES
OF AMERICA:

FOR THE PORTUGUESE
REPUBLIC:



DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
September 15, 1994

TREASURY SECRETARY BENTSEN TO SPEAK IN ORLANDO

Treasury Secretary Lloyd Bentsen will discuss the upcoming Summit of the Americas 1994 in a speech to Orlando-area business leaders this Friday.

Secretary Bentsen's remarks will be at 2 p.m. this Friday, September 16, 1994 in the Presidential Parlour of Church Street Station, 129 West Church Street, Orlando. A brief press availability will follow the program.

The Summit of the Americas is an opportunity for President Clinton to join with the 33 democratically elected heads of state of the nations of the western hemisphere December 9-11, 1994 in Miami. The leaders are expected to discuss democracy and effective government, prosperity and sustainable development.

The University of Central Florida, the Economic Development Commission of Mid-Florida and the Metro Orlando International Business Council are sponsoring the forum.

-30-

Contact:
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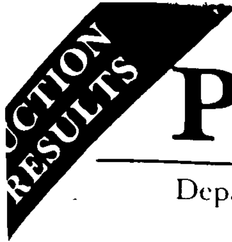
LB-1087



PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
September 15, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 52-WEEK BILLS

Tenders for $16,763 million of 52-week bills to be issued September 22, 1994 and to mature September 21, 1995 were accepted today (CUSIP: 912794T38).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.37%	5.68%	94.570
High	5.39%	5.70%	94.550
Average	5.38%	5.69%	94.560

$112,000 was accepted at lower yields.
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	$53,405,245	$16,763,190
Type		
Competitive	$47,938,472	$11,296,417
Noncompetitive	869,773	869,773
Subtotal, Public	$48,808,245	$12,166,190
Federal Reserve	4,300,000	4,300,000
Foreign Official Institutions	297,000	297,000
TOTALS	$53,405,245	$16,763,190

LB-1088

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
Text as Prepared for Delivery
September 16, 1994

REMARKS OF TREASURY SECRETARY LLOYD BENTSEN ON THE SUMMIT OF THE AMERICAS TO BUSINESS AND COMMUNITY LEADERS ORLANDO, FLORIDA

Thank you, Lt. Governor MacKay, and good afternoon to all of you. I see Ruben Askew. He knows more about trade than any of us. And Jim Bacchus -- we'll miss him in Congress.

The Lt. Governor made me sound so special. I'll tell you a story the Congressman will appreciate. I spoke to 50 kids the other day, and I asked how many wanted to be doctors or nurses -- and every hand went up. Then I asked how many wanted to be a congressman -- and some hands went up, but not a lot. Finally, I asked how many wanted to be the Treasury Secretary -- and nobody raised their hand. Not a one.

Well, I want to offer a preview of the Summit of the Americas today, and to talk about the importance of Latin America.

I just have to look at Treasury's Customs Office in Miami to understand the importance of Latin America. For years, JFK was the number one port of entry for passengers and cargo coming into this country. Now Miami International is on par with JFK.

And if Orlando International keeps growing -- there's been a 10 fold increase in passengers in 10 years -- you'll be replacing Miami next. The interesting thing is Orlando gets half its customers from Europe, Miami gets them from Latin America, so Florida has half the world covered.

This is an election year, and people will talk about families. They'll talk about jobs. I hope candidates -- and I don't care if they're Democrats or Republicans -- understand that for families to have jobs, we need to export. We need to trade. We

need to keep airports and ports busy. We need to grow economies, and that's a key issue for this summit.

I'm looking forward to this one. I noticed how the President picked the location: Miami in December. Last winter, we had a jobs summit and he picked Detroit. So, he's learned!

We've never had this big of a summit in the country. The last time all the nations of the hemisphere met on this scale was in 1967 in Punta de Este in Uruguay. Lyndon Johnson was President, and when he went there Congress said don't make any promises and don't write any checks.

Heading into that one, Lyndon thought it would be a disaster, because the President of the United States is supposed to be all-powerful and come with a lot of aid. But when the Latin leaders saw he was just like them, they had a great deal of sympathy. After that, he probably had the warmest relationship any President has ever had with Latin American leaders.

In 1961, President Kennedy started the Alliance for Progress with our Latin neighbors. He was to go to that summit -- it was in Uruguay, too -- but at the last minute he cancelled out and sent instead the Treasury Secretary, Douglas Dillon. The reason the President pulled out was we were in the middle of the Berlin crisis. The Berlin wall was going up.

How ironic, isn't it? We've come full circle in this world.

In the last five years, the symbol for the new democracies has been in the east: in Germany, where the wall came down; in Eastern Europe; and in Russia.

But look south -- look south for democracies, for growth, for free markets.

Look at Argentina. Who ever thought a Peronista would lead his country to privatize companies, and open markets, and lower tariffs?

Look at Chile. I meet with Finance Minister Eduardo Aninat and before him, Alejandro Foxley, both educated in America. Minister Aninat and President Frei are building on the economic revolution there, continuing the free market systems that President Aylwin and Minister Foxley put in place.

Look at Mexico. I was born and reared on that border. I watched election after election, where leaders would win by running against the Colossus of the North. Now they look at the U.S. as an opportunity for trade.

Last week I visited with President-Elect Zedillo. He'll be the third Mexican President in a row to be educated in America. We talked how he wants to continue the work President de la Madrid and President Salinas made toward a free-market system.

Look what free-market systems in Latin countries do for us. During the first half of 1994, the United States sold about the same amount of goods to the 80 million people in Mexico as to the 125 million in Japan.

We sold more than twice as much to the 150 million people in Brazil than to the 180 million in Indonesia; more to Venezuela than to Russia; about as much to Ecuador as to Poland and the Czeck Republic combined.

Four years in a row, we've seen Latin America sustain solid economic growth. Europe had a recession, Japan had a recession, but not Latin America.

Our exports to Latin America and the Caribbean are up 155 percent since 1987, while our exports to the rest of the world rose less than 90 percent.

And capital is going into Latin America, not coming out.

In the last 10 years, the total value traded on the seven largest Latin stock markets increased from $7 billion to $86 billion.

Investment is way up. At first the money came from the Latins, bringing home the money they sent out a dozen years ago. And then American investors saw it as an opportunity. And now the capital comes from around the world. In fact, net foreign direct investment flows to Latin America have nearly doubled from 1988 to 1993.

And inflation is not the problem it once was. Remember when they had triple-digit inflation? You try manufacturing a product when your raw material goes up 100 percent a year. Now, inflation is at single-digit levels in many of the countries. We're seeing annual inflation rates lower than the monthly rates used to be.

These things have happened because governments unilaterally have made reforms. They knew they'd be in the best interest of their country.

Have all the problems in Latin America been solved? Of course not.

There's Cuba. There's Haiti. There are drug problems. There's still corruption. There are environmental concerns. There are still many inefficient state enterprises that need to be privatized. New infrastructure -- roads and bridges and communication links -- must be built.

But one finance minister after another has told me: Lloyd -- we don't want aid from the United States. We want trade.

Some people think that's new and different. I've been around a few years. Countries always want to trade. Countries always talk about partnerships. They always talk about cooperation. Look -- the big news that came out of the summit in 1967 in Punta de Este was an agreement that we'd have a Latin American Common Market by 1985.

Nice words, but there were more plans, than actions.

Let me tell you what's different now. Latin America is politically and economically ready to trade. These countries have dramatically changed. They've opened their societies. They've opened their markets. They have the stability needed to deal with problems. That's the difference.

Maybe there's no common market, but there are 23 trade agreements within our hemisphere, and that's resulting in a trading boom within the region.

Thanks to NAFTA, trade between the U.S. and Mexico is up 18 percent this year. Thanks to the Mexico-Chile Free Trade Agreement, trade between those two is up 100 percent in three years. Because of the Mercosur, trade between Brazil and Argentina is up 191 percent in three years.

These trade agreements -- this opening up of markets with neighbors -- are taking place all over Latin America. I think it should be looked on as a prelude to an objective of an open market throughout the hemisphere, with the U.S. and Canada being part of it. We have to work with Congress to make sure we're a leader in hemispheric trade liberalization.

This hemisphere is changing, and what we'll be doing in Miami is looking at shaping it; looking to see how we're going to need each other, and help each other.

We're now in the process of consulting with the 33 other countries that will be there. When you do a business meeting, you have two or three companies in the room, and you can proceed. When you have 34 heads of state in a room, the trustees of more than 700 million people, it takes time to prepare for one of these. Time and luck!

But what's coming out of the consultations we've been having are three themes: the need to make democracy work, the need to make democracy prosper, and the need to make democracy endure. That's what will be discussed in Miami.

Let me take them one at a time -- briefly.

First, making democracy work. I remember when Governor Chiles was Senator Chiles. He was my desk mate in the Senate. We'd talk about the frustrations in Washington, and the gridlock, and the bureaucracy. I know he ran for governor because he felt he could make more of a difference on a state level than at the federal level.

The truth is, it's no different in Washington than Caracas or Mexico City. Everyone needs to re-invent government.

I'll give you a success story from the Miami Customs office. The Vice President just gave them an award for this. Timing is everything to our customers, because we're inspecting flowers and vegetables, and fruits. Working with the customers, we've cut the inspection time.

Now, when they unload flowers from a plane, there's not an inspection stop. The x-ray machines are along the line to the warehouse, so as they move, we move in parallel. We do paperwork by computer, even before the plane lands. One customer even has a TV camera in Columbia so we sit in Miami and watch them load.

At the summit, we'll share ideas on re-inventing government. I'm sure we'll talk about how to fight the drug trade, how to fight money laundering, and how to fight corruption that might threaten democracy.

Now on the second theme, making democracy prosper, we'll talk about how we can integrate the hemisphere economically.

We'll discuss the steps that will move us to freer trade and investment flows.

I have a feeling we'll talk a lot about infrastructure. Last November, I hosted a meeting of the finance ministers of the Asia-Pacific countries. In Asia, $1 trillion will be spent on infrastructure projects between now and the end of the decade. At that meeting we talked about getting the private sector involved, and I think you'll see that here, because the potential in Latin America is also vast.

Third, and finally, we'll discuss making democracies endure. Here in the sunshine state, it's easy to offer the sunny picture of Latin America.

But there's a dark side. Forty-six percent of Latin America's people live in poverty. The difference between the rich and the poor in these countries is among the greatest in the world.

If you want to maintain support for democracy and market economies, you can't have almost half your people living in poverty.

So, we'll talk about that, we'll talk about producing healthier and more educated citizens, and we'll discuss protecting environmental resources. That's certainly a priority of Vice President Gore.

I think it will be a good summit. You'll see the summit generate specific initiatives to give life to these three themes.

Let me end with this. Over the years, I've talked and many people have talked about the 20th Century as the American Century.

People say that the 21st Century will belong to Asia. Or to Japan. Or to China. Or to Europe.

Don't scratch us out yet.

I see American businesses more competitive than they've been in years. They're on top. In fact a study came out last week that ranks America first among 40 industrial nations -- the first time we've been on top since 1985.

And now businesses are investing at record rates.

We've created 4 million jobs in the last 19 months. We're growing faster than any other G-7 country. Interest rates have risen, but in historical terms they're low. Inflation is the lowest it's been in 20 years. We've cut the budget deficit -- finally. We're eliminating a quarter of a million federal jobs. I have 8,000 fewer positions at Treasury than the day I walked in.

Maybe you can't tell this from the nightly news, but take it from a fellow who knows Washington: this Congress has been as productive as I've seen in years.

I see the growth potential in Latin America. I see the able leaders those democracies have produced. And I say, if we show leadership, the next century can be the Americas Century.

We'll know more after Miami.

Thank you very much.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR RELEASE AT 4:30 P.M. (EDT)
September 16, 1994

Contact: Michelle Smith
(202) 622-2960

BENTSEN NOTES PROGRESS IN FINANCIAL SERVICES TALKS

Treasury Secretary Lloyd Bentsen today welcomed the announcement by the Japanese Ministry of Finance that it would permit a certain class of asset-backed securities to be issued offshore and resold into Japan.

"I hope this will lead to broader liberalization of the asset-backed securities market in Japan, which would be an important step forward in the development of Japan's capital markets," Secretary Bentsen said.

Secretary Bentsen also welcomed several other recent actions by the Japanese Ministry of Finance in response to concerns expressed by the international financial community and other developments. Several items were noteworthy: the relaxation of restrictions on certain over-the-counter derivative products, on access by financial institutions in Japan to options traded on overseas exchanges, on the ability of securities firms to engage in currency swaps, on the ability of banks and securities firms to net their foreign exchange and derivatives exposure, on corporate debt issuance in Japan and on the 90-day seasoning requirement for sovereign Euroyen issues.

"These steps represent encouraging signs of progress in the financial services negotiations under the Framework agreement," Secretary Bentsen said.

The Secretary also said, however, that we have seen very little progress toward the central U.S. objectives of increasing access for U.S. firms to the private and public pension fund market, improving opportunities for participation in the primary market for corporate securities and on the relaxation of Japan's comprehensive set of controls on international capital transactions.

"Progress in these areas will be critical if we are to reach a successful agreement on financial services under the Framework and in the multilateral negotiations on financial services under the Uruguay Round," Secretary Bentsen said.

Treasury Under Secretary for International Affairs Lawrence Summers will travel to Tokyo September 19-20 to lead negotiations on financial services under the Framework and to continue normal consultations on macroeconomic issues.

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LB-1090

NAFTA

THE NORTH AMERICAN FREE TRADE AGREEMENT

A GUIDE TO CUSTOMS PROCEDURES

PREFACE

On December 17, 1992, Prime Minister Brian Mulroney in Ottawa, President Carlos Salinas de Gortari in Mexico City and President George Bush in Washington, D.C. signed the North American Free Trade Agreement (NAFTA). These three ceremonies marked the end of a process that began on February 5, 1991 when the three leaders announced they would negotiate the NAFTA.

As a result of the successful conclusion of these negotiations the NAFTA entered into force on January 1, 1994. One of the main results of the Agreement is the elimination of tariffs between Canada, Mexico and the United States on nearly all qualifying goods by the year 2003. Chapter 5 of the Agreement attempts to ensure that customs procedures will facilitate trade flows as much as possible.

This guide was written with input from the Governments of Canada and Mexico and concentrates on explaining Chapters 4 and 5 of the NAFTA, where the rules of origin and procedural obligations relating to customs administration are described. We have also provided sources of further information in the three countries. We hope it gives importers, exporters and manufacturers an overview of the benefits and requirements of the Agreement.

GEORGE J. WEISE,
Commissioner of Customs.

May 1994.

THIS GUIDE WAS DESIGNED TO ONLY PROVIDE GENERAL INFORMATION ON THE NORTH AMERICAN FREE TRADE AGREEMENT. DETAILED INFORMATION AND ADVANCE RULINGS SHOULD BE OBTAINED FROM THE SOURCES LISTED IN CHAPTER 15 OF THIS GUIDE, PARTICULARLY FROM THE CUSTOMS ADMINISTRATION OF EACH NAFTA COUNTRY.

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1 DESCRIPTION OF THE NAFTA

Objectives

The objectives of this Agreement, as elaborated more specifically through its principles and rules, including national treatment, most-favored-nation treatment and transparency, are to:

- eliminate barriers to trade in, and facilitate the cross-border movement of, goods and services between the territories of the Parties;
- promote conditions of fair competition in the free trade area;
- increase substantially investment opportunities in the territories of the Parties;
- provide adequate and effective protection and enforcement of intellectual property rights in each Party's territory;
- create effective procedures for the implementation and application of this Agreement, for its joint administration and for the resolution of disputes;
- establish a framework for further trilateral, regional and multilateral cooperation to expand and enhance the benefits of this Agreement.

Tariff Phaseout

The NAFTA eliminates tariffs on most goods originating in Canada, Mexico and the United States over a maximum transition period of fifteen years. The schedule to eliminate tariffs already established in the Canada-United States Free Trade Agreement will continue as planned so that all Canada-United States trade is duty-free in 1998. For most Mexico-United States and Canada-Mexico trade, the NAFTA will either eliminate existing customs duties immediately or phase them out in five to ten years. On a few sensitive items, the Agreement will phase out tariffs over fifteen years. NAFTA-member countries may agree to a faster phaseout of tariffs on any goods.

During the transition period, rates of duty will vary depending upon in which NAFTA country the goods were produced. That is, the NAFTA may grant a Canadian good entering the United States a different NAFTA rate than the same Mexican good entering the United States. For most goods imported into Canada, there will be three NAFTA rates; the rate depends on whether the goods are of U.S. origin, Mexican origin or produced jointly with U.S. and Mexican inputs. To know which rate of duty applies, traders must first establish that the goods meet the NAFTA rules of origin and then use the tariff rules found in Annex 302.2 of the NAFTA.

Generally, tariffs will only be eliminated on goods that "originate" as defined in Article 401 of the NAFTA. That is, transshipping goods made in, say Guatemala, through Mexico will not entitle them to preferential NAFTA duty rates. The NAFTA does provide for reduced duties on some goods of Canada, Mexico, and the United States that do not originate but that meet specified conditions. For example, limited quantities of goods that are non-originating may be eligible for preferential NAFTA treatment under special tariff-rate quotas.

The NAFTA creates a free trade area, not a common market. Customs administrations will still exist and goods entering Canada, Mexico or the United States must still comply with each country's laws and regulations. The NAFTA does not allow for the unchecked movement of goods among Canada, Mexico and the United States.

2 RULES OF ORIGIN

Purpose

The NAFTA grants benefits to a variety of goods from the region. Maximum benefits are reserved for those goods that "originate" in the region. "Originating" is a term of art used to describe those goods that meet the requirements of Article 401 of the Agreement. Article 401 of the Agreement establishes which goods originate and precludes goods from other countries from obtaining those benefits by merely passing through Canada, Mexico or the United States. Thus, not all goods made in Canada, Mexico and the United States qualify for NAFTA benefits. Traders must carefully research the terms of the Agreement to determine whether their goods are entitled to NAFTA benefits—they should not assume that they are entitled to NAFTA benefits merely because they were made in a NAFTA country. It is possible, for instance, for goods not to originate in Canada, Mexico or the United States as that term is defined in the NAFTA, but still be an article of Canada, Mexico or the United States for country of origin marking, statistical or other purposes.

Article 401 of the Agreement defines "originating" in four ways: goods wholly obtained or produced in the NAFTA region; goods produced in the NAFTA region wholly from originating materials; goods meeting the Annex 401 origin rule; and unassembled goods and goods classified with their parts which do not met the Annex 401 rule of origin but contain 60 percent regional value content using the transaction method (50 percent using the net cost method).

Wholly Obtained or Produced

Goods wholly obtained or produced entirely in Canada, Mexico or the United States contain no foreign materials or parts from outside the NAFTA territory. Article 415 defines goods wholly produced in the NAFTA region as:

(a) mineral goods extracted in Canada, Mexico or the United States;

> Silver mined in Mexico is originating because it is extracted in the territory of one of the Parties.

(b) vegetable goods, as such goods are defined in the Harmonized System, harvested in Canada, Mexico or the United States;

> Wheat grown in Canada is originating because it is harvested in the territory of one of the Parties.

(c) live animals born and raised in Canada, Mexico or the United States;

(d) goods obtained from hunting, trapping or fishing in Canada, Mexico or the United States;

(e) goods (fish, shellfish and other marine life) taken from the sea by vessels registered or recorded with Canada, Mexico or the United States and flying its flag;

(f) goods produced on board factory ships from the goods referred to in subparagraph (e) provided such factory ships are registered or recorded with that country and fly its flag;

(g) goods taken by Canada, Mexico or the United States or a person of these countries from the seabed or beneath the seabed outside territorial waters, provided that Canada, Mexico or the United States has rights to exploit such seabed;

(h) goods taken from outer space, provided they are obtained by Canada, Mexico or the United States or by a person of these countries and not processed in a non-NAFTA country;

(i) waste and scrap derived from

- production in Canada, Mexico and/or the United States, or
- used goods collected in Canada, Mexico and/or the United States, provided such goods are fit only for the recovery of raw materials; and

(j) goods produced in Canada, Mexico or the United States exclusively from goods referred to in subparagraphs (a) through (i), or from their derivatives, at any stage of production.

Copper wire recovered in Canada from scrap telephone or electrical wires is wholly obtained or produced in Canada regardless of where it was originally produced.

Silver jewelry made in the United States from silver mined in Mexico is wholly obtained or produced in the NAFTA territory because it is made exclusively of a mineral good extracted in Mexico.

Meets Annex 401 Origin Criterion

Article 401(b) indicates that goods may "originate" in Canada, Mexico or the United States, even if they contain non-originating materials, if the materials satisfy the rule of origin specified in Annex 401 of the Agreement. The Annex 401 rules of origin are commonly referred to as specific rules of origin and are based on a change in tariff classification, a regional value-content requirement or both. Annex 401 is organized by Harmonized Tariff Schedule (HTS) number, so one must know the HTS number of a good, and the HTS numbers of all the non-NAFTA materials used to produce the good, to find its specific rule of origin and determine if the rule has been met. Annex 401 gives the applicable rule of origin opposite the HTS number.

Tariff Change. When a rule of origin is based on a change in tariff classification, each of the non-originating materials used in the production of the goods must undergo the applicable change as a result of production occurring entirely in the NAFTA region. This means that the non-originating materials are classified under one tariff provision prior to processing and classified under another upon completion of processing. The specific rule of origin in Annex 401 defines exactly what change in tariff classification must occur for the goods to be considered "originating."

Frozen pork meat (HTS 02.03) is imported into the United States from Hungary and combined with spices imported from the Caribbean (HTS 09.07–09.10) and cereals grown and produced in the U.S. to make pork sausage (HTS 16.01). The Annex 401 rule of origin for HTS 16.01 states:

> A change to heading 16.01 through 16.05 from any other chapter.

Since the imported frozen meat is classified in Chapter 2 and the spices are classified in Chapter 9, these non-originating materials meet the required tariff change. One does not consider whether the cereal meets the applicable tariff change since it is originating—only **non-originating** materials must undergo the tariff change.

Regional Value Content. Some Annex 401 specific rules of origin require that a good have a minimum regional value content, meaning that a certain percentage of the value of the goods must be from North America. Article 402 gives two formulas for calculating the regional value content. In general, the exporter or producer may choose between these two formulas: the "transaction value" method or the "net cost" method.

Having two methods gives producers more than one way of demonstrating that the rule of origin has been satisfied. The transaction value method is generally simpler to use but a producer may choose whichever method is most advantageous.

The **transaction value method** calculates the value of the non-originating materials as a percentage of the GATT transaction value of the good, which is the total price paid for the good, with certain adjustments for packing and other items, and is based on principles of the GATT Customs Valuation Code. The essence of this method is that the value of non-originating materials can be calculated as a percentage of the invoice price which is usually the price actually paid for them. Because the transaction value method permits the producer to count all of its costs and profit as territorial, the required percentage of regional value content under this method is higher than under the net cost method.

However, there are a number of situations where the transaction value method cannot be used and the net cost method is the only alternative. The net cost method must be used when there is no transaction value, in some related party transactions, for certain motor vehicles and parts, when a producer is accumulating regional value content (see page 9 for a discussion of accumulation), as well as to determine the regional value content for designated intermediate materials (see page 7). The producer may also revert to the net cost method if the result using the transaction value method is unfavorable.

The formula for calculating the regional value content using the transaction value method is:

$$RVC = \frac{TV - VNM}{TV} \times 100$$

where

RVC is the regional value content, expressed as a percentage;

TV is the transaction value of the good adjusted to an F.O.B. basis; and

VNM is the value of non-originating materials used by the producer in the production of the good.

The **net cost method** calculates the regional value content as a percentage of the net cost to produce the good. Net cost represents all of the costs incurred by the producer minus expenses for sales promotion (including marketing and after-sales service), royalties, shipping and packing costs and non-allowable interest costs. The percentage content required for the net cost method is lower that the percentage content required under the transaction value method because of the exclusion of certain costs from the net cost calculation.

The formula for calculating the regional value content using the net cost method is:

$$RVC = \frac{NC - VNM}{NC} \times 100$$

where

RVC is the regional value content, expressed as a percentage;

NC is the net cost of the good; and

VNM is the value of non-originating materials used by the producer in the production of the good.

An electric hair curling iron (HTS 8516.32) is made in Mexico from Japanese hair curler parts (HTS 8516.90). Each hair curling iron is sold for US$4.40; the value of the non-originating hair curler parts is US$1.80. The Annex 401 rule of origin for HTS 8516.32 states:

> A change to subheading 8516.32 from subheading 8516.80 or any other heading; or
>
> A change to subheading 8516.32 from subheading 8516.90, whether or not there is also a change from subheading 8516.80 or any other heading, provided there is a regional value content of not less than:
>
> (a) 60 percent where the transaction value method is used, or
> (b) 50 percent where the net cost method is used.

The first of these two rules is not met since there is no heading change, therefore the producer must verify if the curling irons can qualify under the second rule. In the second rule the required subheading change is met (from HTS 8516.90 to 8516.32) so one proceeds to calculate the regional value content. The regional value content under the transaction value method is:

$$\frac{(4.40 - 1.80)}{4.40} \times 100 = 59\%$$

The hair curler is not considered an originating good under this method, since the required regional value content is 60 percent where the transaction value is used.

Instead, the producer uses the net cost method. The total cost to produce the hair curler is US$3.90, which includes US$0.25 for shipping and packing costs. There are no costs for royalties, sales promotion or non-allowable interest. The net cost is therefore US$3.65. The regional value content under the net cost method is:

$$\frac{(3.65 - 1.80)}{3.65} \times 100 = 50.1\%$$

The hair curler would be considered originating, since the required regional value content is 50 percent where the net cost method is used.

Produced in the NAFTA Territory Wholly of Originating Materials

Goods also originate if they are produced entirely in Canada, Mexico and/or the United States exclusively from materials that are considered to be originating according to the terms of the Agreement.

> Company A imports whole raw bovine skins (HTS 41.01) into Mexico from Argentina and processes them into finished leather (HTS 41.04). The finished leather is then purchased by Company B to make leather eyeglass cases (HTS 4202.31). The rule of origin for HTS 41.04 states:
>
> > A change to heading 41.04 from any other heading, except from heading 41.05 through 41.11.
>
> The finished leather originates in Mexico because it meets the Annex 401 criterion. Assuming the eyeglass cases do not contain any non-originating materials, they originate since they are made wholly of a material that is originating (because it satisfied the Annex 401 criterion).

Unassembled Goods and Goods Classified with Their Parts

In some cases, a good that has not undergone the required tariff change can still qualify for preferential NAFTA treatment if a regional value-content requirement is met. This NAFTA provision may only be used under two very specific circumstances. However, it may never be used for wearing apparel provided for in Chapters 61 and 62, and textile articles of Chapter 63 of the Harmonized System. The two circumstances where the provision may be used are where goods do not undergo the tariff change required by Annex 401 because:

- the goods are imported into Canada, Mexico or the United States in an unassembled or a disassembled form but are classified as assembled goods pursuant to General Rule of Interpretation 2(a) of the Harmonized System, or
- the goods are produced using materials imported into a NAFTA country that are provided for as parts according to the Harmonized System, and those parts are classified in the same subheading or undivided heading as the finished goods.

3 OTHER INSTANCES TO CONFER ORIGIN

The four main criteria set out in Chapter 2 of this publication are the basic conditions to confer origin. However, a good that does not meet such requirements may, in some cases, qualify as originating by using additional options described below.

Intermediate Materials

For the purpose of calculating the regional value content of final goods (using either the transaction value method or the net cost method), Article 402(10) allows a producer to designate as an intermediate material any self-produced, originating material used in the production of the final goods. As long as the intermediate material qualifies as an originating material, its entire value may be treated as originating in determining the regional value content of the finished goods.

The purpose of the intermediate material designation is to treat vertically integrated manufacturers more nearly in the same manner as producers who purchase materials from independent suppliers. If you produce your own materials from non-NAFTA inputs, the intermediate materials provision may help your goods to qualify as originating. This provision covers all goods and materials except:

- automotive goods defined in Article 403(1) and described in Annex 403.1 and;
- components described in Annex 403.2, specifically engines and gearboxes.

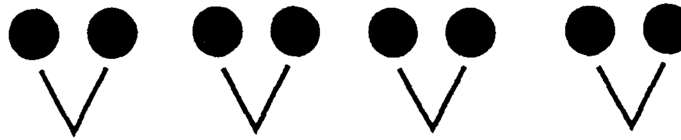
An intermediate material is a self-produced material, designated by the producer, that meets the rules of origin of Article 401 and that is incorporated into the final good. Article 415 defines a self-produced material as a material produced by the same party that produced the final goods and which is used in the production of those final goods.

An intermediate material may be composed of originating and non-originating submaterials. After determining that an intermediate material satisfies the applicable rule of origin under Article 401, the total cost to produce that intermediate material is treated as an originating cost. In other words, the producer would not include the value of the non-originating materials used to produce the intermediate material as part of the value of non-originating materials when calculating the regional value content of the final goods. The benefit of designating an intermediate material is that the producer may treat self-produced materials similarly to the way in which he would treat an originating material purchased at arm's length for purposes of determining the value of the non-originating materials of the final goods.

If the intermediate material must satisfy a minimum regional value content to qualify as originating, the net cost method must be used to calculate that regional value content.

A producer may make any number of intermediate material designations provided that no material subject to a regional value-content requirement may be designated as an intermediate material if it contains submaterials also subject to a regional value-content requirement that were also designated as intermediate materials.

OUTER RACE 8483.90.30 | BALLS 8483.90.30 | STEEL 7219.32.00 | GASKETS 4016.99.50 | IMPELLER 8413.91.90 | BEARING 8482.10.10 | ENGINE BLOCK 8409.99.10 | CRANK SHAFT 8483.10.10



ROD-END BEARING 8483.30.80 | CASING 8412.90.90 | IMPELLER ASSEMBLY 8413.91.90 | ENGINE 8408.90.90

CYLINDER 8412.21.00 | PUMP 8413.60.00

Company Z manufacturers forklift trucks in Canada and makes some of the materials used in their production. As illustrated in the graphic above, each geometric symbol represents a material. The circles at the top (*i.e.*, outer races, balls, steel, gaskets, impellers, bearings, engine blocks, crank shafts) are materials acquired from sellers in non-NAFTA countries. The squares are self-produced materials (*i.e.*, rod-end bearings, casings, impeller assemblies, engines). They are considered horizontal materials in relation to each other. The impeller assemblies may not be designated as intermediate materials because they do not meet the Annex 401 rule of origin ("A change to subheading 8413.91 from any other heading"). However, the rod-end bearings, casings and engines could all be designated intermediate materials provided they satisfy the applicable Annex 401 rules of origin (the casings undoubtedly meet the rule of origin, which provides for "a change to subheading 8412.90 from any other heading"). The engines and rod-end bearings meet the required tariff change prescribed in the Annex 401 rules of origin but would also have to meet a regional value-content requirement to qualify as originating.

The rod-end bearings and casings are used in the production of the cylinders. Likewise, the impeller assemblies and engines are used in the production of the pumps that drive the hydraulic mechanisms of the forklifts. The cylinders and pumps (represented by triangles) are intermediate materials that are horizontal in relation to each other and vertical in relation to the materials from which they were made. As long as there is no regional value-content requirement for more than one intermediate material in the vertical stream, each new material may be designated as an intermediate material.

The cylinders originate because the rod-end bearings meet the required tariff shift ("A change to heading 8412.10 through 8412.80 from any other heading") and the casings are originating (and therefore are not required to undergo the prescribed tariff change). Thus, Company Z may choose to designate both the rod-end bearings and the cylinders as intermediate materials because only one of them is subject to a regional value-content requirement.

The engines and pumps, however, are both subject to regional value-content requirements and therefore Company Z must choose which is most advantageous: to designate the engines as an intermediate material or to designate the pumps.

Where a single producer designates intermediate materials that qualify as originating solely based on a tariff change, that is, without having to satisfy a regional value-content requirement, subsequent designations can be made with previously designated intermediate materials. Thus, in the example above, if the engine were not subject to a regional value-content requirement, both it and the pump could be designated as intermediate materials.

There are two methods for determining the value of an intermediate material:

- the total cost incurred with respect to all goods produced that can be reasonably allocated to that intermediate material; or
- the aggregate of each cost that forms part of the total cost incurred with respect to that intermediate material that can be reasonably allocated to that intermediate material.

The two methods allow producers to select the one that best fits their production and accounting practices. The value of the intermediate material should be approximately the same using either method. **However, the net cost method must be used for intermediate materials subject to a regional value-content requirement.** Article 402(8) of the Agreement lists those costs which may not be included when calculating the regional value content of the intermediate material using the net cost method:

- sales promotion, including marketing and after-sales service costs;
- royalties;
- shipping and packing costs;
- now-allowable interest costs.

Although these costs are excluded in the net cost calculation, they do form part of the total cost of the material. Accordingly, costs such as royalties are excluded when calculating the net cost for purposes of determining whether the material satisfies a regional value-content requirement (and thus originates and can be designated an intermediate material), but are included in the total value of the material once its origin has been determined. As noted above, the total value of an intermediate material may be counted as an originating cost.

Accumulation

When producers determine the regional value content of goods, the entire value of the materials used in the production of the goods that they acquire from suppliers is considered as wholly originating or wholly non-originating, as appropriate. The accumulation provision allows the producer or exporter of goods to choose to include as part of the goods' regional value content any regional value added by suppliers of non-originating materials used to produce the final goods. Thus, accumulation allows the producer to reduce the value of the non-originating materials used in the production of the good, by taking into account the NAFTA inputs incorporated into those non-originating materials.

Thus, where a producer finds he is unable to satisfy a regional value-content requirement based on (i) his own processing costs and (ii) the value of originating materials he uses to produce a good, accumulation allows him to include (iii) any regional value added in the NAFTA territory by other persons who produced non-originating materials that were subsequently incorporated into the final good.

The conditions for using accumulation are:

- producers/exporters who choose to use accumulation must use the net cost method to calculate any regional value content;
- producers/exporters of goods must obtain information on net cost and the regional value content of non-originating materials used to make their goods from the producers (suppliers) of those materials—it will not be obtained by government authorities;
- all non-originating materials used in the production of the goods must undergo the tariff classification change set out in Annex 401 of the Agreement, and the goods, must satisfy any applicable regional value-content requirement, entirely in the territory of one or more of the NAFTA countries; and
- the goods must satisfy all other applicable requirements of the rules of origin.

Company A imports unfinished bearing rings (HTS 8482.99) into Canada from Japan and further processes them into finished rings (HTS 8482.99.11 in Canada). Since the finished bearing rings contain non-originating materials, they must satisfy the Annex 401 origin criterion to be considered originating. The Annex 401 origin criterion for HTS 8482.99 is:

> A change to subheading 8482.91 through 8482.99 from any other heading.

Since the unfinished bearings rings are classified in the same tariff subheading as the finished rings, there is no change in headings. Accordingly, the finished bearing rings cannot be considered originating, even though they contain some regional value content by virtue of the labor and other costs associated with the finishing operations in Canada.

Company A's per unit cost is:

Non-originating (Japanese) materials	$0.75
Originating materials	0.15
Labor	0.35
Overhead	0.05
Total cost	1.30

Subsequently, Company A sells the finished rings (HTS 8482.99.11 in Canada) for $1.45 to Company B in the United States, who incorporates the rings into ball bearings (HTS 8482.10). Company B exports the bearings to Mexico and wants to claim NAFTA preferential treatment. The rule of origin for HTS 8482.10 is:

> A change to subheading 8482.10 through 8482.80 from any subheading outside that group, except from Canadian tariff item 8482.99.11 or 8482.99.91, U.S. tariff item 8482.99.10A*, 8482.99.30A*, 8482.99.50A* or 8482.99.70A* or Mexican tariff item 8482.99.01 or 8482.99.03; or
>
> A change to subheading 8482.10 through 8482.80 from Canadian tariff item 8482.99.11 or 8482.99.91, U.S. tariff item 8482.99.10A*, 8482.99.30A*, 8482.99.50A* or 8482.99.70A* or Mexican tariff item 8482.99.01 or 8482.99.03, whether or not there is also a change from any subheading outside that group, provided there is a regional value content of not less than:
>
> (a) 60 percent where the transaction value method is used, or
> (b) 50 percent where the net cost method is used.

*Designates numbers that were to be developed as a result of the NAFTA.

The bearings do not meet the tariff change described in the first rule.

They do, however, meet the tariff change described in the second rule and, provided they satisfy one of the two regional value-content requirements, can be considered originating. Company B knows it is short in meeting the regional value content under either method so it decides to accumulate its regional value content with that of Company A. Assuming Company A sold the rings to Company B for $1.45 per unit, and A is willing to disclose to B the regional value content in the finished rings that it sold to B, the following demonstrates the benefits of accumulation:

Without Accumulation	
Non-originating ring (A)	$1.45
Originating material (B)	$0.45
Labor (B)	$0.75
Overhead (B)	$0.05
Total	$2.70

With Accumulation	
Non-regional value content of ring (A)	$0.75
Regional value content of ring (A)	$0.55
Originating material (B)	$0.45
Labor (B)	$0.75
Overhead (B)	$0.05
Total	$2.55

The $0.75 represents the value of the non-originating materials, which in this case are the unfinished bearing rings imported into Canada from Japan.

The regional value content, using the net cost method, is:

$$RVC = \frac{NC - VNM}{NC} \times 100$$

RVC = regional value content
NC = net cost
VNM = value of non-originating materials

Therefore, the regional value content calculation, with and without accumulation, is:

Without Accumulation

$$\frac{\$2.70 - \$1.45}{\$2.70} \times 100 = 46\%$$

With Accumulation

$$\frac{\$2.55 - \$0.75}{\$2.55} \times 100 = 71\%$$

Thus, accumulation allows Company B to qualify the bearings as originating by aggregating the regional value content of both Company A and Company B.

De Minimis

Although requiring a change in tariff classification is a very simple principle, it requires that **all** non-originating materials undergo the required change. A very low percentage of the materials may not undergo the tariff change, thus preventing the goods from originating. Therefore, the Agreement contains a *de minimis* provision that allows goods to qualify as originating provided such materials are not more than a certain percentage (seven percent in most cases) of the transaction value of the goods adjusted to an FOB basis or, in some cases, of the total cost of the goods.

In addition, where failure of materials to undergo a required change in tariff classification triggers a requirement for a minimum regional value content, the calculation of that content is waived if the value of **all** non-originating materials used in the production of the goods is not more than the specified *de minimis* amount.

However, if after application of the *de minimis* allowance the goods must still meet a regional value-content requirement in order to qualify as originating (that is, if the value of all non-originating materials exceeds the applicable *de minimis* allowance), the value of all non-originating materials must be taken into account in calculating the regional value content.

A manufacturer purchases inexpensive textile watch straps made in Taiwan (HTS 91.13), to be assembled with originating mechanical watch movements (HTS 91.08) and originating cases (HTS 91.12). The value of the straps is less than seven percent of the transaction value of the final watch (HTS 91.02) adjusted to an FOB basis.

The Annex 401 origin criterion for HTS 91.02 is:

A change to heading 91.01 through 91.07 from any other chapter; or

A change to heading 91.01 through 91.07 from 91.14, whether or not there is also a change from any other chapter, provided there is a regional value content of not less than:

(a) 60 percent where the transaction value method is used, or
(b) 50 percent where the net cost method is used.

Only non-originating materials need undergo the required tariff classification change: in this case, the textile straps. The straps do not satisfy either of the indicated tariff changes but since their value is less than seven percent of the transaction value of the finished watch adjusted to an FOB basis, the *de minimis* rule applies and the watches can be considered originating.

Textiles. For textile goods classified in Chapters 50 through 63 of the Harmonized System, the *de minimis* rule is applied by weight (instead of value) to the component of the good that determines its tariff classification, as determined in accordance with the General Rules of Interpretation of the Harmonized System.

A Mexican manufacturer produces women's shirts which have knit bodies and woven sleeves. The composition of the knit bodies is 60 percent cotton, 35 percent wool, and 5 percent rayon, by weight. The sleeves are made of Japanese fabric that is 100 percent polyester. Since the knit bodies give the garments their essential character, the shirts are classified under HTS 6106.10. The Annex 401 rule of origin criterion for HTS 6106.10 is "yarn forward" (see Chapter 5 of this publication for rules of origin for textiles). Assuming the cotton and wool portions of the bodies meet the yarn-forward rule, the garment can still be considered originating even if the rayon yarn was from China since it falls under the *de minimis* provision. The sleeves are ignored in determining whether the shirts originate because ***only the component that determines the tariff classification*** of the goods is considered when applying the *de minimis* provision.

Agricultural Products. The Article 405 *de minimis* rule does not apply to agricultural goods provided for in Chapters 1 through 27 of the Harmonized System unless the non-originating materials are classified in subheadings different from the subheadings in which the finished goods are classified.

> Ground coffee, sold in retail packages, is produced in Mexico (HTS 0901.21). Most of the beans are grown and roasted in Mexico but to give the coffee a unique flavor the producer adds some roasted beans from Kenya (HTS 0901.21). The value of the beans from Kenya is 5 percent of the transaction value, adjusted to an FOB basis, of each retail package. The Annex 401 origin criterion for HTS 09.01 is:
>
> A change to heading 09.01 through 09.10 from any other chapter.
>
> The coffee cannot be considered originating because the Kenyan beans do not undergo the required tariff change. The *de minimis* rule does not apply because the Kenyan beans are classified in the same subheading as the final good.
>
> **Note:** If green (unroasted) coffee were imported from Kenya and roasted in Mexico, the *de minimis* rule would apply because green coffee beans are classified in HTS 0901.11, a different subheading. Thus, the ground coffee in retail packages qualifies as originating.

Cigars, Cheroots, Cigarrillos and Cigarettes. The *de minimis* amount for these products is nine percent, not seven percent, of the transaction value adjusted to an FOB basis.

Excluded Products. The Article 405 *de minimis* rule does not apply to the following materials:

- certain dairy products and preparations that are used in the production of goods provided for in Chapter 4 of the HTS;
- goods provided for in Chapter 4 of the HTS and some dairy preparations that are used in the production of certain goods containing milk, milk solids or butterfat;
- some fruits and juices used in the production of certain juices and juice concentrates;
- coffee beans used in the production of unflavored instant coffee (note: the Annex 401 origin criterion for unflavored instant coffee allows up to 60 percent non-originating coffee, so substantial allowance is already made for non-originating inputs);
- fats, lards, oils and related products provided for in Chapter 15 of the HTS that are used in the production of Chapter 15 goods (except olive, palm, and coconut oils, where the *de minimis* rule does apply);
- Cane and beet sugar used in the production of sugars, syrups and other products provided for in HTS headings 1701–1703;
- Sugar, molasses, sugar confectionery and other goods provided for in Chapter 17 of the HTS and cocoa powder provided for in HTS 18.05 that are used in the production of chocolate and other food preparations containing cocoa;
- beer wine and other fermented beverages provided for in HTS headings 22.03–22.08 used in the production of alcoholic beverages and related products provided for in HTS headings 22.07 and 22.08;

- any non-originating material used in the production of many major appliances such as refrigerators, freezers, air conditioners, stoves, ranges, trash compactors, clothes-dryers and washing machines;
- printed circuit assemblies used in the production of a good if the change in tariff classification prescribed by Annex 401 for that good places restrictions on their use.

Fungible Goods and Materials

According to Article 415 of the NAFTA, fungible goods are goods that are interchangeable for commercial purposes, and have essentially identical properties. When a producer mixes originating and non-originating fungible goods, so that physical identification of originating goods is impossible, the producer may determine origin of those goods based on any of the standard inventory accounting methods (*e.g.*, FIFO, LIFO) specified in the Uniform Regulations. These provisions apply equally to fungible materials that are used in the production of a good.

> Company Y of Mexico supplies clips to airplane manufacturers throughout North America. Some of the clips Y supplies originate in Mexico and others are made in China. All of the clips are of identical construction and are intermingled at Y's warehouse so that they are indistinguishable. On January 1, Company Y buys 3000 clips of Mexican origin; on January 3 it buys 1000 clips of Chinese origin. If Company Y elects FIFO inventory procedures, the first 3000 clips it uses to fill an order are considered Mexican, regardless of their actual origin.

4 OTHER PROVISIONS RELATING TO ORIGIN

Accessories, Spare Parts and Tools

Accessories, spare parts, and tools that are delivered with the goods and that form part of the goods' standard accessories, spare parts, or tools, are considered originating if the goods originate, and are disregarded in determining whether all the non-originating materials undergo any Annex 401 tariff change. This provision applies provided the accessories, spare parts and tools are invoiced with the goods and the quantities and value are customary for the goods. However, if the goods are subject to a regional value-content requirement, the value of the accessories, spare parts, and tools shall be taken into account as originating or non-originating materials, as the case may be, in calculating the regional value content of the goods.

> High definition television receivers originating in Mexico are sold with remote controls made in Taiwan. The remote controls are invoiced and packed with the television receivers and are of a kind customarily sold with high definition television receivers. Since the television receivers originate, the remote controls are considered originating for purposes of satisfying the required change in tariff classification. The remote controls must, however, be counted as non-originating materials in the regional value-content calculation.

Packaging for Retail Sale

In the NAFTA, packaging and packing are used in different contexts. Packaging is used when referring to retail sale while packing is for shipping purposes. Packaging materials and containers in which goods are packaged for retail sale, if classified with the goods, are disregarded in determining whether all the non-originating materials used in the production of the goods undergo the applicable change in tariff classification set out in Annex 401. However, if the goods are subject to a regional value-content requirement, the value of the retail packaging materials and containers is taken into account as originating or non-originating materials, as the case may be, in calculating the regional value content of the goods.

> Leather footwear (HTS 64.03) is made in Mexico. The shoes are wrapped in tissue paper and packed in cardboard boxes described with the brand logo for retail sale; both the tissue paper and the cardboard box are of Brazilian origin. The Annex 401 origin criterion for 64.03 is:
>
> A change to heading 64.01 through 64.05 from any heading outside that group, except from subheading 6406.10, provided there is a regional value content of not less than 55 percent under the net cost method.
>
> Although the tissue paper and cardboard box are disregarded for purposes of the tariff change, their value must be counted as non-originating when calculating the regional value content.

Packing for Shipment

Packing materials and containers in which goods are packed for shipment are disregarded in determining whether the non-originating materials used in the production of the goods undergo an applicable change in tariff classification set out in Annex 401. They are also disregarded in determining whether the goods satisfy a regional value-content requirement.

> Company X makes chairs (HTS 9401.69) in Mexico from Swedish furniture parts (HTS 9401.90). Company Y of Canada buys chairs from Company X for C$10.90; this price includes C$0.90 for Guatemalan crates used to hold each chair during international transit. The Annex 401 origin criterion for HTS 9401.69 is:
>
> A change to subheading 9401.10 through 9401.80 from any other chapter; or
>
> A change to subheading 9401.10 through 9401.80 from subheading 9401.90, whether or not there is also a change from any other chapter, provided there is a regional value content of not less than:
>
> (a) 60 percent where the transaction value method is used, or
> (b) 50 percent where the net cost method is used.
>
> The value of the Swedish parts is C$4.10. Under the transaction value method, the regional value content is:
>
> $$\frac{10.00 - 4.10}{10.00} \times 100 = 59\%$$
>
> The chair does not originate because it does not have a minimum regional value content of 60 percent. Note that the packing and shipping costs ($0.90) were deducted from the transaction value prior to calculating the regional value content.

Transshipment

Goods that qualify as originating will lose that status if they subsequently undergo any operation outside the NAFTA region, other than unloading, re-loading, or any other operation necessary to preserve them in good condition or to transport the goods to Canada, Mexico or the United States.

> Surgical instruments made in the United States (wholly of originating materials) and cotton gowns and bandages made in Mexico (from fibers and fabric wholly grown and produced in Mexico) are sent to the Dominican Republic where they are packaged together and then sterilized for use in operating rooms. Upon their return to the United States, the medical sets are not eligible for preferential treatment under the NAFTA because they underwent operations in the Dominican Republic that were not necessary to preserve the goods in good condition or to transport them to the United States.

Operations That Do Not Confer Origin

Article 412 provides that goods shall not be considered to originate if they are merely diluted with water or another substance that does not materially alter the characteristics of the goods. Thus, mere dilution—even if it results in a change in tariff classification—is not sufficient to confer origin. However, dilution coupled with another process may be sufficient to materially alter the characteristic of the goods and thereby confer origin.

Article 412 also indicates that goods will not be considered to originate if a preponderance of the evidence establishes that any production or pricing practice has been used to circumvent the intent of the Chapter 4 origin rules. The rules of origin are designed to ensure that the processing and costs incurred with respect to the products are commercially significant and appropriate to the goods, as defined by the tariff change rules and, when applicable, the value content rules.

5 PROVISIONS FOR SPECIFIC SECTORS

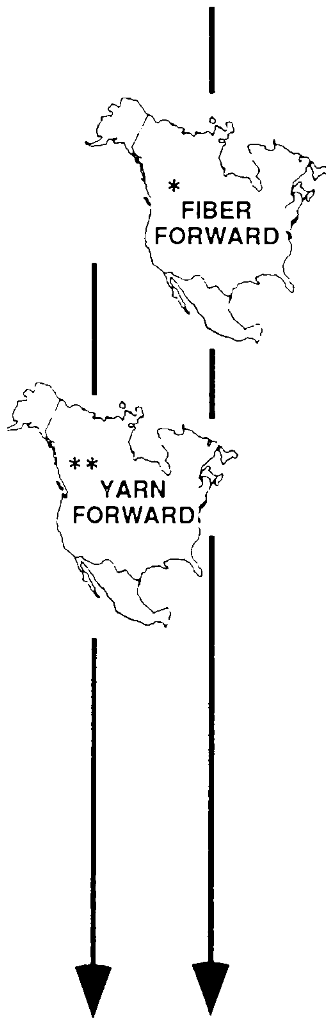
Textiles

Rules of Origin. The NAFTA provisions on trade in textiles and apparel are particularly detailed. The Annex 401 origin criteria aim to ensure that most of the production relating to textiles and apparel occurs in North America.

The basic origin rule for textile and apparel articles is "yarn-forward." This means that the yarn used to form the fabric (which may later be used to produce wearing apparel or other textile articles) must originate in a NAFTA country. Thus, a wool shirt made in Canada from fabric woven in Canada of wool yarn produced in Argentina would not be considered originating since the yarn does not originate within a NAFTA country. If, however, Argentine wool fiber was imported into Canada and spun into wool yarn, which was then used to produce the wool fabric, the shirt would be considered originating.

Less demanding rules of origin govern certain knitted underwear, brassieres, and shirts made from fabric in short supply in North America, and textile and apparel articles made from fabric not commonly produced in North America. For example, silk and linen apparel articles follow a single-transformation instead of a "yarn-forward" rule. Thus, silk blouses are considered originating even if made from non-originating fabric, provided the fabric is cut and sewn in one or more NAFTA countries. These exceptions give producers flexibility to import materials not widely produced in North America.

On the other hand, stricter rules of origin exist for certain textile and apparel articles made of fibers that are produced in abundance in Canada, Mexico and the United States. For example, cotton yarn and cotton knitted fabrics follow a fiber-forward rule for goods traded between the three countries while man-made fiber sweaters follow a "fiber-forward" rule as to trade between the United States and Mexico.



Tariff Preference Levels. To allow flexibility, textile and apparel exports will have access to tariff preference levels (TPLs). This means that specified quantities of certain fibers, yarns and fabric that do not meet the Article 401 origin criteria, but which are subject to significant processing in one or more NAFTA countries, can still be eligible for preferential NAFTA rates. Amounts of these goods exceeding the tariff preference level will be subject to most-favored-nation (MFN) rates of duty. For example, apparel goods made from non-originating fabric that is cut and sewn in North America may be eligible for TPLs.

Tariff Elimination. The United States and Canada will continue to apply the rates of duty negotiated in the Canada-United States Free Trade Agreement as to trade between them.

With respect to trade between Mexico and Canada, tariffs for most textile articles will be phased-out over a period of eight years; for apparel, the adjustment period is ten years.

With respect to trade between Mexico and the United States, tariffs for many textile and apparel articles will be completely eliminated upon entry into force of the Agreement (tariff staging category A). Others will be eliminated over a six-year period, and all tariffs on textile and apparel articles will be eliminated within ten years. Moreover, Appendix 2.1 to Annex 300-B provides that duties for articles in the B6 (six-year) and C (ten-year) tariff phaseout categories shall at no time exceed 20 percent *ad valorem*. Although this maximum rate of 20 percent applies until the stipulated rate reductions result in an *ad valorem* rate that is 20 percent or less, it does not serve as the base for subsequent rate reductions.

*Fiber must be made in NAFTA region and subsequent processing must occur in NAFTA region.

**Yarn must be made in NAFTA region and subsequent processing must occur in NAFTA region.

The U.S. tariff on Mexican babies' sweaters of synthetic fibers (HTS 6111.30.40) is scheduled for a B6 (six-year) phaseout. Applying Appendix 2.1, the phase out will proceed as follows:

	Base rate (percent)	*Calculated reduced rate (percent)*	*Effective rate (percent)*
1994	34.6	22.6	20.0
1995	22.6	18.0	18.0
1996	18.0	13.5	13.5
1997	13.5	9.0	9.0
1998	9.0	4.5	4.5
1999	4.5	0.0	0.0

Note that the calculated reduced rate column shows the rate that would apply for a six-year phaseout under the B6 staging schedule. However, since the phaseout rate cannot exceed 20 percent, the effective rate in 1994 is different, as shown in the effective rate column. Also, the effective rate for 1994 (20%) does not serve as the base rate for the subsequent tariff reductions. The calculated reduced rate for 1994 becomes the base rate for calculating subsequent reductions.

Quantitative Restraints (Quotas). Upon entry into force of the Agreement, all prohibitions, restrictions, and consultation levels on imports and exports will be eliminated for originating textile and apparel articles. Thus, all import quotas for originating textile articles will be eliminated immediately. The United States will maintain import quotas for non-originating goods from Mexico in 14 categories; ten of them will be eliminated on the first day of the eighth phaseout year, and the last four categories on the first day of the tenth year.

Special Regime. The "Special Regime" provided bilateral access to the U.S. market for certain apparel articles assembled in Mexico of fabric formed and cut in the United States. This agreement was embodied in the U.S. tariff under HTS 9802.00.8010. Similar liberal access was also given to articles which were assembled in Mexico from fabric formed and cut in the United States, and which were then acidwashed, bleached, dyed or permapressed. Under the NAFTA, the United States eliminated all duties and quotas applied to both these categories of goods. These goods are now classifiable under a new tariff number, HTS 9802.00.90, that provides for:

> Textile and apparel goods, assembled in Mexico in whole of fabrics wholly formed and cut in the United States, which (a) were exported in condition ready for assembly without further fabrication, (b) have not lost their physical identity in such articles by change in form shape or otherwise, and (c) have not been advanced in value or improved in condition abroad except by being assembled and except by operations incidental to the assembly process, provided that goods classifiable in chapters 61, 62 or 63 may have been subject to bleaching, garment dyeing, stone-washing, acid-washing or perma-pressing after assembly as provided herein.

This new tariff classification covers all textile and apparel goods that meet this description (*e.g.*, handbags and hats), not just those categories that were covered by the Special Regime.

De Minimis. For textile goods classified in Chapters 50 through 63 of the Harmonized System, the *de minimis* amount is seven percent by weight (instead of value) of the component of the good that determines its tariff classification (see page 12).

Automotive Products

Rules of Origin. The NAFTA rules of origin for automotive products are based on a tariff change alone or a tariff change and a regional value-content requirement. The Agreement requires that the regional value content for these products be calculated using the net cost method. The regional value-content requirement for autos and light vehicles, and their engines and transmissions, will be 50 percent under the net cost method when the agreement enters into force; this percentage will be increased to 62.5 percent over an eight-year transition period. The regional value-content requirement for other vehicles (*e.g.*, tractors, vehicles for the transport of 16 or more persons, trucks), and their engines and transmissions, as well as other auto parts, will be 50 percent under the net cost method; this percentage will be increased to 60 percent over an eight-year transition period. The ultimate regional value-content requirements will be phased in as follows:

Phase-In of Regional Value Content Requirements

	Effective dates		
	1/1/1994	*1/1/1998*	*1/1/2002*
Autos and light vehicles listed in Annex 403.1	50%	56%	62.5%
Other heavy duty trucks listed in Annex 403.2	50%	55%	60%

Tracing. Tracing ensures greater accuracy in calculating the regional value content by tracking the value of major automotive components and subassemblies imported into the NAFTA region, so that the non-originating value of these components and subassemblies is reflected in the regional value-content calculation of the motor vehicle or in auto parts destined for original equipment use. This significantly limits the phenomenon known as "roll-up" and "roll-down," whereby the full value of goods is counted as originating or non-originating content even though they may contain a mix of originating and non-originating materials. For those components subject to tracing, any non-originating (non-NAFTA) value will remain non-originating through all stages of assembly to the time of calculation of the regional value content of the motor vehicle (or auto part destined for original equipment use). A list of articles that must be traced for passenger vehicles and light vehicles is contained in Annex 403.1 (see Appendix A on page 53); the list of parts to be traced for other vehicles is in Annex 403.2 (see Appendix B on page 55). The value of traceable automotive components is determined at the time the non-originating components are received by the first person in Canada, Mexico or the United States who takes title to them, after importation from outside the NAFTA region. The value of the components will be determined in accordance with standard valuation norms and will generally be the transaction value. Certain costs must be added to the transaction value if not included in it (*e.g.*, packing, selling commissions).

Election to Average. Producers of automotive goods may elect to average their costs when calculating the regional value content. A motor vehicle producer may average the calculation over its fiscal year either by all motor vehicles or only those motor vehicles in a category that are exported to another NAFTA party. The four categories are:

- the same model line of motor vehicles in the same class of vehicles produced in the same plant;
- the same class of motor vehicles produced in the same plant;
- the same model line of motor vehicles produced;
- special averaging rules for CAMI Automotive, Inc.

Producers of components that must be traced may also average their costs. A producer may average its calculation:

- over the fiscal year of the motor vehicle producer to whom the good is sold;
- over any quarter or month, or
- over its fiscal year, if the good is sold as an aftermarket part.

Producers may elect to calculate the average separately for any or all goods sold to one or more motor vehicle producers or calculate separately those goods that are exported to Canada, Mexico and/or the United States.

Other Provisions. The provisions on accumulation, fungible goods, and intermediate materials may be used to integrate and rationalize production processes throughout Canada, Mexico and the United States. Components that are subject to tracing for autos and light vehicles may be designated as intermediate materials. Producers may not, however, designate as an intermediate material any traceable component for motor vehicles other than autos and light vehicles.

Liberalization of the Mexican Market. The NAFTA will significantly liberalize access to the Mexican market in automotive products, including:

- the immediate reduction by 50 percent of tariffs on passenger automobiles, with remaining tariffs phased out in equal stages over 10 years;
- the immediate reduction by 50 percent of tariffs on light trucks, with remaining tariffs phased out in equal stages over five years;
- tariffs on all other vehicles phased out in equal steps over ten years;
- the immediate elimination of tariffs on certain auto parts, with duties on most other parts phased out over five years;
- restrictions on the import of used cars into Mexico will be phased out between 2009 and 2019.

Electronic Products

Rules of Origin. The rules of origin for a significant number of electronic products (*e.g.*, computers, telecommunications equipment, televisions, machine tools, semiconductors) are based strictly on a tariff change. This tariff change is structured to require that key subassemblies of the product be produced in North America. Where necessary, the tariff schedules of Canada, Mexico and the United States were modified to accommodate these rules of origin.

> Television receivers with a picture tube of more than 14 inches in diameter may be considered originating only if the picture tube is produced or assembled in North America.

Other electronic products may originate in one of two ways: by satisfying a tariff change or by meeting a less substantial tariff change ***and*** a regional value-content requirement. The first tariff change is generally stricter (requiring the non-originating materials to be classified in another chapter) and therefore has no regional value-content requirement. The alternative tariff change frequently involves a transformation of parts into a finished good. Since this alternate tariff change reflects a lesser degree of processing, the regional value-content requirement ensures significant North American content.

Harmonization of MFN Rates. In one of the most unique features of the NAFTA, the three countries will harmonize, in a series of staged reductions, their respective most-favored-nation tariff rates on computers, computer parts and certain computer peripherals. Once the duty rates for these articles are harmonized, duties on goods will be payable only once upon entering the NAFTA territory. Once within the NAFTA territory, these articles are considered originating and may move among Canada, Mexico and the United States without payment of duty.

In addition, on January 1, 1994, the three countries changed their most-favored-nation tariff rates to free on virtually all semi-conductors and all local area network apparatus.

Agricultural Products

Market Access. The provisions for agricultural goods were negotiated bilaterally. As a result, different provisions apply as to trade between Mexico and the United States, than to trade between Canada and Mexico. For trade between the United States and Canada, the NAFTA incorporates the provisions of the United States-Canada Free Trade Agreement (CFTA).

Annex 703.2, Section A, of the Agreement applies to trade between the United States and Mexico. Mexico will replace import licensing requirements on U.S. agricultural products with either a tariff-rate quota or an ordinary tariff, that will be phased out over a 10-year period, with the exception of corn, dry beans and milk powder which will be phased out over a 15-year period. Import quotas imposed under Section 22 of the U.S. Agricultural Adjustment Act, as amended (7 U.S.C. 624) will be replaced with tariff-rate quotas for Mexico which will also be phased out over a 10-year period, with the exception of peanuts which will be phased-out over a 15-year period. Section 22 import quotas will remain in place for all imports from countries other than Mexico, including those from Canada. Quantities within the quota amounts will be subject to duty-free treatment while quantities in excess of the tariff-rate quota will be subject to an over-quota tariff.

Mexico and the United States will gradually liberalize bilateral trade in sugar. Both countries will apply tariff-rate quotas of equivalent effect on third country sugar by the sixth year after the Agreement enters into force. All restrictions on trade in sugar between the two countries will be eliminated by the end of the 15-year transition period. Details on the special provisions relating to market access for sugar during the transition period are provided in Annex 703.2, Sections A and B.

Section B of Annex 703.2 relates to trade between Canada and Mexico. Both countries will eliminate all tariff and non-tariff barriers on their agricultural trade, with the exception of those in the dairy, poultry, egg, sugar and syrup sectors. Canada immediately exempted Mexico from import restrictions covering wheat, barley, and their products, beef and veal, and margarine. Canada

and Mexico eliminated immediately or will phase out within five years tariffs on many fruit and vegetable products, while tariffs on remaining fruit and vegetable products will be phased-out over 10 years.

Safeguard Provisions. Safeguard provisions were included in the NAFTA to protect against import surges of certain sensitive goods while their tariffs are being phased out. A NAFTA country may invoke this safeguard mechanism in the form of a tariff-rate quota for agricultural goods specified in Annex 703.3 of the Agreement. This means that a designated quantity of imports will be allowed to enter at the NAFTA preferential tariff rate. Once the trigger level is met, the importing country may apply an over-quota rate which is to be the lesser of the most-favored-nation (MFN) rate in effect as of July 1, 1991, or the prevailing MFN rate. Tariffs on the in-quota volume will be phased out over a ten-year period. However, there will be no phaseout period for the over-quota tariff, until the tenth year of the Agreement, at which time the in-quota and the over-quota tariffs will be eliminated. These safeguard provisions apply bilaterally for trade between Canada and Mexico, and for trade between the United States and Mexico.

For trade between the United States and Canada the "snap-back" provision under the Canada-United States Free Trade Agreement will remain in effect for those products designated under that Agreement. "Snap-back" is a mechanism that allows the United States or Canada to apply a temporary duty on certain fresh fruits and vegetables originating in the other country and imported into its territory when import prices fall below a certain percentage of the average monthly import price, and planted acreage of the agricultural product is within certain limits.

Agricultural Marketing Standards. The NAFTA provides that when either Mexico or the United States applies a measure regarding the classification, grading or marketing of a domestic agricultural good, it will provide no less favorable treatment to like products imported from the other country for processing.

6 CERTIFICATE OF ORIGIN

Canada, Mexico and the United States established a uniform Certificate of Origin to certify that goods imported into their territories qualify for the preferential tariff treatment accorded by the NAFTA. Only importers who possess a valid Certificate of Origin may claim preferential tariff treatment for originating goods.

Language

A uniform Certificate of Origin is used in all three countries and is printed in English, French or Spanish. The Certificate shall be completed in the language of the country of export or the language of the importing country, at the exporter's discretion. Importers shall submit a translation of the Certificate to their own customs administration when requested.

Scope

A Certificate of Origin may cover a single importation of goods or multiple importations of identical goods. Certificates that cover multiple shipments are called blanket certificates and may apply to goods imported within any twelve-

month period specified on the Certificate. Although a Certificate of Origin may cover goods imported over not more than a twelve-month period, it remains valid for NAFTA preference claims made up to four years from the date upon which it was signed.

> A machine made in Canada qualifies for NAFTA tariff treatment and is exported with a Certificate of Origin signed on January 1, 1995. The U.S. importer does not enter the machine for consumption but instead places it in a customs bonded warehouse. He overlooks the Certificate of Origin and fails to claim NAFTA treatment for the machine upon entry into the warehouse. If the U.S. importer withdraws the machine from the warehouse for consumption on January 17, 1999, he will be barred from claiming NAFTA treatment upon withdrawal because the Certificate is over four years old and is no longer valid.

Completion of Certificate

The Certificate of Origin must be completed and signed by the exporter of the goods. Where the exporter is not the producer, the exporter may complete the Certificate on the basis of:

- knowledge that the good originates;
- reasonable reliance on the producer's written representation that the good originates; or
- a completed and signed Certificate of Origin for the good voluntarily provided to the exporter by the producer.

Importers' Obligations

Importers claiming NAFTA preferential tariff treatment shall make a declaration, based on a valid Certificate of Origin in their possession, on the import documentation. Where no claim for preferential tariff treatment is made at the time of importation, importers may request preferential tariff treatment no later than one year after the date on which the good was imported, provided a Certificate of Origin for the goods is obtained.

Importers must provide the Certificate to the importing country's customs administration upon request, and must submit a corrected declaration and pay the corresponding duties whenever there is reason to believe that the Certificate contained inaccurate information.

The customs administration of the importing country may deny preferential tariff treatment to the goods if the importer fails to comply with any of the customs procedures set out in Chapter Five of the NAFTA.

Importers must maintain records pertaining to the importation for five years or such longer period as may be specified by their country.

Exporters' and Producers' Obligations

Exporters or producers that prepare Certificates of Origin shall provide copies to their own customs administration upon request.

Exporters or producers that provide a Certificate of Origin must maintain records pertaining to the exportation for five years or such longer period as may be specified by their countries.

Exporters or producers that complete a Certificate of Origin shall notify all parties to whom the Certificate was given of any change that could affect its accuracy or validity.

DEPARTMENT OF THE TREASURY
UNITED STATES CUSTOMS SERVICE

Aproved through 12/31/96
OMB No. 1515-0204
See back of form for Paperwork Reduction Act Notice

NORTH AMERICAN FREE TRADE AGREEMENT

CERTIFICATE OF ORIGIN

Please print or type

19 CFR 181.11, 181.22

1. EXPORTER NAME AND ADDRESS TAX IDENTIFICATION NUMBER:	2. BLANKET PERIOD *(DD/MM/YY)* FROM TO
3. PRODUCER NAME AND ADDRESS TAX IDENTIFICATION NUMBER:	4. IMPORTER NAME AND ADDRESS TAX IDENTIFICATION NUMBER:

5. DESCRIPTION OF GOOD(S)	6. HS TARIFF CLASSIFICATION NUMBER	7. PREFERENCE CRITERION	8. PRODUCER	9. NET COST	10. COUNTRY OF ORIGIN

I CERTIFY THAT:

- THE INFORMATION ON THIS DOCUMENT IS TRUE AND ACCURATE AND I ASSUME THE RESPONSIBILITY FOR PROVING SUCH REPRESENTATIONS. I UNDERSTAND THAT I AM LIABLE FOR ANY FALSE STATEMENTS OR MATERIAL OMISSIONS MADE ON OR IN CONNECTION WITH THIS DOCUMENT;
- I AGREE TO MAINTAIN, AND PRESENT UPON REQUEST, DOCUMENTATION NECESSARY TO SUPPORT THIS CERTIFICATE, AND TO INFORM, IN WRITING, ALL PERSONS TO WHOM THE CERTIFICATE WAS GIVEN OF ANY CHANGES THAT COULD AFFECT THE ACCURACY OR VALIDITY OF THIS CERTIFICATE;
- THE GOODS ORIGINATED IN THE TERRITORY OF ONE OR MORE OF THE PARTIES, AND COMPLY WITH THE ORIGIN REQUIREMENTS SPECIFIED FOR THOSE GOODS IN THE NORTH AMERICAN FREE TRADE AGREEMENT, AND UNLESS SPECIFICALLY EXEMPTED IN ARTICLE 411 OR ANNEX 401, THERE HAS BEEN NO FURTHER PRODUCTION OR ANY OTHER OPERATION OUTSIDE THE TERRITORIES OF THE PARTIES; AND
- THIS CERTIFICATE CONSISTS OF ______ PAGES, INCLUDING ALL ATTACHMENTS.

11.			
11a. AUTHORIZED SIGNATURE		11b. COMPANY	
11c. NAME *(Print or Type)*		11d. TITLE	
11e. DATE *(DD/MM/YY)*	11f. TELEPHONE NUMBER ▷	*(Voice)*	*(Facsimile)*

Customs Form 434 (121793)

PAPERWORK REDUCTION ACT NOTICE: This information is needed to carry out the terms of the North American Free Trade Agreement (NAFTA). NAFTA requires that, upon request, an importer must provide Customs with proof of the exporter's written certification of the origin of the goods. The certification is essential to substantiate compliance with the rules of origin under the Agreement. You are required to give us this information to obtain a benefit.

Statement Required by 5 CFR 1320.21: The estimated average burden associated with this collection of information is 15 minutes per respondent or recordkeeper depending on individual circumstances. Comments concerning the accuracy of this burden estimate and suggestions for reducing this burden should be directed to U.S. Customs Service, Paperwork Management Branch, Washington DC 20229, and to the Office of Management and Budget, Paperwork Reduction Project (1515-0204), Washington DC 20503.

NORTH AMERICAN FREE TRADE AGREEMENT CERTIFICATE OF ORIGIN INSTRUCTIONS

For purposes of obtaining preferential tariff treatment, this document must be completed legibly and in full by the exporter and be in the possession of the importer at the time the declaration is made. This document may also be completed voluntarily by the producer for use by the exporter. Please print or type:

FIELD 1: State the full legal name, address (including country) and legal tax identification number of the exporter. Legal taxation number is: in Canada, employer number or importer/exporter number assigned by Revenue Canada; in Mexico, federal taxpayer's registry number (RFC); and in the United States, employer's identification number or Social Security Number.

FIELD 2: Complete field if the Certificate covers multiple shipments of identical goods as described in Field # 5 that are imported into a NAFTA country for a specified period of up to one year (the blanket period). "FROM" is the date upon which the Certificate becomes applicable to the good covered by the blanket Certificate (it may be prior to the date of signing this Certificate). "TO" is the date upon which the blanket period expires. The importation of a good for which preferential treatment is claimed based on this Certificate must occur between these dates.

FIELD 3: State the full legal name, address (including country) and legal tax identification number, as defined in Field #1, of the producer. If more than one producer's good is included on the Certificate, attach a list of additional producers, including the legal name, address (including country) and legal tax identification number, cross-referenced to the good described in Field #5. If you wish this information to be confidential, it is acceptable to state "Available to Customs upon request". If the producer and the exporter are the same, complete field with "SAME". If the producer is unknown, it is acceptable to state "UNKNOWN".

FIELD 4: State the full legal name, address (including country) and legal tax identification number, as defined in Field #1, of the importer. If the importer is not known, state "UNKNOWN"; if multiple importers, state "VARIOUS".

FIELD 5: Provide a full description of each good. The description should be sufficient to relate it to the invoice description and to the Harmonized System (H.S.) description of the good. If the Certificate covers a single shipment of a good, include the invoice number as shown on the commercial invoice. If not known, indicate another unique reference number, such as the shipping order number.

FIELD 6: For each good described in Field #5, identify the H.S. tariff classification to six digits. If the good is subject to a specific rule of origin in Annex 401 that requires eight digits, identify to eight digits, using the H.S. tariff classification of the country into whose territory the good is imported.

FIELD 7: For each good described in Field #5, state which criterion (A through F) is applicable. The rules of origin are contained in Chapter Four and Annex 401. Additional rules are described in Annex 703.2 (certain agricultural goods), Annex 300-B, Appendix 6 (certain textile goods) and Annex 308.1 (certain automatic data processing goods and their parts). **NOTE: In order to be entitled to preferential tariff treatment, each good must meet at least one of the criteria below.**

Preference Criteria

A The good is "wholly obtained or produced entirely" in the territory of one or more of the NAFTA countries as referenced in Article 415. **Note: The purchase of a good in the territory does not necessarily render it "wholly obtained or produced".** If the good is an agricultural good, see also criterion F and Annex 703.2. *(Reference: Article 401(a) and 415)*

B The good is produced entirely in the territory of one or more of the NAFTA countries and satisfies the specific rule of origin, set out in Annex 401, that applies to its tariff classification. The rule may include a tariff classification change, regional value-content requirement, or a combination thereof. The good must also satisfy all other applicable requirements of Chapter Four. If the good is an agricultural good, see also criterion F and Annex 703.2. *(Reference: Article 401(b))*

C The good is produced entirely in the territory of one or more of the NAFTA countries exclusively from originating materials. Under this criterion, one or more of the materials may not fall within the definition of "wholly produced or obtained", as set out in Article 415. All materials used in the production of the good must qualify as "originating" by meeting the rules of Article 401(a) through (d). If the good is an agricultural good, see also criterion F and Annex 703.2. *Reference: Article 401(c).*

D Goods are produced in the territory of one or more of the NAFTA countries but do not meet the applicable rule of origin, set out in Annex 401, because certain non-originating materials do not undergo the required change in tariff classification. The goods do nonetheless meet the regional value-content requirement specified in Article 401 (d). This criterion is limited to the following two circumstances:

1. The good was imported into the territory of a NAFTA country in an unassembled or disassembled form but was classified as an assembled good, pursuant to H.S. General Rule of Interpretation 2(a), or
2. The good incorporated one or more non-originating materials, provided for as parts under the H.S., which could not undergo a change in tariff classification because the heading provided for both the good and its parts and was not further subdivided into subheadings, or the subheading provided for both the good and its parts and was not further subdivided.

NOTE: This criterion does not apply to Chapters 61 through 63 of the H.S. *(Reference: Article 401(d))*

E Certain automatic data processing goods and their parts, specified in Annex 308.1, that do not originate in the territory are considered originating upon importation into the territory of a NAFTA country from the territory of another NAFTA country when the most-favored-nation tariff rate of the good conforms to the rate established in Annex 308.1 and is common to all NAFTA countries. *(Reference: Annex 308.1)*

F The good is an originating agricultural good under preference criterion A, B, or C above and is not subject to a quantitative restriction in the importing NAFTA country because it is a "qualifying good" as defined in Annex 703.2, Section A or B (please specify). A good listed in Appendix 703.2B.7 is also exempt from quantitative restrictions and is eligible for NAFTA preferential tariff treatment if it meets the definition of "qualifying good" in Section A of Annex 703.2. **NOTE 1: This criterion does not apply to goods that wholly originate in Canada or the United States and are imported into either country. NOTE 2: A tariff rate quota is not a quantitative restriction.**

FIELD 8: For each good described in Field #5, state "YES" if you are the producer of the good. If you are not the producer of the good, state "NO" followed by (1), (2), or (3), depending on whether this certificate was based upon: (1) your knowledge of whether the good qualifies as an originating good; (2) your reliance on the producer's written representation (other than a Certificate of Origin) that the good qualifies as an originating good; or (3) a completed and signed Certificate for the good, voluntarily provided to the exporter by the producer.

FIELD 9: For each good described in field #5, where the good is subject to a regional value content (RVC) requirement, indicate "NC" if the RVC is calculated according to the net cost method; otherwise, indicate "NO". If the RVC is calculated over a period of time, further identify the beginning and ending dates (DD/MM/YY) of that period. *(Reference: Articles 402.1, 402.5).*

FIELD 10: Identify the name of the country ("MX" or "US" for agricultural and textile goods exported to Canada; "US" or "CA" for all goods exported to Mexico; or "CA" or "MX" for all goods exported to the United States) to which the preferential rate of customs duty applies, as set out in Annex 302.2, in accordance with the Marking Rules or in each party's schedule of tariff elimination.

For all other originating goods exported to Canada, indicate appropriately "MX" or "US" if the goods originate in that NAFTA country, within the meaning of the NAFTA Rules of Origin Regulations, and any subsequent processing in the other NAFTA country does not increase the transaction value of the goods by more than seven percent; otherwise "JNT" for joint production. *(Reference: Annex 302.2)*

FIELD 11: This field must be completed, signed, and dated by the exporter. When the Certificate is completed by the producer for use by the exporter, it must be completed, signed, and dated by the producer. The date must be the date the Certificate was completed and signed.

Customs Form 434 (121793)(Back)

DEPARTMENT OF THE TREASURY
UNITED STATES CUSTOMS SERVICE

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NORTH AMERICAN FREE TRADE AGREEMENT

CERTIFICATE OF ORIGIN CONTINUATION SHEET

19 CFR 181.11, 181.22

5. DESCRIPTION OF GOOD(S)	6. HS TARIFF CLASSIFICATION NUMBER	7. PREFERENCE CRITERION	8. PRODUCER	9. NET COST	10 COUNTRY OF ORIGIN

Customs Form 434A (121793)

Revenue Canada Customs, Excise and Taxation / Revenu Canada Accise, Douanes et Impot

PROTECTED (when completed)

North American Free Trade Agreement

CERTIFICATE OF ORIGIN

(Instructions Attached)

Please Print or Type

1 Exporter's Name and Address	2 Blanket Period
Tax Identification Number ▶	From DD MM YY To DD MM YY
3 Producer's Name and Address	4 Importer's Name and Address
Tax Identification Number ▶	Tax Identification Number ▶

5 Description of Good(s)	6 HS Tariff Classification Number	7 Preference Criterion	8 Producer	9 Net Cost	10 Country of Origin

11 **I certify that:**

— **the information on this document is true and accurate and I assume the responsibility for proving such representations. I understand that I am liable for any false statements or material omissions made on or in connection with this document;**

— **I agree to maintain, and present upon request, documentation necessary to support this Certificate, and to inform, in writing, all persons to whom the Certificate was given of any changes that would affect the accuracy or validity of this Certificate;**

— **the goods originated in the territory of one or more of the Parties, and comply with the origin requirements specified for those goods in the North American Free Trade Agreement, and unless specifically exempted in Article 411 or Annex 401, there has been no further production or any other operation outside the territories of the Parties; and**

— **this Certificate consists of _______ pages, including all attachments.**

Authorized Signature		Company
Name		Title
Date (DD / MM / YY)	Telephone	FAX

B 232E (93/12) Printed in Canada

NORTH AMERICAN FREE TRADE AGREEMENT
CERTIFICATE OF ORIGIN INSTRUCTIONS

For purposes of obtaining preferential tariff treatment, **this document must be completed legibly and in full by the exporter and be in the possession of the importer** at the time the declaration is made. **This document may also be completed voluntarily by the producer for use by the exporter. Please print or type.**

Field 1: State the full legal name, address (including country) and legal tax identification number of the exporter. Legal tax identification number is: in Canada, employer number or importer/exporter number assigned by Revenue Canada; in Mexico, federal taxpayer's registry number (RFC); and in the United States, employer's identification number or Social Security Number.

Field 2: Complete field if the Certificate covers multiple shipments of identical goods as described in Field 5 that are imported into a NAFTA country for a specified period of up to one year (the blanket period). "FROM" is the date upon which the Certificate becomes applicable to the good covered by the blanket Certificate (it may be prior to the date of signing this Certificate). "TO" is the date upon which the blanket period expires. The importation of a good for which preferential tariff treatment is claimed based on this Certificate must occur between these dates.

Field 3: State the full legal name, address (including country) and legal tax identification number, as defined in Field 1, of the producer. If more than one producer's good is included on the Certificate, attach a list of the additional producers, including the legal name, address (including country) and legal tax identification number, cross referenced to the good described in Field 5. If you wish this information to be confidential, it is acceptable to state "Available to Customs upon request". If the producer and the exporter are the same, complete field with "SAME". If the producer is unknown, it is acceptable to state "UNKNOWN".

Field 4: State the full legal name, address (including country) and legal tax identification number, as defined in Field 1, of the importer. If importer is not known, state "UNKNOWN"; if multiple importers, state "VARIOUS".

Field 5: Provide a full description of each good. The description should be sufficient to relate it to the invoice description and to the Harmonized System (HS) description of the good. If the Certificate covers a single shipment of a good, include the invoice number as shown on the commercial invoice. If not known, indicate another unique reference number, such as the shipping order number.

Field 6: For each good described in Field 5, identify the HS tariff classification to six digits. If the good is subject to a specific rule of origin in Annex 401 that requires eight digits, identify to eight digits, using the HS tariff classification of the country into whose territory the good is imported.

Field 7: For each good described in Field 5, state which criterion (A through F) is applicable. The rules of origin are contained in Chapter Four and Annex 401. Additional rules are described in Annex 703.2 (certain agricultural goods), Annex 300-B, Appendix 6A (certain textile goods) and Annex 308.1 (certain automatic data processing goods and their parts). **NOTE: In order to be entitled to preferential tariff treatment, each good must meet at least one of the criteria below.**

Preference Criteria

A The good is "wholly obtained or produced entirely" in the territory of one or more of the NAFTA countries, as referred to in Article 415. **NOTE:** The purchase of a good in the territory does not necessarily render it "wholly obtained or produced". If the good is an agricultural good, see also criterion F and Annex 703.2. *(Reference: Article 401(a) and 415)*

B The good is produced entirely in the territory of one or more of the NAFTA countries and satisfies the specific rule of origin, set out in Annex 401, that applies to its tariff classification. The rule may include a tariff classification change, regional value-content requirement or a combination thereof. The good must also satisfy all other applicable requirements of Chapter Four. If the good is an agricultural good, see also criterion F and Annex 703.2. *(Reference: Article 401(b))*

C The good is produced entirely in the territory of one or more of the NAFTA countries exclusively from originating materials. Under this criterion, one or more of the materials may not fall within the definition of "wholly produced or obtained", as set out in Article 415. All materials used in the production of the good must qualify as "originating" by meeting the rules of Article 401(a) through (d). If the good is an agricultural good, see also criterion F and Annex 703.2. *(Reference: Article 401(c))*

D Goods are produced in the territory of one or more of the NAFTA countries but do not meet the applicable rule of origin, set out in Annex 401, because certain non-originating materials do not undergo the required change in tariff classification. The goods do nonetheless meet the regional value-content requirement specified in Article 401(d). This criterion is limited to the following two circumstances:

1. the good was imported into the territory of a NAFTA country in an unassembled or disassembled form but was classified as an assembled good, pursuant to HS General Rule of Interpretation 2(a), or
2. the good incorporated one or more non-originating materials, provided for as parts under the HS, which could not undergo a change in tariff classification because the heading provided for both the good and its parts and was not further subdivided into subheadings, or the subheading provided for both the good and its parts and was not further subdivided.

NOTE: This criterion does not apply to Chapters 61 through 63 of the HS *(Reference: Article 401(d))*

E Certain automatic data processing goods and their parts, specified in Annex 308.1, that do not orginate in the territory are considered originating upon importation into the territory of a NAFTA country from the territory of another NAFTA country when the Most-Favoured-Nation Tariff rate of the good conforms to the rate established in Annex 308.1 and is commom to all NAFTA countries. *(Reference: Annex 308.1)*

F The good is an originating agricultural good under preference criterion A, B or C above and is not subject to a quantitative restriction in the importing NAFTA country because it is a "qualifying good" as defined in Annex 703.2, Section A or B (please specify). A good listed in Appendix 703.2.B.7 is also exempt from quantitative restrictions and is eligible for NAFTA preferential tariff treatment if it meets the definition of "qualifying good" in Section A of Annex 703.2. **NOTE 1: This criterion does not apply to goods that wholly originate in Canada or the United States and are imported into either country. NOTE 2: A tariff rate quota is not a quantitative restriction.**

Field 8: For each good described in Field 5, state "YES" if you are the producer of the good. If you are not the producer of the good, state "NO" followed by (1), (2), or (3), depending on whether this certificate was based upon: (1) your knowledge of whether the good qualifies as an originating good; (2) your reliance on the producer's written representation (other than a Certificate of Origin) that the good qualifies as an originating good; or (3) a completed and signed Certificate for the good, voluntarily provided to the exporter by the producer.

Field 9: For each good described in Field 5, where the good is subject to a regional value content (RVC) requirement, indicate "NC" if theRVC is calculated according to the net cost method; otherwise, indicate "NO". If the RVC is calculated according to the net cost method over a period of time, further identify the beginning and ending dates (DD/MM/YY) of that period. *(Reference: Articles 402.1, 402.5)*

Field 10: Identify the name of the country ("MX" or "US" for agricultural and textile goods exported to Canada; "US" or "CA" for all goods exported to Mexico; or "CA" or "MX" for all goods exported to the United States) to which the preferential rate of customs duty applies, as set out in Annex 302.2, in accordance with the Marking Rules or in each Party's schedule of tariff elimination.

For all other originating goods exported to Canada, indicate appropriately "MX" or "US" if the goods orginate in that NAFTA country, within the meaning of the NAFTA Rules of Origin Regulations, and any subsequent processing in the other NAFTA country does not increase the transaction value of the goods by more than 7 %; otherwise indicate as "JNT" for joint production. *(Reference: Annex 302.2)*

Field 11: This field must be completed, signed and dated by the exporter. When the Certificate is completed by the producer for use by the exporter, it must be completed, signed and dated by the producer. The date must be the date the Certificate was completed and signed.

Tratado de Libre Comercio de América del Norte

Certificado de Origen

(Instrucciones al reverso)

Llenar a máquina o con letra de molde

1. Nombre y domicilio del exportador: Número de Registro Fiscal:	2. Período que cubre De: D D M M A A A: D D M M A A
3. Nombre y domicilio del productor: Número de registro fiscal:	4. Nombre y domicilio del importador: Número de Registro Fiscal:

5. Descripción del (los) bien(es):	6. Clasificación arancelaria	7. Criterio para trato preferencial	8. Productor	9. Costo Neto	10. País de origen

Declaro bajo protesta de decir verdad que:

- La información contenida en este documento es verdadera y exacta, y me hago responsable de comprobar lo aquí declarado. Estoy consciente que seré responsable por cualquier declaración falsa u omisión hecha en o relacionada con el presente documento.

- Me comprometo a conservar y presentar, en caso de ser requerido, los documentos necesarios que respalden el contenido del presente certificado, así como a notificar por escrito a todas las personas a quienes entregue el presente certificado, de cualquier cambio que pudiera afectar la exactitud o validez del mismo.

-Los bienes son originarios del territorio de una o más de las partes y cumplen con los requisitos de origen que les son aplicables conforme al Tratado de Libre Comercio de América del Norte, no han sido objeto de procesamiento ulterior o de cualquier otra operación fuera de los territorios de las Partes, salvo en los casos permitidos en el artículo 411 o en el Anexo 401.

Este certificado se compone de__________hojas, incluyendo todos sus anexos.

11. Firma autorizada:	Empresa:
Nombre:	Cargo:
Fecha: D D M M A A	Teléfono: Fax:

TRATADO DE LIBRE COMERCIO DE AMERICA DEL NORTE

INSTRUCCIONES PARA EL LLENADO DEL CERTIFICADO DE ORIGEN

Con el propósito de recibir trato arancelario preferencial, este documento deberá ser llenado en forma legible y en su totalidad por el exportador del bien, y el importador deberá tenerlo en su poder al momento de formular el pedimento de importación. Queda a elección del productor llenar de manera voluntaria este documento, a fin de que sea utilizado por el exportador del bien. Favor de llenar a máquina o con letra de molde.

CAMPO 1. Indique el nombre completo, denominación o razón social, domicilio (incluyendo el país) y el número del registro fiscal del exportador. El número del registro fiscal será:

En Canadá: el número de identificación del patrón o el número de identificación del importador/exportador, asignado por el Ministerio de Ingresos de Canadá.

En México: la clave del registro federal de contribuyentes (R.F.C.)

En los Estados Unidos de América: el número de identificación del patrón o el número del seguro social.

CAMPO 2. Deberá llenarse sólo en caso de que el certificado ampare varias importaciones de bienes idénticos a los descritos en el Campo 5, que se importen a algún país Parte del Tratado de Libre Comercio de América del Norte (TLCAN) en un período específico no mayor de un año (período que cubre). La palabra "DE" deberá ir seguida por la fecha (Día/Mes/Año) a partir de la cual el Certificado ampara el bien descrito en el certificado. (Esta fecha puede ser anterior a la fecha de firma del Certificado). La palabra "A" deberá ir seguida por la fecha (Día/Mes/Año) en la que vence el período que cubre el Certificado. La importación del bien sujeto a trato arancelario preferencial con base en este Certificado deberá efectuarse durante las fechas indicadas.

CAMPO 3. Indique el nombre completo, denominación o razón social, domicilio (incluyendo el país) y el número de registro fiscal del productor, tal como se describe en el campo 1. En caso de que el Certificado ampare bienes de más de un productor, anexe una lista de los productores adicionales, incluyendo el nombre completo, denominación o razón social, domicilio (incluyendo el país) y número de registro fiscal, haciendo referencia directa al bien, descrito en el campo 5. Cuando se desee que la información contenida en este campo sea confidencial, podrá señalarse de la siguiente manera: "disponible a solicitud de la aduana". En caso de que el productor y el exportador sean la misma persona, indique la palabra "mismo". En caso de desconocerse la identidad del productor, indicar la palabra "desconocido".

CAMPO 4. Indique el nombre completo, denominación o razón social, domicilio (incluyendo el país) y el número de registro fiscal del importador, tal como se describe en el campo 1. En caso de no conocerse la identidad del importador, indicar la palabra "desconocido". Tratándose de varios importadores, indicar la palabra "diversos".

CAMPO 5. Proporcione una descripción completa de cada bien. La descripción deberá ser suficiente para relacionarla con la descripción contenida en la factura, así como con la descripción que corresponda al bien en el Sistema Armonizado. En caso de que el Certificado ampare una sola importación del bien, deberá indicarse el número de factura, tal como aparece en la factura comercial. En caso de desconocerse, deberá indicarse otro número de referencia único, como el número de orden de embarque.

CAMPO 6. Declare la clasificación arancelaria a seis dígitos que corresponda en el Sistema Armonizado a cada bien descrito en el campo 5. En caso de que el bien esté sujeto a una regla específica de origen que requiera ocho dígitos, de conformidad con el anexo 401, deberá declararse a ocho dígitos la clasificación arancelaria del Sistema Armonizado que corresponda en el país a cuyo territorio se importa el bien.

CAMPO 7. Identifique el criterio aplicable (de la A a la F) para cada bien descrito en el campo 5. Las reglas de origen se encuentran en el capítulo 4 y en el anexo 401 del TLCAN. Existen reglas adicionales en el anexo 703.2 (determinados productos agropecuarios), apéndice 6-A del anexo 300-B (determinados productos textiles) y anexo 308.1 (determinados bienes para procesamiento automático de datos y sus partes). NOTA: Para poder gozar del trato arancelario preferencial, cada bien deberá cumplir alguno de los siguientes criterios.

Criterios para trato preferencial

A. El bien es "obtenido en su totalidad o producido enteramente" en el territorio de uno o más de los países partes del TLCAN, de conformidad con el artículo 415. NOTA: La compra de un bien en el territorio de un país del TLCAN no necesariamente lo convierte en "obtenido en su totalidad o producido enteramente". Si el bien es un producto agropecuario, véase el criterio F y el Anexo 703.2 (Referencia: Artículo 401 (a) y 415).

B. El bien es producido enteramente en el territorio de uno o más de los países partes del TLCAN y cumple con la regla específica de origen establecida en el Anexo 401, aplicable a su clasificación arancelaria. La regla puede incluir un cambio de clasificación arancelaria, un requisito de valor de contenido regional o una combinación de ambos. El bien debe cumplir también con todos los demás requisitos aplicables del capítulo IV. En caso de que el bien sea un producto agropecuario, véase también el criterio F y el Anexo 703.2 (Referencia: Artículo 401(b)).

C. El bien es producido enteramente en territorio de uno o más de los países partes del TLCAN exclusivamente con materiales originarios. Bajo este criterio, uno o más de los materiales puede no estar incluido en la definición de "obtenido en su totalidad o producido enteramente", conforme al artículo 415. Todos los materiales usados en la producción del bien deben calificar como "originarios", al cumplir con alguna de las reglas de origen del artículo 401(a) a (d). Si el bien es un producto agropecuario, véase también el criterio F y el Anexo 703.2 (Referencia: artículo 401(c)).

D. El bien es producido en el territorio de uno o más de los países partes del TLCAN, pero no cumple con la regla de origen aplicable establecida en el anexo 401, porque alguno de los materiales no originarios no cumple con el cambio de clasificación arancelaria requerido. El bien, sin embargo, cumple con el requisito de valor de contenido regional establecido en el artículo 401(d). Este criterio es aplicable únicamente a las dos circunstancias siguientes:

1. El bien se importó al territorio de un país parte del TLCAN sin ensamblar o desensamblado, pero se clasificó como un bien ensamblado de conformidad con la regla general de interpretación 2(a) del Sistema Armonizado, o
2. El bien incorpora uno o más materiales no originarios clasificados como partes de conformidad con el Sistema Armonizado, que no pudieron cumplir con el cambio de clasificación arancelaria porque la partida es la misma, tanto para el bien, como para sus partes, y no se divide en subpartidas, o las subpartida es la misma, tanto para el bien, como para sus partes, y esta no se subdivide.

NOTA: Este criterio no es aplicable a los capítulos 61 a 63 del Sistema Armonizado (Referencia: Artículo 401(d))

E. Algunos bienes de procesamiento automático de datos y sus partes, comprendidos en el anexo 308.1, no originarios del territorio de uno o más de los países partes del TLCAN, se consideran como si fueran originarios al momento de su importación al territorio de un país parte del TLCAN procedentes del territorio de otro país parte del TLCAN, cuando la tasa arancelaria de nación más favorecida aplicable al bien se ajusta a la tasa establecida en el Anexo 308.1 y es común para todos los países partes del TLCAN (Referencia Anexo 308.1).

F. El bien es un producto agropecuario originario de conformidad con el criterio para trato preferencial A, B o C, arriba mencionados, y no está sujeto a restricciones cuantitativas en el país importador del TLCAN, debido a que es un "producto calificado" conforme al Anexo 703.2, Sección A o B (favor de especificar). Un bien listado en el apéndice 703.2.B.7 está también exento de restricciones cuantitativas y tiene derecho a recibir trato arancelario preferencial, siempre que cumpla con la definición de "producto calificado" de la Sección A del Anexo 703.2. NOTA 1: Este criterio no es aplicable a bienes que son totalmente originarios de Canadá o los Estados Unidos que se importen a cualquiera de dichos países. NOTA 2: Un arancel-cupo no es una restricción cuantitativa.

CAMPO 8. Para cada bien descrito en el campo 5, indique "SI" cuando usted sea el productor del bien. En caso de que no sea el productor del bien, indique "NO", seguido por (1), (2) o (3), dependiendo de si el certificado se basa en uno de los siguientes supuestos:

(1) su conocimiento de que el bien califica como originario,

(2) su confianza razonable en una declaración escrita del productor (distinta a un certificado de origen) de que el bien califica como originario; o

(3) un certificado que ampare el bien, llenado y firmado por el productor, proporcionado voluntariamente por el productor al exportador.

CAMPO 9. Para cada bien descrito en campo 5, cuando el bien este sujeto a un requisito de valor de contenido regional (VCR), indique "CN" si el VCR se calculó con base en el método de costo neto; de lo contrario indique "NO". Si el VCR se calculó de acuerdo al método de costo neto en un período de tiempo, identifique las fechas de inicio y conclusión (DD/MM/AA) de dicho período. (Referencia: artículos 402.1 y 402.5)

CAMPO 10. Indique el nombre del país ("MX" o "EU" tratándose de bienes agropecuarios o textiles exportados a Canadá; "EU" o "CA" para todos los bienes exportados a México; o "CA" o "MX" para todos los bienes exportados a los Estados Unidos) al que corresponde la tasa arancelaria preferencial, aplicable con los términos del anexo 302.2, de conformidad con las Reglas de Marcado o en la lista de desgravación arancelaria en cada parte.

Para todos los demás bienes originarios exportados a Canadá, indique "MX" o "EU", según corresponda, si los bienes originan en ese país parte del TLCAN, en los términos del anexo 302.2 y el valor de transacción de los bienes no se ha incrementado en más de 7% por algún procesamiento ulterior en el otro país parte del TLCAN, en caso contrario, indique "JNT" por producción conjunta (Referencia: Anexo 302.2).

CAMPO 11. Este campo deberá ser llenado, firmado y fechado por el exportador. En caso de que el productor llene el Certificado para uso del exportador, deberá ser llenado, firmado y fechado por el productor. La fecha deberá ser aquella en que el Certificado se llenó y firmó.

7 ENTRY PROCEDURES

Claims

A claim for preferential NAFTA treatment is normally made on the customs documents used when the goods enter Canada, Mexico or the United States. Procedures will vary because the forms and practices of each country are different.

Procedures in Canada

To claim preferential tariff treatment under the NAFTA, importers shall make the written declaration of origin by completing field number 14 of the Canada Customs accounting document, B3, with the appropriate code for the tariff treatment claimed. Importers must have the Certificate of Origin in their possession at the time of declaration but do not have to present the Certificate at that time. However, it must be available upon request for presentation to Canada Customs.

Low Value Commercial Importations. In order to claim NAFTA preferential tariff treatment on commercial importations valued at less than US$1000, importers must have certification of origin in the form of a statement either included in the invoice or attached to the invoice. The formal Certificate of Origin is not required, provided that the importation is not part of a series of importations arranged to circumvent the formal certification requirements.

Declaration of Origin After Importation. Importers may apply for a refund of duties where the imported goods would have qualified for preferential treatment at the time of entry but no claim was made because the importer did not have a Certificate of Origin at that time.

Any person who paid the duties on the goods may apply for the refund within one year from the time the goods were originally accounted for. The application for refund will be:

- made on a Canada Customs from B 2 under legislative authority 74 (1) (c.1) of the Customs Act;
- supported by a valid and complete Certificate of Origin; and
- made at the customs office in the region where the goods were released or, where goods were imported by mail, at any customs office in Canada.

Corrections to Declaration of Origin. Importers or owners of goods for which preferential tariff treatment under the NAFTA was claimed or any person authorized to account for those goods shall make a correction to the declaration of origin and pay any duties which may be owing on the amount. The correction must be made:

- within 90 days after the person has reason to believe that the original declaration is incorrect; and
- on a properly completed Canada Customs form B 2 under legislative authority 32.2(1) of the Customs Act.

Procedures in Mexico

Importers shall use a customs broker (a private-sector provider of services) of choice to obtain release of the merchandise. The customs agent shall provide to importers all necessary information relating to applicable duties and non-tariff regulations. The customs entry shall be accompanied by:

- the commercial invoice when the customs value of the merchandise is determined in accordance with transaction value and exceeds US$300, or the equivalent in another foreign currency. The invoice shall be prepared in Spanish. In cases where it is not, a translation may be prepared on the reverse or in the body of the invoice;
- the bill of lading or airway bill of lading, endorsed by the transport company;
- documents evidencing compliance with requirements relating to restrictions and non-tariff regulations applicable to the importation;
- proof of the country of origin, and country of export, as appropriate;
- the document demonstrating guarantee for the payment of additional amounts that may arise if the declared value is less than the estimated price established by the Secretary of the Treasury and Public Credit for the merchandise which has been undervalued;

Commercial invoices are not required for imports and exports made by foreign embassies and consulates or by their officials and employees; those relating to electric energy, crude petroleum, natural gas and their derivatives when made by pipeline; nor for personal effects. The importer shall present a declaration in writing and under oath for the customs officials, with those elements that permit determination of the customs value of the merchandise. A copy of this declaration shall be given to the customs broker or attorney for use in determining the customs value on the entry.

The customs agent prepares the import entry using information provided by the importer and pays monies owed to the private bank located within Customs. The customs broker then presents the merchandise, accompanied by the previously paid customs entry, to the mechanism for random selection for examination.

The customs official activates the mechanism for random selection, which determines whether or not the shipment will be examined. If the shipment is designated for review, the examination shall be accomplished within three hours. This period may be greater when discrepancies are discovered. If the shipment is not designated for review, it will be released immediately so that it may proceed to its destination.

Importers shall retain documentation that proves the legal importation of the merchandise, in case the fiscal authorities require clarification after customs clearance.

Procedures in the United States

Existing entry procedures will continue to be used under the NAFTA. As with other trade preference programs, importers must claim NAFTA benefits to receive preferential duty treatment. In the United States, a claim is made by inserting "MX" or "CA," as appropriate, as a prefix to the tariff classification number on Customs Form 7501. The Importer of Record's signature on the CF 7501, in conjunction with this prefix, constitute the importer's written declaration that the goods are entitled to benefits.

Pursuant to Article 503 of the Agreement, the U.S. does not require a Certificate of Origin for entries valued at US$1250 or less. For commercial shipments, however, the invoice accompanying the importation should include a statement certifying that the goods qualify as originating goods.

District Directors may require a valid Certificate of Origin before allowing NAFTA treatment if they determine that a series of importations was used instead of a single importation to evade the requirement to obtain a Certificate of Origin.

Claims After Importation. Occasionally, claims for NAFTA treatment will not be made when merchandise is entered. In some cases this may be because the Agreement prohibits importers from claiming preferential treatment under the NAFTA unless they possess a valid Certificate of Origin, which may not be obtained until after the goods are entered. Or importers may simply not be aware that the goods qualify for preferential treatment.

Where goods would have qualified for preferential treatment when imported but no claim was made at that time, importers may apply for a refund of any excess duties paid as a result of the goods not having been accorded NAFTA treatment. Requests for refunds must be made within one year after the date of importation.

Importers should request refunds from the Customs District Director of the port where the goods were entered. Requests must be in writing and shall include:

- a declaration that the goods qualified as originating goods at the time of importation;
- a copy of the Certificate of Origin;
- other supporting documentation as required.

Importers are required to promptly make corrected declarations and pay any duties owed if they determine that a Certificate on which a declaration was based contained incorrect information.

8 ORIGIN VERIFICATIONS

Generally

The NAFTA authorizes the importing country's customs administration to conduct verifications of the exporter or producer to determine whether goods qualify as originating as certified by the Certificate of Origin. Verifications are principally conducted by written questionnaires and verification visits. Additional verification can be done by telephone, facsimile or other means.

Questionnaires

Questionnaires may be sent by the importing country to an exporter/producer who executed a Certificate of Origin. They are used to help determine if the exporter's/producer's goods meet the NAFTA rules of origin. The information requested on the questionnaire should be information used by the exporter/producer to determine whether its goods qualify for NAFTA preferential treatment before signing the Certificate of Origin. If insufficient information is

provided on the questionnaire to make a determination of origin, a Customs officer may obtain additional information by undertaking a customs verification visit. After the customs authority of the importing country establishes whether the good originates, it must issue a written determination to the exporter/producer indicating its findings.

Verification Visits

Verification visits are performed by the customs administration of the importing country in the territory of the exporting country, and are used to verify that the exporter's/producer's goods meet the NAFTA rules of origin.

Prior to conducting a verification visit, the customs administration must provide written notification of its intention to conduct the visit to the exporter or producer whose premises are to be visited, and to the customs administration and the embassy of the NAFTA country in whose territory the visit will occur. Written consent from the exporter or producer whose premises are to be visited must be obtained prior to conducting the visit. The exporter or producer whose goods are the subject of a verification visit has the right to designate two observers to be present during the visit.

If an exporter or producer of goods that are subject to a verification of origin does not consent to the verification visit within 30 days of receiving notification of the proposed visit, or does not cooperate during the visit, preferential NAFTA tariff treatment may be withdrawn from the goods. The exporter or producer will still have the right of review and appeal against this determination.

An origin determination is made upon completion of a verification visit. This determination can be reviewed and appealed in the importing country. Any confidential business information that is collected may only be disclosed to authorities who are responsible for the administration and enforcement of determinations of origin, and of customs and revenue matters.

9 PENALTIES

Canada, Mexico and the United States maintain measures imposing criminal, civil or administrative penalties for violations of their laws and customs procedures, including those relating to the NAFTA. For example, an exporter or producer who falsely represents on a NAFTA Certificate of Origin that a good qualifies as originating may be penalized. An importer may also be penalized for making a false claim for preferential NAFTA treatment on the customs import documentation.

Exporters and producers may avoid such penalties if they promptly and voluntarily advise all concerned parties of the incorrect information contained in the Certificate of Origin. Importers may avoid penalties if they promptly and voluntarily submit a corrected customs declaration and pay any duties that are owed upon learning of the incorrect information contained in the Certificate of Origin.

Importers, exporters and producers who prepare a Certificate of Origin may also be penalized for failing to retain their records as required by the NAFTA (generally five years).

10 DENIAL OF BENEFITS

In some instances, the importing country's customs administration may choose to deny NAFTA benefits for failure to comply with its customs regulations. Examples of conduct which may result in the denial of preferential treatment include:

- failure to provide a certificate of origin for commercial importations valued at US$1000 (US$1250 for importations into the United States) or less, when there are reasonable grounds for believing that the importation forms part of a series of importations carried out with the purpose of evading the certification of origin requirement;
- failure by the person who signed a Certificate of Origin to consent in writing to a verification visit during the 30 days after notice of an intent to conduct such a visit is sent.

A country may also deny benefits once its customs administration verifies that a good does not qualify as originating. Where two or more verifications indicate a pattern of conduct by an exporter or a producer of false or unsupported representations that a good qualifies as originating, the customs administration of the importing country may withhold preferential tariff treatment from identical goods exported or produced by that person, until compliance with the rules of origin is established.

11 ADVANCE RULING PROCEDURES

Generally

Importers, exporters and producers of goods may obtain advance rulings from the customs administrations of Canada, Mexico and the United States regarding application of the NAFTA to future importations of goods into each country. Canada, Mexico and the United States will issue advance rulings on:

- whether materials imported from non-NAFTA countries and used in the production of a good undergo the tariff change set out in Annex 401 as a result of production occurring entirely in the NAFTA region;
- whether a good satisfies a regional value-content requirement;
- for purposes of determining whether a good satisfies a regional value-content requirement, the appropriate basis or method for value to be applied by an exporter or producer in the territory of another NAFTA country, in accordance with the principles of the Customs Valuation Code, for calculating the transaction value of the good or of the materials used in the production of the good;
- for purposes of determining whether a good satisfies a regional value-content requirement, the appropriate basis or method for reasonably allocating costs, in accordance with the allocation methods set out in the Uniform Regulations, for calculating the net cost of a good or the value of an intermediate material;

- whether a good qualifies as an originating good;
- whether a good that re-enters its territory after the good has been exported from its territory to the territory of another NAFTA country for repair or alteration qualifies for duty-free treatment under the NAFTA;
- whether the proposed or actual marking satisfies country of origin marking under Annex 311 of the Agreement;
- whether an originating good qualifies as a good of Canada, Mexico or the United States under Annex 300-B (Textile and Apparel Goods), Annex 302.2 (Tariff Elimination) or Chapter Seven (Agriculture and Sanitary and Phytosanitary Measures); or
- whether a good is a qualifying good under Chapter Seven.

Canada, Mexico and the United States are bound by the rulings they issue. Rulings will be applied to importations covered by the ruling beginning on the date of issuance or on such later date specified in the ruling. An advance ruling may not be applied if it is determined that imported goods differ materially from the goods which were the subject of the ruling or if the person requesting the ruling has failed to act in accordance with the terms and conditions of the ruling.

If an advance ruling is no longer valid it may be modified or revoked. Generally the modification or revocation will only apply to importations that occur after the date of the modification or revocation. Reassessments will only be made retroactively in certain limited circumstances such as when the person to whom the advance ruling was issued has not acted in accordance with its terms and conditions or when the modification or revocation is to the benefit of the person who requested the ruling. A person who has received an advance ruling has the right to appeal that ruling.

Procedures in Canada

Importers in Canada, and exporters and producers of goods in Mexico and the United States may obtain an advance ruling regarding future importations. Requests should be made in writing to the Chief Rulings and Appeals in the customs region in which most of the importations will occur. Customs will review all written applications and will advise the applicant of any additional information that is required. A standard has been set for issuing these rulings within 120 days from the receipt of complete information.

An advance ruling number can be noted on the Certificate of Origin, the Canada Customs Invoice, or in the description field on the B3 accounting document. Although anyone importing the goods covered can use the number and is encouraged to do so, the ruling is only binding with regard to the person or persons to whom the ruling was issued. All information received is treated as confidential and therefore details of the ruling will only be released to the person to whom the ruling was issued.

Procedures in Mexico

Importers in Mexico, and exporters and producers in Canada and the United States may request an advance ruling from the General Direction of Revenue Policies and International Fiscal Affairs, Undersecretariat of Revenue, Ministry of Finance and Public Credit (Dirección de Política de Ingresos y Asuntos Fiscales Internacionales, Subsecretaría de Ingresos, Secretaría de Hacienda y Crédito Público).

Applications must be submitted in writing, according to the provisions established in Articles 18 and 34 of the Fiscal Code of the Federation, and limited to matters described in Article 509 of the Agreement.

The competent authority must treat the information received as confidential. Therefore, details of the ruling will only be released to the person to whom the ruling was issued. The authority must issue the ruling within four months.

Procedures in the United States

Importers in the United States, and exporters and producers of goods in Canada and Mexico, may obtain advance rulings regarding application of the Agreement to prospective and ongoing transactions from the U.S. Customs Service. Advance rulings must be requested in accordance with the procedures described in Title 19 of the Code of Federal Regulations, Part 181.93. Requests must be written in English and must contain a complete statement of all relevant facts relating to the NAFTA transaction. Such facts include: the names, addresses and other identifying information of all interested parties (if known); the name of the port of place at which any good involved in the transaction will be imported or which will otherwise have jurisdiction with respect to the act or activity described in the transaction; and a description of the transaction itself, appropriate in detail to the subject matter of the requested advance ruling.

Advance rulings may be requested from the Office of Regulations and Rulings, 1301 Constitution Avenue, NW, Washington, D.C. 20229, or the Area Director of Customs, New York Seaport, 6 World Trade Center, New York, NY 10048. For questions relating to regional value-content requirements, requests can be expedited by sending them directly to the Office of Regulations and Rulings.

12 APPEAL PROCEDURES

Generally

The NAFTA grants various parties the right to appeal origin determinations, country of origin marking determinations and advance rulings made by any NAFTA country. Each country must provide at least one level of administrative review independent of the official or office responsible for the determination that has been appealed. In addition, each country must ensure that judicial or quasi-judicial review is provided in accordance with its domestic law for persons whose appeals are denied at the administrative level.

Origin determinations may be appealed by the person who completed and signed the Certificate of Origin or by the importer claiming preferential NAFTA treatment. The person who signed the Certificate of Origin may appeal, whether or not an identical appeal on the origin of goods has been filed by the importer. Persons whose goods have been the subject of a country of origin marking determination or who have received an advance ruling may also appeal unfavorable decisions.

Procedures in Canada

In Canada, an appeal of an origin determination is known as a request for the redetermination of the origin of the goods and may be requested by the person who completed and signed the Certificate of Origin or by the importer. A request by the person who completed and signed the Certificate of Origin

should be made in writing to the Chief Rulings and Appeals in the customs region in which most of the importations occurred. The application may contain multiple requests for goods imported under different transactions and line numbers if all the requests involve the origin of a single product. The transaction and line number of the importation or importations in question must be submitted with the request.

The person who completed and signed the Certificate of Origin will be informed by letter of the outcome of the request for the redetermination of the goods. The decision made pursuant to a request for redetermination of the origin of goods can be further appealed by the person who requested the redetermination through the provisions set out in the Customs Act.

An appeal of an advance ruling or a marking determination may be requested in writing from the office that issued the ruling or made the marking determination.

Procedures in Mexico

Differences with final determinations issued by the customs authorities shall proceed according to the recourses established in the Federal Fiscal Code, except that appeals shall be made by the interested party before filing suit in the Federal Fiscal Court.

When an appeal is filed against determinations made in terms of Article 31 of the Customs Act, the customs authority may reinstate the administrative procedure, as appropriate, before issuing the resolution that will conclude the appeal, as well as resolving the appeal and issuing a new determination to replace the contested one.

The appeal shall be filed with the authority that issued or executed the contested determination, within 45 days following the effective date of the notification.

If the party's domicile is outside the town in which the customs authority that issued or executed the contested determination is located, the appeal may be filed in the nearest tax office or sent by certified mail with return receipt, as long as the mailing is made from the place where the appellant lives. The date of filing shall be the date on which the appeal is submitted or mailed, as the case may be.

If the decision of the fiscal authority is adverse, the party may appeal the decision to the Federal Fiscal Court, a quasi-judicial body. The decision of the Federal Fiscal Court may be appealed by either party to the Judicial Court. Decisions of this court may be appealed to the Supreme Court.

Procedures in the United States

Appeals of Advance Rulings. Persons who request an advance ruling may obtain administrative review of that ruling in accordance with Title 19, Code of Federal Regulations, § 181.102. Appeals must be filed within 30 calendar days after issuance of the ruling and shall contain:

- the name and address of the person seeking review (or of his or her agent);
- the Customs identification number or employer identification number in the case of a U.S. importer, the employer number or importer/exporter number assigned by Revenue Canada in the case of a Canada exporter or producer, and the federal taxpayer registry number (RFC) in the case of a Mexican exporter or producer;
- the number and date of the advance ruling;

- the numbers and dates of any involved entries;
- the nature of, and justification for, the objection.

Protests of Origin Determinations. Exporters and producers in Canada and Mexico who completed a Certificate of Origin may obtain administrative review of an origin determination by filing a protest in accordance with Title 19, Code of Federal Regulations, § 174.12, within 90 calendar days after the date of liquidation of the entry. Protests shall be filed on Customs Form 19 or a letter of the same size clearly labeled "Protest" and setting forth the same content as the Form 19. Protests shall be filed with the district director of the port of entry. Protests shall contain the same information as noted above for advance rulings, as well as the date of liquidation of the entry for the goods which is the subject of the protest. A protesting party may file one protest for multiple entries filed in the same district if all the entries involve the same merchandise and the protest involves a decision common to all the entries.

If requested by all interested parties (*e.g.*, the exporter, producer and/or importer), Customs will consolidate multiple protests of a single determination of origin and one notice of its decision will be issued to all parties without regard to whether the notice reflects confidential business information. Where all interested parties do not request consolidation, the U.S. Customs Service may consolidate the protests for internal processing but will issue separate, confidential notices to each protestant.

If the U.S. Customs Service decides to allow the protest of a producer or exporter, either in whole or in part, any monies owed by the Government will be refunded to the party that paid those duties (generally the importer) even if that party never filed a protest.

Protests and Petitions for Reconsideration of Marking Decisions. U.S. importers may protest adverse marking decisions in accordance with Title 19, Code of Federal Regulations, § 174.12. Protests must be made within 90 calendar days after the date of the issuance of Customs Form 4647 (Notice to Mark and/or Notice to Redeliver) or within 90 calendar days of the date of liquidation in the case of the assessment of marking duties. Exporters and producers in Canada and Mexico do not have an independent right to protest adverse marking decisions. However, they may intervene in any protest filed by the importer by following the procedures described in Title 19, Code of Federal Regulations, § 181.115. To assist the exporter/producer to adequately prepare an intervention protest, the U.S. Customs Service will issue a statement within 30 days concerning the basis for the marking decision if requested by the exporter/producer in accordance with Title 19, Code of Federal Regulations, § 181.113.

To intervene in an importer's protest, the exporter or producer must file a typewritten statement of intervention, in English, with the district director or port director with whom the importer's protest was filed. This statement shall be in the form of a letter, signed by the exporter or producer, and shall contain:

- the name and address of the exporter or producer (or authorized agent);
- the employer number assigned by Revenue Canada for Canadian exporters or producers, and the federal taxpayer registry number (RFC) for Mexican exporters or producers;
- the number and date of each entry involved in the adverse marking decision;

- a specific description of the merchandise;
- a complete statement of all relevant facts relating to the adverse marking decision and the transaction to which it relates, including the date of the decision;
- a detailed statement of position regarding why the exporter/producer believes the marking decision is contrary to Annex 311 of the NAFTA;
- a statement as to whether the exporter/producer requested the basis of Customs' decision in accordance with Title 19, Code of Federal Regulations, § 181.113, and a copy of the response (if available);
- the number assigned to the importer's protest;
- a statement that the intervenor is the exporter or producer of the merchandise and, if the intervenor is the exporter, a statement that it maintains sufficient records to enable Customs to evaluate the merits of its claim regarding the adverse marking decision;
- a statement regarding whether the intervenor desires confidentiality in accordance with Title 19, Code of Federal Regulations § 181.121. Absent this statement, Customs will issue a consolidated response to all interested parties without regard to confidentiality.

If the importer does not protest a marking decision within 90 days, the exporter/producer may petition Customs for reconsideration of the adverse marking decision. The petition for reconsideration shall contain the same information as an intervention protest and shall be filed in the same manner.

Judicial Review. Any party whose appeal, protest or petition for reconsideration has been denied, in whole or in part, may contest that denial by filing a civil action in the United States Court of International Trade within 30 days after the date of the mailing of the notice of denial.

13 COUNTRY OF ORIGIN MARKING

Generally

For goods made in one country with no foreign inputs, determination of the country of origin is easy—it is the country of production. Increasingly, however, goods are processed in multiple countries using both domestic and foreign materials, thereby complicating the determination of the country of origin. To provide greater certainty to this process, the NAFTA provides that Canada, Mexico and the United States shall write specific rules defining "country of origin." These are the Marking Rules, which are used to determine country of origin. The Marking Rules are distinct from the rules of origin that are used to determine whether a good is originating. The Marking Rules are all based on a tariff change and are largely the same in all three countries.

Originating goods and goods which undergo the specific tariff classification changes prescribed by the Marking Rules are considered goods of Canada, Mexico or the United States (as appropriate) and are subject to the Agreement's provisions on marking. Goods may be marked with the country of origin in English, Spanish or French, except that Canada, Mexico and the United States may, as part of their general consumer information measures, require that an

imported good be marked with its country of origin in the same manner as prescribed for domestic goods. Unless specifically exempted, Canada, Mexico and the United States may require that goods imported from another NAFTA country be marked in a conspicuous place legibly, indelibly, and sufficiently permanently to indicate to the ultimate purchaser the country of origin of the article. Such marking requirements must comply with the NAFTA's general provisions on methods of marking, exemptions, etc.

Method

Generally, goods of Canada, Mexico and the United States may be marked using any reasonable method, including stickers, labels, tags, or paint. The marking must be conspicuous, legible and sufficiently permanent to survive normal distribution and store handling.

Containers

A usual container imported empty, whether or not disposable, need not be marked with its country of origin. (A usual container is one in which the good will ordinarily reach its ultimate purchaser.) However, the master container in which the usual containers are imported may be required to be marked with the country of origin of its contents.

> A wine producer in California imports empty glass bottles made in Mexico to bottle its wine. The empty glass bottles need not be individually marked "Mexico" but the United States may require that the outer cardboard box in which the bottles are imported be marked "Mexico."

A usual container imported filled, whether or not disposable is not required to be marked with its own country of origin. A NAFTA country may, however, require that the container be marked with the country of origin of its contents, unless the contents are marked with their country of origin and the container can be readily opened for inspection of the contents, or the marking of the contents is clearly visible through the container.

Exemptions

Canada, Mexico and the United States shall exempt from country of origin marking requirements a good of another NAFTA country that:

- is a crude substance;
- is imported for use by the importer and is not intended for sale in the form in which it was imported;
- is to undergo production in the territory of the importing country by the importer, or on its behalf, in a manner that would result in the good becoming a good of the importing country under the marking rules;
- by reason of its character, or the circumstances of its importation, the ultimate purchaser would reasonably know its country of origin even though it is not marked;
- was produced more than 20 years prior to its importation;
- for purposes of temporary duty-free admission, is in transit or in bond or otherwise under customs administration control;
- is an original work of art; or
- is provided for in subheading 6904.10 [ceramic building bricks, blocks and tiles], or heading 8541 [diodes, transistor and similar semiconductor devices] or 8542 [electronic integrated circuits and microassemblies].

Additional products are exempt from country of origin marking requirements, but Canada, Mexico and the United States may require that their outermost usual containers be marked to indicate the country of origin of the goods they contain. These include a Canadian, Mexican or U.S. good that:

- is incapable of being marked;
- cannot be marked prior to exportation to the territory of another NAFTA country without causing injury to the goods;
- cannot be marked except at a cost that is substantial in relation to its customs value so as to discourage its exportation;
- cannot be marked without materially impairing its function or substantially detracting from its appearance.
- is in a container that is marked in a manner that will reasonably indicate the good's origin to the ultimate purchaser.
- was imported without the required marking and cannot be marked after its importation except at a cost that would be substantial in relation to its customs value, provided that the failure to mark the good before importation was not for the purpose of avoiding compliance with the requirement.

Goods Not Marked at Time of Importation

Importers are allowed, where administratively practicable, to mark goods that are not marked at the time of importation, prior to their release from customs control or custody. This rule applies unless an importer has repeatedly violated the country of origin marking requirements after receiving written notification that the goods are required to be marked prior to importation.

Canada, Mexico and the United States may impose special marking duties or penalties for repeated violations of country of origin marking requirements after written notification, as well as for removal of the goods from customs custody or control before the goods have been marked. Additional duties or penalties may also be imposed for deceptive marking.

14 EFFECT OF THE NAFTA ON:

Drawback and Duty Deferral Programs

The NAFTA provisions on drawback and duty deferral will apply to goods imported into Canada or the United States and subsequently exported to the other country (*i.e.*, Canada or the United States) on or after January 1, 1996. The NAFTA provisions on drawback and duty deferral will apply to goods imported into Canada or the United States and subsequently exported to Mexico, or imported into Mexico and subsequently exported to Canada or the United States, on or after January 1, 2001. Thus, transactions involving either the importation of goods into Mexico or the exportation of goods to Mexico will not come under the drawback and duty deferral provisions of the NAFTA until January 1, 2001.

Drawback. Drawback is the refund, reduction or waiver in whole or in part of customs duties assessed or collected upon importation of an article or materials which are subsequently exported.

Under the NAFTA, the amount of customs duties that will be refunded, reduced or waived is the lesser of the total amount of customs duties paid or owed on

the goods or materials when imported into a NAFTA country and the total amount of customs duties paid or owed on the finished good in the NAFTA country to which it is exported.

No NAFTA country, on condition of export, will refund, reduce or waive the following: antidumping or countervailing duties, premiums offered or collected pursuant to any tendering system with respect to the administration of quantitative import restrictions, tariff rate quotas or trade preference levels, or a fee pursuant to Section 22 of the U.S. Agricultural Adjustment Act. Moreover, same condition substitution drawback will be eliminated effective January 1, 1994.

Duty Deferral Programs (Inward Processing). Duty deferral programs include foreign trade zones, temporary importations under bond, bonded warehouses, "maquiladoras," and inward processing programs. The NAFTA provides a new method for duty remission with respect to importations of goods under any of the above duty deferral programs that are subsequently exported to another NAFTA country. Upon exportation, the goods will be treated as if withdrawn for domestic consumption, thus subject to the applicable customs duties. The customs administration assessing such duties may waive or reduce them by an amount that does not exceed the total custom duties paid to the NAFTA country to which the goods are exported. Such reduction or waiver will be made when the claimant presents satisfactory evidence of the customs duties paid in the NAFTA country to which the article was exported. The claimant has 60 days to present this satisfactory evidence, otherwise the customs administration of the exporting country will collect the duties. Should a claimant subsequently obtain satisfactory evidence, the duties may

In this example, Company A imports fabric from the United States into Mexico to make ironing board covers. The fabric is entered under the maquiladora regime and no duty is paid. Company A exports the ironing board covers to Company B in Canada, who pays $20 in import duties to the Government of Canada. If the ironing board covers were withdrawn for consumption in Mexico, $100 would be owed to the Government of Mexico for customs duties. Therefore, that is the amount Company A owes the Government of Mexico. Mexico, however, may reduce the amount Company A owes by $20 if Company A gets a receipt from Company B as evidence that this amount was paid to the Government of Canada and submits that receipt within 60 days. The total amount paid is still that which would have been owed if the goods had been withdrawn for consumption in Mexico ($100), except that $80 has been paid to the Government of Mexico and $20 to the Government of Canada.

be refunded to the extent allowed, upon timely presentation of the evidence according to the laws and regulations of each NAFTA country.

Commercial Samples and Printed Advertising Materials

The NAFTA provides for the duty-free importation of certain commercial samples and printed advertising materials. The commercial samples must be of negligible value, that is, their value cannot exceed one U.S. dollar (or the equivalent in the currency of Mexico or Canada) or they must be marked, torn, perforated or otherwise unsuitable for sale or use except as commercial samples. Only printed advertising materials classified in Chapter 49 of the Harmonized Tariff Schedule can be imported duty-free under this provision. The list includes brochures, pamphlets, leaflets, trade catalogues and year-books.

Temporary Admissions

The NAFTA requires Canada, Mexico and the United States to grant duty-free temporary admission to certain classes of goods imported from another NAFTA country. Duty-free entry cannot be conditioned on whether or not directly competitive or substitutable goods are available in the importing country. In addition, the goods do not have to originate in a NAFTA country.

Certain Professional Equipment, Sports Goods, and Goods for Display. A person can temporarily import duty-free: professional equipment (tools of the trade), equipment for the press or for sound or television broadcasting, cinematographic equipment, goods for sports purposes, and goods for display or demonstration. As a condition of duty-free entry, a NAFTA country may require that these goods:

- not be sold or leased while in its territory;
- be accompanied by a bond if they are not originating goods as defined in Chapter 4 of the NAFTA;
- only remain in the importing country until the departure of the person or within a reasonable time established by each country;
- be capable of identification when exported;
- be imported in no greater quantity than is reasonable for its intended use;
- be imported by a national or resident of another NAFTA country that seeks temporary entry;
- be used solely by or under the personal supervision of the person importing the good in the exercise of the business activity, trade or profession.

Commercial Samples and Advertising Films. Commercial samples and advertising films may also be imported temporarily without payment of duties. As a condition of duty-free entry, a NAFTA country may require that these goods:

- be imported solely for the solicitation of orders for goods, or services from another country;
- not be sold, leased or put to any use other than exhibition or demonstration while in its territory;
- be capable of identification when exported;
- be exported within such period as is reasonably related to the purpose of the temporary admission; and
- be imported in no greater quantity than is reasonable for its intended use.

Repairs and Alterations

Pursuant to a Warranty. None of the NAFTA countries may assess customs duties on goods that are exported for repair or alteration in another NAFTA country pursuant to a warranty and then re-imported. This is true regardless of the origin of the goods and regardless of whether the goods could have been repaired or altered in the exporting country.

Not Pursuant to a Warranty. A NAFTA country may, however, choose to assess customs duties on the value of the repairs or alterations performed in another NAFTA country that are not pursuant to a warranty. The rate of duty applied is the preferential NAFTA rate, regardless whether the goods repaired or altered are originating. Canada will assess duties on the value of such repairs or alterations performed in Mexico and the United States using the rate of duty applicable under the Canada-United States Free Trade Agreement, as incorporated into Annex 307.1 of the NAFTA, for goods from both countries. Mexico will not assess duties on repairs or alterations performed in the United States or Canada. The United States will not assess duties on repairs or alterations performed in Mexico, not pursuant to a warranty, but will assess duties on those performed in Canada.

User Fees

Canada. Canada Customs has no user fees.

Mexico. Mexico will eliminate its customs processing fee on June 30, 1999, for originating goods from both Canada and the United States. The fee will not be eliminated in stages—it will continue to apply until June 30, 1999, when it will be eliminated entirely.

United States. Goods originating in Canada, that qualify to be marked as Canadian goods according to the Marking Rules, are exempt from the merchandise processing fee as of January 1, 1994. For goods originating in Mexico that qualify to be marked as Mexican goods pursuant to Annex 311, the merchandise processing fee will be eliminated on June 30, 1999. There will not be any staged phaseout of the fee for Mexican goods—it will continue to apply until June 30, 1999, when it will be eliminated completely. Other fees are unaffected and will be collected whether the goods originate in Canada or Mexico. Other fees include harbor maintenance, cotton, beef, pork, honey, etc. Mail entries will continue to be subject to a US$5 processing fee.

Neither Mexico nor the United States may raise its user fees as to goods of the other pending elimination of the fee on June 30, 1999.

Antidumping and Countervailing Duties

Under the NAFTA, Canada, Mexico and the United States retain the right to apply their antidumping and countervailing duty laws to goods imported from another NAFTA country. The Agreement also establishes a mechanism for independent binational panels to review final antidumping and countervailing duty determinations by administrative authorities in each country. Private parties wishing to contest an administrative decision respecting goods of a NAFTA country may request that a panel be established. In such cases, the panel process will substitute for domestic judicial review in the country where the administrative decision was made.

A binational panel will decide whether the antidumping or countervailing determination was made in accordance with the domestic law of the importing country. If a binational panel finds that an error was committed in the

antidumping or countervailing determination, it may send the decision back to the appropriate government agency for correction. Decisions by a panel are binding and cannot be appealed to a domestic court. In addition, the Agreement establishes safeguard mechanisms designed to guarantee the integrity of the panel process.

For example, if a Mexican exporter wishes to challenge a final determination rendered by the U.S. Department of Commerce before a binational panel, the Mexican exporter must file its complaint with the appropriate office in SECOFI. The Government of Mexico, in turn, may request binational panel review on behalf of the Mexican exporter.

Assembly Operations (U.S. HTS 9802.00.80)

Many U.S. imports from Mexico and Canada are entered under U.S. tariff item 9802.00.80, which provides for a reduction in duties for articles assembled abroad in whole or in part of U.S. components. The duty on such articles is assessed on the full value of the article, less the cost or value of the U.S. components.

The rate applied to the dutiable value is that which would apply to the article as imported if it were not classified under HTS 9802.00.80. Hence, the duty reduction does not result from using a different rate of duty but rather by deducting the cost or value of the U.S. components from the total value of the article. Under the NAFTA, HTS 9802.00.80 may be used in conjunction with the preferential rate of duty that would apply to the article if it were classified in Chapters 1-97 of the tariff, provided the article originates and complies with all other requirements relating to the NAFTA. (For information on how the NAFTA will affect textile products under the Special Regime, see Chapter 5 of this publication.)

Races (HTS 8482.99.10) made in the United States are exported to Mexico for incorporation into ball bearings (HTS 8482.10.50). The remaining components are all made in Mexico. The imported ball bearing is considered originating because it is produced entirely in Canada, Mexico and/or the United States exclusively from originating materials (see Article 401(d)) and, accordingly, it is entitled to the NAFTA preferential rate of duty—9.9 percent during the first year of the Agreement. Assuming the total value of each ball bearing is US$10.40 and the value of the U.S. races in each bearing is US$2.40, the dutiable value is US$8.00 (US$10.40 – US$2.40). The duty calculation is:

9802.00.80	$ 2.40
8482.10.50	$ 8.00 x 9.9% = 0.80

The duty liability using only the preferential NAFTA rate would be US$1.03 per bearing. By using HTS 9802.00.80 in conjunction with the preferential rate of duty, additional savings of US$0.23 per ball bearing are made.

GSP/GPT/MFN

Generalized System of Preferences (United States). President Clinton terminated the designation of Mexico as a beneficiary developing country for purposes of the Generalized System of Preferences (GSP), effective January 1, 1994. Goods of Mexico entered on or after January 1, 1994 must meet the NAFTA rules of origin to qualify for reduced rates of duty; if they do not, they are dutiable at the MFN rate.

General Preferential Tariff (Canada). As different preferential tariff schemes each have their own unique rules of origin, it is possible that goods exported

from Mexico which cannot be considered originating under the NAFTA might still be eligible for the General Preferential Tariff (GPT) when imported into Canada. However, traders should be aware that the GPT is separate from the NAFTA and Canada is not under any obligation to continue such benefits.

Most-Favored-Nation Rates of Duty. Generally, the NAFTA does not affect the countries' most-favored-nation (MFN) rates of duty. That is, each country continues to assess duty on non-NAFTA goods as it did in the past. Products processed in Canada, Mexico and/or the United States that do not qualify for NAFTA preferential treatment also continue to be subject to MFN rates of duty (or to GPT rates, in the case of Mexican products imported into Canada).

With limited exceptions, Canada, Mexico and the United States will not harmonize their MFN rates of duty. Canada, Mexico and the United States are harmonizing, in a series of staged reductions, their MFN tariff rates on computers, computer parts and certain computer peripherals. Once the duty rates for these articles are harmonized, duties on these goods will be payable only upon entering the NAFTA territory. Once within the NAFTA territory, these articles may move among Canada, Mexico and the United States without payment of duty.

In addition, on January 1, 1994, the three countries changed their MFN tariff rates to free on virtually all semiconductors and all local area network apparatus.

15 CONTACTS FOR ADDITIONAL ASSISTANCE

Canada

NAFTA Information Desk
Revenue Canada Customs, Excise and Tax
1st Floor
555 Mackenzie Avenue
Ottawa, Ontario K1A 0L5
Tel: (613) 941-0965; FAX: (613) 941-8138
(For enquiries and client assistance on Canadian Customs and NAFTA issues)

The Director
Policy and Administration
Antidumping and Countervailing Division
Revenue Canada Customs, Excise and Tax
191 Laurier Avenue, W.
Ottawa, Ontario K1A 0L5
Tel: (613) 954-7251; FAX: (613) 941-2612
(For information on administrative procedures and investigations under Canada's antidumping and countervailing duty laws)

The Secretary,
Canadian International Trade Tribunal
365 Laurier Avenue, W.
Ottawa, Ontario K1A 0G7
Tel: (613) 993-4601; FAX: (613) 998-4783
(For information on the role of the Canadian International Trade Tribunal)

The Secretary, Canadian Section
NAFTA Secretariat
90 Sparks Street, Suite 705
Ottawa, Ontario K1P 5B4
Tel: (613) 992-9380; FAX: (613) 992-9392
(For information on the binational panel review process)

Info Export
External Affairs and International Trade Canada
125 Sussex Drive
Ottawa, Ontario K1A 0G2
Tel: (613) 994-4000 (Ottawa area), 1-800-267-8376;
FAX: (613) 996-9709
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Licenciado Héctor Rafael Pérez Partida
Avenida Mariano Otero 3431
Colonia Valle Verde
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FAX: 6 21 13 60, 6 21 05 34

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Dirección General Fiscal Internacional
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NAFTA: What's It All About (99 pages)
(This handbook provides a comprehensive guide to the NAFTA) (1993)

The North American Free Trade Agreement at a Glance (24 pages)
(This booklet provides a basic overview of the benefits of NAFTA) (1993)

North American Free Trade Agreement (approx. 3000 pages)
(The agreement between the Governments of Canada, the United Mexican States and the United States of America) (December 1992)

The North American Free Trade Agreement—Errata* (39 pages)
(The errata table to the December 17 NAFTA text) (April 1993)

Highlights of the North American Free Trade Agreement (4 pages)
(This document outlines the key issues addressed in the Agreement) (March 1993)

North American Free Trade Agreement—Media Kit* (40 pages)
(This publication contains copies of the Press Release, Backgrounder, Ministerial Statement, Highlights of the NAFTA and the Chronology) (February 1993)

North American Free Trade Agreement—Canadian Environmental Review* (28 pages)
(This executive summary provides an analysis of the potential environmental effects of Canada's participation in the NAFTA)

The following publication is available in English or French from the nearest regional Canadian Customs office.

Importing Goods into Canada (62 pages)
(A general guide to preparing the documents required for the importation of commercial goods in Canada)

Mexico

The following documents are available from:

SECOFI
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U.S. Exports to Mexico: A State-By-State Overview, 1987–90
TLC 001
U.S. Department of Commerce (U.S.A. 1991)

Las relaciones comerciales de México con el mundo
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Secretaría de Comercio y Fomento Industrial
(México D.F. 1990)

Tratado de libre comercio en América del Norte: Reglas de origen (Monografía 1)
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Secretaría de Comercio y Fomento Industrial
(México 1991)

Tratado de libre comercio en América del Norte: Solución de controversias (Monografía 3)
TLC 003.3
Secretaría de Comercio y Fomento Industrial
(México 1991)

Tratado de libre comercio en América del Norte: Prácticas desleales de comercio (Monografía 6)
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Secretaría de Comercio y Fomento Industrial
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Jaime Serra Puche, Secretaría de Comercio y Fomento Industrial (México 1991)

La adhesión de México al GATT (Repercusiones internas e impacto sobre las relaciones México-Estados Unidos)
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Blanca Torres, El Colegio de México (México 1989)

La cuenca del pacífico
TLC 029
Banco Nacional de México (México D.F.)

El acuerdo marco de cooperación entre los Estados Unidos Mexicanos y la Comunidad Económica Europea
TLC 035
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Secretaría de Comercio y Fomento Industrial
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A North American Free Trade Agreement: The Elements Involved
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Michael Hart, University of Ottawa (Canada 1990)

Algunos efectos del acuerdo de libre comercio en la administración de las empresas y el apoyo de asesores externos en economía
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Mauricio Mobarak Gonzalez (México 1991)

Las relaciones comerciales de México con el mundo: desafíos y oportunidades
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Secretaría de Comercio y Fomento Industrial
(México 1990)

Canada and a Mexico-United States Trade Agreement Working Paper
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Department of Finance (Canada 1990)

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North American Free Trade Agreement, Volumes I & II
Cost: US$40.00
Stock Number: 041-001-00407-6
(The text of the agreement, with the specific rules of origin)

Annex 302.2: Schedule of the United States
Cost: US$37.00
Stock Number: 041-001-00408-4
(The preferential NAFTA duty rates that will apply to products imported into the United States)

Annex 302.2: Schedule of Canada
Cost: US$33.00
Stock Number: 041-001-00409-2
(The preferential NAFTA duty rates that will apply to products imported into Canada)

Annex 302.2: Schedule of Mexico
Cost: US$38.00
Stock Number: 041-001-00410-6
(The preferential NAFTA duty rates that will apply to products imported into Mexico)

Importing into the United States
Cost: US$6.50
Stock Number: 048-002-00116-8
(A comprehensive guide to the procedures, laws and regulations governing imports into the United States)

Importar en los Estados Unidos
Cost: US$6.00
Stock Number: 048-002-00115-0
(Spanish translation of ***Importing into the United States****)*

Harmonized Tariff Schedule of the United States
Cost: US$50.00
Stock Number: 949-010-00000-7
(A list of all the tariff classifications and accompanying duty rates applicable to goods imported into the United States)

Title 19, Code of Federal Regulations
Cost: US$35.00
Stock Number: 869-019-00061-5
(The Customs Regulations of the United States)

(Prices are as of April 1994 and are subject to change. Add 25% for international orders.)

APPENDIX A

Annex 403.1

List of Tariff Provisions for Article 403(1)

Note: For purposes of reference only, descriptions are provided next to the corresponding tariff provision.

Tariff provision	Description
40.09	tubes, pipes and hoses
4010.10	rubber belts
40.11	tires
4016.93.aa	rubber, gaskets, washers and other seals for automotive goods
4016.99.aa	vibration control goods
7007.11 and 7007.21	laminated safety glass
7009.10	rear-view mirrors
8301.20	locks for the kind used on motor vehicles
8407.31	engines of a cylinder capacity not exceeding 50cc
8407.32	engines of a cylinder capacity exceeding 50cc but not exceeding 250cc
8407.33	engines of a cylinder capacity exceeding 250cc but not exceeding 1000cc
8407.34.aa	engines of a cylinder capacity exceeding 1000cc but not exceeding 2000cc
8407.34.bb	engines of a cylinder capacity exceeding 2000cc
8408.20	diesel engines for vehicles of Chapter 87
84.09	parts of engines
8413.30	pumps
8414.59.aa	turbochargers and supercharges for motor vehicles, where not provided for under subheading 8414.80
8414.80.aa	turbochargers and superchargers for motor vehicles, where not provided for under subheading 8414.59
8415.81 through 8415.83	air conditioners
8421.39.aa	catalytic converters
8481.20, 8481.30 and 8481.80	valves
8482.10 through 8482.80	ball bearings
8483.10 through 8483.40	transmission shafts and housed ball bearings
8483.50	flywheels
8501.10	electric motors
8501.20	electric motors
8501.31	electric motors
8501.32.aa	electric motors that provide primary source for electric powered vehicles of subheading 8703.90
8507.20.aa, 8507.30.aa, 8507.40.aa and 8507.80.aa	batteries that provide primary source for electric cars
8511.30	distributors
8511.40	starter motors
8511.50	other generators
8512.20	other lighting or visual signalling equipment
8512.40	windscreen wipers, defrosters

8519.91	cassette decks
8527.21	radios combined with cassette players
8527.29	radios
8536.50	switches
8536.90	junction boxes
8537.10.aa	motor control centers
8539.10	seal beamed headlamps
8539.21	tungsten halogen headlamps
8544.30	wire harnesses
87.06	chassis
87.07	bodies
8708.10.aa	bumpers, but not parts thereof
8708.21	safety seat belts
8708.29.aa	body stampings
8708.29.bb	inflators and modules for airbags
8708.29.cc	door assemblies
8708.29.dd	airbags for use in motor vehicles, where not provided for under subheading 8708.99
8708.39	brakes and servo-brakes, and parts thereof
8708.40	gear boxes, transmissions
8708.50	drive axles with differential, whether or not provided with other transmission components
8708.60	non-driving axles, and parts thereof
8708.70.aa	road wheels, but not parts or accessories thereof
8708.80	suspension shock-absorbers
8708.91	radiators
8708.92	silencers (mufflers) and exhaust pipes
8708.93.aa	clutches, but not parts thereof
8708.94	steering wheels, steering columns and steering boxes
8708.99.aa	vibration control goods containing rubber
8708.99.bb	double flanged wheel hub units
8708.99.cc	airbags for use in motor vehicles, where not provided for under subheading 8708.29
8708.99.dd	half-shafts and drive shafts
8708.99.ee	other parts for powertrains
8708.99.ff	parts for suspension systems
8708.99.gg	parts for steering systems
8708.99.hh	other parts and accessories not provided for elsewhere in subheading 8708.99
9031.80	monitoring devices
9032.89	automatic regulating instruments
9401.20	seats

APPENDIX B

Annex 403.2

List of Components and Materials

1. **Component: Engines provided for in heading 84.07 or 84.08**

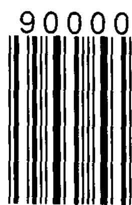
   Materials: cast block, cast head, fuel nozzle, fuel injector pumps, glow plugs, turbochargers and superchargers, electronic engine controls, intake manifold, exhaust manifold, intake/exhaust valves, crankshaft/camshaft, alternator, starter, air cleaner assembly, pistons, connecting rods and assemblies made therefrom (or rotor assemblies for rotary engines), flywheel (for manual transmissions), flexplate (for automatic transmissions), oil pan, oil pump and pressure regulator, water pump, crankshaft and camshaft gears, and radiator assemblies or charge-air coolers.

2. **Component: Gear boxes (transmissions) provided for in subheading 8708.40**

   Materials: (a) for manual transmissions—transmission case and clutch housing; clutch; internal shifting mechanism; gear sets, synchronizers and shafts; and (b) for torque convertor type transmissions—transmission case and convertor housing; torque convertor assembly; gear sets and clutches; and electronic transmission controls.

U.S. GOVERNMENT PRINTING OFFICE : 1994 O - 154-750 QL: 3

ISBN 0-16-045046-2



DEPARTMENT OF THE TREASURY

U.S. CUSTOMS SERVICE

WASHINGTON, DC

Revised May 1994

Customs Publication No. 571

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
September 19, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $11,626 million of 13-week bills to be issued September 22, 1994 and to mature December 22, 1994 were accepted today (CUSIP: 912794P57).

RANGE OF ACCEPTED COMPETITIVE BIDS:

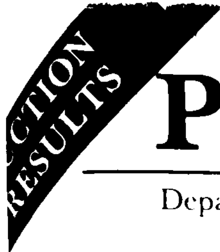
	Discount Rate	Investment Rate	Price
Low	4.59%	4.71%	98.840
High	4.61%	4.73%	98.835
Average	4.61%	4.73%	98.835

Tenders at the high discount rate were allotted 76%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$48,727,633	$11,626,421
Type		
Competitive	$42,714,390	$5,613,178
Noncompetitive	1,364,033	1,364,033
Subtotal, Public	$44,078,423	$6,977,211
Federal Reserve	3,065,210	3,065,210
Foreign Official Institutions	1,584,000	1,584,000
TOTALS	$48,727,633	$11,626,421

LB-1091



PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
September 19, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $11,736 million of 26-week bills to be issued September 22, 1994 and to mature March 23, 1995 were accepted today (CUSIP: 912794R22).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.03%	5.23%	97.457
High	5.05%	5.25%	97.447
Average	5.05%	5.25%	97.447

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	$49,087,734	$11,736,480
Type		
Competitive	$43,300,906	$5,949,652
Noncompetitive	1,248,828	1,248,828
Subtotal, Public	$44,549,734	$7,198,480
Federal Reserve	2,950,000	2,950,000
Foreign Official Institutions	1,588,000	1,588,000
TOTALS	$49,087,734	$11,736,480

LB-1092

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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For Release Upon Delivery
Expected at 9:30 a.m.
September 20, 1994

STATEMENT OF MAURICE B. FOLEY
DEPUTY TAX LEGISLATIVE COUNSEL (TAX LEGISLATION)
BEFORE THE
SUBCOMMITTEE ON EMPLOYMENT, HOUSING AND AVIATION
COMMITTEE ON GOVERNMENT OPERATIONS
UNITED STATES HOUSE OF REPRESENTATIVES

Mr. Chairman and distinguished Members of the Subcommittee:

I am pleased to have this opportunity to present the views of the Treasury Department with respect to the targeted jobs tax credit (TJTC). The TJTC is a tax credit for employers which was enacted to promote private-sector hiring of workers with special barriers to employment.

The TJTC is jointly administered by the Treasury Department through the Internal Revenue Service (IRS) and the Department of Labor through its Employment Service. The IRS is responsible for tax-related aspects of the program and the Employment Service, through the network of State Employment Security Agencies, is responsible for defining and documenting worker eligibility.

A table providing a listing of the estimated annual cost of the program in terms of foregone tax revenues from Fiscal 1986 through Fiscal 1994, is attached to my statement.

I. Background

The TJTC was enacted by the Revenue Act of 1978 as a substitute for what had been a broad-based new jobs tax credit. Congress concluded that the unemployment rate had declined sufficiently so that it was appropriate to focus employment incentives on individuals with high unemployment rates and other groups with special employment needs.

The credit initially was scheduled to expire on December 31, 1981 and applied to wages earned in the first and second years of employment. The first-year credit was equal to 50 percent of the first $6,000 earned by a TJTC-hire and the second-year credit was 25 percent of the first $6,000 earned.

The TJTC has been extended on a short-term basis numerous times over the years. Revisions also have been made by a number of tax laws to adjust the amount of the credit, close loopholes, and alter the targeted groups of individuals covered by the credit.

The TJTC was amended and extended for one year through December 31, 1982 by the Economic Recovery Tax Act of 1981. This Act eliminated retroactive certifications of worker eligibility. Using retroactive certifications, an employer could claim credits for TJTC-eligibles who already were on the firm's payroll, resulting in no new job creation. The 1981 Act also required that one targeted group -- cooperative education students -- be economically disadvantaged in order to be covered by the credit. Without this constraint, employers were able to receive subsidies for hiring individuals they likely would have hired in the absence of the credit. The 1981 Act also increased the number of targeted groups and reduced certain restrictions on eligibility within existing categories.

The TJTC was extended for two more years through December 31, 1984 by the Tax Equity and Fiscal Responsibility Act of 1982. This Act extended the credit to employers hiring economically disadvantaged 16 and 17 year-olds for summer employment. The 1982 Act also deleted one of the targeted groups -- former public service employment participants under the Comprehensive Employment and Training Act.

The Deficit Reduction Act of 1984 extended the TJTC for another year through December 31, 1985, after which it expired. It was extended retroactively for three more years through December 31, 1988 by the Tax Reform Act of 1986. The 1986 Act reduced the amount of the credit to 40 percent of the first $6,000 earned and eliminated the second-year credit. Employees also were required to work for a minimum of 90 days or 120 hours to be covered by the credit (14 days or 20 hours for summer youths). A minimum employment period was imposed to limit the "churning" of employees by some employers. "Churning" involves maximizing the amount of credit by rapidly turning over workforce to hire additional targeted members.

The Omnibus Budget Reconciliation Act of 1987 eliminated the credit for wages paid to individuals who perform duties similar to those of workers who are participating in or are affected by a strike or lockout. The Technical Corrections and Miscellaneous Revenue Act of 1988 extended the credit for an additional year through December 31, 1989; reduced the summer youth credit from 85 percent to 40 percent of the first $3,000 earned; and eliminated 23 and 24 year-olds from the targeted group of economically disadvantaged youths.

The TJTC was extended for nine more months through September 30, 1990 by the Omnibus Budget Reconciliation Act of 1989. This Act also reduced the burden placed on local Employment Service offices of verifying worker eligibility. The 1989 Act required employers requesting certification of a job applicant for which there had not been a written preliminary determination of eligibility (a voucher) to specify at least one, but not more than two, targeted groups to which the individual might belong. The employer also had to certify that it had made a good faith effort to determine the individual's eligibility. The prior practice of asking local Employment Service offices to verify TJTC-eligibility of all new hires burdened these offices without creating new jobs. The employer firms already had decided to hire the individuals, although the individuals had not yet been put on the payroll.

The Omnibus Budget Reconciliation Act of 1990 retroactively extended the TJTC for 15 months through December 31, 1991. The conference agreement also clarified the definition of one of the targeted groups. This group -- "ex-convicts" -- was defined to include persons who are placed on probation by State courts without a finding of guilty. The TJTC was further extended for six months through June 30, 1992 by the Tax Extension Act of 1991.

Most recently, the credit was extended retroactively for 30 months by the Revenue Reconciliation Act of 1993. The 1993 Act extended the TJTC to cover individuals who begin work for an employer after June 30, 1992 and before January 1, 1995.

II. Current Law

Under current law, a TJTC is available to employers for up to 40 percent of the first $6,000 of wages paid to a certified worker in the first year of employment. This translates into a potential credit of $2,400 per targeted worker. The worker must be employed for at least 90 days or work at least 120 hours. (The credit for summer youth is 40 percent of the first $3,000 of wages, or $1,200, and these individuals must work for 14 days or 20 hours.) The employer's deduction for wages is reduced by the amount of the TJTC.

Certified workers must be economically disadvantaged or disabled individuals in one of nine targeted groups. These groups are (1) youth 18-22 years old; (2) summer youth age 16-17; (3) cooperative-education students age 16-19; (4) ex-offenders; (5) Vietnam-era veterans; (6) vocational rehabilitation referrals; and individuals receiving (7) general assistance, (8) Supplemental Security Income, or (9) Aid to Families with Dependent Children.

For purposes of the TJTC, a worker is economically disadvantaged if the worker's family income is 70 percent or less of the "lower living standard income level". This level is revised periodically to account for changes in the Consumer Price Index and varies by geographic and urban area.

To claim the credit for an employee, an employer must receive a written certification that the employee is a targeted group member. Certifications for employees are generally provided by State Employment Security Agencies. The employer must have received or filed a written request for a certification on or before the date a targeted member begins work. If the employer has received a written preliminary determination that the employee is a member of a targeted group, the employer may file a written certification request within five calendar days after the targeted member begins work.

III. 1994 Report by the Labor Department's Office of Inspector General

A recent report by the Labor Department's Office of Inspector General identified a number of problems with the TJTC. I will highlight some of these problems, but will leave most of the discussion of the report (and other studies on the credit's effectiveness) to Assistant Secretary Ross. The report recommended that the Secretary of Labor discourage further extensions of the credit.

The study examined the records of a sample of 1,150 individuals from 9 states who received eligibility certifications from July 1, 1991 to June 30, 1992. Interviews were conducted with both employers and participants. Employers were asked whether or not their firm would have hired the individual if the tax credit were not available. This question was the primary method of determining the effect of the TJTC.

Although the report notes that the TJTC provides some benefits, the report concludes that the TJTC provides a windfall to employers, does not promote long-term productivity or earning power, and is not cost effective. According to the report:

• Employers would have hired 92 percent of eligible workers without the credit.

• In general, TJTC jobs were entry-level, low-paying, low-skilled positions similar to jobs the individuals held both before and after their TJTC employment.

• The benefits of the program (measured as the gross wages paid to the 8 percent hired due to the credit plus estimated reductions in social program payments) were only 37 percent of

the costs (measured as foregone tax revenues and administrative costs of the Department of Labor).

It is important to bear in mind, however, that the study was commissioned as an audit, rather than a scientific, study. Therefore, it cannot provide a definitive assessment of the effectiveness of the TJTC program. The study was not scientific in the sense that it did not compare results in its sample with results in a control group of individuals with similar characteristics who did not participate in the TJTC. The study made comparisons to other low-wage workers but did not control for differences in age, sex, type of industry, and other factors.

Other possible problems in methodology include the wording of the question asked of study participants (would the employer have hired the employee if there were no TJTC?). This wording may have biased results, since only yes or no answers were solicited. Even if the TJTC did not directly control a hiring decision, it may have indirectly influenced the hiring of TJTC eligibles by, for example, altering recruiting practices.

In summary, this report is a useful component of the process of monitoring the effectiveness of the TJTC. However, the report's conclusions need to be weighed along with its limitations before reaching a final determination as to the overall effectiveness of the TJTC program.

IV. Administration's Position

The employment of economically disadvantaged and disabled workers is one of the Administration's most pressing concerns. We realize, however, that the current version of the TJTC may not be the most efficient way to address this problem. The revenue loss from a one-year extension of the credit in its current form is approximately $336 million over 5 years, while a permanent extension of the current law credit would lose approximately $1.428 billion over 5 years. Because we are very concerned about the efficient use of government revenues, we believe that the problems undermining the credit's effectiveness must be addressed before pursuing an extension of the credit.

The Inspector General's report raises significant concerns regarding the effectiveness of the credit. As a result of the problems identified in the report, we are engaged in a policy review of the credit to determine whether legislative and regulatory modifications of the credit may improve its effectiveness.

Over the next several months we plan to continue our work with the Labor Department. We also want to work with Congress to develop proposals that will address, in a cost effective manner, the employment problems of economically disadvantaged and

disabled workers. In this process we will be guided by the following principles: the need to increase the credit's effectiveness, the need to encourage longer-term employment so that the credit is an effective mechanism for enhancing basic job-related skills, and the need to accompany any changes with a more systematic study of the TJTC's effectiveness and administration.

We plan to complete our analysis of this issue prior to submission of the Administration's budget proposal for Fiscal Year 1996. If we decide to support extension of the credit, our recommendations will be reflected in that document.

This concludes my prepared remarks. I would be pleased to respond to any questions you may have at the conclusion of Mr. Ross' testimony.

Attachment 1: Revenue Cost of the Targeted Jobs Tax Credit, 1986-1994 (in millions of dollars)

Fiscal Year	Tax Revenue Reduction*
1986	259
1987	197
1988	244
1989	273
1990	253
1991	261
1992	265
1993	208
1994	243

Office of Tax Analysis
U.S. Treasury Department
September 14, 1994

* The estimates for FY 1994 are based on current law under which the credit will expire on December 31, 1994.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR RELEASE AT 2:30 P.M.
September 20, 1994

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $23,200 million, to be issued September 29, 1994. This offering will result in a paydown for the Treasury of about $1,100 million, as the maturing weekly bills are outstanding in the amount of $24,291 million.

Federal Reserve Banks hold $6,346 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 $2,811 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) 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-1094

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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Attachment

LB-1094

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS TO BE ISSUED SEPTEMBER 29, 1994

September 20, 1994

Offering Amount	$11,600 million	$11,600 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 P6 5	912794 R3 0
Auction date	September 26, 1994	September 26, 1994
Issue date	September 29, 1994	September 29, 1994
Maturity date	December 29, 1994	March 30, 1995
Original issue date	June 30, 1994	September 29, 1994
Currently outstanding	$11,062 million	---
Minimum bid amount	$10,000	$10,000
Multiples	$ 1,000	$ 1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

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

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

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

Maximum Award . . . . 35% of public offering

Receipt of Tenders:

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

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

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

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ORAL STATEMENT

STATEMENT OF THE HONORABLE RONALD K. NOBLE
UNDER SECRETARY FOR ENFORCEMENT
U.S. DEPARTMENT OF THE TREASURY
BEFORE THE SUBCOMMITTEE ON OVERSIGHT
OF THE COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

SEPTEMBER 20, 1994

Mr. Chairman and Members of the Subcommittee, I am very pleased to have the opportunity this morning to outline the direction of Treasury's fight against money laundering. I am especially happy to continue the dialogue that Chairman Pickle and I began at the San Antonio field hearings on money laundering in July 1993.

I have submitted a full statement for the hearing record. Sitting alongside me is Stan Morris, the Director of the Financial Crimes Enforcement Network ("FinCEN").

In my testimony I want to describe briefly Treasury's assessment of the money laundering problem, the organizational and policy changes Treasury is making, and where we expect those changes to lead.

The thrust of the steps we are taking is easy to summarize: Treasury must lead the effort against money laundering, by putting in place a concerted policy aimed at prevention, detection, and enforcement.

First, prevention, by using Treasury's regulatory authority, in partnership with the financial sector, to make

illicit funds more difficult to move into U.S. financial institutions or across the border.

Second, detection, that is, sophisticated use of artificial intelligence, the financial database, reports by financial institutions, and historical case intelligence to recognize money laundering activity, and to inform enforcement agencies and, where appropriate, the financial system, of what has been found.

Third, swift and effective enforcement of the law; Treasury agencies must continue to pave the way by developing aggressive and imaginative enforcement programs against those who seek to launder funds. But no one agency or group of agencies can deal with money laundering by themselves. Over 100 federal offenses may serve as the basis for a money laundering charge; these offenses cut across the entire range of federal law enforcement agencies. If we want to make real progress, Treasury must use its information resources to empower other federal agencies, and state, local, and, in particular cases, foreign officials to move against the problem. In short, we must be as flexible and inventive as the money launderers.

Money laundering is fundamentally simple. It involves disguising assets so they can be used without detection of the illegal activity that produced them. There is a close connection between this activity and tax evasion. Left unchecked, money laundering will erode our voluntary tax system and the integrity of our financial institutions. Although we tend naturally to

focus on cash, money laundering is not just about placement of currency. It can extend to any actions that help the proceeds of crime -- in whatever form -- move through the financial system.

The profits of crime that are bled into the financial system each year are staggering and detrimental by any calculation. Debates about the amount spent annually on narcotics are continuing. One hears figures of $30 billion, $55 billion, and $100 billion or more. Many believe that it is simply not possible to pinpoint the amount. And it is clear that money laundering extends far beyond hiding narcotics profits. The totals increase rapidly when one considers, for example, trade fraud and tax evasion subject to the money laundering statutes, as well as terrorism and arms smuggling. Bank, medical, and insurance fraud -- which can also entail significant laundering of funds -- add many additional billions to the annual estimates.

But money launderers are responsive to what we do. Banks, through the combined efforts of Treasury agencies, federal and state banking regulators, and the industry itself, have undergone a revolution in attitudes and compliance since the early 1980s. Banking regulators and the banking community have responded in many positive ways to the challenges posed by money laundering, making it far more difficult to pass large amounts of cash directly into the nation's banks and far easier to identify and isolate those institutions and officials that are still willing to help or turn a blind eye toward money launderers.

In response, the money launderers have increasingly turned to other "trade routes" to move their funds. The routes include increased use of many varieties of non-bank financial institutions -- currency exchange houses, money transmitters, check cashers, and so-called "giro" houses and "remittance corporations" -- which combine several money movement services in one location. They include smuggling, an old-fashioned activity to which technology has provided sophisticated tools, as well as bulk purchases of retail goods for resale and use of false invoicing of legitimate shipments to provide a reason for money transfers.

So the problems we confront today, ironically, are the fruits of our successes over the past 10 years. The challenge now is to frame the policies for the next 10 years.

Last fall I established the Money Laundering Task Force, composed of representatives of all Treasury enforcement bureaus and offices, to begin a long-term review of Treasury's approach to money laundering. I wanted to know if we could really make a difference, given a phenomenon like money laundering. I think we can, if we mobilize all the resources available, both in the public and private sectors, and at all levels of government.

That's what we've set out to do. And as I indicated, we've set up a strategy in which prevention, detection, and enforcement are coordinated to re-enforce one another. We're hoping to build better nets so that fewer fish get through by

harnessing the ability of financial institutions themselves with cost-efficient and meaningful rules, linked with increasingly sophisticated use of information to detect money laundering, and continued development of creative enforcement programs.

No one should doubt the size of the tasks we've set before us. There are more than 250,000 financial institutions of all shapes and sizes subject to the Bank Secrecy Act's rules, and examination for compliance with those rules is delegated by Treasury to federal and state banking agencies, the Postal Service, the Internal Revenue Service, and the Securities and Exchange Commission.

I should also mention the nation's non-financial trades and businesses, which are required to report large cash transactions on Form 8300 under the Internal Revenue Code. Chairman Pickle has long recognized the problem such cash transactions pose for income tax compliance and for attempts to fight money laundering. The information on Form 8300 is invaluable for non-tax enforcement purposes in light of the trends in money laundering. We are grateful for the Chairman's continuing efforts to obtain a legislative change that would reinstate Treasury's ability to use the information for non-tax criminal investigations and permit the dissemination and analysis of Form 8300 cash transaction reports along the lines permitted for reports filed under the Bank Secrecy Act; we continue to hope that this crucial change can be made soon.

Although we think the three-pronged strategy will ultimately make for better enforcement, I don't want to imply that no significant progress has been made. Our enforcement efforts are paying off. We have forced the money launderers into alternative, often complex, and more costly transactions. The "charge" for money laundering has increased to take account of the increased risk of apprehension, and our intelligence indicates that money launderers are having to change their methods constantly in response to regulatory and enforcement measures. Finally, we believe that mainstream, legitimate U.S. financial institutions have been sensitized to the problem of money laundering. The increased integrity of our financial system may be an intangible measure of our success, but it is an important one nonetheless.

Mr. Chairman, we know that your Subcommittee had been particularly concerned with our civil penalty process. Here is another area where we have made significant progress. Since your 1992 hearing, Treasury has assessed over 40 civil money penalties against banks, non bank financial institutions, casinos and individuals for a total of almost 8 million dollars. There are also several other cases which are settled in principle or in active negotiation.

The three-pronged strategy I've described calls for a combination of Treasury resources in new ways. To implement the strategy, I have revised the structure of Treasury's own efforts.

I've started with FinCEN. In May, I asked Stan Morris, who had served for 18 months as my chief of staff and had previously served as Director of the Marshals Service and as a Deputy Director of the Office of National Drug Control Policy, to become FinCEN's Director. FinCEN's Director has been given full responsibility for administration of the Bank Secrecy Act, so that information and policy can affect one another in more productive ways; as part of the change, the Office of Financial Enforcement is being consolidated with FinCEN. I have also directed FinCEN to continue the work of the Task Force by implementing regulatory initiatives and to assist in coordinating the efforts of all of Treasury's anti-money laundering components to develop effective strategies to combat financial crime.

Interagency coordination continues to improve. Major task force efforts are under way all along the Southwest Border and in New York and South Florida. The profile of Project El Dorado in The New Yorker several weeks ago testifies both to the work our agents are doing and to the public perception that our counter-money laundering efforts can make a real difference.

As I have already noted, money laundering cannot be exclusively a province of federal law enforcement. We need to use our expertise to assist state and local officials who are much closer to many institutions through which money launderers seek increasingly to move funds.

Project Gateway, announced at the San Antonio hearing last year, is a good example. Gateway seeks to get our informa-

tion resources directly to state and local investigators by giving each state on-line access to the BSA information at the Detroit Computing Center. The experience of Texas has borne out our hopes for the Program.

Texas investigators found useful information in almost 60 per cent of more than 5,700 queries Texas conducted during the six month Gateway test period. For example, in September 1993, investigators used their access to the data base to identify potentially suspicious activity. One business with unusual activity had identified itself as an accounting office. In fact, it was a Houston giro house that subsequently was convicted of illegally transmitting money to Panama. Other targets, casas de cambio as well as giro houses, have also been identified. Texas tells us that the biggest limitation now facing its officials is a shortage of investigators and computer resources to analyze and use the tremendous volume of valuable data available through Gateway.

The Gateway pilot project with Texas has been so successful that we are expanding this project to all 50 states. Currently, we have signed MOUs with 23 states and taking the technical steps necessary to bring those states on line within the next two months.

In fact, Mr. Chairman, Christine Reis, a senior analyst in the Financial Crimes Division of Texas' Attorney General's Office, is on a 30-day detail to FinCEN to help implement and improve Gateway. Chris is the person who operated the Gateway

system in Austin during the Gateway pilot project, and she'll continue to do so. George Albreck, the Special Agent in Charge of the Financial Section in the Pennsylvania Attorney General's narcotics unit, is also on a 30-day detail to FinCEN. Chris and George are in the audience this morning, and I'd like to ask them to stand.

Finally, I want to say a word about Treasury's international efforts. We are committed to an international approach to dealing with financial crime. That commitment is not only a matter of policy but of necessity. We know that money laundering will move to countries with the weakest anti-money laundering programs. So we are working with individual countries and international organizations -- especially the Group of 7's Financial Action Task Force -- to do what we can to help countries around the world build strong domestic programs as effective as ours and assure that those countries will cooperate in international investigations, prosecutions, and forfeiture actions. Such cooperation has increased dramatically in the last five years.

We have begun in an encouraging way to work on joint matters with the Mexican government, a step that can have immediate benefits in our domestic enforcement efforts, especially along the Southwest Border. We have worked cooperatively with a number of governments in major cases, such as Operation Primero, as Commissioner Weise will describe.

I hope that my remarks have provided an outline of Treasury's strategic objectives. I believe that we have laid a strong foundation for a Treasury-wide strategy, and that we are making progress. But we clearly need to do more, as I've explained, and so we're hard at work. I intend to re-evaluate our progress and strategy constantly to ensure that our methods are adjusted to reflect the ever-changing nature of money laundering.

I cannot end without noting personally my appreciation, and that of Secretary Bentsen, for the role Chairman Pickle has played in the evolution of the policies I have described today. For many years, the Chairman has proved that constructive -- even, at times, pointed -- criticism is the truest measure of spirited interest in and support for Treasury's programs. Much of our progress in the BSA penalty area and Form 8300 enforcement can be attributed to the frequent, albeit not always gentle, prodding of the Chairman. We also are grateful for his efforts toward securing the authority of the IRS Criminal Investigation Division to apply recovered funds to ongoing enforcement efforts. We will miss his wisdom, insights, and humor. He has set a high standard for those who succeed him.

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TREASURY NEWS

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**STATEMENT OF THE HONORABLE RONALD K. NOBLE
UNDER SECRETARY FOR ENFORCEMENT
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BEFORE THE SUBCOMMITTEE ON OVERSIGHT
OF THE COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES**

SEPTEMBER 20, 1994

Mr. Chairman and Members of the Subcommittee, I am very pleased to have the opportunity this morning to testify about the direction of Treasury's fight against money laundering. I am especially happy to continue the dialogue that Chairman Pickle and I began at the San Antonio field hearings on money laundering in July 1993.

Sitting alongside me is Stan Morris, the Director of the Financial Crimes Enforcement Network ("FinCEN"). You will also hear testimony today from Commissioner Richardson of the Internal Revenue Service, and Commissioner Weise of the Customs Service.

During my statement, I want to focus on Treasury's assessment of the money laundering problem, the organizational and policy changes Treasury is making, and where we expect those changes to lead. Secretary Bentsen has made money laundering and financial crime a top Treasury enforcement priority, and I believe we are moving into place a series of positive measures that will result in significant progress against the problem.

Although the problem of money laundering is a very complex one, the thrust of the steps we are taking is easy to summarize: Treasury must lead the effort against money laundering, by putting in place a concerted policy aimed at prevention, detection, and enforcement.

First, prevention, by using Treasury's regulatory authority, in partnership with the financial sector, to make illicit funds more difficult to move into U.S. financial institutions or across the border.

Second, detection, that is, sophisticated use of artificial intelligence, the financial database, reports by financial institutions, and historical case intelligence to recognize money laundering activity, and to inform enforcement agencies and, where appropriate, the financial system, of what has been found.

Third, swift and effective enforcement of the law; Treasury agencies must continue to pave the way by developing aggressive and imaginative enforcement programs against those who seek to launder funds. But no one agency or group of agencies can deal with money laundering alone. Over 100 separate federal offenses are included in the definition of a "predicate act" that will support a money laundering charge. These offenses cut across the entire range of federal law enforcement agencies. Accordingly, if we want to make real progress, Treasury must also use its information resources to empower other federal agencies, and state, local, and, in particular cases, foreign officials to

move against the problem. In short, we must be as flexible and inventive as the money launderers.

We've based our strategy on our sense of the evolution of the money laundering threat. I'd like to discuss our assessment of the threat before giving you a fuller explanation of the three-pronged strategy I've just outlined.

An Assessment of the Threat. When I survey money laundering, I am reminded of the saying that "the more things change, the more they remain the same."

Money laundering is fundamentally simple. It involves disguising assets so they can be used without detection of the illegal activity that produced them. There is a close connection between this activity and tax evasion. Left unchecked, money laundering will erode our voluntary tax system and the integrity of our financial institutions. Although we tend naturally to focus on cash, money laundering is not just about placement of currency. It can extend to any actions that help the proceeds of crime -- in whatever form -- move through the financial system.

The profits of crime that are bled into the financial system each year are staggering and detrimental by any calculation. Debates about the amount spent annually on narcotics are continuing. One hears figures of $30 billion, $55 billion, and $100 billion or more. Many believe that it is simply not possible to pinpoint the amount. And it is clear that money laundering extends far beyond hiding narcotics profits. The totals increase rapidly when one considers, for example, trade

fraud and tax evasion subject to the money laundering statutes, as well as terrorism and arms smuggling. Bank, medical, and insurance fraud -- which can also entail significant laundering of funds -- add many additional billions to the annual estimates.

Money laundering, like the crimes whose profits it hides, can take as many forms as the financial sector offers for legitimate activity. The tools of the money launderer range all the way from complex financial transactions carried out through webs of wire transfers to and from networks of shell companies, to old-fashioned, if increasingly inventive, smuggling.

Money launderers are responsive to what we do, and the problems we confront today, ironically, are the fruits of our successes over the past 10 years.

Banks, through the combined efforts of Treasury agencies, federal and state banking regulators, and the industry itself, have undergone a revolution in attitudes and compliance since the early 1980s. Banking regulators and the banking community have responded in many positive ways to the challenges posed by money laundering, making it far more difficult to pass large amounts of cash directly into the nation's banks and far easier to identify and isolate those institutions and officials that are still willing to help or turn a blind eye toward money launderers.

In response, the money launderers have increasingly turned to other "trade routes" to move their funds.

First, <u>non-bank financial institutions</u>. As opportunities for easy or low-risk placement of funds directly into the banking system have dried up, launderers have come to move illicit funds through non-bank institutions, a range of large to small less-traditional financial intermediaries that includes currency exchange houses, called "casas de cambio" along the border, money transmitters, check cashers, and so-called "giro houses" and "remittance" corporations.

Currently, non-bank financial institutions are subject to fewer regulatory requirements and examinations, making them potentially more vulnerable to money laundering.

But this is not a homogeneous industry. There are many established nationwide companies that service legitimate financial needs of individuals and small businesses and have adopted far-reaching compliance programs. However, a certain percentage of these businesses exists precisely to meet the demand for money laundering services.

Second, <u>smuggling</u>. The art of smuggling is ancient -- probably like money laundering itself -- but the techniques Treasury has encountered recently can only be described as state of the art. As Commissioner Weise can tell you, funds have been found hidden on persons, in cereal boxes, and in what appear from the outside to be bowling balls, specially manufactured with hollowed interiors precisely to smuggle cash in bulk out of the country.

Third, trade techniques, more commonly associated with tariff or tax evasion, are used increasingly by money launderers, especially those moving money to and from South America. The techniques involve, for example, false invoicing to overstate the value of goods. Such manipulation is now used to hide transfers of drug money out of and, for reinvestment, into the U.S.

Fourth, use of retail goods. Money launderers are also moving funds out of the country by purchasing large blocks of consumer goods that can then be resold in other countries, again in order to generate funds with a superficially legitimate origin for reinvestment.

Finally, cross-border reinvestment. We have to remember that many money launderers ultimately want to place their laundered funds back in the United States economy, either to finance further criminal activities or to invest in legitimate business. An area of growing importance is understanding the manner in which instruments from other countries -- such as bank drafts -- are used to recycle dollars smuggled or wired out of the United States. When those dollars are recycled back, they won't come in bags full of cash that a well-trained teller could identify, but, perhaps, as multiple foreign bank drafts, an investment by a shell corporation, or a Certificate of Deposit used as collateral for a loan.

Some of the results of these trends can be easily seen along the Southwest border. Cooperation of Texas banks with authorities has improved significantly, and the traffickers have

switched to non-bank institutions, especially casas de cambio, front companies, check cashers, and "giro house" money transmitter or remittance activities. The volume of cash apparently passing through casas de cambio in Texas remains far in excess of the apparent needs of legitimate commerce. Finally, cross-border smuggling, based on alliances between U.S. and Mexican criminal organizations, is clearly on the rise.

The same general trends can be found in other areas, New York, for example. A small seemingly innocuous check cashing operation on an upper Manhattan or Queens street can in reality be assisting each day in the laundering of tens of thousands of dollars. Cargo shipments passing through Kennedy Airport undoubtedly contain more smuggled currency than can be effectively detected.

Treasury's Response. Last fall I established the Money Laundering Task Force, comprised of representatives of all Treasury enforcement bureaus and offices, to begin a long-term review of Treasury's approach to money laundering. I wanted to know if we could really make a difference, given a phenomenon like money laundering. I think we can, if we mobilize all the resources available, both in the public and private sectors, and at all levels of government.

That's what we've set out to do. And as I indicated, we've set up a strategy in which prevention, detection, and

enforcement are coordinated to re-enforce one another. We're hoping to build better nets so that fewer fish get through.

Prevention. Recent legislation has given us tools we've never had before. These include, importantly, power directly to prescribe money laundering policies and procedures at all financial institutions, bank and non-bank; power to order reporting of suspicious transactions of all kinds; power to track and now to register non-bank financial institutions.

I want to use these new tools wisely and cost-effectively, and to fine tune the ones we've had for some time. Let me explain in more detail.

Prevention means working with the legitimate businesses that see potential money launderers first, up close, that is, with the banks, money order sellers, check cashers, and other agencies through whom criminals seek to move ill-gotten funds. These businesses are our partners in prevention.

At the same time, we have to recognize that compliance by financial institutions is not cost-free, and we want to assure that the manner in which they're working with us -- to keep records, track transactions, report suspicious transactions -- is efficient and effective. So we've reached out to the industry.

The BSA Advisory Group, created in response to the 1992 legislation, plays a crucial role. We have assembled thirty experts from private industry and government so that the Group can be a "think tank" to come up with the best ways to exercise

our respective responsibilities and capabilities in the fight against money laundering.

We're also trying to make compliance more efficient. We've redesigned the CTR form and withdrawn or streamlined certain regulatory requirements. These steps don't mean that we're trying to reduce the level of protection against money laundering in the financial sector. On the contrary, we're trying to identify <u>unnecessary</u> burdens so that the banks and other institutions can devote resources where they will do the most good.

<u>Detection</u>. Detection is the "universal joint" between prevention and enforcement. The work of detection seeks first to evaluate how the system is working, whether institutions are following the rules, and what the government is learning from the information it receives. It emphasizes passing information to the enforcement agencies and takes from them information indicating that changes in the prevention structure are needed.

It is here that information technology can play the biggest role, within government and the financial industry. FinCEN's artificial intelligence program is one effort to broaden our detection capabilities by surveying each CTR and CMIR as it is filed against a set of rules designed to indicate potentially illegal activity; we're still evaluating the results of the first year of the program's operation, but initial returns show that the AI branch at FinCEN has sent out 102 case reports, of which at least 75 per cent are being used in active investigations.

Customs's experience in behavior analysis and profiling techniques, along with the agency's use of data bases, is another example of our harnessing of technology.

We also have to be prepared to help affirmatively. As I indicated, in many cases incoming laundered funds will not appear as cash; and sophisticated information processing techniques may be the only means of identifying suspect transactions within a financial institution's funds' transfer records. But timely identification can happen only if we:

(1) provide better guidance about what can or should appear suspicious,

(2) create a single reporting mechanism involving reporting to a single agency, and

(3) provide better feedback after the fact.

We plan to use our authorities to initiate a high degree of federal oversight over the manner in which non-bank financial institutions adopt the same sorts of prevention and reporting mechanisms as banks.

No one should doubt the size of the tasks we've set before us. As the attached chart indicates, there are more than 250,000 financial institutions of all shapes and sizes subject to the Bank Secrecy Act's rules, and examination for compliance with those rules is delegated by Treasury to federal and state banking agencies, the Postal Service, the Internal Revenue Service, and the Securities and Exchange Commission.

I should also mention the nation's non-financial trades and businesses, which are required to report large cash transactions on Form 8300 under the Internal Revenue Code. Chairman Pickle has long recognized the problem such cash transactions pose, not only for income tax compliance but for counter-money laundering programs. The Rayful Edmonds and Rosenthal prosecutions illustrate the problem plainly. The information on Form 8300 is invaluable for non-tax enforcement purposes in light of the trends in money laundering. We are grateful for the Chairman's continuing efforts to obtain a legislative change that would reinstate Treasury's ability to use the information for non-tax criminal investigations and permit the dissemination and analysis of Form 8300 cash transaction reports along the lines permitted for reports filed under the Bank Secrecy Act; we continue to hope that this crucial change can be made soon.

Enforcement. Finally, enforcement. We have attempted to deploy our enforcement resources wisely. But those resources are not unlimited, and we have to use available information to act where we can have the most impact. The Customs Service has increased the scope of its efforts to stop outbound smuggling, but it can't be everywhere along our thousands of miles of border. Nor could the IRS, Customs, or the Secret Service identify and investigate all of the complex transactions which may involve potentially illicit funds. As Commissioner Weise will testify, better targeting is critical.

I think our enforcement efforts have begun to pay off. Our success cannot be measured only by the numbers of cases prosecuted and assets seized. We have forced the money launderers into alternative, often complex, and more costly transactions. The "charge" for money laundering has increased to take account of the increased risk of apprehension, and our intelligence indicates that money launderers are having to change their methods constantly in response to regulatory and enforcement measures. Finally, we believe that mainstream, legitimate U.S. financial institutions have been sensitized to the problem of money laundering. The increased integrity of our financial system may be an intangible measure of our success, but it is an important one nonetheless.

Mr. Chairman, we know that your Subcommittee had been particularly concerned with our civil penalty process. Here is an area where we have made significant progress. Since your 1992 hearing, Treasury has assessed over 40 civil money penalties against banks, non bank financial institutions, casinos, and individuals for a total of almost 8 million dollars. There are also several other cases which are settled in principle or in active negotiation.

We also expect the changes I have described in our prevention and detection strategies to show significant gains in our enforcement success. Our initial emphasis on prevention and detection reflects our feeling that is the best way, in the long term, to help enforcement.

The Money Laundering Task Force's efforts have gone a long way toward defining how Treasury can best engage the assistance of the financial industry. The Task Force also identified a number of steps that need to be taken to improve our overall efforts. I have directed FinCEN to continue the work of the Task Force by implementing regulatory initiatives and to assist in coordinating the efforts of all of Treasury's anti-money laundering components to develop effective strategies to combat financial crime.

Organizational Changes. I have also moved to revise the structure of Treasury's own efforts.

I've started with FinCEN. When it was created four years ago, FinCEN was focused solely on detection. Its work has been very encouraging, but I wasn't satisfied that its scope was sufficiently broad for the strategy we had in mind.

In May, I asked Stan Morris, who had served for 18 months as my chief of staff and had previously served as Director of the Marshals Service and as a Deputy Director of the Office of National Drug Control Policy, to become FinCEN's Director. It wasn't easy for me to give up Stan's full-time counsel, but I wanted him to be in charge of a major initiative.

FinCEN's Director has been given full responsibility for administration of the Bank Secrecy Act. The change has been made to permit information and policy to be merged and to affect one another in more productive ways. As part of the change, the

Office of Financial Enforcement is being consolidated with FinCEN.

At the same time, of course, organizational changes have taken place at IRS and are under review at Customs. Interagency coordination continues to improve. Major task force efforts are under way all along the Southwest Border and in New York and South Florida. The profile of Project El Dorado in The New Yorker several weeks ago testifies both to the work our agents are doing and to the public perception that our counter-money laundering efforts can make a real difference.

There is no reason that money laundering should be exclusively a province of federal law enforcement. We need to use our expertise to assist state and local officials who are much closer to many institutions through which money launderers seek increasingly to move funds.

Project Gateway, announced at the San Antonio hearing last year, is a good example. Gateway seeks to get our information resources directly to state and local investigators by giving each state on-line access to the BSA information at the Detroit Computing Center. The experience of Texas has borne out our hopes for the Program.

Texas investigators found useful information in almost 60 per cent of more than 5,700 queries Texas conducted during the six month Gateway test period. For example, in September 1993 investigators used their access to the data base to identify potentially suspicious activity. One business with unusual

activity had identified itself as an accounting office. In fact, it was a Houston giro house that subsequently was convicted of illegally transmitting money to Panama. Other targets, casas de cambio as well as giro houses, have also been identified. Texas tells us that the biggest limitation now facing its officials is a shortage of investigators and computer resources to analyze and use the tremendous volume of valuable data available through Gateway.

The Gateway pilot program with Texas has been so successful that we intend to expand this project to all 50 states. Currently, we have signed MOUs with 23 states and are taking steps to bring those states on-line within the next two months.

In fact, Mr. Chairman, Christine Reis, a senior analyst in the Financial Crimes Division of Texas' Attorney General's Office, is on a 30-day detail to FinCEN to help implement and improve Gateway. Chris is the person who operated the Gateway system in Austin during the Gateway Pilot, and she'll continue to do so. George Albreck, the Special Agent in Charge of the Financial Section in the Pennsylvania Attorney General's narcotics unit, is also on a 30-day detail to FinCEN. Chris and George are in the audience this morning, and I'd like to ask them to stand.

Finally, I want to say a word about Treasury's international efforts. We are committed to an international approach to dealing with financial crime. That commitment is not

only a matter of policy but of necessity, because we live in a world that is constantly shrinking, and organized criminal activity does not respect national borders. We know that money laundering activity gravitates to countries with the weakest anti-money laundering programs. So we are working with individual countries and international organizations -- especially the Group of 7's Financial Action Task Force -- to do what we can to help countries around the world build strong domestic programs as effective as ours and assure that those countries will cooperate in international investigations, prosecutions, and forfeiture actions. Such cooperation has increased dramatically in the last five years.

We have begun in an encouraging way to work on joint matters with the Mexican government, a step that can have immediate benefits in our domestic enforcement efforts, especially along the Southwest Border. We have worked cooperatively with a number of governments in major cases, such as Operation Primero, as Commissioner Weise will describe.

I hope that my remarks have provided an outline of Treasury's strategic objectives. I believe that we have laid a strong foundation for a Treasury-wide strategy, and that we are making progress. But we clearly need to do more, as I've explained, and so we're hard at work. I intend to re-evaluate our progress and strategy constantly to ensure that our methods are adjusted to reflect the ever-changing nature of money laundering.

I cannot end without noting personally my appreciation, and that of Secretary Bentsen, for the role Chairman Pickle has played in the evolution of the policies I have described today. For many years, the Chairman has proved that constructive -- even, at times, pointed -- criticism is the truest measure of spirited interest in and support for Treasury's programs. Much of our progress in the BSA penalty area and Form 8300 enforcement can be attributed to the frequent, albeit not always gentle, prodding of the Chairman. We also are grateful for his efforts toward securing the authority of the IRS Criminal Investigation Division to apply recovered funds to ongoing enforcement efforts. We will miss his wisdom, insights, and humor. He has set a high standard for those who succeed him.

Financial Institutions Subject to the Bank Secrecy Act

FEDERAL RESERVE
1,688

Member Banks
Foreign Banks & Agencies
Foreign Rep. Offices
Other Foreign Bank Orgs.

NCUA
12,581

Insured Credit Unions

CASINOS
350

Casinos with gross annual revenue in excess of $1M operate in 23 states.
48 states have gambling.

OCC
3,377

National Banks
Foreign Banks & Agencies

OTS
1,669

Savings Associations

SEC
5,200 (est)

Brokers/Dealers

U.S. POSTAL SERVICE
37,000

All 50 States, plus Territories

FDIC
7,277

Commercial Banks
Savings Banks
Foreign Banks & Agencies

IRS EXAM
200,000

Non-bank Financial Institutions (Money Transmitters, Check Cashers, Currency Exchanges, Issuers/ Redeemers of Money Orders/Traveler's Checks)

STATE BANK REGULATORY AGENCI

All 50 States

New Regulatory Initiatives

REDUCTIONS

- Revise Reporting Forms
  - CTR
  - CMIR
  - CTRC
  - FBAR
- Simplify Exemption Process
- Withdraw Notice Requiring Mandatory Aggregation
- Withdraw Notice Requiring Mandatory Magnetic Filing
- Reduce Recordkeeping Requirements for Purchases of Monetary Instruments

ENHANCEMENTS

- Streamlining Suspicious Transaction Reporting
- Improved Wire Transfer Recordkeeping Requirements
- Revised Foreign Bank Draft Reporting
- Anti-Money Laundering/ "Know Your Customer Programs"
- Enhancing Money Laundering Examination Procedures
- Establishing Interagency Money Laundering Training
- NBFI's
  - Clarify Definitions
  - State Licensing and Regulation
  - Federal Registration

A Recipe for a Successful Anti-Money Laundering Program

Know Your Customer Policy

Training

Internal/External Audits

Policies

Laws

Constant Vigilance

Information Exchange • Cooperation

Regulations

Procedures

Enforcement

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FOR IMMEDIATE RELEASE
September 20, 1994

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SECRETARY BENTSEN ANNOUNCES FOLEY NOMINATION

Treasury Secretary Lloyd Bentsen announced Tuesday the nomination by President Clinton of Maurice B. Foley to be a judge on the U.S. Tax Court.

Foley, currently Deputy Tax Legislative Counsel in Treasury's tax policy office, would be the first African-American to serve on the Tax Court. His nomination is subject to Senate confirmation. The 19-member court settles disputes between taxpayers and the Internal Revenue Service.

The court is headquartered in Washington and has a field office located in Los Angeles. The court conducts trial sessions at various locations around the country.

In his current job at Treasury, Foley, 34, is generally responsible for domestic tax legislative issues. Before that he was tax counsel for the U.S. Senate Finance Committee (1988-1992). Prior to working on Capitol Hill, he was an attorney for the Legislation and Regulations Division at the Internal Revenue Service (1985-1988).

He is a graduate of Swarthmore College (1982) and Boalt Hall School of Law at the University of California at Berkeley (1985). He received a Masters of Law in Taxation from Georgetown University Law Center (1988). He is married to Cassandra Green-Foley. They have three children: Malcolm, Corinne and Nathan.

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TEXT AS PREPARED FOR DELIVERY
FOR IMMEDIATE RELEASE
September 21, 1994

American Business Conference
Speech by
Lawrence H. Summers
Under Secretary of the Treasury
for International Affairs

I am delighted to have this chance to speak to the American Business Conference. As CEO's of dynamic, cutting-edge companies, you are well-placed to seize the opportunities offered by a brightening world economy. Today I would like to talk to you about global economic prospects, and what we are doing to help you take advantage of them.

None of what we in government do would matter without a hungry, adaptive private sector. I'm excited about how American companies have re-engineered for the present recovery:

o Unit labor costs rose by only 0.6 percent last year -- the smallest advance since 1965. In manufacturing, unit labor costs actually fell by 1.6 percent, and they continue to drop. On a trade weighted average, we're doing much better than our competitors.

o Manufacturing productivity soared by 5.6 percent over the first half of this year. Productivity in the private, non-farm sector grew by an average 2.5

percent yearly from 91 to 93, after three flat years.

- o Government will do its part, cutting 272,000 federal jobs over the next five years.

We worry about fighting off Japan and Germany, but they're not even close.

- o The World Competitiveness Report, the most respected independent study, ranked us first among 41 countries. Germany was only fifth -- and Japan didn't even make it into the top 10.

That kind of private sector -- one that produces the Microsofts and Thermo Electrons of the world -- flourishes only if supported by a government committed to exports.

- o The Clinton administration has done more to foster exports than any administration in recent memory. Promoting exports has been a cornerstone of our economic and foreign policy.

We start from the principle that exports must be our top priority. Exports open whole new regions to our products. They force us to do battle with the best firms worldwide. They ensure that American business stays nimble, adapting to new challenges. And they provide the kind of jobs that will last, because they require our workers be the best in the world.

Export Activism

The Clinton administration's approach to trade embodies a philosophy which I call export activism. What is export activism? I can start by describing what it isn't.

Export activism is not the sort of reactive protectionism too often embraced in the past. Markets, not bureaucrats, best decide where investments should flow. More market-

driven trade is good -- it's good for jobs and productivity, for producers who get lower-cost inputs, and consumers who reap the benefits. And trade does far more to improve living standards than do heavy-handed labor, environmental, or protectionist policies -- either at home or abroad.

But export activism also is not *laissez-faire*. If markets are a fact, it's also a fact that other countries sometimes meddle with them. The *laissez faire* purists think that no matter what other countries do, the right thing for the United States to do is simply to keep our markets open. That "turn the other cheek" mentality isn't shared by the Clinton administration.

What export activism is, is pragmatic. It's a real world approach, one that recognizes that more trade is good for the United States and other nations. But we also recognize that markets won't always open on their own. In a world in which some countries act strategically, the United States must use its might to force down barriers around the world.

We carry out this export activist philosophy through several avenues. Policies that promote sustained growth in the world economy, multilateral agreements to bring down barriers, regional & bilateral agreements that integrate dynamic areas, and unilateral actions to knock down protectionists are all essential. Vigorous promotion of U.S. exports has been a hallmark of this administration's approach. I would like to say a few words about each of these five areas.

Sustained Growth

Sustained growth provides the bedrock for export expansion. Pursuing sound fiscal policies is the first thing a president must do to lay the basis for growth. That's why cutting

the budget deficit early on was so important. We succeeded.

- o The United States next year will have the smallest budget deficit, as a share of income, of all the G-7 countries.

Keeping the U.S. deficit low was just part of a three-pronged strategy for world growth that we and the G-7 countries agreed upon last year. European interest rate cuts, and Japanese fiscal stimuli were the other two prongs.

- o The Germans have done their part, easing the discount rate down by over 400 basis points over the past two years.
- o Japan has taken some steps to open the fiscal spigots, including tax cuts to boost consumption.

The three prong strategy has worked.

- o All signs point to 3.6 percent U.S. growth this year, levelling off at 2.5 to 3 percent growth for 95 and beyond.
- o We expect U.S. exports to grow 8% this year, to $493 billion. That's twice 1993's rate of growth.
- o We've added 4.3 million new jobs over the past year and a half, and have cut unemployment down to 6.1 percent.
- o We've kept the inflation genie in the bottle: it's holding at about 2.7 percent.

Our export markets are picking up steam, though they're a bit behind us.

- o Germany is powering a European recovery: we expect 1.6 to 2 percent German growth this year, speeding up to 2.7% in 1994.
- o OECD Europe as a whole should match that growth rate by next year. We

think there's still some slack in the European economy and hope the Germans don't pull in the monetary and fiscal reins too tightly.

- o Japan's rebound remains a bit feeble, and will show only about a half a percent growth this year. Japan may add a point next year. We think the Japanese should keep income taxes low so as not to choke off the fledgling recovery.

Export Promotion

Vigorous and direct promotion of U.S. exports is a second prong of our export activism. The President's phone call to Saudi Arabia and Ron Brown's visit to China were not isolated efforts.

- o High-level involvement by administration figures won dozens of contracts worth more than ten billion dollars for U.S. businesses last year.

This sort of export promotion may sound like it circumvents the market. In an ideal world, it wouldn't be necessary. But this is not an ideal world. Foreign governments fight to win contracts for their industries; this administration will use its full power to counter them.

Let me cite just a few of the many other export promotion strategies we've originated.

Tied aid -- in which countries donate credits but specify it can only be used to buy their products -- choked off as much as $15 billion worth of potential U.S. exports two years ago.

Exim, the Export-Import Bank, has announced that the United States will match other

countries use of tied aid for key competitive projects. Countries now know that if they even think of granting tied aid, the U.S. will fight them tooth and nail.

- These and other initiatives have reduced the use of tied aid credits worldwide from $15 billion in 1992 to $7 billion last year. That's $8 billion more worth of business for which American firms can now compete on an equal footing.
- We continue to slash export controls, to make sure exporters don't face home-grown hurdles. We've cut the total value of goods requiring some export licenses or authorizations by more than $30 billion over the past year alone. And we want to cut up to $40 billion more, and have proposed a new Export Administration Act to do it.

American support for the Multilateral Development Banks, or MDBs, bolsters our exports to new markets.

- Last year, U.S. firms won contracts totalling more than $2.7 billion on projects funded through the MDBs.

The banks lend a major chunk of their funding for structural adjustment. That helps countries change their trade policies and open markets -- creating new points of entry for U.S. firms.

- Our exports to countries getting such help from the banks have risen 15.5 percent yearly in Latin America, and 7.3 percent yearly in Asia. That compares with only 3.7 percent export growth for the countries which didn't get such help.

<u>**Multilateral Agreements**</u>

Nailing down multilateral trade agreements is a third prong of our export activist approach. Multilateral agreements pull new nations into the school of free-traders, while opening whole new sectors for our most competitive industries.

Completion of the Uruguay Round will provide a massive shot in the arm to U.S. and world trade.

- o The pact will add some $100 to $200 billion to U.S. income, while creating as many as 1.4 million new American jobs within 10 years. The whole world will enjoy a $750 billion tax cut in the form of tariff reductions.

But the round remains a mammoth, uncashed check. Congress hasn't passed the implementing legislation yet, and the administration is wrestling to have that done by the end of the year. Delaying adoption or tacking on amendments is a dangerous strategy. It tempts other countries to unravel the deal. We must cash this check now.

One of the most exciting aspects of the Uruguay Round is that it will bring whole new areas for American businesses under the free-trade umbrella. For the first time some of the sectors in which we do best -- intellectual property, services, agriculture -- will be opened to our firms.

Financial services is one industry where we lead the world. Uruguay didn't let us complete our work on opening global financial markets. We will go back to the negotiating table January 1, and plan to push through an agreement by June of next year.

I subscribe to the bicycle theory of freeing trade. If we don't keep peddling forward, the bicycle keels over. We can't rest with the end of the Uruguay round -- liberalization must continue.

That's why we are already working with our major economic partners -- Japan, the European Union, and Canada -- to develop strategies to open whole new markets for our business. Communications, high-tech industries, harmonization of standards are all ripe for progress.

We also want to broaden our focus from trade alone, to opening new regions for our investment. U.S. capital paves the way for exports. Where American investments are secure, exports soon follow.

- o We've negotiated nearly 30 bilateral investment treaties, most with newly emerging democracies and Latin American states.
- o We want to turn next to erecting multilateral investment regimes to secure new regions for our business.

Let me say a word here about fast track negotiating authority. With fast track, Congress can only vote yes or no on agreements negotiated by the President. This means that opponents of trade agreements can't tack on hundreds of amendments.

Other countries won't even sit at the bargaining table with the President if they know Congress can change any agreement he reaches. Fast track authority is therefore essential, if the President is to be able to win new, market-opening pacts for American business.

The administration reluctantly bowed to congressional opposition, and has decided not to seek fast track authority as part of the Uruguay Round implementing legislation. It is critical that we get fast track as soon as possible next year. If we don't win it now, it may be years before the process of strengthening and deepening free trade pacts can continue.

Bilateral Agreements

Regional and bilateral agreements form a fourth prong of our export activism.

NAFTA was as big a legislative fight as there ever was. The administration took on some of its strongest constituencies to pass this groundbreaking initiative. We're already reaping the benefits.

- o Our exports to Mexico rose nearly 17 percent during the first six months of 1994. In fact, Mexico has bumped Japan as our second-biggest export market.
- o Sales to Canada, our largest market, were up 9 percent.
- o NAFTA has also added 100,000 jobs to the U.S. economy so far.

But trade pacts with developing regions, such as NAFTA, do more than just fatten our balance books. They test what we're made of as a people -- the role we want to play in the world. Are we a nation governed by fear, or guided by hope? Do we fear countries like Mexico? Or are we confident enough to seize the business and trade opportunities they provide, to embrace change and compete?

Passage of NAFTA sent a clear message about how far we will go to support bold economic reform around the world. Dozens of regions where reform has yet to take hold will look to NAFTA as an example. These regions will generate the exciting new markets of the future.

We have not rested on our laurels. In fact, we're turning our sites beyond NAFTA, to all of Latin America.

- o Our exports to the South grew to $78.2 billion in 1993 -- a full 50% more than Japan -- and were 13% higher in the first-quarter of 1994 than one year before.

We want to redouble our efforts to open these new markets to trade. President Clinton plans to start the process this December, when he hosts the Summit of the Americas -- the first meeting of hemispheric leaders since the 60s.

We strongly hope to enter into free trade negotiations with Chile.

- o Chile over the past decade has pursued the kinds of model growth and trade promoting strategies we want all Latin America to follow.
- o The Chileans have slashed tariffs to uniform levels and thrown their doors open to imports and investments.
- o They've got one of the most dynamic stock markets in the region, capitalized at near 100% of their GDP.
- o Poland took Chile's mammoth privatization scheme as a blueprint.
- o The market has rewarded Chile -- with growth averaging 6% yearly since the late 1980s.

A free trade agreement with Chile would make that country the entry-point for American business in the region. It would also convince other states to follow Chile's example.

Asia's rise to economic might may well turn out to be the most important event of our era.

- o The 17 Pacific nations who belong to the Asia-Pacific Cooperation forum represent the most rapidly growing markets in the world.
- o They account for a full 57% of total U.S. exports.
- o Our sales to the developing Asian states have grown nearly 15% yearly since

the middle of the 1980s.

- o And contrary to popular beliefs about Japanese dominance, U.S. exports to developing Pacific states are running neck and neck with Japan's.
- o By the year 2,000 -- even leaving Japan out -- more than 75 million Asian households will have attained middle class wealth. That's 75 million homes demanding pharmaceuticals, communications, entertainment, financial services -- the very things we do best.
- o Even more households will be there in 20 years, as giants such as China and Indonesia start to reach middle class status.

Now is the time for us to strike. We must strengthen our foothold in Asia, to ensure no nation overtakes us. The APEC summit hosted by President Clinton last year launched our campaign to use the forum to foster deeper trade and investment relationships.

<u>Unilateral Measures</u>

Unilateral measures must be retained in our arsenal. They bring the full force of American trade law to bear against nations which refuse to dismantle barriers. That is why President Clinton took the bold step of extending his Super 301 powers to punish protectionist nations

Some critics think that tools like Super 301 represent a form of managed trade. The charge is groundless. Unilateral measures are part and parcel of the administration's multilateral efforts through GATT. In the real world, America's influence can often bring barriers down faster than can working through GATT's multilateral fora. That helps all of our trading partners.

Japan's markets remain a problem for us. We are making a decisive push through the Framework talks to remove structural barriers. We look for progress very soon for many industries, including financial services, autos and auto parts, government procurement, and intellectual property.

Conclusion

These five steps -- laying a base for growth, promoting exports, working to bring down trade barriers globally, pursuing regional opportunities, and addressing the problems of free riders on the international trading system -- constitute the essence of our export activist philosophy. President Clinton sums it up when he declares that America must compete, not retreat.

As I said earlier, none of what we in the government do would matter if the United States did not have a powerful and adaptive private sector.

I've talked about how important exports are for our own prosperity. I'd like to conclude by noting how important exports are for the world.

If we've learned anything over the past 40 years, it's that the world economy is not a zero-sum game. More trade is good both for us and our partners. Exports are the engine for growth here at home. But trade also lays the basis for growth overseas, opening new regions for development and prosperity. The key is for the United States to forge ahead into these markets, to embrace challenges posed by a dynamic and changing world. We must compete, not retreat. Thank you.

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FOR IMMEDIATE RELEASE
September 20, 1994

BENTSEN TO REVIEW CUSTOMER SERVICE INITIATIVES AT DULLES

Treasury Secretary Lloyd Bentsen will visit Dulles Airport Thursday to discuss initiatives that enable passengers and cargo to be processed more quickly and efficiently.

The Secretary's visit, part of the National Performance Review's national customer service initiatives, will be on Thursday, September 22 at 2:30 p.m.

He will tour the U.S. Customs Service's international arrivals area with Customs Commissioner George Weise and discuss Customs new customer service standards. Secretary Bentsen will also speak with Customs passenger service representatives, a new position responsible for assisting international passengers, and airline representatives.

Passenger service representatives are one of the Custom's customer service initiatives that currently are in place in 10 major American airports (Dulles, Chicago, Boston, Miami, Atlanta, Houston, Dallas, Los Angeles, Honolulu and Detroit).

Contacts: Treasury, Jon Murchinson (202) 622-2960
U.S. Customs Service, Janice Mosher (202) 927-0227

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LB-1099

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FOR IMMEDIATE RELEASE
September 20, 1994

STATEMENT BY SECRETARY BENTSEN ON JAPANESE TAX MEASURES

I am pleased that the Japanese authorities have decided to delay their planned increase in consumption taxes until April 1997, and to make permanent cuts in income taxes. This delay in the consumption tax will continue the stimulus to Japan's recovery, which needs to gather momentum. A strong, domestic demand-led recovery in Japan is important to reduce Japan's trade surplus.

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FOR RELEASE AT 2:30 P.M.
September 21, 1994

CONTACT: Office of Financing
202/219-3350

TREASURY TO AUCTION 2-YEAR AND 5-YEAR NOTES
TOTALING $28,250 MILLION

The Treasury will auction $17,250 million of 2-year notes and $11,000 million of 5-year notes to refund $23,465 million of publicly-held securities maturing September 30, 1994, and to raise about $4,775 million new cash.

In addition to the public holdings, Federal Reserve Banks hold $2,204 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 $1,486 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) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

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

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Attachment

LB-1101

HIGHLIGHTS OF TREASURY OFFERINGS TO THE PUBLIC OF
2-YEAR AND 5-YEAR NOTES TO BE ISSUED SEPTEMBER 30, 1994

September 21, 1994

Offering Amount	$17,250 million	$11,000 million
Description of Offering:		
Term and type of security	2-year notes	5-year notes
Series	AL-1996	S-1999
CUSIP number	912827 R3 8	912827 R4 6
Auction date	September 27, 1994	September 28, 1994
Issue date	September 30, 1994	September 30, 1994
Dated date	September 30, 1994	September 30, 1994
Maturity date	September 30, 1996	September 30, 1999
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	March 31 and September 30	March 31 and September 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

Receipt of Tenders:

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

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

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

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

PREPARED STATEMENT OF R. RICHARD NEWCOMB
DIRECTOR, OFFICE OF FOREIGN ASSETS CONTROL
DEPARTMENT OF THE TREASURY
before the
COMMITTEE ON FOREIGN RELATIONS
SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY,
TRADE, OCEANS AND ENVIRONMENT
UNITED STATES SENATE

September 21, 1994

Chairman Sarbanes and Members of the Committee:

Good morning. I am here to discuss the Administration's proposed Iraq Claims Act of 1994 (S. 1401).

The Administration's proposed Iraq Claims Act of 1994 was developed to provide a fair and orderly system for satisfying the claims of U.S. nationals and the United States against Iraq. The Iraq Claims Act incorporates the best approach to compensation issues, one that will permit available assets to be allocated equitably among similarly-situated claimants. The bill authorizes adjudication of U.S. nationals' claims in a single forum, applying consistent standards of proof, and permits the President to compensate claimants by vesting blocked Iraqi assets in the United States.

We believe this approach is far preferable to piecemeal approaches represented by other proposals compensating small segments of the business community, or individual litigation resulting in a race to the courthouse, either of which will result in inequitable rates of recovery.

The Iraq Claims Act establishes an orderly procedure for adjudicating claims. It complements the U.N. compensation program, which was set up to handle claims resulting from Iraq's invasion and occupation of Kuwait. Like the U.N. program, it establishes a priority for non-commercial claims made by veterans of Desert Shield and Desert Storm or other individuals arising out of Iraq's invasion and occupation of Kuwait, or the 1987 attack on the U.S.S. Stark. Beyond that, all similarly-situated claimants are treated equally. This evenhanded treatment of claims is consistent with our administration of the sanctions and the longstanding U.S. Government policy of preserving blocked assets as a pool against which all claimants are given an opportunity to seek recovery. Applicable substantive law to be applied to the claims of U.S. nationals is the responsibility of the Foreign Claims Settlement Commission.

In considering the compensation of U.S. nationals, the United States must consider the interests of all U.S. claimants, and attempt to preserve their access to an equitable settlement regime. The United States is committed to a fair and equitable distribution

of the available funds among all U.S. claimants. If blocked property forms the basis of the compensation funds, it is not in the interest of the United States to permit a piecemeal distribution of this property. Piecemeal distribution based on a race to the courthouse will result in variable rates of recovery by U.S. nationals on their claims against Iraq, and may result in some U.S. nationals obtaining little or no recovery. This policy has been followed consistently through the Iraq program and other sanctions programs including, for example, the Iran hostage crisis of 1979-81 where nearly $12 billion was blocked. An equitable claims resolution program was established through the Iran-U.S. Claims Tribunal and various escrow accounts established by the Algiers Accords.

There is no reason that one class of unsecured creditors, such as those holding certain letters of credit, should rate more highly than other unsecured creditors with receivables or breach of contract claims. Moreover, this bill also addresses individuals with death, injury or expropriation claims. Unsecured creditors, including unsecured letters of credit holders, should not be compensated 100% at the expense of veterans and individuals, whose recoveries would be reduced or even eliminated so that a small group of businesses could receive full compensation.

A version of this bill (H.R. 3221) was approved by the House of Representatives on April 28. The version passed by the House is similar in all essential respects with the original Administration proposal (S. 1401). We hope that the members of the Committee and the Congress will join us in supporting the inclusive and equitable approach taken in the Iraq Claims Act of 1994.

I thank you for the opportunity to appear before the Committee this morning. I will be pleased to respond to any questions.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
September 21, 1994

MEDIA ADVISORY

The time of Treasury Secretary Lloyd Bentsen's visit to the U.S. Customs Service facilities and initiatives at Dulles Airport has changed. The new time is 3 p.m. on Thursday, September 22, 1994. Parking will be available for television crews on the departure ramp above the international arrivals terminal. Other press should park in the short-term lot. Once in the main terminal proceed to the Customs Registration Window for an escort to the international arrivals area.

Contacts: Treasury, Jon Murchinson (202) 622-2960
U.S. Customs Service, Janice Mosher (202) 927-0227

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LB-1103

DEPARTMENT OF THE TREASURY

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FOR IMMEDIATE RELEASE
Text as Prepared for Delivery
September 22, 1994

REMARKS OF TREASURY SECRETARY LLOYD BENTSEN ON CUSTOMER COMMITMENTS BY U.S. CUSTOMS AT DULLES INTERNATIONAL AIRPORT

I've been looking forward to this one, because I spend a lot of time on airplanes and at airports. Somebody figured out that I've visited 12 airports already this month, and I still have two more trips to make.

Let's be honest. As Treasury Secretary, I walk in, I'm on a Diplomatic Passport, I have Secret Service, and I have people who want to fill out my papers for me and take the luggage.

But don't think I don't see lines. Don't think I don't understand that people are dead tired when they walk in the gate. They've been on a plane for 14 hours and the last thing they want to do is have their luggage searched.

When I was Senator Bentsen, I'd get letters. Nobody wrote me to say: "The Customs inspectors in Dallas or Houston did wonderful work today."

But I received a few who didn't like being stopped and searched. It made them mad. Mad enough to write me.

I'd send the letters to Customs; Customs would send them to the field office; four months later, nobody in the field remembered the incident; and the customer would get a plain vanilla letter back, probably more to please me than the taxpayer.

We're trying to change that. We're trying to make everyone who walks through the gate a happy customer. The Commissioner took you through the commitments Customs is making.

Let me tell you the results at Dulles. I'm going to brag today -- big time.

LB-1104

In 1992, it took, on average, 35 minutes to clear passengers through Customs once they received their luggage. In 1994, it took, on average, 5 minutes.

Pretty impressive, but those numbers won't make a bit of difference if enforcement results decline. They haven't.

In 1992, there were 9 large heroin seizures, for 16 pounds. In fiscal '94, we've had 19 heroin seizures at Dulles, for 59 pounds.

If you ask the Customs inspectors here, what's more important, they'd probably say the enforcement results. They're here to make seizures.

Now, the customer probably thinks differently. He or she doesn't like to wait -- and I don't blame them -- but the five minute wait is a lot better than a 35 minute one.

Usually customers have choices. They rent a car, they can go to Hertz or Avis. They pick an airline, they can go to United or TWA or whatever. But when it's time to turn in your declaration, they can only come to us. We're it. We're a monopoly.

I used to own a business, and I know what drives businesses to do better -- competition. Monopolies don't have competition. But that doesn't mean public servants don't have pride. That doesn't mean we can't re-invent ourselves like they do in the corporate world everyday.

I think of what we've done in this Administration in the last 20 months. I think of the deficit reduction. I think of the Brady Law and the assault weapons ban and NAFTA. All of that produces headlines.

But at the end of the day, it's the governing that is important. The inspectors here who catch the drug smugglers, the tax collectors at IRS, the people in the Mint who make the coins, the ATF agents who fight the criminals.

These are the people on the front lines. These are the people making a difference. And these are the people re-inventing our government. I can't re-invent government by signing an order. They have to do it.

Customs lowered the customer processing time and upped the enforcement results by re-inventing the process; by training inspectors on what to look for insofar as potential smugglers; by getting rid of the old thinking that you have to search everyone, and figuring out instead who are the risky travellers; and by working with the airlines to gather information as the passengers board, to do the analysis as the plane is in the air, and to search the people they suspect might be breaking the law.

And the story on what Customs has done for business shipments is just as incredible. It used to take 24 to 48 hours to clear cargo. Now we clear cargo electronically, before the planes even land.

You know, I've been in the public eye for about 30 years. Today, I want the sun to shine on Customs.

So, Pat Solan, can you please stand up, again. And please stay standing.

As you've heard, one more thing we're doing is to have Passenger Service Reps. If there's a problem, the customer can go immediately to the rep and it'll be solved on the spot.

Pat, I don't envy you. The only people who go to you are ones with a bone to pick.

But Pat, I want you to know that when you speak, and you iron those problems out, you're speaking for Lloyd Bentsen. And next time I have the time, and I'm in your neighborhood, I'm going to stop in to have a visit with you and hear how it's going.

Of course, we'll only have five minutes to visit, because that's how long it should take to get me through here, right?

Thank you all, and keep up the good work. I'm watching you.

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NEWS
Department of the Treasury
U.S. CUSTOMS SERVICE

FOR IMMEDIATE RELEASE
September 22, 1994

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DENNIS SHIMKOSKI
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(202) 927-2205

BENTSEN REVIEWS CUSTOMER SERVICE INITIATIVES AT DULLES

WASHINGTON--Treasury Secretary Lloyd Bentsen today visited Dulles Airport and the U.S. Customs Service to assess first-hand the improvement that the agency's new customer service standards have had on the quick, efficient processing of passengers and cargo.

The Secretary, along with U.S. Customs Service Commissioner George Weise, toured the airport's international arrivals area and met with Customs' passenger service representatives, a new position created to facilitate the processing of passengers, and airline officials.

Holding up Customs' new service standards as a model for reinventing government, Bentsen said that, on average, passengers clearing Customs at Dulles Airport now enjoy much faster processing compared to two years ago, from 35 minutes in 1992 to five minutes this year.

-more-

LB-1105

At the same time, Bentsen said, heroin seizures by Customs inspectors have increased from nine large seizures totaling 16 pounds in 1992, to 19 seizures totaling 59 pounds so far this fiscal year.

"Customs lowered the customer processing time and upped the enforcement results by re-inventing the process," Bentsen said in prepared remarks. "They accomplished this by training inspectors on what to look for insofar as potential smugglers are concerned; by getting rid of the old thinking that you have to search everyone, and figuring out instead who are the risky travellers by working with the airlines to gather information. I'm glad to see the partnerships that Customs and the airlines have initiated."

Customs Commissioner Weise said, "All airports are basically the same in that the people in them are always in a hurry. But sometimes these folks have problems. That's where our passenger service representatives come in. Their goal is to help their customers feel comfortable with the Customs process and to educate the community at large about the mission of the agency."

Weise said the new passenger service representatives at Dulles are among those currently in place at 10 major American airports, including, Dulles, Chicago, Boston, Miami, Atlanta,

-more-

Houston, Dallas, Los Angeles, Honolulu and Detroit.

Passenger service representatives are supervisory Customs inspectors who wear special identification over business attire. They are within easy reach of customers, including first-time and well-seasoned travelers, airline and airport personnel, travel agents, political leaders, community groups and children. Their visibility is promoted through posters at airport terminals.

The specially trained officers educate their customers about U.S. duty regulations on purchase of foreign goods to avoid misunderstandings later on. They also inform on-duty Customs inspectors about incoming international flights and sensitize them to cross-cultural differences.

Last year, Customs added representatives to international airports at Boston, Chicago, Honolulu and Houston, which doubled outreach to 28 percent of the 55 million air passengers cleared by Customs. Of the total, customer service airports accounted for nearly 16 million passengers, with 1.4 million at Boston; 2.4 million at Chicago; 1.3 million at Dallas-Fort Worth; .76 million at Detroit; 2.6 million at Honolulu; 1.4 million at Houston; and 5.8 million at Los Angeles.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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September 22, 1994

Monthly Release of U.S. Reserve Assets

The Treasury Department today released U.S. reserve assets data for the month of August 1994.

As indicated in this table, U.S. reserve assets amounted to $75,740 million at the end of August 1994, up from $75,443 million in July 1994.

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/
1994					
July	75,443	11,052	9,696	42,512	12,183
August	75,740	11,054	9,837	42,688	12,161

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.

Monthly Treasury Statement

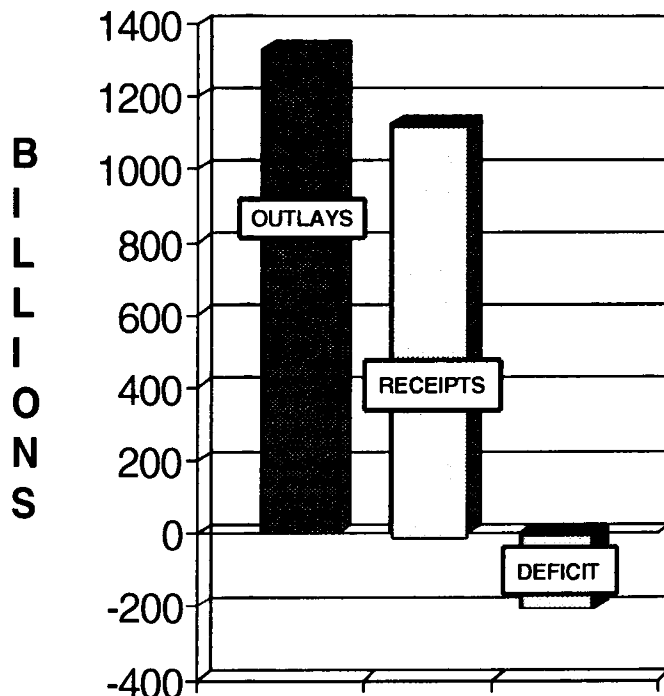
of Receipts and Outlays
of the United States Government

For Fiscal Year 1994 Through **August 31, 1994,** and Other Periods

Highlight

The eleven-month cumulative deficit through August 31 for Fiscal Year 1994 is $207.3 billion compared to a cumulative deficit of $263.8 billion for the comparable period in Fiscal Year 1993.

RECEIPTS, OUTLAYS, AND SURPLUS/DEFICIT THROUGH AUGUST 1994



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Compiled and Published by

Department of the Treasury
Financial Management Service

Introduction

The *Monthly Treasury Statement of Receipts and Outlays of the United States Government (MTS)* is prepared by the Financial Management Service, Department of the Treasury, and after approval by the Fiscal Assistant Secretary of the Treasury, is normally released on the 15th workday of the month following the reporting month. The publication is based on data provided by Federal entities, disbursing officers, and Federal Reserve banks.

Audience

The *MTS* is published to meet the needs of: Those responsible for or interested in the cash position of the Treasury; Those who are responsible for or interested in the Government's budget results; and individuals and businesses whose operations depend upon or are related to the Government's financial operations.

Disclosure Statement

This statement summarizes the financial activities of the Federal Government and off-budget Federal entities conducted in accordance with the Budget of the U.S. Government, i.e., receipts and outlays of funds, the surplus or deficit, and the means of financing the deficit or disposing of the surplus. Information is presented on a modified cash basis: receipts are accounted for on the basis of collections; refunds of receipts are treated as deductions from gross receipts; revolving and management fund receipts, reimbursements and refunds of monies previously expended are treated as deductions from gross outlays; and interest on the public debt (public issues) is recognized on the accrual basis. Major information sources include accounting data reported by Federal entities, disbursing officers, and Federal Reserve banks.

Triad of Publications

The *MTS* is part of a triad of Treasury financial reports. The *Daily Treasury Statement* is published each working day of the Federal Government. It provides data on the cash and debt operations of the Treasury based upon reporting of the Treasury account balances by Federal Reserve banks. The *MTS* is a report of Government receipts and outlays, based on agency reporting. The *U.S. Government Annual Report* is the official publication of the detailed receipts and outlays of the Government. It is published annually in accordance with legislative mandates given to the Secretary of the Treasury.

Data Sources and Information

The Explanatory Notes section of this publication provides information concerning the flow of data into the *MTS* and sources of information relevant to the *MTS*

Table 1. Summary of Receipts, Outlays, and the Deficit/Surplus of the U.S. Government, Fiscal Years 1993 and 1994, by Month

[$ millions]

Period	Receipts	Outlays	Deficit/Surplus (−)
FY 1993			
October	76,829	125,620	48,792
November	74,629	107,355	32,726
December	113,686	152,633	38,947
January	112,716	82,899	−29,817
February	65,979	114,477	48,498
March	83,288	127,263	43,974
April	132,017	124,200	−7,817
May	70,642	107,605	36,963
June	128,570	117,471	−11,099
July	80,630	120,207	39,577
August	86,737	109,815	23,078
September	127,504	118,939	−8,564
Year-to-Date	[1]1,153,226	[1]1,408,485	[1]255,258
FY 1994			
October	78,668	124,090	45,422
November	83,107	121,488	38,381
December	125,408	[2]133,114	7,705
January	122,966	107,718	−15,248
February	72,874	114,440	41,566
March	93,108	125,423	32,315
April	141,326	123,872	−17,454
May	83,546	[3]115,602	32,057
June	138,124	123,275	−14,850
July	84,827	118,025	33,198
August	97,338	121,513	24,174
Year-to-Date	1,121,292	1,328,559	207,268

[1] The receipt, outlay and deficit figures differ from the *FY 1995 Budget*, released by the Office of Management and Budget on February 7, 1994, by $589 million due mainly to revisions in data following the release of the Final September Monthly Treasury Statement.

[2] Outlays have been decreased in December 1993 by $547 million to reflect agency debt previously reported, by the Federal Financing Bank for the Federal Transit Administration, as outlays.

[3] Includes a reclassification from a budgetary status to a nonbudgetary status of $3 million for the "Maritime Administration, Maritime Guaranteed Loan Financing Account".

Table 2. Summary of Budget and Off-Budget Results and Financing of the U.S. Government, August 1994 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	97,338	1,121,292	1,259,905	1,025,722	1,354,333
On-budget receipts	70,949	816,949	925,569	742,648	1,000,459
Off-budget receipts	26,389	304,343	334,336	283,074	353,874
Total outlays	121,513	1,328,559	1,480,013	1,289,545	1,521,447
On-budget outlays	95,279	1,077,997	1,199,239	1,051,088	1,229,419
Off-budget outlays	26,233	250,563	280,774	238,457	292,028
Total surplus (+) or deficit (−)	−24,174	−207,268	−220,108	−263,823	−167,114
On-budget surplus (+) or deficit (−)	−24,330	−261,048	−273,670	−308,440	−228,960
Off-budget surplus (+) or deficit (−)	+156	+53,780	+53,562	+44,617	+61,846
Total on-budget and off-budget financing	24,174	207,268	220,108	263,823	167,114
Means of financing:					
Borrowing from the public	52,350	196,994	210,584	257,964	175,699
Reduction of operating cash, increase (−)	−9,802	22,419	12,506	17,996	......
By other means	−18,374	−12,145	−2,982	−12,137	−8,585

[1]These figures are based on the *Mid-Session Review of the FY 1995 Budget*, released by the Office of Management and Budget on July 14, 1994.

... 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

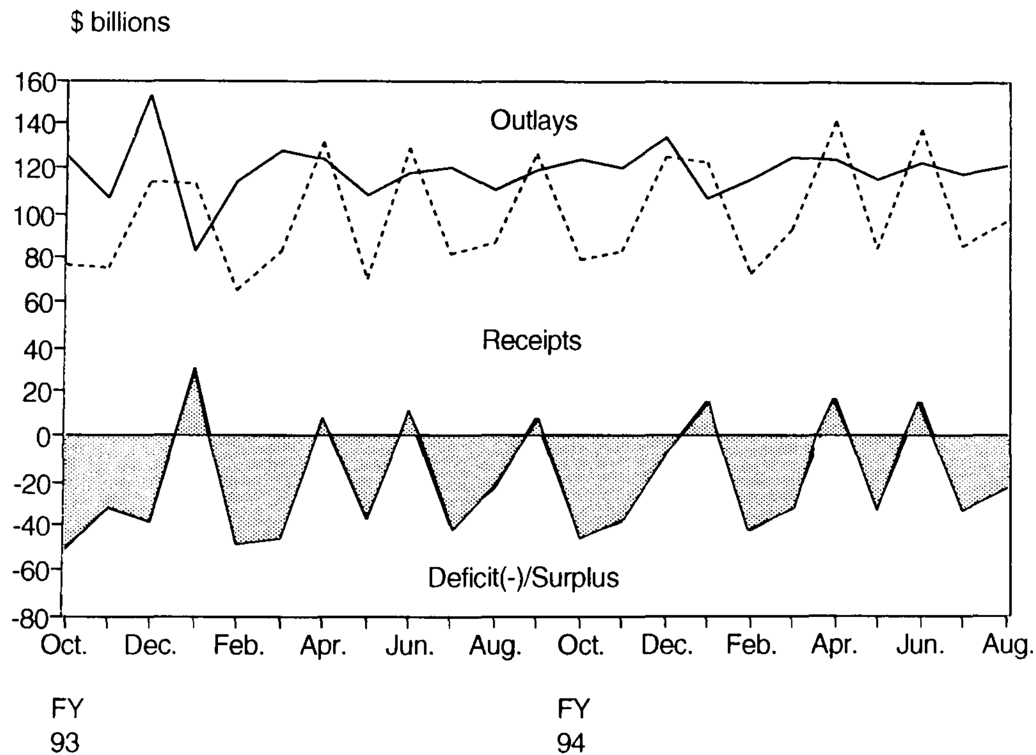

Figure 2. Monthly Receipts of the U.S. Government, by Source, Fiscal Years 1993 and 1994

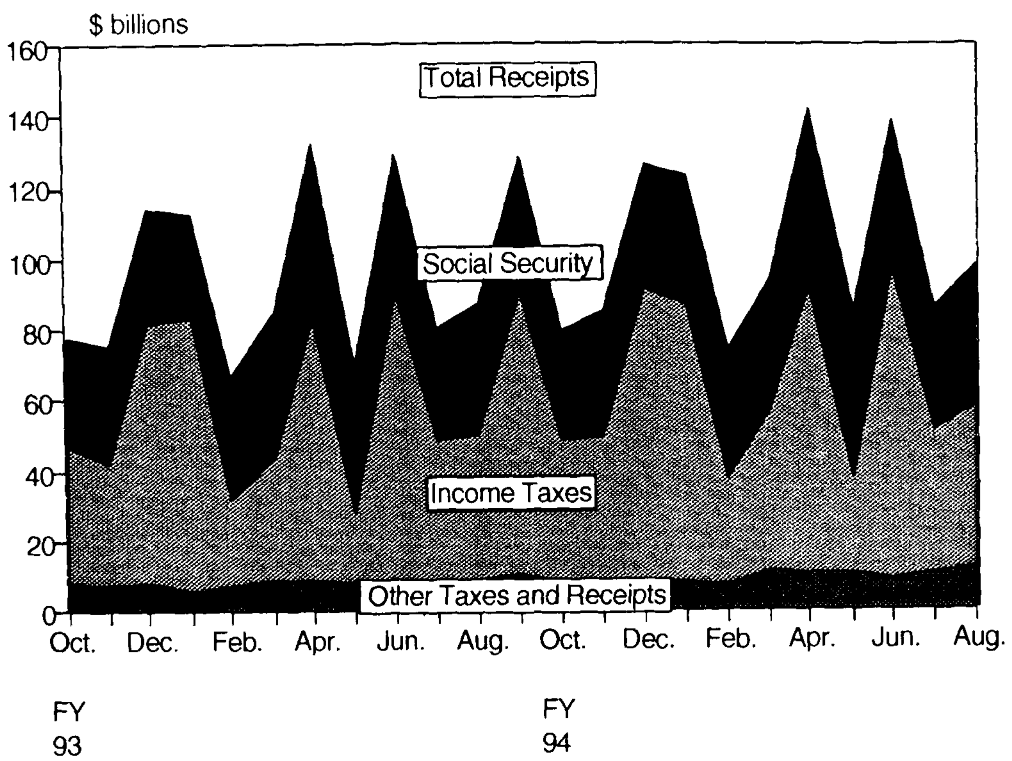

Figure 3. Monthly Outlays of the U.S. Government, by Function, Fiscal Years 1993 and 1994

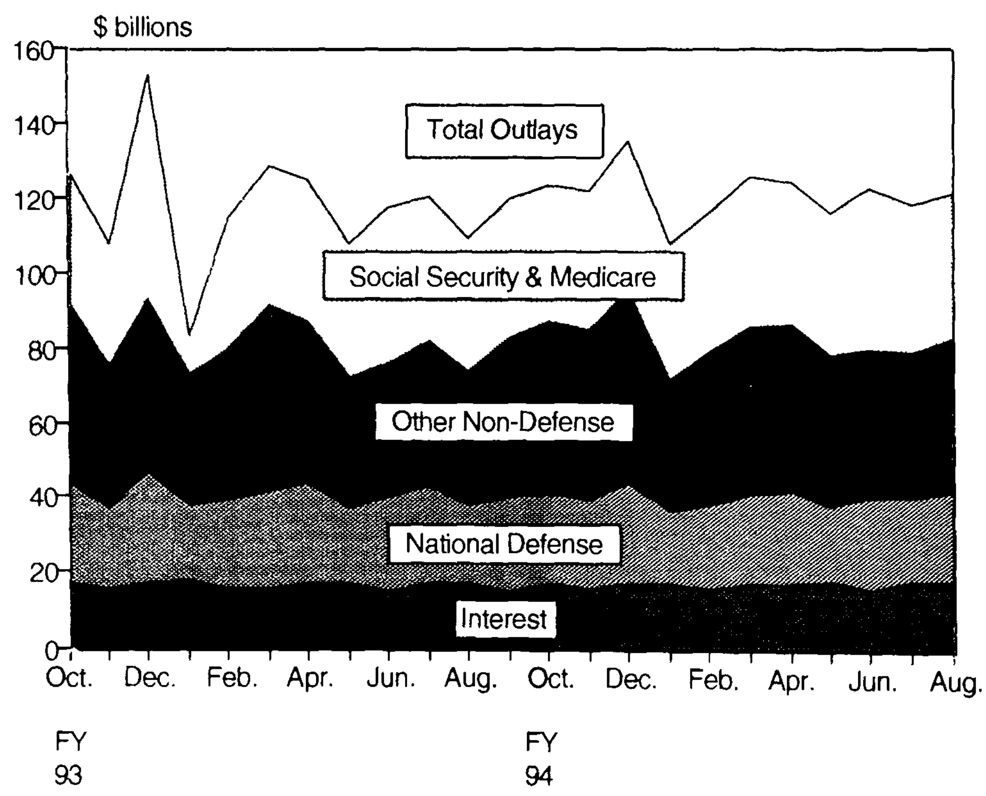

Table 3. Summary of Receipts and Outlays of the U.S. Government, August 1994 and Other Periods

[$ millions]

Classification	This Month	Current Fiscal Year to Date	Comparable Prior Period	Budget Estimates Full Fiscal Year[1]
Budget Receipts				
Individual income taxes	43,170	484,775	454,027	549,583
Corporation income taxes	3,108	113,119	93,010	139,374
Social insurance taxes and contributions:				
Employment taxes and contributions (off-budget)	26,389	304,343	283,074	334,336
Employment taxes and contributions (on-budget)	7,631	84,853	76,957	93,763
Unemployment insurance	4,880	27,659	26,143	27,767
Other retirement contributions	391	4,250	4,357	4,729
Excise taxes	5,989	49,707	43,672	54,594
Estate and gift taxes	1,239	13,971	11,527	14,197
Customs duties	2,039	18,300	17,156	20,064
Miscellaneous receipts	2,502	20,315	15,799	21,497
Total Receipts	**97,338**	**1,121,292**	**1,025,722**	**1,259,905**
(On-budget)	**70,949**	**816,949**	**742,648**	**925,569**
(Off-budget)	**26,389**	**304,343**	**283,074**	**334,336**
Budget Outlays				
Legislative Branch	185	2,350	2,208	2,749
The Judiciary	288	2,470	2,417	2,870
Executive Office of the President	38	213	182	197
Funds Appropriated to the President	224	9,659	10,764	11,369
Department of Agriculture	4,131	56,103	59,018	63,250
Department of Commerce	205	2,633	2,481	3,276
Department of Defense—Military	22,683	242,166	254,870	267,404
Department of Defense—Civil	2,629	27,806	26,789	30,623
Department of Education	2,371	21,285	27,556	25,708
Department of Energy	1,455	15,782	15,107	17,296
Department of Health and Human Services, except Social Security	26,547	282,978	258,752	314,964
Department of Health and Human Services, Social Security	26,711	286,977	272,795	314,747
Department of Housing and Urban Development	2,547	24,282	23,013	26,337
Department of the Interior	495	6,049	5,823	7,083
Department of Justice	774	9,089	9,254	10,744
Department of Labor	2,908	34,707	41,614	36,917
Department of State	494	4,791	5,010	5,786
Department of Transportation	3,763	[2]33,575	30,895	36,820
Department of the Treasury:				
Interest on the Public Debt	19,686	278,403	275,463	299,003
Other	4	11,238	7,144	11,115
Department of Veterans Affairs	3,120	33,158	32,490	37,898
Environmental Protection Agency	503	5,248	5,325	6,238
General Services Administration	423	111	500	783
National Aeronautics and Space Administration	1,304	12,301	13,075	14,227
Office of Personnel Management	3,272	35,255	33,717	38,177
Small Business Administration	123	683	827	1,049
Other independent agencies:				
Resolution Trust Corporation	−568	3,023	−19,136	7,102
Other	−1,053	3,531	5,308	9,473
Undistributed offsetting receipts:				
Interest	−699	−85,534	−82,154	−85,891
Other	−3,051	−31,776	−31,563	−37,300
Total outlays	**121,513**	**1,328,559**	**1,289,545**	**1,480,013**
(On-budget)	**95,279**	**1,077,997**	**1,051,088**	**1,199,239**
(Off-budget)	**26,233**	**250,563**	**238,457**	**280,774**
Surplus (+) or deficit (−)	**−24,174**	**−207,268**	**−263,823**	**−220,108**
(On-budget)	**−24,330**	**−261,048**	**−308,440**	**−273,670**
(Off-budget)	**+156**	**+53,780**	**+44,617**	**+53,562**

[1] These figures are based on the *Mid-Session Review of the FY 1995 Budget*, released by the Office of Management and Budget on July 14, 1994.

[2] Outlays have been decreased in December 1993 by $547 million to reflect agency debt previously reported, by the Federal Financing Bank for the Federal Transit Administration, as outlays.

Note: Details may not add to totals due to rounding.

Table 4. Receipts of the U.S. Government, August 1994 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	40,459			424,498			398,436		
Presidential Election Campaign Fund	1			69			27		
Other	4,015			135,236			129,192		
Total—Individual income taxes	**44,475**	**1,305**	**43,170**	**559,802**	**75,027**	**484,775**	**527,655**	**73,629**	**454,027**
Corporation income taxes	**4,079**	**971**	**3,108**	**125,283**	**12,164**	**113,119**	**105,639**	**12,629**	**93,010**
Social insurance taxes and contributions:									
Employment taxes and contributions:									
Federal old-age and survivors ins. trust fund:									
Federal Insurance Contributions Act taxes	23,835	......	23,835	261,258	745	260,513	244,261	......	244,261
Self-Employment Contributions Act taxes	......	......	......	14,424	......	14,424	11,421	......	11,421
Deposits by States	(* *)	......	(* *)	−45	......	−45	−12	......	−12
Other	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Total—FOASI trust fund	23,835	......	23,835	275,638	745	274,893	255,670	......	255,670
Federal disability insurance trust fund:									
Federal Insurance Contributions Act taxes	2,554	......	2,554	27,987	80	27,907	26,180	......	26,180
Self-Employment Contributions Act taxes	......	......	......	1,543	......	1,543	1,225	......	1,225
Receipts from railroad retirement account	......	......	......	......	......	......	......	......	......
Deposits by States	(* *)	......	(* *)	(* *)	......	(* *)	−1	......	−1
Other	......	......	......	......	......	......	......	......	......
Total—FDI trust fund	2,554	......	2,554	29,530	80	29,450	27,404	......	27,404
Federal hospital insurance trust fund:									
Federal Insurance Contributions Act taxes	7,241	......	7,241	76,227	73	76,155	69,381	......	69,381
Self-Employment Contributions Act taxes	......	......	......	4,888	......	4,888	3,727	......	3,727
Receipts from Railroad Retirement Board	......	......	......	394	......	394	381	......	381
Deposits by States	(* *)	......	(* *)	(* *)	......	(* *)	−3	......	−3
Total—FHI trust fund	7,241	......	7,241	81,509	73	81,437	73,486	......	73,486
Railroad retirement accounts:									
Rail industry pension fund	237	16	221	2,180	44	2,136	2,199	11	2,188
Railroad Social Security equivalent benefit	169	......	169	1,280	......	1,280	1,283	......	1,283
Total—Employment taxes and contributions	34,036	16	34,020	390,137	941	389,196	360,042	11	360,031
Unemployment insurance:									
State taxes deposited in Treasury	4,163	......	4,163	22,163	......	22,163	20,582	......	20,582
Federal Unemployment Tax Act taxes	727	10	716	5,539	103	5,436	5,528	118	5,409
Railroad unemployment taxes	1	......	1	27	......	27	64	......	64
Railroad debt repayment	......	......	......	32	......	32	88	......	88
Total—Unemployment insurance	4,890	10	4,880	27,761	103	27,659	26,262	118	26,143
Other retirement contributions:									
Federal employees retirement − employee contributions	382	......	382	4,159	......	4,159	4,271	......	4,271
Contributions for non-federal employees	9	......	9	91	......	91	87	......	87
Total—Other retirement contributions	391	......	391	4,250	......	4,250	4,357	......	4,357
Total—Social insurance taxes and contributions	**39,318**	**26**	**39,292**	**422,148**	**1,044**	**421,104**	**390,661**	**129**	**390,532**
Excise taxes:									
Miscellaneous excise taxes[1]	4,171	290	3,881	30,033	1,005	29,028	24,487	509	23,978
Airport and airway trust fund	478	......	478	4,673	28	4,644	2,866	15	2,852
Highway trust fund	1,582	......	1,582	15,988	490	15,498	16,544	283	16,262
Black lung disability trust fund	47	......	47	536	......	536	581	......	581
Total—Excise taxes	**6,279**	**290**	**5,989**	**51,230**	**1,523**	**49,707**	**44,478**	**806**	**43,672**
Estate and gift taxes	**1,294**	**54**	**1,239**	**14,323**	**352**	**13,971**	**11,813**	**286**	**11,527**
Customs duties	**2,117**	**78**	**2,039**	**19,080**	**780**	**18,300**	**17,893**	**737**	**17,156**
Miscellaneous Receipts:									
Deposits of earnings by Federal Reserve banks	2,090	......	2,090	16,910	......	16,910	12,824	......	12,824
All other	418	5	412	3,425	21	3,405	3,130	155	2,975
Total — Miscellaneous receipts	**2,507**	**5**	**2,502**	**20,336**	**21**	**20,315**	**15,954**	**155**	**15,799**
Total — Receipts	**100,069**	**2,730**	**97,338**	**1,212,202**	**90,910**	**1,121,292**	**1,114,094**	**88,372**	**1,025,722**
Total — On-budget	**73,679**	**2,730**	**70,949**	**907,035**	**90,086**	**816,949**	**831,020**	**88,372**	**742,648**
Total — Off-budget	**26,389**	......	**26,389**	**305,167**	**825**	**304,343**	**283,074**	......	**283,074**

[1]Includes amounts for the 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, August 1994 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	36	(* *)	36	395	2	394	415	1	414
House of Representatives	60	(* *)	60	708	14	694	702	10	691
Joint items	6	......	6	68	......	68	72	......	72
Congressional Budget Office	2	......	2	19	......	19	20	......	20
Architect of the Capitol	14	1	13	176	8	168	198	9	189
Library of Congress	25	......	25	454	......	454	306	......	306
Government Printing Office:									
Revolving fund (net)	4	......	4	36	......	36	−28	......	28
General fund appropriations	9	......	9	90	......	90	98	......	98
General Accounting Office	31	......	31	390	......	390	397	......	397
United States Tax Court	2	......	2	29	......	29	30	......	30
Other Legislative Branch agencies	1	......	1	27	......	27	30	......	30
Proprietary receipts from the public	......	1	−1	......	7	−7	......	7	−7
Intrabudgetary transactions	−3	......	−3	−12	......	−12	−5	......	−5
Total—Legislative Branch	**187**	**2**	**185**	**2,381**	**31**	**2,350**	**2,234**	**27**	**2,208**
The Judiciary:									
Supreme Court of the United States	2	......	2	23	......	23	22	......	22
Courts of Appeals, District Courts, and other judicial services	278	1	277	2,346	3	2,343	2,307	1	2,307
Other	9	......	9	103	......	103	89	......	89
Total—The Judiciary	**289**	**1**	**288**	**2,473**	**3**	**2,470**	**2,418**	**1**	**2,417**
Executive Office of the President:									
Compensation of the President and the White House Office	3	......	3	36	......	36	37	......	37
Office of Management and Budget	4	......	4	52	......	52	50	......	50
Other	31	......	31	125	......	125	95	......	95
Total—Executive Office of the President	**38**	**......**	**38**	**213**	**......**	**213**	**182**	**......**	**182**
Funds Appropriated to the President:									
International Security Assistance:									
Guaranty reserve fund	124	93	31	837	584	253	787	563	224
Foreign military financing grants	159	......	159	3,830	......	3,830	4,524	......	4,524
Economic support fund	137	......	137	2,656	......	2,656	3,032	......	3,032
Military assistance	1	......	1	16	......	16	−3	......	−3
Peacekeeping Operations	2	......	2	61	......	61	24	......	24
Other	3	......	3	27	......	27	31	......	31
Proprietary receipts from the public	......	291	−291	......	777	−777	......	727	−727
Total—International Security Assistance	425	383	42	7,427	1,361	6,066	8,395	1,290	7,105
International Development Assistance:									
Multilateral Assistance:									
Contribution to the International Development Association	......	......	......	879	......	879	774	......	774
International organizations and programs	41	......	41	200	......	200	223	......	223
Other	26	......	26	390	......	390	391	......	391
Total—Multilateral Assistance	67	......	67	1,469	......	1,469	1,388	......	1,388
Agency for International Development:									
Functional development assistance program	125	......	125	1,313	......	1,313	1,263	......	1,263
Sub-Saharan Africa development assistance	58	......	58	565	......	565	651	......	651
Operating expenses	54	......	54	469	......	469	445	......	445
Payment to the Foreign Service retirement and disability fund	......	......	......	44	......	44	......	......	......
Other	93	4	89	708	57	651	636	47	589
Proprietary receipts from the public	......	56	−56	......	736	−736	......	805	−805
Intrabudgetary transactions	......	......	......	−2	......	−2	−1	......	−1
Total—Agency for International Development	330	61	269	3,097	793	2,304	2,993	852	2,142
Peace Corps	29	......	29	192	......	192	179	......	179
Overseas Private Investment Corporation	3	45	−43	81	220	−139	70	194	−123
Other	9	1	9	87	6	82	128	8	120
Total—International Development Assistance	438	107	331	4,926	1,018	3,908	4,759	1,054	3,705
International Monetary Programs	−38	......	−38	−231	......	−231	429	......	429
Military Sales Programs:									
Special defense acquisition fund	14	15	−1	159	250	−91	237	193	43
Foreign military sales trust fund	1,029	......	1,029	12,062	......	12,062	11,914	......	11,914
Kuwait civil reconstruction trust fund	(* *)	......	(* *)	(* *)	......	(* *)	7	(* *)	7
Proprietary receipts from the public	......	1,145	−1,145	......	12,112	−12,112	......	12,460	−12,460
Other	5	......	5	57	......	57	19	......	19
Total—Funds Appropriated to the President	**1,875**	**1,650**	**224**	**24,401**	**14,742**	**9,659**	**25,761**	**14,997**	**10,764**

Table 5. Outlays of the U.S. Government, August 1994 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	64	......	64	639	......	639	661	......	661
Cooperative State Research Service	46	......	46	430	......	430	402	......	402
Extension Service	30	......	30	393	......	393	370	......	370
Animal and Plant Health Inspection Service	45	......	45	435	......	435	441	......	441
Food Safety and Inspection Service	40	......	40	459	......	459	454	......	454
Agricultural Marketing Service	91	2	89	627	3	624	669	1	668
Soil Conservation Service:									
Watershed and flood prevention operations	28	......	28	247	......	247	212	......	212
Conservation operations	39	......	39	525	......	525	524	......	524
Other	8	......	8	75	......	75	75	......	75
Agricultural Stabilization and Conservation Service:									
Conservation programs	26	......	26	1,929	......	1,929	1,858	......	1,858
Other	71	......	71	734	......	734	693	......	693
Farmers Home Administration:									
Credit accounts:									
Agricultural credit insurance fund	69	84	−15	1,921	1,653	269	2,101	1,814	287
Rural housing insurance fund	427	239	188	4,223	2,934	1,288	3,842	2,964	878
Other	......	......	......	(* *)	......	(* *)	9	1	8
Salaries and expenses	52	......	52	−101	......	−101	583	......	583
Other	8	(* *)	8	96	2	95	84	3	81
Total—Farmers Home Administration	556	324	232	6,140	4,589	1,551	6,619	4,781	1,838
Foreign assistance programs	155	......	155	1,229	......	1,229	480	......	480
Rural Development Administration:									
Rural development insurance fund	83	43	41	898	530	368	958	460	499
Rural water and waste disposal grants	28	......	28	286	......	286	214	......	214
Other	4	......	4	20	......	20	29	......	29
Rural Electrification Administration	102	174	−72	2,416	3,570	−1,154	2,519	3,729	−1,210
Federal Crop Insurance Corporation	63	4	59	1,585	357	1,227	689	331	358
Commodity Credit Corporation:									
Price support and related programs	554	525	29	16,813	6,654	10,159	23,538	7,461	16,077
National Wool Act Program	2	......	2	209	......	209	176	......	176
Food and Nutrition Service:									
Food stamp program	2,135	......	2,135	23,380	......	23,380	22,547	......	22,547
State child nutrition programs	361	......	361	6,749	......	6,749	6,290	......	6,290
Women, infants and children programs	300	......	300	2,996	......	2,996	2,699	......	2,699
Other	39	......	39	461	......	461	553	......	553
Total—Food and Nutrition Service	2,835	......	2,835	33,587	......	33,587	32,089	......	32,089
Forest Service:									
National forest system	123	......	123	1,421	......	1,421	1,496	......	1,496
Forest and rangeland protection	158	......	158	467	......	467	352	......	352
Forest service permanent appropriations	22	......	22	319	......	319	278	......	278
Other	61	......	61	614	......	614	635	......	635
Total—Forest Service	363	......	363	2,821	......	2,821	2,761	......	2,761
Other	64	2	62	605	31	574	557	33	524
Proprietary receipts from the public	......	92	−92	......	1,264	−1,264	......	1,028	−1,028
Intrabudgetary transactions	......	......	......	......	......	......	−150	......	−150
Total—Department of Agriculture	**5,296**	**1,165**	**4,131**	**73,101**	**16,998**	**56,103**	**76,841**	**17,823**	**59,018**
Department of Commerce:									
Economic Development Administration	26	1	25	239	15	224	153	18	135
Bureau of the Census	8	......	8	226	......	226	312	......	312
Promotion of Industry and Commerce	38	......	38	300	......	300	292	......	292
Science and Technology:									
National Oceanic and Atmospheric Administration	137	(* *)	137	1,712	13	1,699	1,483	21	1,462
Patent and Trademark Office	−13	......	−13	29	......	29	44	......	44
National Institute of Standards and Technology	7	......	7	123	......	123	219	......	219
Other	11	3	8	82	31	51	71	39	32
Total—Science and Technology	143	4	139	1,946	43	1,902	1,816	60	1,756
Other	−1	......	−1	84	......	84	91	......	91
Proprietary receipts from the public	......	4	−4	......	104	−104	......	106	−106
Intrabudgetary transactions	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Offsetting governmental receipts	......	......	......	......	......	......	......	(* *)	(* *)
Total—Department of Commerce	**214**	**9**	**205**	**2,795**	**162**	**2,633**	**2,664**	**184**	**2,481**

Table 5. Outlays of the U.S. Government, August 1994 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	2,355	......	2,355	24,631	......	24,631	26,059	......	26,059
Department of the Navy	2,221	......	2,221	24,047	......	24,047	25,043	......	25,043
Department of the Air Force	1,546	......	1,546	16,496	......	16,496	18,506	......	18,506
Total—Military personnel	6,123	......	6,123	65,174	......	65,174	69,608	......	69,608
Operation and maintenance:									
Department of the Army	1,701	......	1,701	18,690	......	18,690	21,361	......	21,361
Department of the Navy	2,223	......	2,223	20,571	......	20,571	23,797	......	23,797
Department of the Air Force	1,921	......	1,921	21,832	......	21,832	22,659	......	22,659
Defense agencies	1,538	......	1,538	17,727	......	17,727	17,262	......	17,262
Total—Operation and maintenance	7,383	......	7,383	78,821	......	78,821	85,079	......	85,079
Procurement:									
Department of the Army	668	......	668	7,510	......	7,510	10,336	......	10,336
Department of the Navy	2,317	......	2,317	23,867	......	23,867	27,690	......	27,690
Department of the Air Force	1,567	......	1,567	20,757	......	20,757	23,083	......	23,083
Defense agencies	291	......	291	3,719	......	3,719	3,345	......	3,345
Total—Procurement	4,842	......	4,842	55,853	......	55,853	64,454	......	64,454
Research, development, test, and evaluation:									
Department of the Army	501	......	501	5,165	......	5,165	5,666	......	5,666
Department of the Navy	693	......	693	7,183	......	7,183	8,254	......	8,254
Department of the Air Force	973	......	973	11,427	......	11,427	11,433	......	11,433
Defense agencies	769	......	769	7,648	......	7,648	8,529	......	8,529
Total—Research, development, test and evaluation	2,936	......	2,936	31,424	......	31,424	33,882	......	33,882
Military construction:									
Department of the Army	122	......	122	853	......	853	958	......	958
Department of the Navy	60	......	60	535	......	535	832	......	832
Department of the Air Force	135	......	135	1,063	......	1,063	1,067	......	1,067
Defense agencies	238	......	238	1,964	......	1,964	1,441	......	1,441
Total—Military construction	555	......	555	4,415	......	4,415	4,297	......	4,297
Family housing:									
Department of the Army	93	......	93	1,156	......	1,156	1,229	......	1,229
Department of the Navy	65	......	65	725	......	725	800	......	800
Department of the Air Force	83	......	83	980	......	980	861	......	861
Defense agencies	16	2	14	111	30	81	76	24	53
Revolving and management funds:									
Department of the Army	−23	......	−23	45	......	45	37	......	37
Department of the Navy	35	......	35	308	......	308	−13	......	−13
Department of the Air Force	......	......	......	......	......	......	......	......	......
Defense agencies:									
Defense business operations fund	511	......	511	3,526	......	3,526	−4,122	......	−4,122
Other	41	(* *)	41	−236	5	−241	−161	4	−165
Trust funds:									
Department of the Army	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	(* *)	(* *)
Department of the Navy	3	3	−1	33	15	17	41	19	22
Department of the Air Force	(* *)	......	(* *)	6	6	1	27	22	5
Defense agencies	−12	......	−12	145	......	145	87	......	87
Proprietary receipts from the public:									
Department of the Army	......	−14	14	......	134	−134	......	274	−274
Department of the Navy	......	−118	118	......	57	−57	......	151	−151
Department of the Air Force	......	12	−12	......	379	−379	......	325	−325
Defense agencies	......	26	−26	......	276	−276	......	85	−85
Intrabudgetary transactions:									
Department of the Army	−43	......	−43	127	......	127	64	......	64
Department of the Navy	−33	......	−33	427	......	427	515	......	515
Department of the Air Force	5	......	5	130	......	130	104	......	104
Defense agencies	14	......	14	−95	......	−95	−1,045	......	−1,045
Offsetting governmental receipts:									
Department of the Army	......	......	......	......	6	−6	......	21	−21
Defense agencies	......	......	......	......	(* *)	(* *)	......	27	−27
Total—Department of Defense—Military	**22,595**	**−88**	**22,683**	**243,074**	**908**	**242,166**	**255,821**	**951**	**254,870**

Table 5. Outlays of the U.S. Government, August 1994 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	122	......	122	879	......	879	896	......	896
Operation and maintenance, general	138	......	138	1,042	......	1,042	1,346	......	1,346
Other	119	......	119	1,403	......	1,403	978	......	978
Proprietary receipts from the public	......	14	−14	......	165	−165	......	180	−180
Total—Corps of Engineers	379	14	365	3,324	165	3,159	3,219	180	3,040
Military retirement:									
Payment to military retirement fund	......	......	......	11,908	......	11,908	12,273	......	12,273
Retired pay	......	......	......	......	......	......	(* *)	......	(* *)
Military retirement fund	2,256	......	2,256	24,456	......	24,456	23,560	......	23,560
Intrabudgetary transactions	......	......	......	−11,908	......	−11,908	−12,273	......	−12,273
Education benefits	−2	......	−2	131	......	131	138	......	138
Other	10	(* *)	10	74	4	70	63	4	60
Proprietary receipts from the public	......	1	−1	......	10	−10	......	8	−8
Total—Department of Defense—Civil	**2,644**	**15**	**2,629**	**27,985**	**179**	**27,806**	**26,980**	**192**	**26,789**
Department of Education:									
Office of Elementary and Secondary Education:									
Compensatory education for the disadvantaged	472	......	472	6,365	......	6,365	6,238	......	6,238
Impact aid	8	......	8	746	......	746	431	......	431
School improvement programs	117	......	117	1,331	......	1,331	1,897	......	1,897
Indian education	6	......	6	72	......	72	96	......	96
Other	2	......	2	10	......	10	15	......	15
Total—Office of Elementary and Secondary Education	605	......	605	8,525	......	8,525	8,678	......	8,678
Office of Bilingual Education and Minority Languages Affairs	23	......	23	207	......	207	108	......	108
Office of Special Education and Rehabilitative Services:									
Special education	246	......	246	2,765	......	2,765	2,368	......	2,368
Rehabilitation services and disability research	208	......	208	2,080	......	2,080	1,831	......	1,831
Special institutions for persons with disabilities	12	......	12	122	......	122	143	......	143
Office of Vocational and Adult Education	161	......	161	1,239	......	1,239	1,043	......	1,043
Office of Postsecondary Education:									
College housing loans	−2	2	−4	−4	41	−45	18	58	−40
Student financial assistance	615	......	615	6,344	......	6,344	6,998	......	6,998
Federal family education loans	277	......	277	−1,568	......	−1,568	4,630	......	4,630
Higher education	118	......	118	708	......	708	923	......	923
Howard University	24	......	24	197	......	197	246	......	246
Other	12	......	12	97	......	97	16	......	16
Total—Office of Postsecondary Education	1,044	2	1,042	5,775	41	5,734	12,832	58	12,774
Office of Educational Research and Improvement	41	......	41	390	......	390	374	......	374
Departmental management	37	......	37	352	......	352	297	......	297
Proprietary receipts from the public	......	3	−3	......	127	−127	......	59	−59
Total—Department of Education	**2,376**	**5**	**2,371**	**21,454**	**169**	**21,285**	**27,674**	**117**	**27,556**
Department of Energy:									
Atomic energy defense activities	948	......	948	10,776	......	10,776	9,918	......	9,918
Energy programs:									
General science and research activities	98	......	98	1,155	......	1,155	1,301	......	1,301
Energy supply, R and D activities	265	......	265	2,790	......	2,790	2,633	......	2,633
Uranium supply and enrichment activities	18	......	18	297	......	297	1,017	......	1,017
Fossil energy research and development	30	......	30	374	......	374	372	......	372
Energy conservation	50	......	50	522	......	522	465	......	465
Strategic petroleum reserve	17	......	17	255	......	255	399	......	399
Clean coal technology	......	......	......	......	......	......	......	......	......
Nuclear waste disposal fund	32	......	32	264	......	264	237	......	237
Other	93	(* *)	93	855	2	853	142	2	140
Total—Energy programs	604	(* *)	604	6,510	2	6,509	6,565	2	6,563
Power Marketing Administration	167	91	76	1,589	1,438	151	1,965	1,273	691
Departmental administration	35	......	35	408	......	408	351	......	351
Proprietary receipts from the public	......	168	−168	......	1,623	−1,623	......	2,041	−2,041
Intrabudgetary transactions	−29	......	−29	−319	......	−319	−298	......	−298
Offsetting governmental receipts	......	10	−10	......	119	−119	......	78	−78
Total—Department of Energy	**1,724**	**269**	**1,455**	**18,964**	**3,182**	**15,782**	**18,502**	**3,394**	**15,107**

Table 5. Outlays of the U.S. Government, August 1994 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	79	(* *)	79	733	3	730	681	4	677
Health Resources and Services Administration	295	......	295	2,393	......	2,393	2,173	......	2,173
Indian Health Services	214	......	214	1,650	......	1,650	1,538	......	1,538
Centers for Disease Control and Prevention	168	......	168	1,424	......	1,424	1,248	......	1,248
National Institutes of Health	836	......	836	9,429	......	9,429	8,730	......	8,730
Substance Abuse and Mental Health Services Administration	232	......	232	2,225	......	2,225	2,482	......	2,482
Agency for Health Care Policy and Research	3	......	3	95	......	95	59	......	59
Assistant secretary for health	20	......	20	173	......	173	178	......	178
Total—Public Health Service	1,846	(* *)	1,845	18,122	3	18,118	17,090	4	17,086
Health Care Financing Administration:									
Grants to States for Medicaid	7,138	......	7,138	74,881	......	74,881	68,705	......	68,705
Payments to health care trust funds	3,054	......	3,054	37,082	......	37,082	40,987	......	40,987
Federal hospital insurance trust fund:									
Benefit payments	8,821	......	8,821	92,644	......	92,644	83,031	......	83,031
Administrative expenses	116	......	116	1,121	......	1,121	781	......	781
Interest on normalized tax transfers	......	......	......	......	......	......	......	......	......
Total—FHI trust fund	8,937	......	8,937	93,765	......	93,765	83,812	......	83,812
Federal supplementary medical insurance trust fund:									
Benefit payments	4,998	......	4,998	52,626	......	52,626	47,919	......	47,919
Administrative expenses	154	......	154	1,560	......	1,560	1,709	......	1,709
Total—FSMI trust fund	5,153	......	5,153	54,186	......	54,186	49,628	......	49,628
Other	(* *)	......	(* *)	5	......	5	95	......	95
Total—Health Care Financing Administration	24,281	......	24,281	259,918	......	259,918	243,226	......	243,226
Social Security Administration:									
Payments to Social Security trust funds	10	......	10	5,676	......	5,676	6,167	......	6,167
Special benefits for disabled coal miners	62	......	62	708	......	708	739	......	739
Supplemental security income program	2,162	......	2,162	22,304	......	22,304	20,740	......	20,740
Total—Social Security Administration	2,234	......	2,234	28,688	......	28,688	27,646	......	27,646
Administration for children and families:									
Family support payments to States	1,626	......	1,626	15,476	......	15,476	14,533	......	14,533
Low income home energy assistance	63	......	63	2,048	......	2,048	1,043	......	1,043
Refugee and entrant assistance	21	......	21	333	......	333	313	......	313
Community Services Block Grant	42	......	42	403	......	403	364	......	364
Payments to States for afdc work programs	88	......	88	769	......	769	670	......	670
Interim assistance to States for legalization	9	......	9	640	......	640	136	......	136
Payments to States for child care assistance	89	......	89	730	......	730	363	......	363
Social services block grant	242	......	242	2,504	......	2,504	2,595	......	2,595
Children and families services programs	322	......	322	3,489	......	3,489	3,361	......	3,361
Payments to States for foster care and adoption assistance	304	......	304	2,803	......	2,803	2,365	......	2,365
Other	(* *)	......	(* *)	1	......	1	(* *)	......	(* *)
Total—Administration for children and families	2,806	......	2,806	29,196	......	29,196	25,745	......	25,745
Administration on aging	109	......	109	801	......	801	527	......	527
Office of the Secretary	[1]-53	......	-53	282	......	282	119	......	119
Proprietary receipts from the public	......	1,622	-1,622	......	16,944	-16,944	......	14,610	-14,610
Intrabudgetary transactions:									
Payments for health insurance for the aged:									
Federal hospital insurance trust fund	......	......	......	......	......	......	......	......	......
Federal supplementary medical insurance trust fund	-3,054	......	-3,054	-35,383	......	-35,383	-40,505	......	-40,505
Payments for tax and other credits:									
Federal hospital insurance trust fund	......	......	......	-1,700	......	-1,700	-482	......	-482
Other	......	......	......	......	......	......	......	......	......
Total—Department of Health and Human Services, except Social Security	**28,169**	**1,622**	**26,547**	**299,926**	**16,948**	**282,978**	**273,366**	**14,614**	**258,752**

Table 5. Outlays of the U.S. Government, August 1994 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	23,286	......	23,286	252,982	......	252,982	242,200	......	242,200
Administrative expenses and construction	174	......	174	1,564	......	1,564	1,793	......	1,793
Payment to railroad retirement account	......	......	......	3,420	......	3,420	3,353	......	3,353
Interest expense on interfund borrowings	......	......	......	......	......	......	......	......	......
Interest on normalized tax transfers	......	......	......	......	......	......	......	......	......
Total—FOASI trust fund	23,459	......	23,459	257,966	......	257,966	247,345	......	247,345
Federal disability insurance trust fund:									
Benefit payments	3,161	......	3,161	33,663	......	33,663	30,698	......	30,698
Administrative expenses and construction	101	......	101	924	......	924	850	......	850
Payment to railroad retirement account	......	......	......	106	......	106	83	......	83
Interest on normalized tax transfers	......	......	......	......	......	......	......	......	......
Total—FDI trust fund	3,262	......	3,262	34,692	......	34,692	31,632	......	31,632
Proprietary receipts from the public	......	(* *)	(* *)	......	11	−11	......	(* *)	(* *)
Intrabudgetary transactions[2]	−10	......	−10	−5,671	......	−5,671	−6,181	......	−6,181
Total—Department of Health and Human Services, Social Security(off-budget)	**26,712**	**(* *)**	**26,711**	**286,988**	**11**	**286,977**	**272,796**	**(* *)**	**272,795**
Department of Housing and Urban Development:									
Housing programs:									
Public enterprise funds	19	15	4	149	126	24	75	64	11
Credit accounts:									
Federal housing administration fund	1,148	675	474	6,063	6,029	33	6,552	5,495	1,058
Housing for the elderly or handicapped fund	−2	56	−59	682	641	40	780	601	179
Other	48	......	48	414	(* *)	414	303	(* *)	302
Rent supplement payments	10	......	10	83	......	83	51	......	51
Homeownership assistance	14	......	14	103	......	103	87	......	87
Rental housing assistance	54	......	54	616	......	616	607	......	607
Rental housing development grants	(* *)	......	(* *)	5	......	5	13	......	13
Low-rent public housing	26	......	26	664	......	664	686	......	686
Public housing grants	311	......	311	3,032	......	3,032	2,308	......	2,308
College housing grants	1	......	1	18	......	18	18	......	18
Lower income housing assistance	856	......	856	9,691	......	9,691	9,950	......	9,950
Section 8 contract renewals	314	......	314	3,130	......	3,130	2,274	......	2,274
Other	8	......	8	65	......	65	23	......	23
Total—Housing programs	2,807	746	2,061	24,713	6,797	17,917	23,727	6,160	17,568
Public and Indian Housing programs:									
Low-rent public housing—Loans and other expenses	3	1	2	299	201	98	181	35	146
Payments for operation of low-income housing projects	233	......	233	2,361	......	2,361	2,184	......	2,184
Community Partnerships Against Crime	11	......	11	147	......	147	105	......	105
Other	(* *)	......	(* *)	1	......	1	......	......	......
Total—Public and Indian Housing programs	248	1	246	2,807	201	2,606	2,469	35	2,435
Government National Mortgage Association:									
Management and liquidating functions fund	......	(* *)	(* *)	(* *)	1	−1	......	4	−4
Guarantees of mortgage-backed securities	26	103	−76	880	1,341	−460	1,042	1,537	−494
Total—Government National Mortgage Association	26	103	−77	880	1,342	−462	1,042	1,541	−499
Community Planning and Development:									
Community Development Grants	370	......	370	3,314	......	3,314	2,929	......	2,929
Home investment partnerships program	95	......	95	697	......	697	176	......	176
Other	30	19	11	271	123	148	278	117	161
Total—Community Planning and Development	495	19	476	4,282	123	4,159	3,383	117	3,266
Management and Administration	35	......	35	446	......	446	483	......	483
Other	2	......	2	37	......	37	31	......	31
Proprietary receipts from the public	......	197	−197	......	416	−416	......	268	−268
Offsetting governmental receipts	......	......	......	......	5	−5	......	3	−3
Total—Department of Housing and Urban Development	**3,613**	**1,066**	**2,547**	**33,166**	**8,884**	**24,282**	**31,136**	**8,123**	**23,013**

Table 5. Outlays of the U.S. Government, August 1994 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	40	......	40	590	......	590	556	......	556
Other	53	......	53	261	......	261	237	......	237
Minerals Management Service	54	......	54	673	......	673	624	......	624
Office of Surface Mining Reclamation and Enforcement	31	......	31	284	......	284	273	......	273
Total—Land and minerals management	178	......	178	1,809	......	1,809	1,690	......	1,690
Water and science:									
Bureau of Reclamation:									
Construction program	13	......	13	261	......	261	249	......	249
Operation and maintenance	19	......	19	237	......	237	256	......	256
Other	40	-1	42	421	121	300	431	130	301
Central utah project	(* *)	......	(* *)	25	......	25	......	......	......
Geological Survey	45	......	45	547	......	547	559	......	559
Bureau of Mines	14	2	12	174	25	149	183	28	155
Total—Water and science	131	1	130	1,665	146	1,519	1,678	158	1,520
Fish and wildlife and parks:									
United States Fish and Wildlife Service	79	......	79	1,069	......	1,069	1,106	......	1,106
National Biological Survey	12	......	12	95	......	95	......	......	......
National Park Service	118	......	118	1,338	......	1,338	1,349	......	1,349
Total—Fish and wildlife and parks	209	......	209	2,502	......	2,502	2,455	......	2,455
Bureau of Indian Affairs:									
Operation of Indian programs	106	......	106	1,262	......	1,262	1,241	......	1,241
Indian tribal funds	30	......	30	258	......	258	252	......	252
Other	20	1	19	391	9	382	259	18	241
Total—Bureau of Indian Affairs	156	1	155	1,911	9	1,902	1,752	18	1,734
Territorial and international affairs	9	......	9	244	......	244	230	......	230
Departmental offices	10	......	10	120	......	120	110	......	110
Proprietary receipts from the public	......	194	-194	......	1,820	-1,820	......	1,818	-1,818
Intrabudgetary transactions	-3	......	-3	-227	......	-227	-99	......	-99
Offsetting governmental receipts	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)	(* *)
Total—Department of the Interior	**690**	**196**	**495**	**8,025**	**1,975**	**6,049**	**7,817**	**1,994**	**5,823**
Department of Justice:									
Legal activities	198	......	198	2,279	......	2,279	2,535	......	2,535
Federal Bureau of Investigation	145	......	145	1,899	......	1,899	1,779	......	1,779
Drug Enforcement Administration	49	......	49	701	......	701	721	......	721
Immigration and Naturalization Service	122	......	122	1,376	......	1,376	1,386	......	1,386
Federal Prison System	214	11	203	2,185	109	2,076	1,990	90	1,900
Office of Justice Programs	71	......	71	779	......	779	748	......	748
Other	71	......	71	553	......	553	868	......	868
Intrabudgetary transactions	-2	......	-2	-29	......	-29	-198	......	-198
Offsetting governmental receipts	......	84	-84	......	544	-544	......	486	-486
Total—Department of Justice	**869**	**95**	**774**	**9,742**	**653**	**9,089**	**9,830**	**576**	**9,254**
Department of Labor:									
Employment and Training Administration:									
Training and employment services	537	......	537	3,961	......	3,961	3,847	......	3,847
Community Service Employment for Older Americans	29	......	29	350	......	350	355	......	355
Federal unemployment benefits and allowances	20	......	20	142	......	142	129	......	129
State unemployment insurance and employment service operations	-1	......	-1	240	......	240	11	......	11
Payments to the unemployment trust fund	......	......	......	......	......	......	7,532	......	7,532
Advances to the unemployment trust fund and other funds	......	......	......	2,577	......	2,577	3,660	......	3,660

Table 5. Outlays of the U.S. Government, August 1994 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	1,863	......	1,863	25,389	......	25,389	33,388	......	33,388
State administrative expenses	300	......	300	2,853	......	2,853	3,132	......	3,132
Federal administrative expenses	11	......	11	161	......	161	197	......	197
Veterans employment and training	16	......	16	171	......	171	158	......	158
Repayment of advances from the general fund	......	......	......	......	......	......	......	......	......
Railroad unemployment insurance	5	......	5	61	......	61	65	......	65
Other	2	......	2	19	......	19	20	......	20
Total—Unemployment trust fund	2,196	......	2,196	28,654	......	28,654	36,959	......	36,959
Other	12	......	12	86	......	86	69	......	69
Total—Employment and Training Administration	2,792	......	2,792	36,010	......	36,010	52,563	......	52,563
Pension Benefit Guaranty Corporation	72	257	−185	1,056	1,510	−455	753	2,035	−1,282
Employment Standards Administration:									
Salaries and expenses	29	......	29	220	......	220	205	......	205
Special benefits	153	......	153	485	......	485	547	......	547
Black lung disability trust fund	49	......	49	552	......	552	561	......	561
Other	9	......	9	116	......	116	111	......	111
Occupational Safety and Health Administration	31	......	31	272	......	272	256	......	256
Bureau of Labor Statistics	32	......	32	268	......	268	248	......	248
Other	61	......	61	444	......	444	416	......	416
Proprietary receipts from the public	......	(* *)	(* *)	......	3	−3	......	2	−2
Intrabudgetary transactions	−63	......	−63	−3,201	......	−3,201	−12,009	......	−12,009
Total—Department of Labor	**3,165**	**257**	**2,908**	**36,220**	**1,514**	**34,707**	**43,651**	**2,037**	**41,614**
Department of State:									
Administration of Foreign Affairs:									
Salaries and expenses	318	......	318	1,857	......	1,857	1,976	......	1,976
Acquisition and maintenance of buildings abroad	62	......	62	522	......	522	432	......	432
Payment to Foreign Service retirement and disability fund	......	......	......	125	......	125	273	......	273
Foreign Service retirement and disability fund	35	......	35	374	......	374	380	......	380
Other	3	......	3	77	......	77	91	......	91
Total—Administration of Foreign Affairs	418	......	418	2,955	......	2,955	3,153	......	3,153
International organizations and Conferences	(* *)	......	(* *)	1,183	......	1,183	1,371	......	1,371
Migration and refugee assistance	55	......	55	658	......	658	617	......	617
International narcotics control	14	......	14	112	......	112	126	......	126
Other	8	......	8	60	......	60	64	......	64
Proprietary receipts from the public	......	......	......	......	1	−1	......	(* *)	(* *)
Intrabudgetary transactions	(* *)	......	(* *)	−176	......	−176	−321	......	−321
Offsetting governmental receipts	......	......	......	......	......	......	......	......	......
Total—Department of State	**494**	......	**494**	**4,791**	**1**	**4,791**	**5,010**	**(* *)**	**5,010**
Department of Transportation:									
Federal Highway Administration:									
Highway trust fund:									
Federal-aid highways	2,010	......	2,010	16,524	......	16,524	14,333	......	14,333
Other	23	......	23	122	......	122	122	......	122
Other programs	26	......	26	225	......	225	228	......	228
Total—Federal Highway Administration	2,060	......	2,060	16,871	......	16,871	14,683	......	14,683
National Highway Traffic Safety Administration	26	......	26	237	......	237	222	......	222
Federal Railroad Administration:									
Grants to National Railroad Passenger Corporation	......	......	......	491	......	491	465	......	465
Other	34	1	33	346	19	327	341	13	327
Total—Federal Railroad Administration	34	1	33	837	19	818	806	13	792

Table 5. Outlays of the U.S. Government, August 1994 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	139	......	139	75	......	75	1,136	......	1,136
Discretionary grants	158	......	158	1,487	......	1,487	1,182	......	1,182
Other	37	......	37	[3]1,860	......	1,860	866	......	866
Total—Federal Transit Administration	334	......	334	3,422	......	3,422	3,184	......	3,184
Federal Aviation Administration:									
Operations	362	......	362	2,321	......	2,321	2,042	......	2,042
Airport and airway trust fund:									
Grants-in-aid for airports	130	......	130	1,451	......	1,451	1,710	......	1,710
Facilities and equipment	215	......	215	2,116	......	2,116	1,874	......	1,874
Research, engineering and development	21	......	21	200	......	200	181	......	181
Operations	191	......	191	2,008	......	2,008	2,089	......	2,089
Total—Airport and airway trust fund	558	......	558	5,774	......	5,774	5,855	......	5,855
Other	(* *)	(* *)	(* *)	(* *)	1	−1	(* *)	2	2
Total—Federal Aviation Administration	920	(* *)	920	8,095	1	8,094	7,897	2	7,895
Coast Guard:									
Operating expenses	230	......	230	2,244	......	2,244	2,288	......	2,288
Acquisition, construction, and improvements	31	......	31	318	......	318	266	......	266
Retired pay	45	......	45	460	......	460	457	......	457
Other	25	1	24	316	6	310	238	6	232
Total—Coast Guard	331	1	330	3,338	6	3,332	3,249	6	3,243
Maritime Administration	88	40	48	797	330	467	1,389	714	675
Other	38	1	37	359	7	352	333	11	321
Proprietary receipts from the public	......	1	−1	......	9	−9	......	12	12
Intrabudgetary transactions	......	......	......	19	......	19	−5	......	−5
Offsetting governmental receipts	......	23	−23	......	28	−28	......	103	103
Total—Department of Transportation	**3,830**	**67**	**3,763**	**33,975**	**400**	**33,575**	**31,757**	**862**	**30,895**
Department of the Treasury:									
Departmental offices:									
Exchange stabilization fund	−90	1	−91	−1,205	12	−1,216	−1,239	11	−1,250
Other	67	......	67	229	......	229	248	......	248
Financial Management Service:									
Salaries and expenses	17	......	17	205	......	205	200	......	200
Payment to the Resolution Funding Corporation	......	......	......	2,328	......	2,328	2,328	......	2,328
Claims, judgements, and relief acts	29	......	29	446	......	446	476	......	476
Net interest paid to loan guarantee financing accounts	......	......	......	2	......	2	20	......	20
Other	8	......	8	129	......	129	136	......	136
Total—Financial Management Service	54	......	54	3,112	......	3,112	3,160	......	3,160
Federal Financing Bank	−114	......	−114	110	......	110	110	......	110
Bureau of Alcohol, Tobacco and Firearms:									
Salaries and expenses	31	......	31	345	......	345	336	......	336
Internal revenue collections for Puerto Rico	22	......	22	187	......	187	184	......	184
United States Customs Service	98	......	98	1,667	......	1,667	1,592	......	1,592
Bureau of Engraving and Printing	−8	......	−8	−28	......	−28	−27	......	27
United States Mint	−10	......	−10	43	......	43	−202	......	202
Bureau of the Public Debt	18	......	18	252	......	252	260	......	260
Internal Revenue Service:									
Processing tax returns and assistance	108	......	108	1,500	......	1,500	1,549	......	1,549
Tax law enforcement	288	......	288	3,419	......	3,419	3,454	......	3,454
Information systems	133	......	133	1,130	......	1,130	1,080	......	1,080
Payment where earned income credit exceeds liability for tax	74	......	74	10,898	......	10,898	8,741	......	8,741
Health insurance supplement to earned income credit	4	......	4	456	......	456	643	......	643
Refunding internal revenue collections, interest	292	......	292	2,542	......	2,542	1,747	......	1,747
Other	13	......	13	137	......	137	131	(* *)	131
Total—Internal Revenue Service	913	......	913	20,081	......	20,081	17,345	(* *)	17,345

Table 5. Outlays of the U.S. Government, August 1994 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	41	......	41	455	......	455	465	......	465
Comptroller of the Currency	24	120	−97	332	417	−86	326	393	−67
Office of Thrift Supervison	14	72	−58	164	162	2	191	194	−3
Interest on the public debt:									
Public issues (accrual basis)	18,149	......	18,149	190,005	......	190,005	189,093	......	189,093
Special issues (cash basis)	1,536	......	1,536	88,398	......	88,398	86,370	......	86,370
Total—Interest on the public debt	19,686	......	19,686	278,403	......	278,403	275,463	......	275,463
Other	3	......	3	49	......	49	51	......	51
Proprietary receipts from the public	......	[4]134	−134	......	2,615	−2,615	......	1,846	−1,846
Receipts from off-budget federal entities	......	......	......	......	......	......	......	......	......
Intrabudgetary transactions	−601	......	−601	−10,580	......	−10,580	−12,534	......	−12,534
Offsetting governmental receipts	......	131	−131	......	769	−769	......	679	−679
Total—Department of the Treasury	**20,148**	**459**	**19,689**	**293,615**	**3,975**	**289,641**	**285,730**	**3,123**	**282,607**
Department of Veterans Affairs:									
Veterans Health Administration:									
Medical care	1,344	......	1,344	13,905	......	13,905	13,081	......	13,081
Other	27	25	2	600	246	353	632	238	394
Veterans Benefits Administration:									
Public enterprise funds:									
Guaranty and indemnity fund	90	55	35	1,357	645	712	1,277	383	895
Loan guaranty revolving fund	−5	37	−42	510	437	72	790	504	286
Other	10	3	7	305	200	105	444	419	25
Compensation and pensions	1,510	......	1,510	15,806	......	15,806	15,590	......	15,590
Readjustment benefits	69	......	69	1,045	......	1,045	803	......	803
Post-Vietnam era veterans education account	4	......	4	73	......	73	97	......	97
Insurance funds:									
National service life	104	......	104	1,134	......	1,134	1,028	......	1,028
United States government life	2	......	2	18	......	18	18	......	18
Veterans special life	11	3	8	119	174	−55	115	179	−64
Other	2	......	2	4	......	4	7	......	7
Total—Veterans Benefits Administration	1,798	97	1,700	20,370	1,456	18,914	20,170	1,485	18,685
Construction	92	......	92	645	(* *)	645	575	(* *)	575
Departmental administration	27	......	27	884	......	884	886	......	886
Proprietary receipts from the public:									
National service life	......	27	−27	......	313	−313	......	361	−361
United States government life	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)	(* *)
Other	......	20	−20	......	1,201	−1,201	......	741	−741
Intrabudgetary transactions	(* *)	......	(* *)	−29	......	−29	−28	......	−28
Total—Department of Veterans Affairs	**3,288**	**168**	**3,120**	**36,375**	**3,217**	**33,158**	**35,316**	**2,825**	**32,490**
Environmental Protection Agency:									
Program and research operations	96	......	96	787	......	787	809	......	809
Abatement, control, and compliance	86	......	86	1,208	......	1,208	1,203	......	1,203
Water infrastructure financing	151	......	151	1,752	......	1,752	1,860	......	1,860
Hazardous substance superfund	130	......	130	1,275	......	1,275	1,259	......	1,259
Other	51	(* *)	51	669	3	666	628	18	610
Proprietary receipts from the public	......	9	−9	......	181	−181	......	156	−156
Intrabudgetary transactions	......	......	......	−250	......	−250	−250	......	−250
Offsetting governmental receipts	......	(* *)	(* *)	......	9	−9	......	9	−9
Total—Environmental Protection Agency	**513**	**10**	**503**	**5,441**	**193**	**5,248**	**5,508**	**183**	**5,325**
General Services Administration:									
Real property activities	400	......	400	−89	......	−89	362	......	362
Personal property activities	19	......	19	3	......	3	33	......	33
Information Resources Management Service	−22	......	−22	83	......	83	−2	......	−2
Other	26	......	26	119	......	119	116	......	116
Proprietary receipts from the public	......	1	−1	......	4	−4	......	9	−9
Total—General Services Administration	**424**	**1**	**423**	**116**	**4**	**111**	**509**	**9**	**500**

Table 5. Outlays of the U.S. Government, August 1994 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	674	......	674	6,027	......	6,027	6,527	......	6,527
Space flight, control, and data communications	428	......	428	4,411	......	4,411	4,567	......	4,567
Construction of facilities	26	......	26	340	......	340	481	......	481
Research and program management	174	......	174	1,508	......	1,508	1,486	......	1,486
Other	2	......	2	15	......	15	14	......	14
Total—National Aeronautics and Space Administration	**1,304**	......	**1,304**	**12,301**	......	**12,301**	**13,075**	......	**13,075**
Office of Personnel Management:									
Government payment for annuitants, employees health and life insurance benefits	301	......	301	3,545	......	3,545	3,405	......	3,405
Payment to civil service retirement and disability fund	......	......	......	......	......	......	......	......	......
Civil service retirement and disability fund	3,095	......	3,095	33,250	......	33,250	31,966	......	31,966
Employees health benefits fund	1,460	1,413	47	14,150	14,668	−518	13,410	14,054	−644
Employees life insurance fund	114	288	−174	1,253	2,384	−1,132	1,204	2,277	−1,072
Retired employees health benefits fund	1	1	(* *)	7	7	(* *)	8	8	(* *)
Other	5	......	5	141	......	141	101	......	101
Intrabudgetary transactions:									
Civil service retirement and disability fund:									
General fund contributions	......	......	......	......	......	......	......	......	......
Other	−3	......	−3	−31	......	−31	−39	......	−39
Total—Office of Personnel Management	**4,974**	**1,702**	**3,272**	**52,315**	**17,059**	**35,255**	**50,056**	**16,338**	**33,717**
Small Business Administration:									
Public enterprise funds:									
Business loan fund	39	29	9	449	367	82	1,101	668	433
Disaster loan fund	76	19	57	318	254	64	366	447	−81
Other	8	1	7	26	12	14	40	13	27
Other	50	(* *)	50	523	1	523	449	(* *)	449
Total—Small Business Administration	**172**	**50**	**123**	**1,317**	**633**	**683**	**1,956**	**1,129**	**827**
Other independent agencies:									
Action	16	......	16	154	......	154	189	......	189
Board for International Broadcasting	35	......	35	183	......	183	215	......	215
Corporation for National and Community Service	11	......	11	39	......	39	......	......	......
Corporation for Public Broadcasting	......	......	......	275	......	275	319	......	319
District of Columbia:									
Federal payment	......	......	......	698	......	698	698	......	698
Other	(* *)	......	(* *)	2	12	−10	3	160	−157
Equal Employment Opportunity Commission	21	(* *)	20	215	1	214	199	(* *)	199
Export-Import Bank of the United States	70	107	−36	936	1,808	−872	1,270	2,024	−754
Federal Communications Commission	15	5	10	137	39	99	119	36	83
Federal Deposit Insurance Corporation:									
Bank insurance fund	726	3,082	−2,355	3,415	12,347	−8,931	7,269	16,739	−9,470
Savings association insurance fund	1	826	−825	22	1,389	−1,367	48	990	−942
FSLIC resolution fund	460	139	321	2,224	2,761	−536	5,945	3,562	2,384
Affordable housing and bank enterprise	(* *)	......	(* *)	4	......	4	2	......	2
Federal Emergency Management Agency:									
Public enterprise funds	34	49	−15	356	407	−50	662	303	359
Disaster relief	274	......	274	3,381	......	3,381	2,053	......	2,053
Emergency management planning and assistance	24	......	24	213	......	213	237	......	237
Other	13	......	13	235	......	235	278	......	278
Federal Trade Commission	9	......	9	62	......	62	77	......	77
Interstate Commerce Commission	4	......	4	39	......	39	38	......	38
Legal Services Corporation	55	......	55	385	......	385	348	......	348
National Archives and Records Administration	17	(* *)	17	232	(* *)	232	221	(* *)	221
National Credit Union Administration:									
Credit union share insurance fund	−23	4	−27	−34	233	−268	19	365	−346
Central liquidity facility	5	5	(* *)	58	59	(* *)	84	84	(* *)
Other	9	(* *)	9	38	49	−11	33	46	−14

Table 5. Outlays of the U.S. Government, August 1994 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	18	......	18	161	......	161	157	......	157
National Endowment for the Humanities	25	......	25	163	......	163	152	......	152
National Labor Relations Board	11	......	11	155	......	155	153	......	153
National Science Foundation	252	......	252	2,375	......	2,375	2,206	......	2,206
Nuclear Regulatory Commission	49	40	9	496	404	91	448	392	56
Panama Canal Commission	49	53	−4	486	518	−31	478	497	−19
Postal Service									
Public enterprise funds (off-budget)	4,024	[5]3,895	129	43,434	44,841	−1,407	42,193	43,923	−1,730
Payment to the Postal Service fund	......	......	......	130	......	130	161	......	161
Railroad Retirement Board:									
Federal windfall subsidy	22	......	22	248	......	248	266	......	266
Federal payments to the railroad retirement accounts	389	......	389	440	......	440	58	......	58
Rail industry pension fund:									
Advances from FOASDI fund	−90	......	−90	−995	......	−995	−979	......	−979
OASDI certifications	90	......	90	995	......	995	979	......	979
Administrative expenses	5	......	5	66	......	66	65	......	65
Interest on refunds of taxes	3	......	3	19	......	19	5	......	5
Other	1	......	1	9	......	9	5	......	5
Intrabudgetary transactions:									
Payments from other funds to the railroad retirement trust funds	......	......	......	−3,526	......	−3,526	−3,435	......	−3,435
Other	−389	......	−389	−208	......	−208	193	......	193
Supplemental annuity pension fund	251	......	251	2,699	......	2,699	2,653	......	2,653
Railroad Social Security equivalent benefit account	378	......	378	4,360	......	4,360	4,292	......	4,292
Other	(* *)	......	(* *)	(* *)	......	(* *)	4	......	4
Total—Railroad Retirement Board	659	......	659	4,107	......	4,107	4,106	......	4,106
Resolution Trust Corporation	911	1,479	−568	16,827	13,804	3,023	11,329	30,465	−19,136
Securities and Exchange Commission	17	......	17	71	......	71	118	......	118
Smithsonian Institution	44	......	44	353	......	353	352	......	352
Tennessee Valley Authority	755	691	64	8,807	7,629	1,178	7,721	5,756	1,965
United States Information Agency	122	(* *)	122	1,030	(* *)	1,030	973	(* *)	973
Other	230	189	41	2,343	1,356	987	1,198	556	642
Total—Other independent agencies	**8,944**	**10,565**	**−1,621**	**94,210**	**87,656**	**6,554**	**92,071**	**105,899**	**−13,828**
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	−1,072	......	−1,072	−11,752	......	−11,752	−12,055	......	−12,055
Department of Health and Human Services, except Social Security:									
Federal hospital insurance trust fund:									
Federal employer contributions	−167	......	−167	−1,678	......	−1,678	−1,674	......	−1,674
Postal Service employer contributions	−40	......	−40	−474	......	−474	−416	......	−416
Payments for military service credits	−3	......	−3	−80	......	−80	−81	......	−81
Department of Health and Human Services, Social Security (off-budget):									
Federal old-age and survivors insurance trust fund:									
Federal employer contributions	−476	......	−476	−5,007	......	−5,007	−4,995	......	−4,995
Payments for military service credits	−10	......	−10	−304	......	−304	−307	......	−307
Federal disability insurance trust fund:									
Federal employer contributions	−51	......	−51	−538	......	−538	−534	......	−534
Payments for military service credits	−1	......	−1	−33	......	−33	−33	......	−33
Department of State:									
Foreign Service retirement and disability fund	−18	......	−18	−108	......	−108	−98	......	−98
Office of Personnel Management:									
Civil service retirement and disability fund	−805	......	−805	−9,073	......	−9,073	−8,819	......	−8,819
Independent agencies:									
Court of veterans appeals retirement fund	......	......	......	(* *)	......	(* *)	(* *)	......	(* *)
Total—Employer share, employee retirement	−2,643	......	−2,643	−29,050	......	−29,050	−29,011	......	−29,011

Table 5. Outlays of the U.S. Government, August 1994 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	5	......	-5	18	......	-18	-18	......	-18
Department of Defense—Civil:									
Corps of Engineers	6	......	6	-21	......	-21	-23	......	-23
Military retirement fund	165	......	-165	-10,229	......	-10,229	-9,890	......	-9,890
Education benefits fund	7	......	-7	-48	......	-48	-57	......	-57
Soldiers' and airmen's home permanent fund	(* *)	......	(* *)	-9	......	-9	-20	......	-20
Other	(* *)	......	(* *)	-1	......	-1	(* *)	......	(* *)
Department of Health and Human Services, except Social Security:									
Federal hospital insurance trust fund	-8	......	-8	-10,571	......	-10,571	-10,568	......	-10,568
Federal supplementary medical insurance trust fund	27	......	-27	-2,097	......	-2,097	-1,877	......	-1,877
Department of Health and Human Services, Social Security (off-budget):									
Federal old-age and survivors insurance trust fund	-56	......	-56	-28,445	......	-28,445	-25,781	......	-25,781
Federal disability insurance trust fund	-14	......	-14	-680	......	-680	-959	......	-959
Department of Labor:									
Unemployment trust fund	18	......	-18	-2,490	......	-2,490	-2,535	......	-2,535
Department of State:									
Foreign Service retirement and disability fund	(* *)	......	(* *)	-570	......	-570	-546	......	-546
Department of Transportation:									
Highway trust fund	-18	......	-18	-1,398	......	-1,398	-1,547	......	-1,547
Airport and airway trust fund	-5	......	-5	-828	......	-828	-1,033	......	-1,033
Oil spill liability trust fund	-29	......	-29	-36	......	-36	-40	......	-40
Department of Veterans Affairs:									
National service life insurance fund	-1	......	-1	-1,079	......	-1,079	-1,084	......	-1,084
United States government life Insurance Fund	(* *)	......	(* *)	-10	......	-10	-11	......	-11
Environmental Protection Agency	-25	......	-25	-27	......	-27	-24	......	-24
National Aeronautics and Space Administration	(* *)	......	(* *)	-1	......	-1	-1	......	-1
Office of Personnel Management:									
Civil service retirement and disability fund	-40	......	-40	-26,114	......	-26,114	-25,127	......	-25,127
Independent agencies:									
Railroad Retirement Board	-114	......	-114	-567	......	-567	-850	......	-850
Other	-4	......	-4	-16	......	-16	-13	......	-13
Other	-157	......	-157	-281	......	-281	-151	......	-151
Total—Interest received by trust funds	-699	......	-699	-85,534	......	-85,534	-82,154	......	-82,154
Rents and royalties on the outer continental shelf lands	......	408	-408	......	2,726	-2,726	......	2,552	-2,552
Sale of major assets	......	......	......	......	......	......	......	......	......
Total—Undistributed offsetting receipts	**-3,341**	**408**	**-3,749**	**-114,584**	**2,726**	**-117,310**	**-111,165**	**2,552**	**-113,717**
Total outlays	**141,206**	**19,693**	**121,513**	**1,510,781**	**182,222**	**1,328,559**	**1,487,496**	**197,951**	**1,289,545**
Total on-budget	**111,077**	**15,798**	**95,279**	**1,215,367**	**137,370**	**1,077,997**	**1,205,116**	**154,028**	**1,051,088**
Total off-budget	**30,129**	**3,895**	**26,233**	**295,414**	**44,852**	**250,563**	**282,380**	**43,923**	**238,457**
Total surplus (+) or deficit			**-24,174**			**-207,268**			**-263,823**
Total on-budget			**-24,330**			**-261,048**			**-308,440**
Total off-budget			**+156**			**+53,780**			**+44,617**

MEMORANDUM

Receipts offset against outlays [$ millions]

	Current Fiscal Year to Date	Comparable Period Prior Fiscal Year
Proprietary receipts	44,124	40,831
Receipts from off-budget federal entities	......	......
Intrabudgetary transactions	187,521	200,196
Governmental receipts	1,884	1,798
Total receipts offset against outlays	233,529	242,825

[1]Includes a prior period adjustment.
[2]Includes FICA and SECA tax credits, non-contributory military service credits, special benefits for the aged, and credit for unnegotiated OASI benefit checks.
[3]Outlays have been decreased in December 1993 by $547 million to reflect agency debt previously reported, by the Federal Financing Bank for the Federal Transit Administration, as outlays.
[4]Includes $476 million of unclassified August payroll charges.
[5]The Postal Service accounting is composed of thirteen 28-day accounting periods. To conform with the MTS calendar-month reporting basis used by all other Federal agencies, the MTS reflects USPS results through 8/19 and estimates for $671 million through 8/31.
. . . 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, August 1994 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: This Month	Fiscal Year to Date: This Year	Fiscal Year to Date: Prior Year	Account Balances Current Fiscal Year, Beginning of: This Year	Beginning of: This Month	Close of 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	55,630	280,502	338,626	4,396,489	4,621,362	4,676,991
Federal Financing Bank	......	......	......	15,000	15,000	15,000
Total, public debt securities	55,630	280,502	338,626	4,411,489	4,636,362	4,691,991
Plus premium on public debt securities	−8	−33	348	1,373	1,348	1,340
Less discount on public debt securities	696	−8,535	4,564	86,397	77,167	77,863
Total public debt securities net of Premium and discount	54,926	289,004	334,410	4,326,466	4,560,544	4,615,470
Agency securities, issued under special financing authorities (see Schedule B. for other Agency borrowing, see Schedule C)	145	2,750	6,434	24,877	27,482	27,627
Total federal securities	55,071	291,754	340,844	4,351,343	4,588,026	4,643,097
Deduct:						
Federal securities held as investments of government accounts (see Schedule D)	2,978	83,024	82,491	1,116,740	1,196,787	1,199,765
Less discount on federal securities held as investments of government accounts	257	−11,736	−389	12,709	716	972
Net federal securities held as investments of government accounts	2,721	94,760	82,880	1,104,032	1,196,071	1,198,792
Total borrowing from the public	52,350	196,994	257,964	3,247,311	3,391,955	3,444,305
Accrued interest payable to the public	−17,413	−9,906	−9,356	43,819	51,326	33,912
Allocations of special drawing rights	22	144	−320	6,950	7,071	7,093
Deposit funds	3,212	1,569	−206	6,249	4,606	7,819
Miscellaneous liability accounts (includes checks Outstanding etc.)	−3,066	−2,412	−490	3,228	3,882	816
Total liability accounts	**35,105**	**186,388**	**247,592**	**3,307,557**	**3,458,841**	**3,493,945**
Asset accounts (deduct)						
Cash and monetary assets:						
U.S. Treasury operating cash:[1]						
Federal Reserve account	2,311	−11,295	−16,611	17,289	3,683	5,994
Tax and loan note accounts	7,490	−11,124	−1,384	35,217	16,603	24,093
Balance	9,802	−22,419	−17,996	52,506	20,285	30,087
Special drawing rights:						
Total holdings	141	634	−2,978	9,203	9,696	9,837
SDR certificates issued to Federal Reserve banks	......	......	2,000	−8,018	−8,018	−8,018
Balance	141	634	−978	1,185	1,678	1,819
Reserve position on the U.S. quota in the IMF:						
U.S. subscription to International Monetary Fund:						
Direct quota payments	......	......	12,063	31,762	31,762	31,762
Maintenance of value adjustments	118	777	−1,115	5,864	6,523	6,641
Letter of credit issued to IMF	−58	−151	−10,025	−25,514	−25,607	−25,665
Dollar deposits with the IMF	−2	−3	−27	−98	−99	−101
Receivable/Payable (−) for interim maintenance of value adjustments	−80	−566	1,451	90	−396	−476
Balance	−23	57	2,346	12,103	12,183	12,160
Loans to International Monetary Fund	......	......	......	(* *)	(* *)	(* *)
Other cash and monetary assets	1,684	1,929	852	22,414	22,659	24,343
Total cash and monetary assets	11,604	−19,798	−15,775	88,208	56,806	68,410
Net activity, guaranteed loan financing	−249	−2,687	−3,873	−6,320	−8,758	−9,006
Net activity, direct loan financing	1,013	5,046	3,011	6,862	10,895	11,908
Miscellaneous asset accounts	−1,358	−2,785	720	−636	−2,064	−3,422
Total asset accounts	**11,010**	**−20,224**	**−15,917**	**88,114**	**56,880**	**67,890**
Excess of liabilities (+) or assets (−)	**+24,095**	**+206,612**	**+263,509**	**+3,219,443**	**+3,401,961**	**+3,426,056**
Transactions not applied to current year's surplus or deficit (see Schedule a for Details)	80	655	314	......	576	655
Total budget and off-budget federal entities (financing of deficit (+) or disposition of surplus (−))	**+24,174**	**+207,268**	**+263,823**	**+3,219,443**	**+3,402,537**	**+3,426,711**

[1]Major sources of information used to determine Treasury's operating cash income include the Daily Balance Wires from Federal Reserve Banks, reporting from the Bureau of Public Debt, electronic transfers through the Treasury Financial Communication System and reconciling wires from Internal Revenue Centers. Operating cash is presented on a modified cash basis, deposits are reflected as received and withdrawals are reflected as processed.

... 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, August 1994 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	3,402,310	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	-349	478	296
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)	3,401,961	3,219,443	2,964,535
Budget surplus (-) or deficit:			
Based on composition of unified budget in prior fiscal yr	24,174	207,268	263,823
Changes in composition of unified budget	......	......	......
Total surplus (-) or deficit (Table 2)	24,174	207,268	263,823
Total-on-budget (Table 2)	24,330	261,048	308,440
Total-off-budget (Table 2)	-156	-53,780	-44,617
Transactions not applied to current year's surplus or deficit:			
Seigniorage	-80	-634	-314
Increment on gold	......	......	......
Profit on sale of gold	......	-21	(* *)
Total-transactions not applied to current year's Surplus or deficit	-80	-655	-314
Excess of liabilities close of period	**3,426,056**	**3,426,056**	**3,228,045**

Table 6. Schedule B—Securities Issued by Federal Agencies Under Special Financing Authorities, August 1994 and Other Periods

[$ millions]

Classification	Net Transactions (-) denotes net reduction of 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	......	......	......	[1]......	......	......
FSLIC resolution fund	......	-145	694	[1]683	538	538
Obligations guaranteed by the United States, issued by:						
Department of Defense:						
Family housing mortgages	......	(* *)	(* *)	7	6	6
Department of Housing and Urban Development:						
Federal Housing Administration	19	-112	-147	213	82	101
Department of the Interior:						
Bureau of Land Management	......	......	......	13	13	13
Department of Transportation:						
Federal Transit Administration	......	[2]-547	......	[3]547	......	......
Coast Guard:						
Family housing mortgages	......	......	......	(* *)	(* *)	(* *)
Obligations not guaranteed by the United States, issued by:						
Legislative Branch:						
Architect of the Capitol	1	14	13	176	189	191
Department of Defense:						
Homeowners assistance mortgages	......	......	-1	......	......	......
Independent agencies:						
Farm Credit System Financial Assistance Corporation	......	......	......	1,261	1,261	1,261
National Archives and Records Administration	-1	-2	......	302	300	299
Tennessee Valley Authority	125	3,542	5,876	21,675	25,091	25,217
Total, agency securities	**145**	**2,750**	**6,434**	**24,877**	**27,482**	**27,627**

[1]Includes notes canceled as of September 1991 for $92 million and $259 million for the Bank Insurance Fund and the FSLIC Resolution Fund, respectively.
[2]Represents agency debt previously reported as outlays.
[3]Represents the issuance of agency debt not previously recorded.

... 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, August 1994 and Other Periods

[$ millions]

Classification	Transactions: This Month	Transactions: Fiscal Year to Date: This Year	Transactions: Fiscal Year to Date: Prior Year	Account Balances Current Fiscal Year: Beginning of: This Year	Account Balances Current Fiscal Year: Beginning of: This Month	Account Balances Current Fiscal Year: Close of This month
Borrowing from the Treasury:						
Funds Appropriated to the President:						
International Security Assistance:						
Guaranty reserve fund	......	405	......	......	405	405
Agency for International Development:						
International Debt Reduction	......	......	376	348	348	348
Housing and other credit guaranty programs	......	......	......	125	125	125
Overseas Private Investment Corporation	......	8	4	8	16	16
Department of Agriculture:						
Foreign assistance programs	......	354	100	193	547	547
Commodity Credit Corporation	61	−8,632	5,149	24,745	16,052	16,113
Farmers Home Administration:						
Agriculture credit insurance fund	......	−1,225	324	5,771	4,546	4,546
Self-help housing land development fund	......	1	1	1	1	1
Rural housing insurance fund	......	2,036	790	2,910	4,947	4,947
Rural Development Administration:						
Rural development insurance fund	......	561	110	1,680	2,241	2,241
Rural development loan fund	......	29	4	5	34	34
Federal Crop Insurance Corporation:						
Federal crop insurance corporation fund	......	−113	......	113	......	......
Rural Electrification Administration:						
Rural communication development fund	......	31	......	25	55	55
Rural electrification and telephone revolving fund	30	67	194	8,099	8,136	8,166
Rural Telephone Bank	−19	−221	40	802	600	581
Department of Commerce:						
Federal ship financing fund, NOAA	......	......	−2	......	......	......
Department of Education:						
Guaranteed student loans	......	......	−32	2,058	2,058	2,058
College housing and academic facilities fund	46	351	......	154	459	505
College housing loans	......	(* *)	......	460	460	460
Department of Energy:						
Isotope production and distribution fund	......	......	4	13	13	13
Bonneville power administration fund	......	266	470	2,332	2,597	2,597
Department of Housing and Urban Development:						
Housing programs:						
Housing for the ederly and handicapped	......	−475	185	8,959	8,484	8,484
Public and Indian housing:						
Low-rent public housing	......	25	50	110	135	135
Department of the Interior:						
Bureau of Reclamation Loans	......	6	2	5	11	11
Bureau of Mines, Helium Fund	......	......	......	252	252	252
Bureau of Indian Affairs:						
Revolving funds for loans	......	9	8	17	26	26
Department of Justice:						
Federal prison industries, incorporated	......	......	......	20	20	20
Department of State:						
Repatriation loans	(* *)	(* *)	−1	......	(* *)	(* *)
Department of Transportation:						
Federal Railroad Administration:						
Railroad rehabilitation and improvement financing funds	......	8	8	8	16	16
Settlements of railroad litigation	......	......	......	−39	−39	−39
Amtrak corridor improvement loans	......	......	1	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	−885	−16,525	−35,806	114,329	98,689	97,804
Department of Veterans Affairs:						
Loan guaranty revolving fund	......	1,158	−61	860	2,018	2,018
Guaranty and indemnity fund	......	612	43	83	695	695
Direct loan revolving fund	......	7	−1,730	1	8	8
Vocational rehabilitation revolving fund	......	1	1	2	2	2
Environmental Protection Agency:						
Abatement, control, and compliance loan program	......	10	8	12	22	22
Small Business Administration:						
Business loan and revolving fund	......	2,464	205	3,203	5,667	5,667

Table 6. Schedule C (Memorandum)—Federal Agency Borrowing Financed Through the Issue of Public Debt Securities, August 1994 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	......	811	207	386	1,197	1,197
Federal Emergency Management Agency:						
National insurance development fund	......	47	11	42	89	89
Pennsylvania Avenue Development Corporation:						
Land aquisition and development fund	......	9	3	76	85	85
Railroad Retirement Board:						
Railroad retirement account	......	......	......	2,128	2,128	2,128
Social Security equivalent benefit account	236	−151	−212	2,690	2,303	2,539
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	**−530**	**−18,067**	**−29,547**	**183,196**	**165,660**	**165,129**
Borrowing from the Federal Financing Bank:						
Funds Appropriated to the President:						
Foreign military sales	−34	−243	−213	4,083	3,875	3,840
Department of Agriculture:						
Rural Electrification Administration	30	−251	−246	22,252	21,971	22,001
Farmers Home Administration:						
Agriculture credit insurance fund	−255	−2,725	−3,950	8,908	6,438	6,183
Rural housing insurance fund	−300	−1,345	−410	26,036	24,991	24,691
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	......	−49	−48	−96	−145	−145
Department of Education:						
Student Loan Marketing Association	......	−4,790	−30	4,790	......	......
Department of Health and Human Services, Except Social Security:						
Medical facilities guarantee and loan fund	......	−21	−39	85	63	63
Department of Housing and Urban Development:						
Low rent housing loans and other expenses	......	−54	−52	1,801	1,747	1,747
Community Development Grants	−2	−19	−41	131	114	112
Department of Interior:						
Territorial and international affairs	......	−1	−28	23	22	22
Department of Transportation:						
Federal Railroad Administration	(* *)	−2	−2	17	15	15
Federal Transit Administration	......	[1]547	......	[2]118	665	665
Department of the Treasury:						
Financial Management Service	......	−30	−95	30	......	......
General Services Administration:						
Federal buildings fund	18	311	720	1,436	1,729	1,747
Small Business Administration:						
Business loan and investment fund	−5	−86	−103	670	589	584
Independent agencies:						
Export-Import Bank of the United States	......	−1,411	−1,440	5,795	4,383	4,383
Federal Deposit Insurance Corporation:						
Bank insurance fund	......	......	−10,160	......	......	......
Pennsylvania Avenue Development Corporation	10	92	66	150	232	242
Postal Service	300	42	278	9,732	9,473	9,773
Resolution Trust Corporation	−646	−4,480	−17,448	31,688	27,855	27,208
Tennessee Valley Authority	......	−1,950	−2,106	6,325	4,375	4,375
Washington Metropolitan Transit Authority	......	−59	......	[2]59	......	......
Total borrowing from the Federal Financing Bank	**−885**	**−16,525**	**−35,347**	**129,332**	**113,691**	**112,806**

[1]Includes $118 million and $665 million which represent repayments of borrowings and new borrowings respectively, from the Federal Financing Bank.

[2]Includes prior period adjustments to reflect the reclassification of agency borrowing.

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, August 1994 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	−2	(* *)	−2	......	2	(* *)
Department of Commerce	−1	2	2	10	13	12
Department of Defense—Military:						
Defense cooperation account	......	−4	−2,023	9	5	5
Department of Energy	2	477	466	4,081	4,556	4,557
Department of Housing and Urban Development:						
Housing programs:						
Federal housing administration fund:						
Public debt securities	(* *)	478	−376	5,214	5,692	5,692
Government National Mortgage Association:						
Management and liquidating functions fund:						
Public debt securities	......	−9	2	9	......	......
Agency securities	......	−4	−40	20	16	16
Guarantees of mortgage-backed securities:						
Public debt securities	83	467	503	3,221	3,605	3,688
Agency securities	......	(* *)	−61	1	1	1
Other	59	2	−103	191	134	193
Department of the Interior:						
Public debt securities	33	598	420	2,508	3,074	3,107
Department of Labor	84	−11,704	900	16,590	4,802	4,886
Department of Transportation	5	86	98	881	962	967
Department of the Treasury	−49	1,715	2,337	5,773	7,538	7,488
Department of Veterans Affairs:						
Canteen service revolving fund	......	3	−3	38	41	41
Veterans reopened insurance fund	−3	10	13	518	531	528
Servicemen's group life insurance fund	......	−108	−44	150	42	42
Independent agencies:						
Export-Import Bank of the United States	78	234	353	76	232	310
Federal Deposit Insurance Corporation:						
Bank insurance fund	2,430	9,078	−646	4,325	10,973	13,403
Savings association insurance fund	830	1,372	942	1,283	1,826	2,656
FSLIC resolution fund						
Public debt securities	−321	1,001	−595	828	2,150	1,829
Federal Emergency Management Agency:						
National flood insurance fund	89	129	−471	71	111	200
National Credit Union Administration	18	280	359	2,764	3,026	3,044
Postal Service	548	2,277	1,687	3,027	4,755	5,303
Tennessee Valley Authority	......	502	1,213	3,452	3,954	3,954
Other	−1	77	13	853	931	930
Other	129	−64	300	2,715	2,522	2,651
Total public debt securities	4,010	6,898	5,344	58,589	61,476	65,487
Total agency securities	......	−4	−102	21	17	17
Total Federal funds	**4,010**	**6,894**	**5,242**	**58,610**	**61,493**	**65,504**
Trust funds:						
Legislative Branch:						
Library of Congress	(* *)	3	3	1	4	4
United States Tax Court	(* *)	(* *)	(* *)	4	5	5
Other	(* *)	(* *)	(* *)	27	27	27
The Judiciary:						
Judicial retirement funds	7	33	19	212	239	246
Department of Agriculture	84	279	7	5	200	284
Department of Commerce	......	(* *)	(* *)	......	(* *)	(* *)
Department of Defense—Military:						
Voluntary separation incentive fund	−17	−48	865	844	814	797
Other	(* *)	6	−8	151	157	157
Department of Defense—Civil:						
Military retirement fund	−949	9,868	10,143	96,690	107,507	106,558
Other	62	107	571	1,213	1,258	1,320

Table 6. Schedule D Investments of Federal Government Accounts in Federal Securities, August 1994 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	−762	3,035	5,348	126,078	129,876	129,114
Federal supplementary medical insurance trust fund	−1,247	−1,300	4,192	23,268	23,214	21,968
Other	8	157	42	659	808	816
Department of Health and Human Services, Social Security:						
Federal old-age and survivors insurance trust fund:						
Public debt securities	891	56,193	44,948	355,510	410,812	411,702
Federal disability insurance trust fund	−669	−3,588	−2,530	10,237	7,319	6,649
Department of the Interior:						
Public debt securities	15	50	−122	184	220	235
Department of Justice	......	52	111	......	52	52
Department of Labor:						
Unemployment trust fund	2,926	4,641	2,825	36,607	38,321	41,247
Other	42	4	8	53	14	57
Department of State:						
Foreign Service retirement and disability fund	16	468	409	6,662	7,113	7,129
Other	(* *)	12	(* *)	38	50	50
Department of Transportation:						
Highway trust fund	−591	−3,156	2,183	22,004	19,438	18,848
Airport and airway trust fund	−44	−394	−2,005	12,672	12,322	12,277
Other	97	(* *)	273	1,675	1,578	1,675
Department of the Treasury	77	72	20	209	205	282
Department of Veterans Affairs:						
General post fund, national homes	......	(* *)	5	39	38	38
National service life insurance:						
Public debt securities	−83	251	418	11,666	12,000	11,917
United States government life Insurance Fund	−2	−8	−8	125	119	117
Veterans special life insurance fund	−8	55	63	1,462	1,524	1,517
Environmental Protection Agency	251	835	998	5,477	6,061	6,312
National Aeronautics and Space Administration	(* *)	1	(* *)	16	16	16
Office of Personnel Management:						
Civil service retirement and disability fund:						
Public debt securities	−1,835	6,222	6,283	311,705	319,762	317,927
Employees health benefits fund	−41	656	610	6,794	7,491	7,450
Employees life insurance fund	262	1,232	1,076	13,688	14,659	14,920
Retired employees health benefits fund	(* *)	(* *)	(* *)	1	1	1
Independent agencies:						
Harry S. Truman memorial scholarship trust fund	1	2	1	52	53	53
Japan-United States Friendship Commission	(* *)	(* *)	(* *)	17	17	16
Railroad Retirement Board	476	290	483	11,961	11,775	12,251
Other	(* *)	102	20	125	227	227
Total public debt securities	−1,033	76,130	77,249	1,058,131	1,135,293	1,134,261
Total trust funds	**−1,033**	**76,130**	**77,249**	**1,058,131**	**1,135,293**	**1,134,261**
Grand total	**2,978**	**83,024**	**82,491**	**1,116,740**	**1,196,787**	**1,199,765**

... 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	37,634	54,183	74,167	28,107	29,917	60,038	24,384	58,123	37,372	43,170		484,775	454,027
Corporation income taxes	2,158	2,208	28,239	3,916	1,594	15,574	20,586	2,817	29,114	3,805	3,108		113,119	93,010
Social insurance taxes and contributions														
Employment taxes and contributions	29,440	31,525	33,273	35,831	32,957	35,976	47,348	35,749	40,853	32,222	34,020		389,196	360,031
Unemployment insurance	1,046	2,773	259	794	2,664	522	2,605	10,426	290	1,399	4,880		27,659	26,143
Other retirement contributions	343	385	423	358	367	459	370	364	366	424	391		4,250	4,357
Excise taxes	3,597	4,808	4,695	4,011	3,249	5,285	4,050	5,253	4,596	4,175	5,989		49,707	43,672
Estate and gift taxes	990	1,305	1,179	1,105	1,093	1,211	2,378	1,342	1,068	1,060	1,239		13,971	11,527
Customs duties	1,708	1,688	1,584	1,526	1,419	1,745	1,479	1,620	1,711	1,782	2,039		18,300	17,156
Miscellaneous receipts	1,706	781	1,575	1,258	1,424	2,418	2,472	1,589	2,003	2,587	2,502		20,315	15,799
Total—Receipts this year	**78,668**	**83,107**	**125,408**	**122,966**	**72,874**	**93,108**	**141,326**	**83,546**	**138,124**	**84,827**	**97,338**		**1,121,292**	......
(On-budget)	**55,864**	**58,700**	**99,714**	**94,395**	**46,880**	**64,611**	**104,311**	**55,366**	**106,014**	**60,145**	**70,949**		**816,949**	......
(Off-budget)	**22,804**	**24,407**	**25,694**	**28,571**	**25,995**	**28,497**	**37,015**	**28,179**	**32,110**	**24,681**	**26,389**		**304,343**	......
Total—Receipts prior year	*76,829*	*74,629*	*113,686*	*112,716*	*65,979*	*83,288*	*132,017*	*70,642*	*128,570*	*80,630*	*86,737*		......	*1,025,722*
(On budget)	*55,052*	*51,215*	*89,590*	*90,127*	*40,879*	*57,094*	*96,307*	*44,520*	*98,663*	*57,144*	*62,056*		......	*742,648*
(Off budget)	*21,776*	*23,414*	*24,096*	*22,589*	*25,100*	*26,194*	*35,709*	*26,122*	*29,906*	*23,486*	*24,681*		......	*283,074*
Outlays														
Legislative Branch	378	206	204	212	202	198	164	188	191	222	185		2,350	2,208
The Judiciary	158	219	190	179	177	386	182	224	159	307	288		2,470	2,417
Executive Office of the President	20	18	16	20	14	14	25	16	14	20	38		213	182
Funds Appropriated to the President:														
International Security Assistance	3,302	397	366	129	347	92	541	406	258	186	42		6,066	7,105
International Development Assistance	557	351	242	388	176	325	518	281	233	506	331		3,908	3,705
Other	133	348	17	156	5	−426	101	86	−305	−282	−149		−315	−46
Department of Agriculture:														
Foreign assistance, special export programs and Commodity Credit Corporation	900	2,263	2,614	974	1,369	1,130	1,342	702	26	91	185		11,597	16,733
Other	3,993	4,886	3,794	3,815	3,373	4,264	3,873	4,206	4,138	4,220	3,946		44,506	42,285
Department of Commerce	264	277	282	244	245	261	231	173	201	249	205		2,633	2,481
Department of Defense:														
Military:														
Military personnel	6,634	5,357	8,626	2,944	5,835	5,959	8,098	3,150	6,076	6,371	6,123		65,174	69,608
Operation and maintenance	6,413	7,049	6,953	8,668	6,156	8,169	7,089	6,354	7,890	6,697	7,383		78,821	85,079
Procurement	5,131	5,132	5,746	4,043	5,600	6,361	4,493	4,545	5,461	4,499	4,842		55,853	64,454
Research, development, test, and evaluation	2,987	2,875	2,949	2,678	2,252	3,292	2,691	3,090	3,159	2,516	2,936		31,424	33,882
Military construction	404	388	390	415	344	372	188	465	465	428	555		4,415	4,297
Family housing	226	208	241	273	265	303	326	263	294	287	256		2,943	2,943
Revolving and management funds	1,568	816	275	−892	542	−1,153	876	569	37	435	565		3,638	−4,263
Other	−217	−28	572	−12	−52	69	−209	93	−189	−153	23		−101	−1,130
Total Military	23,147	21,796	25,752	18,117	20,943	23,372	23,552	18,530	23,195	21,080	22,683		242,166	254,870
Civil	2,550	2,515	2,550	2,509	2,459	2,471	2,513	2,507	2,542	2,562	2,629		27,806	26,789
Department of Education	1,805	3,356	2,535	1,102	1,202	1,004	2,068	2,243	2,144	1,454	2,371		21,285	27,556
Department of Energy	1,710	1,723	1,492	1,269	1,221	1,561	1,263	1,158	1,568	1,362	1,455		15,782	15,107
Department of Health and Human Services, except Social Security:														
Public Health Service	1,467	1,700	1,633	1,178	1,694	1,954	1,462	1,630	1,919	1,636	1,845		18,118	17,086
Health Care Financing Administration:														
Grants to States for Medicaid	7,394	6,626	7,088	6,097	6,202	7,220	6,475	6,982	7,456	6,204	7,138		74,881	68,705
Federal hospital ins. trust fund	7,432	8,006	9,319	7,193	8,196	10,069	8,224	8,339	9,374	8,676	8,937		93,765	83,812
Federal supp. med. ins. trust fund	4,650	4,838	5,846	4,170	4,213	5,293	4,533	4,623	5,416	5,452	5,153		54,186	49,628
Other	3,783	3,801	3,782	2,968	2,926	3,605	3,572	3,001	3,565	3,029	3,054		37,087	41,082
Social Security Administration	2,970	2,061	3,892	1,760	2,087	2,110	5,625	298	2,015	3,637	2,234		28,688	27,646
Administration for children and families	2,797	2,723	2,828	2,771	2,864	2,359	2,910	2,622	2,208	2,309	2,806		29,196	25,745
Other	−5,060	−5,060	−5,094	−4,429	−4,525	−5,109	−5,059	−4,501	−5,043	−4,443	−4,620		−52,943	−54,951
Department of Health and Human Services, Social Security:														
Federal old-age and survivors ins. trust fund	22,546	22,554	22,927	23,097	23,250	23,297	23,398	23,252	26,765	23,420	23,459		257,966	247,345
Federal disability ins. trust fund	2,992	2,998	2,991	3,054	3,077	3,212	3,231	3,275	3,323	3,278	3,262		34,692	31,632
Other	−977	−7	−17	−1,559	−10	−13	−1,558	−9	−8	−1,514	−10		−5,682	−6,181
Department of Housing and Urban Development	2,645	2,415	2,309	1,564	1,886	2,278	2,246	2,048	2,125	2,219	2,547		24,282	23,013

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 the Interior	527	600	507	675	499	631	489	448	634	546	495		6,049	5,823
Department of Justice	749	905	773	822	734	1,023	802	836	790	881	774		9,089	9,254
Department of Labor:														
Unemployment trust fund	2,710	2,762	3,146	3,044	3,080	3,183	2,369	2,128	2,064	1,973	2,196		28,654	36,959
Other	652	61	673	463	444	26	881	551	729	860	712		6,053	4,654
Department of State	843	586	478	407	360	417	251	320	338	294	494		4,791	5,010
Department of Transportation:														
Highway trust fund	1,774	1,601	1,516	1,244	1,271	1,135	1,203	1,434	1,755	1,681	2,033		16,646	14,455
Other	1,377	1,651	1,560	1,373	1,541	1,791	1,459	1,472	1,432	1,544	1,730		16,929	16,441
Department of the Treasury:														
Interest on the public debt	17,638	22,260	52,712	17,899	16,208	18,122	18,328	23,943	53,306	18,301	19,686		278,403	275,463
Other	-102	75	983	590	4,931	2,844	1,207	666	-181	222	4		11,238	7,144
Department of Veterans Affairs:														
Compensation and pensions	1,400	1,406	2,748	61	1,434	1,463	2,787	97	1,458	1,441	1,510		15,806	15,590
National service life	66	57	75	68	57	122	72	74	77	76	77		821	667
United States government life	2	1	2	1	1	2	2	2	2	2	2		18	18
Other	1,338	1,705	1,613	2,001	1,618	1,179	1,045	1,472	1,464	1,549	1,530		16,514	16,215
Environmental Protection Agency	430	506	458	456	430	543	440	439	520	523	503		5,248	5,325
General Services Administration	239	-489	384	-658	344	231	-549	417	475	-704	423		111	500
National Aeronautics and Space Administration	1,079	1,214	1,191	1,015	1,029	1,275	986	1,110	1,105	994	1,304		12,301	13,075
Office of Personnel Management	3,335	2,879	3,079	3,249	3,098	3,207	3,413	3,012	3,361	3,349	3,272		35,255	33,717
Small Business Administration	14	146	49	-7	27	64	52	70	68	78	123		683	827
Independent agencies:														
Fed. Deposit Ins. Corp.:														
Bank insurance fund	52	-182	-1,322	-452	-3,558	-379	-145	-382	30	-237	-2,355		-8,931	-9,470
Savings association insurance fund	-5	4	8	25	-492	-7	-2	-16	-3	-5	-825		-1,367	-942
FSLIC resolution fund	(* *)	8	-140	-93	-253	-15	-552	207	-14	-4	321		-536	2,384
Postal Service:														
Public enterprise funds (off-budget)	-509	-237	146	194	184	-746	-1,049	60	-122	543	129		-1,407	-1,730
Payment to the Postal Service fund	61	.....	.....	23	.....	.....	23	.....	.....	23	.....		130	161
Resolution Trust Corporation	7	-1,169	2,471	-74	-678	-439	783	1,777	1,233	-319	-568		3,023	-19,136
Tennessee Valley Authority	106	168	101	212	32	-18	101	213	78	122	64		1,178	1,965
Other independent agencies	1,705	2,048	1,109	1,283	1,780	1,973	1,489	1,474	-1,569	1,558	1,614		14,464	12,941
Undistributed offsetting receipts:														
Employer share, employee retirement	-2,572	-2,449	-2,592	-2,601	-2,592	-2,733	-2,585	-2,557	-2,559	-3,167	-2,643		-29,050	-29,011
Interest received by trust funds	-359	-5,173	-36,027	-122	-458	-130	-726	-5,467	-36,407	35	-699		-85,534	-82,154
Rents and royalties on outer continental shelf lands	-21	-461	-145	-313	-223	-266	-136	-475	-268	-9	-408		-2,726	-2,552
Other	(* *)	(* *)	(* *)	(* *)	.....	.....	(* *)	(* *)	(* *)	.....	(* *)		(* *)	(* *)
Totals this year:														
Total outlays	**124,090**	**121,488**	**133,114**	**107,718**	**114,440**	**125,423**	**123,872**	**115,602**	**123,275**	**118,025**	**121,513**		**1,328,559**	.....
(On-budget)	**100,567**	**96,724**	**121,431**	**83,526**	**88,523**	**100,259**	**100,625**	**89,731**	**108,166**	**93,164**	**95,279**		**1,077,997**	.....
(Off-budget)	**23,523**	**24,764**	**11,683**	**24,192**	**25,917**	**25,164**	**23,247**	**25,871**	**15,108**	**24,861**	**26,233**		**250,563**	.....
Total-surplus (+) or deficit (−)	**-45,422**	**-38,381**	**-7,705**	**+15,248**	**-41,566**	**-32,315**	**+17,454**	**-32,057**	**+14,850**	**-33,198**	**-24,174**		**-207,268**	.....
(On-budget)	**-44,704**	**-38,024**	**-21,717**	**+10,869**	**-41,644**	**-35,648**	**+3,686**	**-34,365**	**-2,152**	**-33,018**	**-24,330**		**-261,048**	.....
(Off-budget)	**-719**	**-357**	**+14,012**	**+4,379**	**+77**	**+3,333**	**+13,768**	**+2,308**	**+17,002**	**-180**	**+156**		**+53,780**	.....
Total borrowing from the public	**4,255**	**71,028**	**13,449**	**-6,933**	**31,633**	**26,511**	**-21,801**	**27,649**	**2,098**	**-3,245**	**52,350**		**196,994**	**257,964**
Total-outlays prior year	*125,620*	*107,355*	*152,633*	*82,899*	*114,477*	*127,263*	*124,200*	*107,605*	*117,471*	*120,207*	*109,815*		.....	*1,289,545*
(On-budget)	*103,780*	*83,436*	*116,572*	*84,925*	*89,720*	*103,025*	*101,752*	*83,210*	*103,477*	*96,243*	*84,949*		.....	*1,051,088*
(Off-budget)	*21,841*	*23,919*	*36,061*	*-2,025*	*24,757*	*24,237*	*22,448*	*24,395*	*13,994*	*23,964*	*24,867*		.....	*238,457*
Total-surplus (+) or deficit (−) prior year	*-48,792*	*-32,726*	*-38,947*	*+29,817*	*-48,498*	*-43,974*	*+7,817*	*-36,963*	*+11,099*	*-39,577*	*-23,078*		.....	*-263,823*
(On-budget)	*-48,727*	*-32,221*	*26,982*	*+5,202*	*-48,842*	*-45,931*	*-5,445*	*-38,690*	*-4,813*	*-39,099*	*-22,893*		.....	*-308,440*
(Off-budget)	*-65*	*-505*	*-11,965*	*+24,614*	*+344*	*+1,957*	*+13,261*	*+1,727*	*+15,912*	*-478*	*-186*		.....	*+44,617*

... 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 August 31, 1994

[$ millions]

Classification	This Month			Fiscal Year to Date			Securities held as Investments Current Fiscal Year		
							Beginning of		Close of This Month
	Receipts	Outlays	Excess	Receipts	Outlays	Excess	This Year	This Month	
Trust receipts, outlays, and investments held:									
Airport	483	558	−75	5,473	5,774	−301	12,672	12,322	12,277
Black lung disability	48	49	−1	550	552	−2	......	......	......
Federal disability insurance	2,621	3,262	−642	31,010	34,692	−3,682	10,237	7,319	6,649
Federal employees life and health	......	−74	74	......	−1,301	1,301	20,484	22,151	22,372
Federal employees retirement	1,261	3,131	−1,870	40,340	33,636	6,704	318,583	327,119	325,307
Federal hospital insurance	7,544	8,937	−1,392	96,730	93,765	2,966	126,078	129,876	129,114
Federal old-age and survivors insurance	24,386	23,459	926	314,021	257,966	56,055	355,510	410,812	411,702
Federal supplementary medical insurance	4,544	5,153	−609	52,928	54,186	−1,258	23,268	23,214	21,968
Highways	1,599	2,219	−619	16,896	20,069	−3,173	22,004	19,438	18,848
Military advances	1,145	1,029	116	12,112	12,062	50	......	......	......
Railroad retirement	909	634	275	7,764	7,149	615	11,961	11,775	12,251
Military retirement	1,237	2,256	−1,019	33,889	24,456	9,432	96,690	107,507	106,558
Unemployment	4,960	2,196	2,764	33,291	28,654	4,637	36,607	38,321	41,247
Veterans life insurance	28	114	−86	1,404	1,097	307	13,253	13,643	13,551
All other trust	637	192	445	4,903	3,376	1,527	10,784	11,798	12,417
Total trust fund receipts and outlays and investments held from Table 6-D	**51,402**	**53,115**	**−1,713**	**651,312**	**576,133**	**75,178**	**1,058,131**	**1,135,293**	**1,134,261**
Less: Interfund transactions	6,866	6,866	......	176,962	176,962	......			
Trust fund receipts and outlays on the basis of Tables 4 & 5	44,536	46,249	−1,713	474,349	399,171	75,178			
Total Federal fund receipts and outlays	**55,629**	**78,090**	**−22,461**	**677,102**	**959,548**	**−282,446**			
Less: Interfund transactions	20	20	......	453	453	......			
Federal fund receipts and outlays on the basis of Table 4 & 5	55,609	78,070	−22,461	676,649	959,095	−282,446			
Less: offsetting proprietary receipts	2,806	2,806	......	29,707	29,707	......			
Net budget receipts & outlays	**97,338**	**121,513**	**−24,174**	**1,121,292**	**1,328,559**	**−207,268**			

... 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, August 1994 and Other Periods

[$ millions]

Classification	This Month	Fiscal Year To Date	Comparable Period Prior Fiscal Year
RECEIPTS			
Individual income taxes	43,170	484,775	454,027
Corporation income taxes	3,108	113,119	93,010
Social insurance taxes and contributions:			
Employment taxes and contributions	34,020	389,196	360,031
Unemployment insurance	4,880	27,659	26,143
Other retirement contributions	391	4,250	4,357
Excise taxes	5,989	49,707	43,672
Estate and gift taxes	1,239	13,971	11,527
Customs	2,039	18,300	17,156
Miscellaneous	2,502	20,315	15,799
Total	**97,338**	**1,121,292**	**1,025,722**
NET OUTLAYS			
National defense	23,711	253,793	265,701
International affairs	990	14,926	15,619
General science, space, and technology	1,654	15,830	15,667
Energy	390	4,411	4,721
Natural resources and environment	1,745	18,745	18,201
Agriculture	382	14,896	20,057
Commerce and housing credit	−3,026	−7,569	−25,964
Transportation	3,719	33,252	31,472
Community and Regional Development	1,138	10,408	9,225
Education, training, employment and social services	4,342	39,642	44,396
Health	9,426	97,389	90,169
Medicare	12,540	131,715	119,478
Income security	16,848	196,872	192,367
Social Security	26,722	292,653	278,962
Veterans benefits and services	3,130	33,381	32,705
Administration of justice	1,204	13,922	13,585
General government	1,325	10,055	11,329
Interest	18,322	186,013	183,418
Undistributed offsetting receipts	−3,051	−31,775	−31,563
Total	**121,513**	**1,328,559**	**1,289,545**

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 September 1994 Statement is subject to completion of year-end reporting requirements.

For sale by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402 (202) 512-1800. The subscription price is $35.00 per year (domestic), $43.75 per year (foreign). No single copies are sold.

The Monthly Treasury Statement is now available on the Department of Commerce's Economic Bulletin Board. For information call (202)482-2939.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
September 23, 1994

MEDIA ADVISORY

Treasury Secretary Lloyd Bentsen will speak about the upcoming Clinton-Yeltsin Summit to the Nitze School of Advanced International Studies (S.A.I.S.) at Johns Hopkins University and the U.S.-Russia Business Council on Monday, September 26.

He'll speak beginning at 12 noon in the Kenney Auditorium at 1740 Massachusetts Ave., N.W.

Contacts: Treasury -- Scott Dykema (202) 622-2960

S.A.I.S. -- Lucy Howton (202) 663-5626

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
Text as prepared for delivery
September 23, 1994

REMARKS OF TREASURY SECRETARY LLOYD BENTSEN
CDFI BILL SIGNING CEREMONY

This is more than just another bill signing ceremony. This morning we're making good on another commitment to Americans.

Today, we are giving new life to areas of our cities that need hope. We're giving new life to rural areas that have suffered just as much as our inner cities. And we're giving new hope to Americans who have dreams -- dreams of owning their own business, dreams of decent housing, dreams of making a better life for their families.

Some legislation takes us years and years. And we sometimes have political disagreements that slow things down. Working together -- in a bipartisan manner -- we were able to see this one passed in about a year -- first in the House with 410 votes, and then on a voice vote in the Senate.

This achievement took a commitment to change. And it took a willingness to act. I think back two years ago. We were in the midst of a campaign -- a campaign to change America. Slowly and steadily we are seeing that happen.

It is happening because this president, this administration, has a commitment to people and a commitment to delivering on the promise to restore our economy. This was one of the President's pledges, and he's made good on it.

This bill doesn't exist in a vacuum. It's part of a broader agenda that includes interstate banking, which can reduce expenses for financial institutions and give customers more convenience. It goes hand-in-hand with the program we accomplished last year of restoring the availability of credit to our smaller and medium-sized businesses.

(MORE)

LB-1108

We didn't confine the CDFI bill just to lifting up our distressed communities. We took the opportunity to protect homeowners from exorbitant fees and sharp practices. We're improving the detection of money laundering. We're reducing the regulatory and paperwork burden on our financial institutions, and streamlining regulatory requirements. And, we're helping our small businesses and those who help provide our businesses with commercial real estate by removing the barriers to backing securities with small business or commercial real estate loans.

That's a lot in one package.

That's not all. Soon federal bank regulators will take the next step in revitalizing inner cities and rural communities with a revised Community Reinvestment Act proposal.

I want to take just a few minutes this morning to talk about what the CDFI legislation will do, and what it's impact will be.

These Community Development Financial Institutions are some of the most efficient and effective deals going. We put up a little money, they leverage it with other funds from the private sector, and then they lend the money out in their communities. We're also working with traditional financial institutions by providing incentives to extend credit to these communities.

All of this money goes to rehabilitate homes, or to start small businesses which generate payrolls in the community. And as each institution builds its portfolio, the idea is to see that they become self-sustaining.

We're setting up a CDFI fund to operate the program. We're on track now to put in $500 million over four years. Imagine what that can do for an inner city, or a rural area that has lost a large employer, where no one wants to do business.

All in all, the seed money we're talking about today could mean $4.8 billion or more in new credit for the Americans who need it most. These communities need our help. We promised it to them, and we're making good on that commitment today.

I want now to introduce two people you'll hear from before the President -- people who are out on the line every day working to make community development a reality: First, David Lollis of AppalBank in Berea, Kentucky. He's had a long career in nonprofit housing and community development. And second, the Reverend Philip Lawson, a founder and director of the Community Bank of the Bay in Oakland. This bank will be making loans to small businesses, and for housing in the East Bay area.

Thank you very much.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
September 23, 1994

STATEMENT OF TREASURY SECRETARY LLOYD BENTSEN

I wanted to come over this afternoon with Frank Newman, our undersecretary for domestic finance and soon to be my deputy, to go over some of the fine points of the Community Development Financial Institutions Act the president just signed.

Frank can get into detail with you, but there are a few points I want to make first.

With about $500 million over the next four years, we're going to leverage at least $4.8 billion in credit for some of our most distressed communities.

The success stories of some of these community lending institutions are phenomenal, the sorts of things people have been able to do -- for themselves and for their communities. Start businesses, create jobs, upgrade housing, improve their lives.

We just heard from some of the people who have made these sorts of operations succeed.

In the past two years we've had a very full agenda on the financial front. This is part of that. We've now done interstate banking, we made credit more available last year, particularly to small businesses, we made the last payment on cleaning up the S&L problem, our rulemaking authority for the government securities market was renewed, and we've been reducing the regulatory and paperwork burden for our lenders.

We have a bit of that last item -- a reduced regulatory and paperwork burden -- in this bill, along with some important protections for homeowners from sharp operators. There's a provision on removing barriers to packaging small business or commercial real estate loans for sale to investors backing securities. And there's a provision to improve our ability to go after crooks who launder money.

This is an impressive piece of legislation, and we've had an excellent record over the past two years. I've been at this a while, and it's rare to have something as complicated as CDFI go through so quickly and come out in such strong shape. We had bipartisan support, and we also had going for us a president who wants to deliver on his promises.

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LB-1109

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
Text as Prepared for Delivery
September 26, 1994

REMARKS OF TREASURY SECRETARY LLOYD BENTSEN
THE PAUL H. NITZE SCHOOL OF ADVANCED INTERNATIONAL STUDIES
THE JOHNS HOPKINS UNIVERSITY
WASHINGTON D.C.

Usually when I speak to students it's at commencements, on the last day of school, at the end of their academic careers, and they already know what they want to do. So I don't have much of an influence.

Today is different, I hope. They booked me to speak to you at the beginning of the academic calendar.

I'll be talking about Russia. When President Yeltsin meets with President Clinton tomorrow, it will be to renew a partnership that is paying off for both Russia and the United States.

Russia's economic reforms are working, and western support is helping. Russia's market economy is taking hold, and the West is bringing Russia into the markets and institutions of the world economy.

But the real test of that payoff is right in this room. It's what will happen when you graduate and when students five or 10 years from now graduate.

You see, when this school was founded in the 1940s, its purpose was to train top diplomats. That's what we needed at the time. I know the founders -- Paul Nitze. And I knew Christian Herter. I served in Congress with him.

Now, they tell me that 40 percent of you will go into the private sector. I'm here to recruit. Not to recruit you for government work, although we can always use some good ones. But to recruit you into the private sector -- to do business with Russia, because that's how we'll know if the reforms really work.

LB-1110

There are some business people here today, too, and I want you students to make sure to get acquainted with them. They can use you.

My message today on Russia is this: the reform process must continue. I think it must continue with bolder Russian economic reform, and bolder activation of available western support.

Let me start by taking you back to the first meeting between the two Presidents. It was in Vancouver in April 1993, and the outlook for Russia's economic reforms was pretty bleak. The radical reformers had pointed the way with an ambitious reform agenda, but the reforms were not taking hold.

Inflation was out of control. It had averaged 25 percent per month for half a year, wages averaged $35 per month, and industry remained firmly in state hands. The energy sector, so critical to the country's prospects, was crippled -- with falling production and one in seven wells shut in.

The government reformers were stalemated by the powerful Soviet-holdover Parliament. Russian skepticism about economic prospects was clear from the wave of billions of dollars of capital flight to the West.

And Western investors were visiting but not investing.

That's where we were 17 months ago.

I was at that summit. In fact, it was the first time a President had asked his Treasury Secretary to participate. In Vancouver, economic reform issues were at the top of the agenda. President Yeltsin assured us that Russia would press on with reform. He asked for financial support for his reforms and open markets for Russian goods.

President Clinton pledged to lead a G-7 effort to support Russia and stressed that the U.S. would stick with Russia as it progressed.

President Clinton asked Congress for $4.5 billion to help the Russian government with technical assistance and to help the people take on the transformation. He also led the G-7 effort to raise $43 billion in multilateral financial support for the reforms.

He emphasized that our support would be measured with the pace of Russia's reforms. That was key, because it meant that our money would go only to support reform. It also meant that we were committed to help the reformers each step of the way.

Before President Clinton came into office, the U.S. and G-7 spent too much energy collecting old loans that had been made to the Soviet Union. When it came to new loans, the conditions on Western loans were set tough enough to keep support just out of the reformers' grasp. We've put that vicious cycle to an end.

When the two Presidents meet again this week, we'll see that the process begun in Vancouver has worked.

President Yeltsin has pushed ahead with reform. And that hasn't been easy. There was the Parliamentary crisis last October, new elections in December, and a change of government in January. I want to talk about some of those problems in a minute, but look at the numbers. Russia's reforms are working.

Look at the budget deficit. It's been reduced by about 10 percent of GDP. Now, Russia's deficit is less than a number of European countries -- including, Italy, Belgium, and Greece.

Look at inflation. In 1993, it was over 20 percent per month. It has been brought down to about 5 percent per month. This has stemmed capital flight, allowed interest rates to come down, and now there is a growing sense that normalcy in the business environment is setting in.

Look at real interest rates. They've been positive this year. Anyone who brought their money home from Switzerland on January 1 would have earned 25 percent more after correcting for inflation in a Russian bank so far this year. In other words, anyone who chose capital flight and gambled against Boris Yeltsin is down 25 percent.

And contrary to popular reports, real incomes have been rising and the percentage of people living below the poverty line is decreasing. Since the Vancouver Summit, real incomes are up by about 30 percent. It used to be that two-thirds of their personal income was from wages. Now just half is from wages -- the other half coming from people running their own businesses and from investments.

Look at privatization rates. Over 80,000 small businesses and 14,000 large enterprises have been turned over to private owners. About 50 percent of GDP is produced in private firms.

Now I see Western investors putting money in Russia on an unprecedented scale. Financial investment is going into privatized Russian enterprises.

Credit Suisse First Boston says they've placed over $1 billion in Russian equities. U.S. companies are also making direct investments. A $9 billion Texaco oil investment deal is near completion.

Just getting wells back into operation results in a tremendous pay off. You can get hard currency -- and fast. If you put $1 into repairing a well, you get back 80 cents in the first year. The eventual payoff is 4 to 1 -- $4 for every $1 you put in.

So Russia's reforms are showing results, and President Clinton's policy is helping. It's been effective.

But I said it hasn't always gone smoothly. It never does. I think back to January, when Russia's government changed, and there was talk of an end to market romanticism. Both in Russia and here in the United States, there was talk about slowing reforms, looking for a different approach.

President Clinton went to Moscow to urge President Yeltsin to stick to the proven path of creating a private, market economy. And he promised that he would call on the G-7, the IMF and the World Bank to stand by Russia, engage at the highest levels, and support the continuation of reforms.

In the end, that's what happened. Russia renewed its reform effort, renewed negotiations with the IMF and World Bank, and won $3 billion in new loans from these institutions.

Then in July, in Naples, President Clinton launched an effort to have the IMF make new, larger provisions for Russia and the other economies in transition. That is being done. And it means we'll be ready to help Russia take its next big step toward reform this fall.

Russia has to take that step. Russia's progress has been better than most people expected, but the danger now is that complacency could lead to a severe setback.

It's still tough to do business in Russia, with so much bureaucracy in government and so much old thinking in enterprises. The process of reform from the ground up is under way, but reform must be kept on track to provide time for the Soviet legacy to fade away.

Privatization has been sweeping, but getting Russian companies off the dole and on to restructuring is a harder task. You know human nature -- Russian managers still try to privatize their profits and socialize their losses.

There are other problems, like the tax and legal environment. It still makes businessmen miserable. That's both Russian and western businessmen. You've heard this one before -- successful projects get taxed to death, sometimes with profits taxed at more than 100 percent.

There's crime. We've all read about the rampant crime. Russians are shocked at what's happening. Crime poses a threat to the emerging market economy and even to the legitimacy of the state. At Treasury, the Secret Service, Customs, and IRS are all working with our Russian counterparts to fight organized crime, to fight drug smuggling, and to fight financial fraud.

There are lobbyists -- that's another problem. The anti-inflation effort has pinched agriculture and industry, and those lobbies are fighting back. In recent weeks, concessions to these lobbies have weakened Russia's financial position and led to a ruble selloff in the foreign exchange market. If Russia doesn't withstand these pressures forcefully, much of the gains of the last two years could be lost.

So you have taxes, crime, the economy, lobbyists -- it sounds to me like our two Presidents have an awful lot in common. They'll have many stories to swap at this summit.

But the present situation in Russia worries me. I can't tell you how this will turn out. But I do know that to avoid slipping backward, Russia must take a bold step forward.

A breakthrough is within reach, if Russia acts now. I think if they act boldly, it will help in three ways. It will help stabilize their economy. It will help create modern institutions that work. And it will help bring Russia into the world economy.

Let me take them, one at a time.

First, a stable economy. Russia needs a bold stabilization effort aimed at reducing inflation quickly.

If Russia adopts a tough budget cutting program, we could help them stem their money printing by delivering the $8 to $10 billion in enhanced support from the International Financial Institutions that we pledged at the Naples Summit.

And if Russia backs up that program by pegging the ruble in their foreign exchange market, we would help bolster market confidence by delivering an effective $6 billion currency stabilization fund.

Let me be clear. Our support policy has been successful, because our lending is conditional. For Russia to get all this money I've mentioned, it needs a bold economic reform program.

These kind of efforts would spark Russian economic recovery. With even lower inflation, lower interest rates, and a stable exchange rate, many of the newly privatized enterprises that now face financial problems would have the prospect of secure jobs for workers and profits for owners.

I think Russian capital flight would come home and fund badly needed investment in new and existing business ventures. And I think Western investor confidence would turn the corner and many stalled projects would take off.

Two, creating modern institutions that work.

Another reason that Russia needs to win the inflation battle is that successes would strengthen the political constituency for reform in Russia and make possible greater progress in institutional and structural change.

But Russia must finish the privatization job, and not get stuck half-way. This means selling more companies, and getting on with the privatization of land.

The West can help Russia press on with institutional reform. We are proposing to the Russians a comprehensive technical assistance effort in the area of tax reform. A stable, modern tax system is a prerequisite for the development of trade and investment.

Three, bringing Russia into the world economy.

Trade and investment offers Russia a great chance for prosperity, but it also offers the world economy an engine of growth that could last a generation. For no one can doubt Russia's great potential: a vast nation, spanning 11 time zones, rich in natural resources; and rich, too, in human resources.

Russia needs to press on with integration into the world economy, by ratifying its Bilateral Investment Treaty with the U.S., and committing itself to join the World Trade Organization.

We have been and we'll continue to promote trade and investment.

The Export-Import Bank has supported $900 million in U.S. exports to Russia. OPIC has made $800 million in loan and guarantee commitments to support U.S. investment in Russia. And our G-7 initiative to support Russian privatization is leading to the creation of 10 regional venture funds that will make equity investments in Russian companies.

The U.S.-sponsored Fund for Large Enterprises in Russia, headed by former Treasury Secretary Blumenthal, signed its first investment deal last week. It's investing $13.5 million in a Russian joint venture that will produce oil well rigs equipped with U.S. diesel engines. That'll help Russia and create jobs in the U.S. at the same time.

In the long run, our relationship with Russia must be based on trade and investment, not aid. The businessmen in this room know that our private sector can do more to help Russia modernize than our government.

A key aim of the summit is to promote the expansion of private sector trade and investment. Some big deals are moving to completion, and you'll see that come out of the summit.

We aim to work with Russia to improve the climate for trade and investment so our private sector will become much more active.

I want to end where I started today. And that's one more recruitment pitch. Russia and the other countries in the region offer a great frontier of opportunities. Not just economic, but cultural and intellectual.

You're very lucky. If I were your age -- I'd be exploring that frontier, having some adventures, making some new friends, and finding some business partners.

So go to Russia. Go explore the possibilities. And after you make a fortune, you might want to consider a job in public service. Washington will always need the wonderful diplomats that this institution produces.

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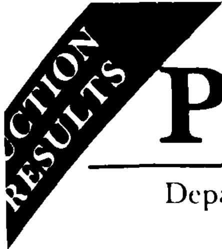


PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
September 26, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $11,728 million of 13-week bills to be issued September 29, 1994 and to mature December 29, 1994 were accepted today (CUSIP: 912794P65).

RANGE OF ACCEPTED COMPETITIVE BIDS:

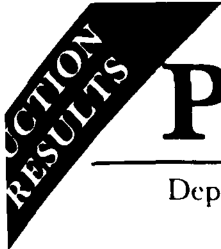
	Discount Rate	Investment Rate	Price
Low	4.77%	4.90%	98.794
High	4.79%	4.92%	98.789
Average	4.79%	4.92%	98.789

Tenders at the high discount rate were allotted 38%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$46,343,451	$11,728,044
Type		
Competitive	$40,238,398	$5,622,991
Noncompetitive	1,299,018	1,299,018
Subtotal, Public	$41,537,416	$6,922,009
Federal Reserve	3,196,335	3,196,335
Foreign Official Institutions	1,609,700	1,609,700
TOTALS	$46,343,451	$11,728,044

LB-1111



PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
September 26, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $11,629 million of 26-week bills to be issued September 29, 1994 and to mature March 30, 1995 were accepted today (CUSIP: 912794R30).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.20%	5.41%	97.371
High	5.22%	5.44%	97.361
Average	5.22%	5.44%	97.361

$10,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 29%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$44,512,944	$11,628,764
Type		
Competitive	$38,656,888	$5,772,708
Noncompetitive	1,333,356	1,333,356
Subtotal, Public	$39,990,244	$7,106,064
Federal Reserve	3,150,000	3,150,000
Foreign Official Institutions	1,372,700	1,372,700
TOTALS	$44,512,944	$11,628,764

LB-1112

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
September 26, 1994

Contact: Jon Murchinson
(202) 622-2960

PRESIDENT TO SIGN INTERSTATE BANKING BILL AT TREASURY

President Clinton, joined by Treasury Secretary Lloyd Bentsen, will sign the Interstate Banking and Branching Efficiency Act of 1994 into law at the Treasury Department this Thursday.

The signing ceremony will be at 2 p.m. Thursday, September 29 in the Cash Room at Treasury, 1500 Pennsylvania Avenue NW. Chase Manhattan Bank N.A. Chairman and CEO Thomas G. LaBrecque and Norwest Corporation President and CEO Richard Kovacevich will also make remarks.

"This legislation represents a major step forward for the American banking system that has been sought by both parties for years," Secretary Bentsen said. "Interstate banking and branching will be beneficial to banks and their customers as well as the nation's economy as a whole."

Interstate banking will remove geographic restrictions and make it more convenient for Americans to do their banking across state lines. The bill will also allow banks to reduce expenses by structuring themselves more efficiently.

Cameras should be in place by 1:30 p.m. Media without Treasury, White House, State, Defense or Congressional credentials wishing to attend should contact the Office of Public Affairs at (202) 622-2960, with the following information: name, social security number and date of birth, by 6 p.m.Wednesday, September 28. This information may be faxed to (202) 622-1999.

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LB-1113

DEPARTMENT OF THE TREASURY

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Text as prepared for delivery
September 27, 1994

REMARKS OF TREASURY SECRETARY LLOYD BENTSEN
HISPANIC HERITAGE WEEK

If I didn't know coming in that this was the Hispanic Heritage event, I guess I could have figured it out on my own. There are signs in all the elevators telling me that over in the cafeteria they're serving "Baked fish Veracruz, Sonorese Corn Soup, Chicken Mesquite Burritos, Cheese Enchilladas, Spanish Rice, Black Beans, and Salsa and corn chips."

I may place a carry out order tomorrow. Can't have too much of a good thing.

There's more to Hispanic Heritage than great food, and I want to talk briefly about it. That's not the only thing on my mind. I want to cover a few more topics today also.

I know so many of you in the room. We've worked together on the issues for many years, individually, through the caucus.

You know I grew up on the border, spoke Spanish as a child -- I can still get by. I remember back then, I wasn't bilingual like we are today. I just knew how to talk to my friends.

Things have changed so much, and so much for the better over the years. When I first came to Congress, there was just one Hispanic member of the United States Congress. Today, there are 18, and two more delegates. That's real progress.

LB-1114

(MORE)

Increasingly, Hispanic Americans are assuming influential positions, in government and in industry. And one of the most meaningful ways to celebrate Hispanic heritage is not only to point out the contributions of the past, but to look at the participation in the present.

This administration has made a determined effort to make sure the American government looks just like America. There's Secretary Pena, and Secretary Cisneros. Here at the Treasury Department we have Ed Knight, who will soon be the first Hispanic General Counsel at the Department. And of course, George Munoz, our assistant secretary for management and the first Hispanic CFO Treasury has ever had. He's also been elected to the highest position on the government-wide Chief Financial Officers Council. There's Marina Weiss who's done such a job for me on health care. And Clara Apodoca, the former first lady of New Mexico; Fe Morales Marks here, and Jose Padilla over at Customs. And I can't forget Annabella Mejia -- my secretary, she runs my life.

You know, I looked into how this lunch was organized and realized just how much Hispanics are running the Treasury. I'm told there was some concern at a planning meeting about how to pull this off. But when someone asked about finding a room, Ida Hernandez said she'd take care of it because she was in charge of booking our big rooms. Then, they had to figure out how to pay for this event, so Alex Rodriguez said he'd take care of it. And then they figured if they needed anything else, they'd just get George, because he's in charge of it all.

Now, I'm sitting up in my office on the third floor wondering what's left for me to run in this department. At least they left me a little room on the program today.

It's like that throughout the government. And well it should be.

Hispanics are the second largest minority group in the country. The size of the population will double by the year 2020, and triple by 2050. There are about 22 million people of Hispanic origin in the United States. That's one heck of a market. And think of the economic power that 80 million people can have.

Not everything is perfect, however. It's a mixed picture.

Hispanic unemployment remains far too high. Hispanics receive the lowest weekly wages of any major group in the labor force -- nearly 40 percent less than the national average. On the other hand, the percentage of Hispanic families with incomes of $50,000 in 1990 was 3 percent higher than it was in 1992. But Hispanic families are more likely than families in the rest of the population to live in poverty.

There's a great deal of progress that must still be made.

One of the points I want to make today is how this administration has committed itself to making life better -- yes, for Hispanics, but not only for Hispanics, for all Americans.

Just last Friday I attended a ceremony in which President Clinton signed the Community Development Financial Institutions act. Those are the organizations that get out into the neigborhoods, and our rural areas, and make the loans that help entreprenuers start their businesses, help people own their own homes, improve their communities. The seed money we're putting into that can turn into a boost of approximately $5 billion to our communities. Chairman Gonzalez was very much involved in that one, and I appreciate his contribution.

We have a solid record of accomplishment -- for every American. We put through the Earned Income Tax Credit, which eventually will make a significant difference for 15 million Americans. There's no reason a family where the parents work should be below the poverty line, and this will help in that regard.

We're making neighborhoods safer with the extra police and and the assault weapons ban in the crime bill. And we're creating Economic Empowerment Zones and Enterprise Communities.

There's one other item in particular of a direct and immediate economic benefit I want to mention -- the North American Free Trade Agreement. It's already making a difference on both sides of the Rio Grande.

That wasn't an easy one to get. But I think it has turned out exceptionally well. Look at what's happening now.

The Commerce Department says that in the first six months of the year, Mexico's exports to the United States have gone up by about 22 percent. And our exports to Mexico are up 17 percent, and we're still running a surplus. Those figures tell us we've done enough business to create 100,000 new jobs in the United States. And here's the part I like. For two of those first six months, Mexico replaced Japan as our second-biggest customer.

And four days from now I'll be writing a check for more than $50 million as our initial contribution to the North American Development Bank. My counterpart in Mexico, Pedro Aspe, and I are looking for a manager and deputy manager for the Bank, and I hope it can be up and running quickly. That aspect of NAFTA is going to help immensely in the immediate border area, and beyond, particularly insofar as the environment is concerned. It's going to make a real difference in the quality of life down there. I want to point out that Congressman Esteban Torres helped out tremendously on this one and I appreciate it.

I was down in Mexico earlier in the month and met with President-elect Zedillo. For those of you who haven't met Dr. Zedillo, I want you to know that he's committed to meeting the challenges that face Mexico. We had a very good meeting, and I'm quite impressed. He has a recognition of the need to put people first, just as we do in this administration.

NAFTA is an important part of our economic program, and so is increasing trade everywhere -- globally through the Uruguay Round, and within our own hemisphere. So many of our jobs now are dependent on trade.

Look at Latin America and the Carribean. Our exports to the region are up by half again as much as our trade with the rest of the world. These are some of the world's fastest growing economies. The value of what's being traded on the seven largest stock markets in the region is a dozen times higher today than it was a decade ago. Investment is pouring in from around the world. Net foreign direct investment has nearly doubled in five years. And very importantly, inflation is not a problem. We're not seeing prices go up 100 percent a year.

All of this is because we've seen economic and political reform taking hold. We have a climate that is conducive to trade. There are stable, democratic governments, with open societies and open markets.

I meet with the finance ministers from these nations and they all tell me they want to trade with us.

That's one of the issues we'll be talking about in Miami at the Summit of the Americas in December.

There are three themes we want to go over -- making democracy work, making it prosper, and making it endure.

Let me deal largely with the second point, prosperity. We're beginning to see democracy work in the region, and the trick to making it endure is seeing to it that there's plenty of prosperity to go around.

I want us to have a discussion about how to integrate the hemisphere -- and the way you do that is with freer trade and with investment flows. One of the important aspects of that is infrastructure -- because a sound infrastructure is the underpinning of a sound economy. That's one of the biggest items we have on the agenda in Asia and the Pacific. There's $1 trillion in work to be done out there, and I suspect if you added up all the requirements in Latin America it would start running into what nowadays is considered real money.

We're also going to talk about the truly universal need to lift people up out of poverty. I mentioned what we're doing here, and the lessons about producing healthier and more educated citizens can apply in Latin America as well.

Whether we're Hispanic or not, we all have a tremendous stake in how Latin America develops.

I leave Thursday night for Madrid and the World Bank and IMF meetings and a few others. But I want you to know that I don't go into a totally global mode for all of these meetings. If I run into one of my counterparts from Latin America, our hemisphere's issues will be on my mind. The dialogue will take place anywhere we can sit down and talk things over.

Let me come back around to where I began, talking about Hispanics as part of the American mosaic.

Every group in our country -- even us Danes -- has a proud heritage, a history we can take pride in.

Hispanics have made unique contributions to every aspect of our society and our culture.

My family came to the United States seeking a better life. What I am after now, and what this adminsitration is after now, is to build an economy that offers all Americans, hypenated or not, the opportuntity to prosper and leave that legacy of prosperity to the next generation.

Thank you very much.

-30-

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
September 27, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 2-YEAR NOTES

Tenders for $17,267 million of 2-year notes, Series AL-1996, to be issued September 30, 1994 and to mature September 30, 1996 were accepted today (CUSIP: 912827R38).

The interest rate on the notes will be 6 1/2%. All competitive tenders at yields lower than 6.55% were accepted in full. Tenders at 6.55% were allotted 14%. All noncompetitive and sucessful competitive bidders were allotted securities at the yield of 6.55%, with an equivalent price of 99.908. The median yield was 6.50%; that is, 50% of the amount of accepted competitive bids were tendered at or below that yield. The low yield was 6.45%; 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	$44,032,876	$17,267,136

The $17,267 million of accepted tenders includes $1,660 million of noncompetitive tenders and $15,607 million of competitive tenders from the public.

In addition, $1,130 million of tenders was awarded at the high yield to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $1,125 million of tenders was also accepted at the high yield from Federal Reserve Banks for their own account in exchange for maturing securities.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR RELEASE AT 2:30 P.M.
September 27, 1994

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $24,800 million, to be issued October 6, 1994. This offering will result in a paydown for the Treasury of about $325 million, as the maturing weekly bills are outstanding in the amount of $25,125 million.

Federal Reserve Banks hold $6,502 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 $2,123 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) 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 - 1116

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED OCTOBER 6, 1994

September 27, 1994

Offering Amount	$12,400 million	$12,400 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 P7 3	912794 R4 8
Auction date	October 3, 1994	October 3, 1994
Issue date	October 6, 1994	October 6, 1994
Maturity date	January 5, 1995	April 6, 1995
Original issue date	July 7, 1994	April 7, 1994
Currently outstanding	$12,315 million	$16,623 million
Minimum bid amount	$10,000	$10,000
Multiples	$ 1,000	$ 1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

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

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

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

Maximum Award . . . . 35% of public offering

Receipt of Tenders:

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

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

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

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FOR IMMEDIATE RELEASE
September 27, 1994

STATEMENT OF TREASURY SECRETARY LLOYD BENTSEN ON COMMERCE DEPARTMENT'S ESTABLISHMENT OF A MULTILATERAL DEVELOPMENT BANK COUNSELING CENTER

American companies are doing well in winning contracts with the Multilateral Development Banks, and after today I look forward to their being able to do even better.

I congratulate the Commerce Department for opening up a Multilateral Development Bank Counseling Center. There are many business opportunities for both large and small U.S. companies, but they need to be aware of what's out there. The new Center will provide one-stop shopping, so in one place companies can receive information on business opportunities at all the banks.

Last year, American companies were awarded a record $2.7 billion in contracts on loan projects funded though the banks.

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LB-1117

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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EMBARGOED, RELEASE TO BE SET AT BRIEFING
September 28, 1994

REMARKS OF TREASURY SECRETARY LLOYD BENTSEN
WORLD BANK/IMF, SAUDI ARABIA TRIP PRESS BRIEFING

What I'd like to do is give you a quick rundown of what we'll be doing in Madrid and later on next week, and then I can take a few questions. It will be an exceptionally busy week for everyone.

First, let me put the meetings in context for you. We're at the point where we can help set the tone and direction for the IMF and World Bank for the coming years. We have an opportunity to continue the process of putting the world economy on a path of sustained growth, to further help fully integrate the new democracies and transitioning economies of Eastern Europe and the Former Soviet Union into the world economy and the international institutions, and to encourage sustainable development. In each of these areas, the United States is playing a leading role.

Last year we started looking for a way to see that new IMF members became full beneficiaries of the institution. There hasn't been a new allocation of Special Drawing Rights since the 1978-1980 series, and there are nearly 40 new members that have none. I'm very hopeful we can reach a conclusion on this issue at the annual meeting.

In addition, I hope we'll also agree on a way to increase substantially access to existing IMF lending programs. The transforming economies need greater access, and that can make a big difference as they make the difficult reforms. When support is measured with the pace of reform, support must keep up with the pace of reform.

We'll also be taking a look at the role of the IMF and the World Bank in their second 50 years, talking about expanding and deepening the sorts of changes being made at these institutions. They can be an important force in our goal of sustaining the recovery that is taking place and in achieving sustainable development and spreading prosperity.

(MORE)

LB-1118

A great deal has been done at the World Bank, in particular, in the past two years, some important policy and admistrative and budget changes. Much of that has come because of the urging of the United States. We need to see this progress continued. We need to see a greater emphasis on people, on supporting the private sector, not replacing it, and on encouraging development from the bottom up.

Our discussions will be with an eye on our G-7 meeting next year in Halifax, where we'll talk about the future roles of the Bank and the IMF, and whether any other institutions might be needed to help reach our goals.

Around the annual meeting we have a number of other things going on.

First out of the gate, we have a G-7 meeting on Saturday. If you look at what's happened to our economy and the global economy since this administration took office, you see the growth lines that were flat or going down have turned up. Things are dramatically different than when I went to my first G-7 in Febuary of last year. Our growth is leading the world. The momentum is building in Europe and Japan.

Our strategy of deficit reduction here, interest rate cuts in Europe, and fiscal stimulus in Japan is clearly working. There are some charts in your materials illustrating that. Our deficit is coming down rapidly, interest rates in Europe have come down, and with some quiet diplomacy and sustained, firm contact, the Japanese are taking some constructive steps. They're cutting taxes to put more money in the hands of consumers, and delaying a consumption tax for three years.

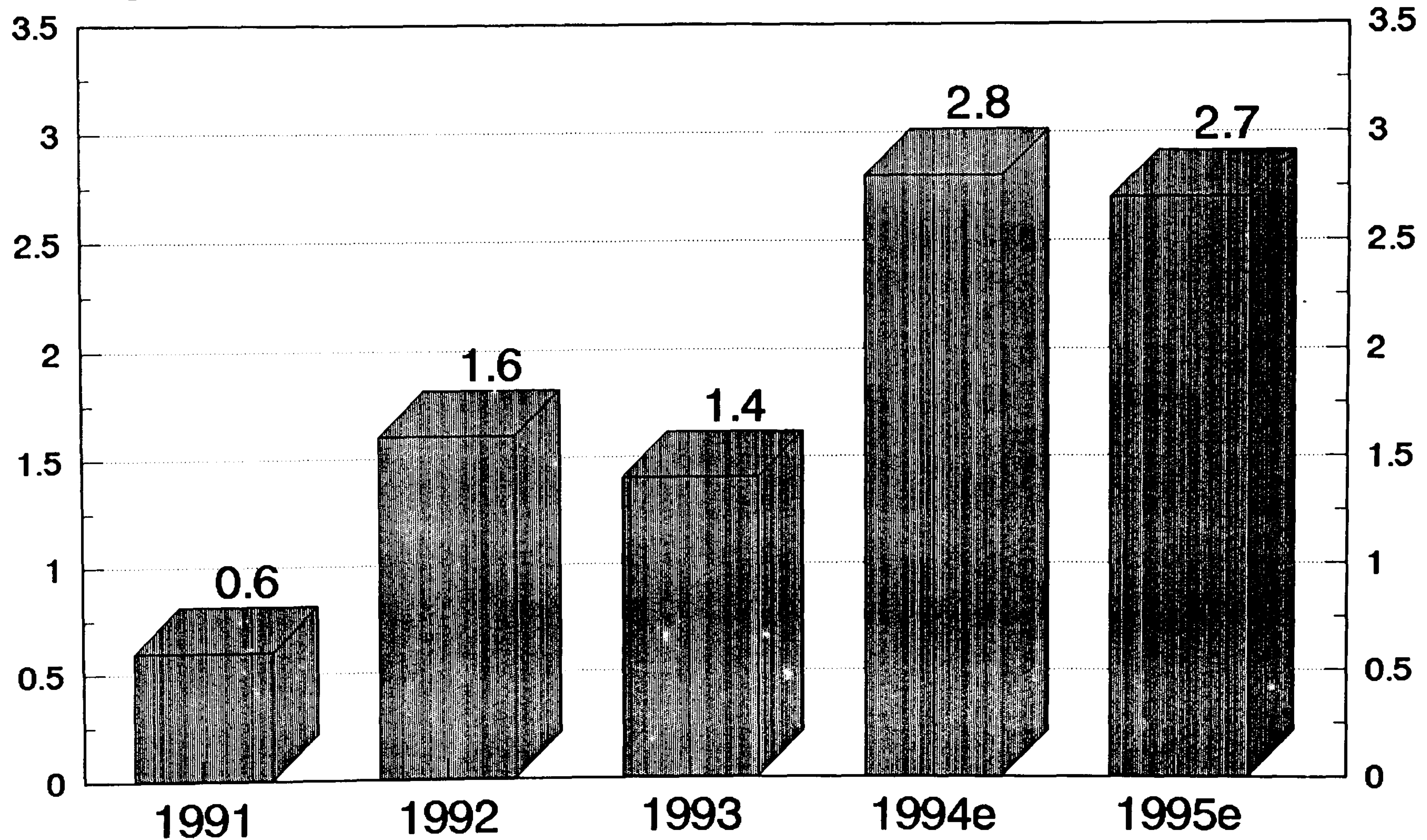
As for the G-7 in working on the global economy, our job now is to consolidate the gains we have made and look at how to expand and sustain the recovery.

We'll also be talking informally outside the G-7 setting about some related issues, such as some of the agenda we have in the Asia-Pacific Economic Cooperation forum. One of those issues, which also applies everywhere else, is access to capital.

I have 10 or more bilaterals or other meetings. I'm not sure if they've left me time to even catch my breath. And I'm going to speak to a group of Spanish businessmen and members of the financial community.

After the annual meeting, I will go briefly to Jeddah for a meeting with King Fahd and with my counterpart, Finance Minister Abulkhail . I want to tell them that we're pleased at the approach being taken with the Saudi economy, privatizing, and holding down government expenditures just as we are here.

-30-

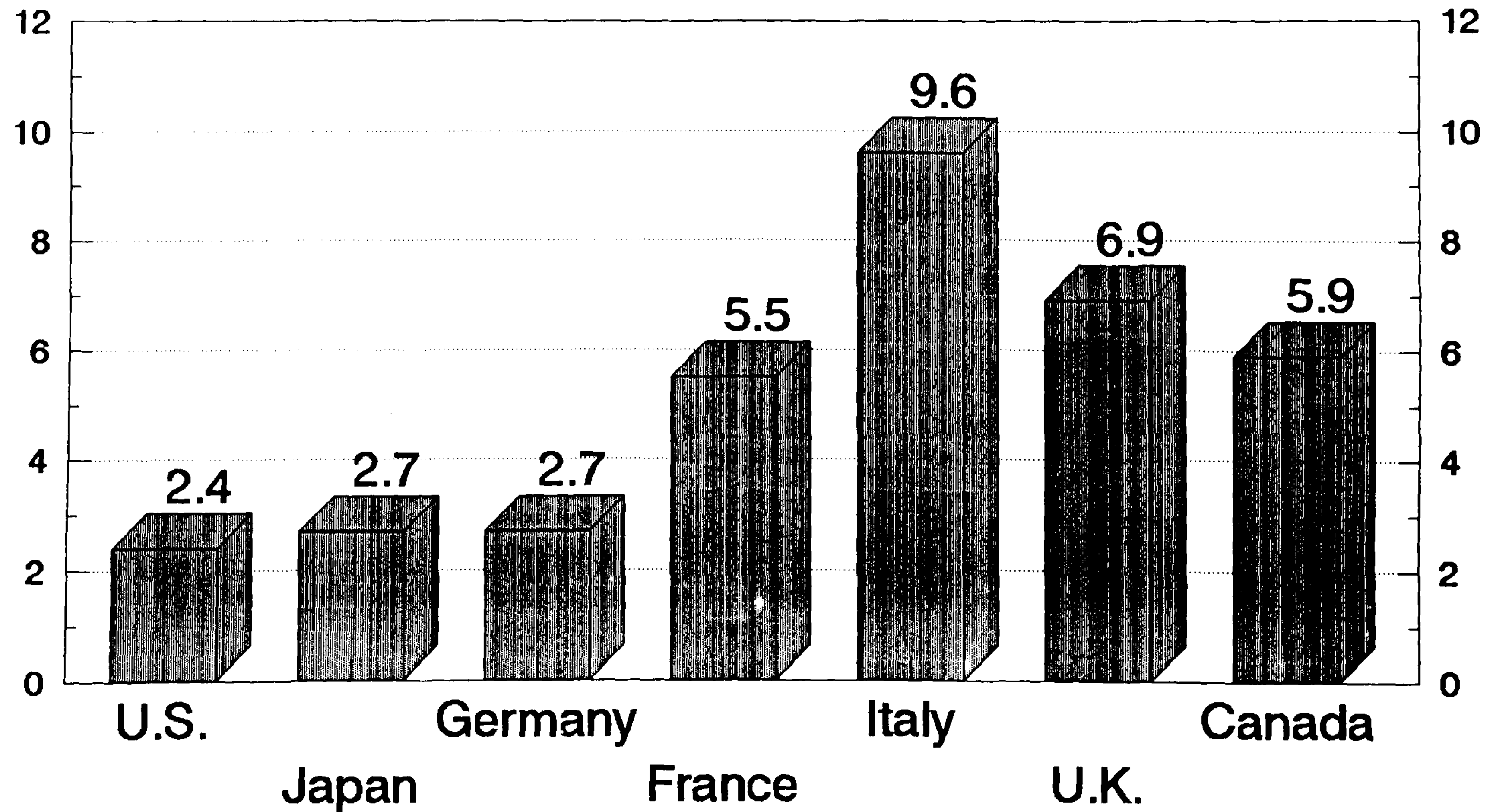


Source: IMF
Treasury/IMI/G7GROWTH/M.Otradovsky/9/27/94

U.S. Now Has Smallest Budget Deficit Among G-7

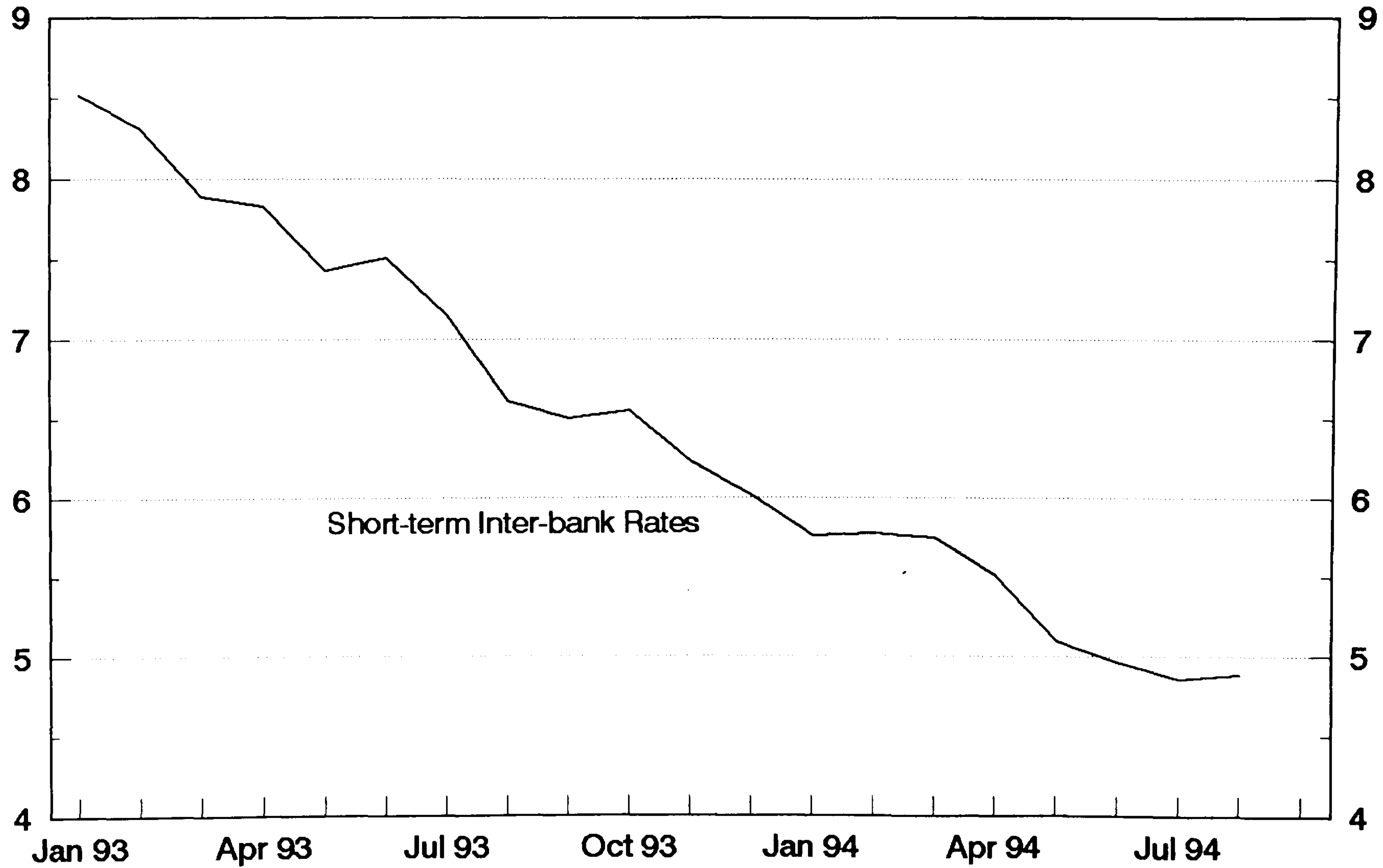
1994

(deficit as % of GDP)



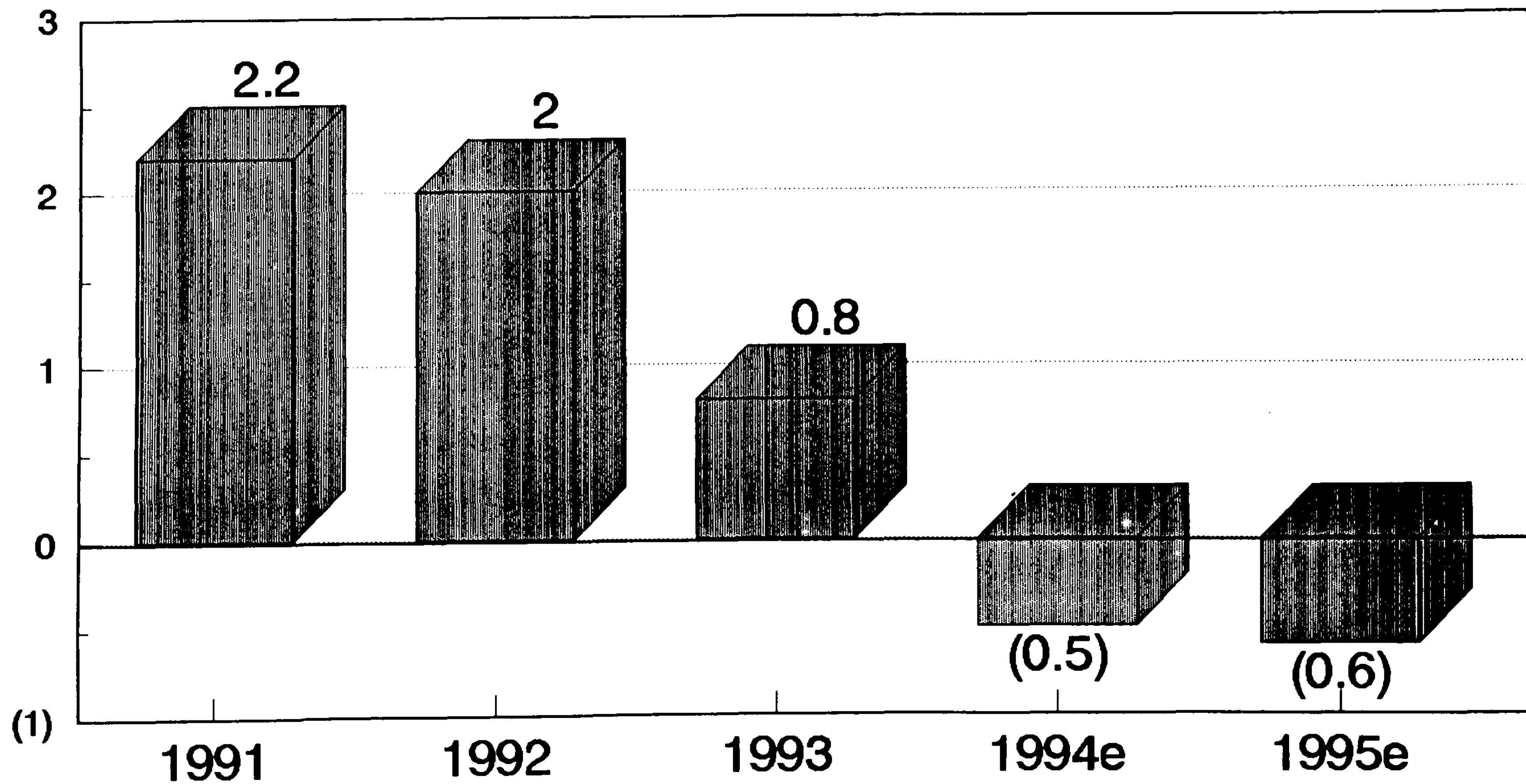
Source: IMF

Treasury/IMI/FISCAL/M.Otradovsky/9/27/94


Germany Cuts Short-term Interest Rates
Percent
9
8
7
6
5
4
Short-term Inter-bank Rates
Jan 93
Apr 93
Jul 93
Oct 93
Jan 94
Apr 94
Jul 94

Japan Provides Substantial Fiscal Stimulus

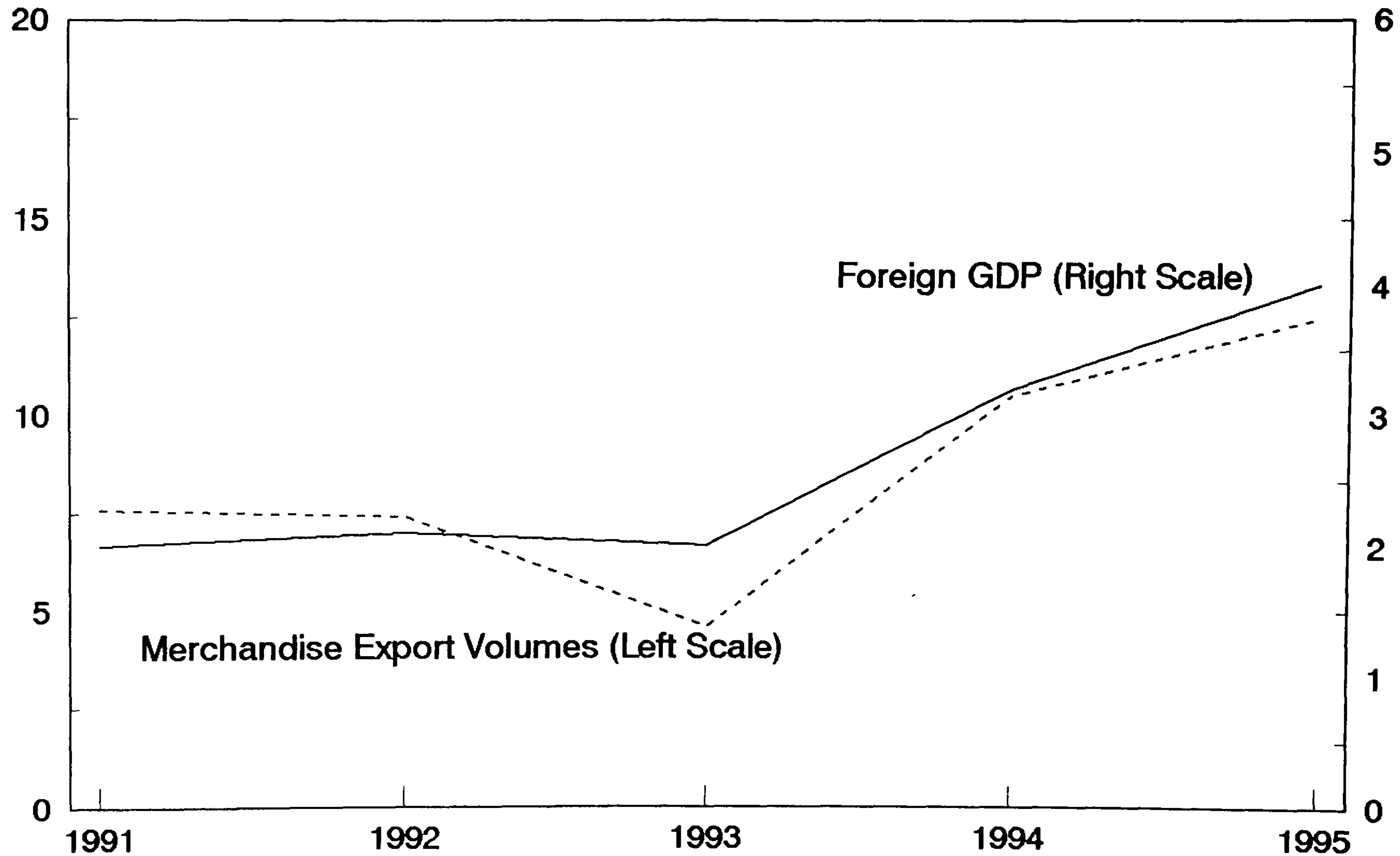
(Structural Government Balances as % of Potential GDP)



M.Otradovsky/IMI/9/22/94/JGVTBLNC

U.S. Exports are Expanding as Recovery Expands

(Growth in U.S. Exports and Global GDP)



Source: JP Morgan, 1994 and 1995 are forecasts.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
September 28, 1994

Contact: Jon Murchinson
(202) 622-2960

MEDIA ADVISORY

The Cash Room event at which President Clinton, joined by Treasury Secretary Lloyd Bentsen, will sign the Interstate Banking and Branching Efficiency Act of 1994 and into law and make remarks on GATT will be open to pooled media coverage.

The signing ceremony will be at 2 p.m. Thursday, September 29 in the Cash Room at Treasury, 1500 Pennsylvania Avenue NW. Chase Manhattan Bank N.A. Chairman and CEO Thomas G. LaBrecque and Norwest Corporation President and CEO Richard Kovacevich will also make remarks.

For pool information, contact Jason Lobo in the White House Media Affairs Office at (202) 456-5657.

-30-

LB-1119

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
September 28, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 5-YEAR NOTES

Tenders for $11,009 million of 5-year notes, Series S-1999, to be issued September 30, 1994 and to mature September 30, 1999 were accepted today (CUSIP: 912827R46).

The interest rate on the notes will be 7 1/8%. All competitive tenders at yields lower than 7.18% were accepted in full. Tenders at 7.18% were allotted 90%. All noncompetitive and sucessful competitive bidders were allotted securities at the yield of 7.18%, with an equivalent price of 99.772. The median yield was 7.17%; that is, 50% of the amount of accepted competitive bids were tendered at or below that yield. The low yield was 7.00%; 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	$36,220,437	$11,009,392

The $11,009 million of accepted tenders includes $906 million of noncompetitive tenders and $10,103 million of competitive tenders from the public.

In addition, $680 million of tenders was awarded at the high yield to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $1,079 million of tenders was also accepted at the high yield from Federal Reserve Banks for their own account in exchange for maturing securities.

LB-1120

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

TRANSCRIPT OF BRIEFING BY TREASURY SECRETARY LLOYD BENTSEN AND BACKGROUND BRIEFING BY A SENIOR TREASURY OFFICIAL ON IMF/WORLD BANK ANNUAL MEETINGS IN MADRID AND TRIP TO JEDDAH, SAUDI ARABIA

SEPTEMBER 28, 1994
TREASURY DEPARTMENT
WASHINGTON D.C.

LB-1121

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

For Release Upon Delivery
Expected at 10:00 a.m.
September 29, 1994

STATEMENT OF MAURICE B. FOLEY
DEPUTY TAX LEGISLATIVE COUNSEL (TAX LEGISLATION)
BEFORE THE
SUBCOMMITTEE ON SELECT REVENUE MEASURES
COMMITTEE ON WAYS AND MEANS
UNITED STATES HOUSE OF REPRESENTATIVES

Mr. Chairman and distinguished Members of the Subcommittee:

I am pleased to have this opportunity to present the views of the Treasury Department with respect to the targeted jobs tax credit (TJTC). The TJTC is a tax credit for employers which was enacted to promote private-sector hiring of workers with special barriers to employment.

The TJTC is jointly administered by the Treasury Department through the Internal Revenue Service (IRS) and the Department of Labor through its Employment Service. The IRS is responsible for tax-related aspects of the program and the Employment Service, through the network of State Employment Security Agencies, is responsible for defining and documenting worker eligibility.

I. Background

The TJTC was enacted by the Revenue Act of 1978 as a substitute for what had been a broad-based new jobs tax credit. Congress concluded that the unemployment rate had declined sufficiently so that it was appropriate to focus employment incentives on individuals with high unemployment rates and other groups with special employment needs.

The credit initially was scheduled to expire on December 31, 1981 and applied to wages earned in the first and second years of employment. The first-year credit was equal to 50 percent of the first $6,000 earned by a TJTC-hire and the second-year credit was 25 percent of the first $6,000 earned.

The TJTC has been extended on a short-term basis numerous times over the years. Revisions also have been made by a number

of tax laws to adjust the amount of the credit, close loopholes, and alter the targeted groups of individuals covered by the credit.

The TJTC was amended and extended for one year through December 31, 1982 by the Economic Recovery Tax Act of 1981. This Act eliminated retroactive certification of employees already on the payroll and also required that one targeted group -- cooperative education students -- be economically disadvantaged in order to be covered by the credit. Without this constraint, employers were able to receive subsidies for hiring individuals they likely would have hired in the absence of the credit. Other changes made by the 1981 Act included increasing the number of targeted groups and modifying certain restrictions on eligibility within existing categories.

The TJTC was extended for two more years through December 31, 1984 by the Tax Equity and Fiscal Responsibility Act of 1982. This Act extended the credit to employers hiring economically disadvantaged 16 and 17 year-olds for summer employment. The 1982 Act also deleted one of the targeted groups -- former public service employment participants under the Comprehensive Employment and Training Act.

The Deficit Reduction Act of 1984 extended the TJTC for another year through December 31, 1985, after which it expired. It was extended retroactively for three more years through December 31, 1988 by the Tax Reform Act of 1986. The 1986 Act reduced the amount of the credit to 40 percent of the first $6,000 earned and eliminated the second-year credit. Employees also were required to work for a minimum of 90 days or 120 hours to be covered by the credit (14 days or 20 hours for summer youths). A minimum employment period was imposed to limit the "churning" of employees by some employers. "Churning" involves maximizing the amount of credit by rapidly turning over workforce to hire additional targeted members.

The Omnibus Budget Reconciliation Act of 1987 eliminated the credit for wages paid to individuals who perform duties similar to those of workers who are participating in or are affected by a strike or lockout. The Technical Corrections and Miscellaneous Revenue Act of 1988 extended the credit for an additional year through December 31, 1989; reduced the summer youth credit from 85 percent to 40 percent of the first $3,000 earned; and eliminated 23 and 24 year-olds from the targeted group of economically disadvantaged youths.

The TJTC was extended for nine more months through September 30, 1990 by the Omnibus Budget Reconciliation Act of 1989. This Act also reduced the burden placed on local Employment Service offices of verifying worker eligibility. The 1989 Act required employers requesting certification of a job applicant for which

there had not been a written preliminary determination of eligibility (a voucher) to specify at least one, but not more than two, targeted groups to which the individual might belong. The employer also had to certify that it had made a good faith effort to determine the individual's eligibility. The prior practice of asking local Employment Service offices to verify TJTC-eligibility of all new hires burdened these offices without creating new jobs. The employer firms already had decided to hire the individuals, although the individuals had not yet been put on the payroll.

The Omnibus Budget Reconciliation Act of 1990 retroactively extended the TJTC for 15 months through December 31, 1991. The conference agreement also clarified the definition of one of the targeted groups. This group -- "ex-convicts" -- was defined to include persons who are placed on probation by State courts without a finding of guilty. The TJTC was further extended for six months through June 30, 1992 by the Tax Extension Act of 1991.

Most recently, the credit was extended retroactively for 30 months by the Omnibus Budget Reconciliation Act of 1993. The 1993 Act extended the TJTC to cover individuals who begin work for an employer after June 30, 1992 and before January 1, 1995.

II. Current Law

Under current law, a TJTC is available to employers for up to 40 percent of the first $6,000 of wages paid to a certified worker in the first year of employment. This translates into a potential credit of $2,400 per targeted worker. The worker must be employed for at least 90 days or work at least 120 hours. (The credit for summer youth is 40 percent of the first $3,000 of wages, or $1,200, and these individuals must work for 14 days or 20 hours.) The employer's deduction for wages is reduced by the amount of the TJTC.

Certified workers must be economically disadvantaged or disabled individuals in one of nine targeted groups. These groups are (1) youth 18-22 years old; (2) summer youth age 16-17; (3) cooperative-education students age 16-19; (4) ex-offenders; (5) Vietnam-era veterans; (6) vocational rehabilitation referrals; and individuals receiving (7) general assistance, (8) Supplemental Security Income, or (9) Aid to Families with Dependent Children.

For purposes of the TJTC, a worker is economically disadvantaged if the worker's family income is 70 percent or less of the "lower living standard income level". This level is revised periodically to account for changes in the Consumer Price Index and varies by geographic and urban area.

To claim the credit for an employee, an employer must receive a written certification that the employee is a targeted group member. Certifications for employees are generally provided by State Employment Security Agencies. The employer must have received or filed a written request for a certification on or before the date a targeted member begins work. If the employer has received a written preliminary determination that the employee is a member of a targeted group, the employer may file a written certification request within five calendar days after the targeted member begins work.

III. Criticisms of the TJTC and Options for Reform

While the goals of the TJTC are laudable, the TJTC has been subject to criticism. The most recent example of criticism of the program is an August 1994 report by the Labor Department's Office of Inspector General. Although the report notes that the TJTC provides some benefits, the report concludes that the TJTC is not cost effective and recommends that the Secretary of Labor discourage further extensions of the credit.

To help crystallize discussions on the TJTC, I would like to highlight three of the credit's main problems and offer very general options and principles for addressing those concerns. These problems are that the credit (i) provides a windfall to employers, (ii) may encourage the churning of employees, and (iii) promotes only limited training of employees for advanced career positions.

A. Employer windfall

Perhaps the most significant problem with the TJTC is that it often provides a "windfall" to employers. The credit provides a windfall to the extent it confers a benefit on employers (the TJTC) for doing what they would have done (hire targeted individuals) without that benefit.

The most direct way to reduce the windfall is to require certification of eligibility before the hiring decision is made. In this way, the TJTC can serve as an incentive in the hiring decision. We are not unmindful that pre-hiring certification may be perceived as conferring a stigma on job applicants. However, the TJTC was designed to overcome any negative employer perception (stigma) about the likely productivity of targeted workers by rewarding employers for hiring them. In order for the program to work at maximum effectiveness, employers need to be aware that they are hiring targeted workers at the time the hiring decision is made. A pre-certification system would ensure that the credit was limited to employers that knowingly hired targeted workers.

One drawback of a pre-certification system is that it would place a larger burden on the Employment Agencies that perform the certifications. As part of our review, we plan to look at ways of streamlining the work of these agencies and the level of funding required in order for them to perform their roles at an acceptable level.

Treasury would be very wary of endorsing any "self-certification" system under which individuals or their employers would certify targeted status with reduced oversight by government agencies. We would be concerned that such an "honor system" is too susceptible to fraud. Under the current regime, the principal checks against fraud are that Employment Agencies make the certifications and their actions are subject to audit by the Department of Labor. We believe these checks are important to curbing potential abuse and should not be replaced by more lax measures.

B. Churning of employees

Another serious criticism of the TJTC is that it may encourage the "churning" or "turnover" of employees to maximize the amount of the credit. A related problem is that short-term positions subsidized by the credit are less likely to promote job skills that are beneficial to more advanced job positions.

We have explored two broad approaches to the churning problem. Under one approach, churning would be curbed by increasing the number of hours an employee must work with an employer before his or her wages could be taken into account in computing the credit. The current minimum employment period, which is the lesser of 90 days or 120 hours, translates into as little as three weeks of full-time work.

The other approach would limit churning by "backloading" the credit. Under current law, the credit is 40 percent of the first $6,000 in wages paid to a targeted individual. Under the backloading approach, the credit rate applying to wages above some threshold would be higher than the credit rate applying to the initial wages. This shifts the incentive of employers in the direction of paying higher wages and keeping their employees on the job longer.

One possible downside of these reform proposals may be to reduce the initial hiring incentive for some economically disadvantaged individuals compared to the incentive that exists under the current credit. We also need to weigh any increased administrative burden resulting from a more complex credit.

C. Training of employees

To the extent the TJTC influences hiring and retention decisions, it helps hard-to-employ individuals develop basic job skills. These include such fundamental skills as showing up for work on time, taking directions from managers, asking questions when instructions are not clear, and successfully completing assigned tasks. Nevertheless, the low-wage jobs traditionally subsidized by the credit typically do not offer more extensive training that could directly serve as a springboard to more advanced job positions.

To bolster the TJTC's impact on training, the Department of Labor has suggested that the credit might be expanded to apply to individuals participating in approved "school-to-work" programs. Although it is appropriate that a broad range of options be considered, attempts to redesign the TJTC to encourage training present special challenges. Any broad training initiative in the TJTC should attempt to ensure that the credit's special emphasis on hiring economically disadvantaged individuals is retained. A broad-based training option also could lose significant revenue because of the size of the potentially eligible population.

Before extending the TJTC to school-to-work participants, it also would be necessary to understand the relationships of this possible category to existing categories and the precise criteria used in establishing eligibility. We would also need to evaluate whether redesigning the TJTC to include a new training component is allocating government resources to programs that work the best.

IV. Administration's Position

The employment of economically disadvantaged and disabled workers is one of the Administration's most pressing concerns. However, the revenue cost from a one-year extension of the credit in its current form is approximately $336 million over 5 years, while a permanent extension of the current law credit would lose approximately $1.428 billion over 5 years. Because we are very concerned about the efficient use of government revenues and the need to find revenue offsets, we believe that the problems undermining the credit's effectiveness must be addressed before pursuing an extension of the credit.

The Inspector General's report raises significant concerns regarding the effectiveness of the credit. As a result of the problems identified in the report and earlier studies, we are engaged in a policy review of the credit to determine whether legislative and regulatory modifications of the credit may improve its effectiveness.

Over the next several months we plan to continue our work with the Labor Department. We also want to work with this Committee to develop proposals that will address, in a cost effective manner, the employment problems of economically disadvantaged and disabled workers.

We plan to complete our analysis of this issue prior to submission of the Administration's budget proposal for Fiscal Year 1996. If we decide to support extension of the credit, our recommendations will be reflected in that document.

This concludes my prepared remarks. I would be pleased to respond to any questions you may have at this time.

federal financing bank NEWS
WASHINGTON, D.C. 20220
Press 202-622-2960
FFB 202-622-2450

September 29, 1994

FEDERAL FINANCING BANK

Charles D. Haworth, Secretary, Federal Financing Bank (FFB), announced the following activity for the month of August 1994.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled $112.8 billion on August 31, 1994, posting a decrease of $885.0 million from the level on July 31, 1994. This net change was the result of a decrease in holdings of agency debt of $346.4 million, in holdings of agency assets of $555.0 million, and an increase in holdings of agency-guaranteed loans of $16.5 million. FFB made 21 disbursements during the month of August, and refinanced seven REA-guaranteed loans. FFB also received 15 prepayments in August.

Attached to this release are tables presenting FFB August loan activity and FFB holdings as of August 31, 1994.

FEDERAL FINANCING BANK
AUGUST 1994 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE
AGENCY DEBT				
U.S. Postal Service	8/4	$300,000,000.00	11/15/94	4.637% S/A
GOVERNMENT - GUARANTEED LOANS				
GENERAL SERVICES ADMINISTRATION				
Atlanta CDC Office Bldg.	8/2	$181,333.86	9/1/95	5.589% S/A
Foley Services Contract	8/2	$215,334.05	12/11/95	5.787% S/A
Foley Services Contract	8/2	$335,674.90	12/11/95	5.787% S/A
Miami Law Enforcement	8/2	$7,410.70	1/3/95	4.937% S/A
ICTC Building	8/5	$1,241,015.00	11/2/26	7.542% S/A
HCFA Headquarters	8/15	$6,033,876.00	6/30/95	5.641% S/A
ICTC Building	8/16	$6,561,133.95	11/2/26	7.697% S/A
Foley Square Courthouse	8/18	$10,289,963.00	12/11/95	5.912% S/A
ICTC Building	8/18	$2,427,857.00	11/2/26	7.567% S/A
Memphis IRS Service Cent.	8/19	$5,076,356.65	1/3/95	5.084% S/A
Atlanta CDC Office Bldg.	8/24	$263,602.00	9/1/95	5.781% S/A
Oakland Office Building	8/24	$793,013.00	9/5/23	7.698% S/A
Foley Services Contract	8/30	$311,761.12	12/11/95	5.924% S/A
RURAL ELECTRIFICATION ADMINISTRATION				
Glades Elec. Coop. #380	8/9	$2,300,000.00	9/30/96	6.344% Qtr.
Guam Telephone Auth. #371	8/12	$800,000.00	12/31/14	7.581% Qtr.
Alabama Electric #339	8/15	$2,798,000.00	1/3/22	7.586% Qtr.
Alabama Electric #386	8/15	$1,846,000.00	1/3/23	7.584% Qtr.
Alabama Electric #393	8/15	$15,291,000.00	12/31/24	7.576% Qtr.
ALLTEL Florida, Inc. #340	8/31	$4,500,000.00	1/2/18	7.510% Qtr.
+Central Iowa Power #914	8/31	$1,459,444.55	1/2/18	7.425% Qtr.
+Central Iowa Power #914	8/31	$4,909,996.84	12/31/18	7.438% Qtr.
Central Power Elec. #395	8/31	$1,345,000.00	12/31/26	7.538% Qtr.
+Sho-Me Power #913	8/31	$1,247,070.41	1/3/95	4.879% Qtr.
+Sho-Me Power #913	8/31	$482,924.58	1/3/95	4.879% Qtr.
+Sho-Me Power #913	8/31	$483,709.98	1/3/95	4.879% Qtr.
+Sho-Me Power #913	8/31	$483,843.43	1/3/95	4.879% Qtr.
+Sho-Me Power #913	8/31	$483,795.59	1/3/95	4.879% Qtr.

S/A is a Semi-annual rate: Qtr. is a Quarterly rate.
+ 306C refinancing

FEDERAL FINANCING BANK
(in millions)

Program	August 31, 1994	July 31, 1994	Net Change 8/1/94-8/31/94	FY '94 Net Change 10/1/93-8/31/94
Agency Debt:				
Department of Transportation	$ 664.7	$ 664.7	$ 0.0	$ 664.7
Export-Import Bank	4,383.4	4,383.4	0.0	-1,411.2
Resolution Trust Corporation	27,208.2	27,854.6	-646.4	-4,479.5
Tennessee Valley Authority	4,375.0	4,375.0	0.0	-1,950.0
U.S. Postal Service	9,773.1	9,473.1	300.0	41.6
sub-total*	46,404.4	46,750.8	-346.4	-7,134.4
Agency Assets:				
FmHA-ACIF	6,183.0	6,438.0	-255.0	-2,725.0
FmHA-RDIF	3,675.0	3,675.0	0.0	0.0
FmHA-RHIF	24,691.0	24,991.0	-300.0	-1,345.0
DHHS-Health Maintenance Org.	25.3	25.3	0.0	-5.6
DHHS-Medical Facilities	35.8	35.8	0.0	-15.6
Rural Electrification Admin.-CBO	4,598.9	4,598.9	0.0	0.0
Small Business Administration	1.1	1.1	0.0	-1.8
sub-total*	39,210.0	39,765.1	-555.0	-4,092.9
Government-Guaranteed Loans:				
DOD-Foreign Military Sales	3,840.2	3,874.5	-34.4	-243.2
DEd.-Student Loan Marketing Assn.	0.0	0.0	0.0	-4,790.0
DEPCO-Rhode Island	0.0	0.0	0.0	-30.4
DHUD-Community Dev. Block Grant	112.3	114.3	-2.1	-19.1
DHUD-Public Housing Notes	1,746.5	1,746.5	0.0	-54.5
General Services Administration +	1,989.2	1,960.8	28.4	403.5
DOI-Virgin Islands	21.9	21.9	0.0	-0.9
DON-Ship Lease Financing	1,479.6	1,479.6	0.0	-48.7
Rural Electrification Administration	17,402.0	17,371.9	30.1	-251.3
SBA-Small Business Investment Cos.	57.2	58.2	-1.0	-33.2
SBA-State/Local Development Cos.	525.8	529.9	-4.1	-50.6
DOT-Section 511	14.8	15.2	-0.4	-2.2
DOT-WMATA	0.0	0.0	0.0	-177.0
sub-total*	27,189.4	27,172.9	16.5	-5,297.6
	=========	=========	========	========
grand-total*	$112,803.8	$113,688.8	$ -885.0	$-16,524.9

*figures may not total due to rounding
+does not include capitalized interest

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
Text as Prepared for Delivery
September 29, 1994

REMARKS OF TREASURY SECRETARY LLOYD BENTSEN
SIGNING OF THE RIEGLE-NEAL INTERSTATE
BANKING AND BRANCHING EFFICIENCY ACT
WASHINGTON, D.C.

Mr. President, I want you to know that this room was built 125 years ago, but never before has a President honored us and held a signing ceremony here -- until today. Thank you, Mr. President.

It's a proud day at Treasury, and we invited a lot of guests to help us celebrate.

Help me recognize two very special ones: Don Riegle and Stephen Neal -- two retiring members, with their names on this bill. I always measure a career in public service by whether you make a difference. In a decade or two, you'll see such a difference in the banks of this country because of laws like this one, that my friend from Michigan will think the banks of 1994 were Model Ts.

Passing this one has been a team effort -- with a very large team. There's no way we could have done it without all the congressmen here today. We also have 80 bankers from across the country. And I want to acknowledge Frank Newman, who was confirmed as my Deputy by the Senate last night. Frank, along with many Treasury staff, worked their hearts out for this day.

But no team succeeds without a leader. Four other Treasury Secretaries and two other Presidents tried to get a bill like this through, and they couldn't do it. That speaks volumes about this President.

The remarkable thing is, this isn't the only banking bill. Six days ago, the President signed the community development financial institutions law. Mr. President, with your leadership, we're passing bipartisan bills and we're making the banking industry more sound and more efficient. As a former banker myself, I can tell you what I think every banker in this room would say with pride -- that a strong banking system means a strong economy for this nation.

LB-1124

You know, Mr. President, this room used to be a bank -- the American people's bank. That's how it was used from just after the Civil War until 1976. Look up at that chandelier. It weighs 1,500 pounds. Look at the walls. Seven different types of marble. The reason it's so lavish was to impress Americans about the government's financial strength.

What a setting to talk about the financial strength of our banks. They're healthy. And with this bill, we're getting out of the way and letting them compete. We're putting an end to outdated geographic restrictions.

I think back to the recession in Texas, and to the bank failures there. When the economy went into the tank, banks had nowhere to go. They couldn't branch out, or expand, or cross state lines. The only place to go was under, and that's what many did.

This bill is a winner, and everyone knows it. It hasn't been easy getting here, although you wouldn't know it from the votes. It passed almost unanimously.

This bill's a winner for the consumer. Mr. President, if you'd ask the presidents of all the banks here: Who comes first? They all have the same answer you do -- people come first, customers come first.

Sixty-eight million Americans, over one-fourth of the population of this country, live near state lines. It doesn't make any sense to live in New Jersey, but not to be able to deposit a check at the bank's branch in New York where you work. That will change.

The bill is a winner for the banks. Ask the bankers: "Does it make sense to have duplicate subsidiaries, duplicate boards, duplicate audits, and duplicate paperwork for every state they operate in?" That's one of the least efficient, costliest systems I've ever seen, and this bill changes that.

By the way, that will help small banks as well as the big ones. I know that Doyle Mitchell of Industrial Bank of Washington just acquired some branches in Maryland, and he tells us this bill would help him keep his overhead costs down.

And the bill is a winner for the economy. It'll promote the safety and soundness of the banking system by allowing banks to geographically diversify. So if there are regional recessions, like the one we had in Texas, banks will be better able to ride out the downturns and continue making loans to their customers.

Now, it's one thing for me to brag how well this will work. I think it's better if a couple of bankers let us really know. So, I'd like to introduce Thomas Labrecque, Chairman and Chief Executive Officer of Chase Manhattan, to be followed by Richard Kovacevich, President and Chief Executive Officer of Norwest in Minneapolis.

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REMARKS ON VIDEO-TAPE OF TREASURY SECRETARY LLOYD BENTSEN
AMERICAN INSTITUTE FOR ENVIRONMENTAL EDUCATION
SAN ANTONIO, TEXAS

They asked me to be with you in person, and usually when I receive an invitation and they tell me it's in Texas I want to know how fast I can get on a plane!

I couldn't make it this time because right now I'm in Madrid. It's a little ironic what I'm doing in Spain. We're celebrating the 50th anniversary of the World Bank.

Fifty years ago, the Allies came together and formed a bank to stabilize the global economy and to rebuild war-torn Europe. Europe wouldn't be what it is today, if we hadn't done what we did.

Fifty years later, another bank is being established -- the North American Development Bank (NADBank).

The world is different. Our problems are different now. But the way you solve problems is the same.

What do you do? You bring the partners together. You talk about it -- hard talk sometimes. And you work out a plan.

I'm proud to say our plan is now action.

As of October 1st, both the United States and Mexico are providing more than $50 million each to start up the NADBank. Together, we're working on selecting a manager and a deputy manager. And then the staff will be chosen next.

NADBank will need some time to mature. But it has a great purpose: to clean up the border.

LB-1125

I was born and reared on the border. The border was never a barrier for much of anything. Ideas, people, commerce -- it would all pass through. But so would diseases, hazardous materials, and polluted water and air.

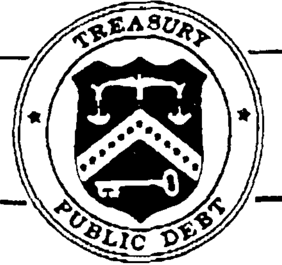
For the first time, NAFTA has focused attention on these problems -- and together, we want to solve them. From what they tell me, those of you who are attending the conference represent just the people who can move this partnership forward.

It's a diverse gathering. You're from both sides of the border. You're from both business and government. George Munoz from Treasury is representing me.

Listen to the speakers. But, do me a favor, and do something more. Establish contacts among yourselves that will help contribute to environmental improvements. That's how this partnership will work.

-30-

PUBLIC DEBT NEWS



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

FOR IMMEDIATE RELEASE
September 30, 1994

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(202) 755-7510

TREASURY AUTHORIZES HUD CALL OF FHA INSURANCE FUND DEBENTURES

The Departments of Treasury and Housing and Urban Development announced today the call of all Federal Housing Administration (FHA) insurance fund debentures, outstanding as of September 30, 1994, with interest rates of 7.5 percent or higher. Debentures that have been registered on the books of the Federal Reserve Bank of Philadelphia as of September 30, 1994, are considered, "outstanding." The date of the call for the redemption of approximately $30 million in debentures is January 1, 1995, with the semi-annual interest due January 1, paid along with the debenture principal.

Debenture owners of record as of September 30, 1994, will be notified by mail of the call and given instructions for submission. Those owners who cannot locate the debentures should contact the Federal Reserve Bank of Philadelphia (215) 574-6684 for assistance.

No transfers or denominational exchanges in debentures covered by this call will be made on or after October 1, 1994, nor will any special redemption purchases be processed. This does not affect the right of the holder to sell or assign the debentures.

The Federal Reserve Bank of Philadelphia has been designated to process the redemptions and to pay final interest on the called debentures. To ensure timely payment of principal and interest on the debentures, they should be received by December 1, 1994, at:

The Federal Reserve Bank of Philadelphia
Securities Division
P.O. Box 90
Philadelphia, PA 19105-0090

o0o

(LB-1126)

PA--158

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September 30, 1994

Contact: Scott Dykema
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NORTH AMERICAN DEVELOPMENT BANK GETS START UP MONEY

The North American Development Bank (NADBank), recently created by the United States and Mexico to clean up the border area, will receive its first funding Saturday, October 1.

Both nations each contributed an initial $56.25 million in paid-in capital and another $318.75 million in callable capital to the NADBank. Once fully funded in three years, the bank will have a total of $3 billion in capital.

"NADBank will need some time to mature. But it has a great purpose: to clean up the border," said Treasury Secretary Lloyd Bentsen. "I was born and reared on the border. The border was never a barrier for much of anything. Ideas, people, commerce -- it would all pass through. But so would diseases, hazardous materials, and polluted water and air," Bentsen said.

The new development bank was created to support many of the goals of the North American Free Trade Agreement. NADBank eventually will provide about $2 billion to $3 billion in financing over the next 10 years for environmental projects as well as community adjustment and investment programs.

The bank, located in San Antonio, Texas, plans to open its doors early next year. U.S. and Mexican officials are now working together on selecting a manager and deputy manager for the bank. Lending is expected to start in 1995.

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LB-1127