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REPORT BY THE
Comptroller General
OF THE UNITED STATES

WARRANT

Are OPEC Financial Holdings A Danger To U. S. Banks Or The Economy?

Possible liquidation of OPEC assets does not appear to be an immediate threat to U.S. financial markets or its banking system. The long-term effects of a lack of direct access to OPEC funds are likely to include increased funding costs for U.S. banks and impaired profitability. Should there be a threat to national security, foreign policy, or the economy from OPEC liquidations, the President has adequate authority to protect U.S. interests.

Some officials of the executive branch have access to data concerning OPEC holdings in the United States. But publication of this information to the Congress and the public is limited, thus affording special privileges to OPEC nations. The Treasury and Commerce Departments should justify these privileges to the Congress.

GAO found no evidence of large unreported OPEC surplus holdings which are being invested in the United States.



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EMD-79-45

JUNE 11, 1979



COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20548

B-172255

The Honorable Benjamin S. Rosenthal
Chairman, Subcommittee on Commerce,
Consumer and Monetary Affairs
Committee on Government Operations
House of Representatives

Dear Mr. Chairman:

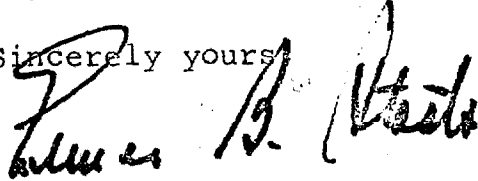
This report responds to the questions raised in your letter dated January 3, 1979, concerning financial activities of the oil-exporting countries in the United States. We have also included an analysis of (1) your additional concerns regarding the foreign sale of U.S. Government nonmarketable securities, (2) export and import data concerning services for the Organization of Petroleum Exporting Countries (OPEC), and (3) other countries' regulation of financial transactions.

As of the date of this report, we have been unable to satisfy completely your request for information about certain data on OPEC nations on a country-by-country basis because the Departments of the Treasury and Commerce have not given us access to this data. In the report, we explain the Treasury and Commerce Departments' rationales for their reporting procedures. We recommend that the subcommittee receive further explanations from these agencies. In addition, we will continue our efforts to obtain disaggregated OPEC figures in order to analyze this issue in depth.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of the report. At that time, we will send copies to interested parties and make copies available to others upon request.

I hope that this information will be useful to you and members of your subcommittee. As you know, our Energy and Minerals Division is continuing to study the implications for U.S. energy policy of OPEC financial influence in the United States. We will, of course, forward that report to you when it becomes available.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "James B. Atchafalua". The signature is written in a cursive style with a large initial "J" and "A".

Comptroller General
of the United States

COMPTROLLER GENERAL'S REPORT TO
THE SUBCOMMITTEE ON COMMERCE,
CONSUMER AND MONETARY AFFAIRS,
HOUSE COMMITTEE ON GOVERNMENT
OPERATIONS

ARE OPEC FINANCIAL
HOLDINGS A DANGER
TO U.S. BANKS OR
THE ECONOMY?

D I G E S T

Concern exists that OPEC financial holdings--both U.S. Government securities and deposits in U.S. banks here and abroad--might, either because of their size or the possibility of their rapid liquidation, be a threat to the United States.

These holdings do not constitute an immediate danger to U.S. banks or the economy. ^{U.S.} U.S. financial markets and the structure of the banking system are adequate to absorb the impact of rapid liquidation. Furthermore, the President has sufficient authority to deal with an international financial emergency. (See pp. 17, 18, and 20.)

18 But while the rapid disposal of OPEC assets does not pose a significant danger, the implications of a long-term withdrawal of these funds from the United States and U.S. financial institutions could be adverse. Such a withdrawal would not only increase the cost of money to U.S. banks and the Treasury, but could also impede client relationships of U.S. financial institutions.

OPEC's real strength and bargaining power lies in its control of a major portion of the world's oil supply, upon which the United States relies for 80 percent of its oil imports. Manipulating the price or supply of oil or the threat of manipulation is likely to have a greater impact on the U.S. economy and financial markets than OPEC's use of its financial holdings.

EMD-79-45

OPEC PURCHASES OF
U.S. SECURITIES

The Subcommittee expressed concern that the Treasury Department's "add on" policy for purchases of U.S. securities represents favoritism for certain OPEC countries.

(This policy enables foreign central banks or monetary authorities to purchase U.S. Treasury securities noncompetitively--that is, directly from the Treasury Department but without entering the regular auctions at which Treasury offers bills, notes, and bonds.) Although the add-on facility was first offered to Saudi Arabia, it is now available to all governments and central banks.

IDENTIFICATION OF
OPEC INVESTMENTS

Investments of individual OPEC members are only partially identified in published U.S. Government data. Breakdowns of the amount of investment, whether portfolio or direct, are usually given for Ecuador, Indonesia, and Venezuela. However, all other OPEC countries--notably the Arab OPEC countries and Iran--are reported in some aggregate form, i.e., as "African oil exporting countries," "Asian oil exporting countries," "Other Africa," "Other Asia," or "Middle East."

Government officials cited the following reasons for aggregating the financial data on Middle East OPEC countries.

--The Treasury and Commerce Departments believe that the International Investment Survey Act of 1976 and other legislation forbid them from identifying individual investors to anyone outside their agencies.

--Under normal U.S. statistical policy, the identity of individual investors is protected. Treasury asserts that investments and transactions of official

monetary institutions make up very large proportions of certain statistics for oil-exporting countries.

--Individual OPEC countries have expressed a desire for confidential treatment of their finances.

GAO finds these arguments unconvincing because:

--Congress has not clearly indicated that it is subject to the limitations on access to confidential data in the International Investment Survey Act and the Bretton Woods Agreement Act.

--Disaggregated financial data are currently published for most countries; among major countries of the world, only data for individual OPEC countries are suppressed. Statistics for Communist bloc countries are regularly published in the Treasury Bulletin and elsewhere. In these countries, as well as some OPEC countries, the government is the principal if not the only investor. These publications cast suspicion on the Treasury and Commerce Departments' positions.

--Prior to 1974, statistics for OPEC countries in Asia and Africa were published individually rather than aggregatedly.

--The former Secretary of the Treasury and other past officials informed us that information on specific OPEC countries is not held confidentially for statistical or legal reasons. Rather, Treasury made special commitments of financial confidentiality to Saudi Arabia and perhaps other OPEC governments in exchange for their purchases of U.S. securities.

The evidence suggests that the withholding of these data may have come about as a result of understandings reached between former Treasury officials and the countries involved. It has continued for foreign and other policy reasons.

INFORMATION ON OPEC
ACCOUNTS IN U.S. BANKS

✓ The subcommittee asked that GAO examine the pros and cons of publishing information concerning OPEC investment in U.S. banks. GAO believes that there is no statistical or legal basis for not reporting total figures for all OPEC countries' assets and liabilities in U.S. banks. However, actions to identify individual OPEC accounts with particular banks are likely, in the short run, to lead to withdrawals from U.S. banks and are not consistent with efforts to defend the dollar. Assets in and liabilities to individual U.S. banks need not be published.

SERVICES DATA FOR OPEC COUNTRIES

✓ Although data on individual countries are not always reported, GAO found that the collection systems for U.S. banking and trade data are adequate. ✓ The exception is data collection on exports and imports of services. ✓ Reporting forms for some Commerce Department surveys either do not request information on individual OPEC countries or depend on voluntary responses.

AGENCY COMMENTS

The Departments of Commerce and the Treasury, the Office of the Comptroller of the Currency, the Federal Reserve Board, and the Federal Reserve Bank of New York commented on GAO's draft report. The Department of State made no official comments. Agency comments are included as appendices II to V.

✓ The agencies agreed with our reasoning and conclusions on the possible impact of rapid withdrawals of OPEC funds, but disagreed with our view that OPEC assets and liabilities be published by country. The agencies indicated that the prohibition in the International Investment Survey Act on disclosure of confidential data prevented their providing certain information for use in this report.

Treasury also challenged our interpretation that certain OPEC data were withheld for policy reasons beyond those imposed by normal statistical practice. Commerce believes that its current reporting of international transactions in services is adequate.

RECOMMENDATIONS TO THE DEPARTMENTS
OF THE TREASURY AND COMMERCE, AND
THE FEDERAL RESERVE BOARD

GAO recognizes that there may be exceptions to the general desirability of publishing international financial data. However, in such cases, the onus for justifying exceptions must rest heavily on the agencies wishing to suppress information. Therefore, the Secretaries of the Departments of the Treasury and Commerce, and the Chairman, Federal Reserve Board, should explain fully to the House Subcommittee on Commerce, Consumer and Monetary Affairs, the policy reasons for aggregating information on

- the financial holdings and transactions of individual OPEC countries in the United States and
- deposits and loans of individual OPEC countries in domestic and foreign branches of U.S. banks.

If the policy reasons for either of these aggregations reflect concerns that disaggregation would reveal the specific holdings of a foreign central bank or monetary authority, the data which support these concerns should be made available under appropriate safeguards to the subcommittee and to GAO.

Although particular OPEC accounts in individual U.S. banks need not be identified, GAO believes that the Treasury Department and the Federal Reserve Board should publish information on OPEC deposits and loans in domestic and foreign branches of U.S. banks by country.

In their explanations to the subcommittee, the Treasury Department and the Federal Reserve Board should pay particular attention to why they aggregate this information since they publish it for all other countries in the world.

RECOMMENDATIONS TO THE SUBCOMMITTEE

The Subcommittee on Commerce, Consumer and Monetary Affairs, House Committee on Government Operations, should require the Departments of the Treasury and Commerce, and the Federal Reserve Board, to separately justify the aggregations of the financial holdings and transactions, and of the bank deposits and loans of individual OPEC countries. The subcommittee should (1) analyze the validity of these justifications, with particular attention to the degree of sensitivity of OPEC statistics; (2) determine the appropriate disclosure of these data, and if necessary; (3) require such disclosure by the agencies.

RECOMMENDATIONS TO THE DEPARTMENT OF COMMERCE

The Bureau of Economic Analysis should review its reporting of imports and exports of services to include regular and more detailed breakdowns of country data.

RECOMMENDATIONS TO THE CONGRESS

The International Investment Survey Act and the Bretton Woods Agreement Act do not limit congressional access to confidential data. The Congress should consider establishing a mechanism to facilitate the sharing of this data under appropriate safeguards with the executive branch. If such an accommodation is not possible, the Congress should remove any doubt that the statutes do not limit congressional access to such information.

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ABBREVIATIONS

BEA	Bureau of Economic Analysis
GAO	General Accounting Office
IMF	International Monetary Fund
LDCs	Less developed countries
OECD	Organization for Economic Cooperation and Development
OPEC	Organization of Petroleum Exporting Countries

CHAPTER 1

INTRODUCTION

Concern that financial transactions of the Organization of Petroleum Exporting Countries (OPEC) might constitute a threat to U.S. banks or to the economy is widespread. It first arose as a result of the unprecedented surpluses accumulated by OPEC countries following the rapid rise in the price of oil in 1973 and 1974. Interest has been rekindled by the recent rise in the price of OPEC oil following the shutdown and partial resumption of Iranian production. Many Americans wonder whether OPEC financial transactions and investments give the oil exporting states a "money weapon" to accompany their near monopoly control of the supply of oil.

OPEC HOLDINGS: HOW BIG?

By any measurement, OPEC holdings are large. In 1978, OPEC investment in U.S. Government securities totaled \$12.4 billion; at the same time, OPEC deposits in U.S. banks, here and abroad, were \$32.0 billion. These figures, however, must be placed in context. Total U.S. public debt in 1978 was \$789.2 billion. Comparable total U.S. bank deposits were \$1,111.6 billion. These comparisons show that OPEC holdings represent a small part of the U.S. financial picture.

PURPOSE AND SCOPE

This review focuses primarily on OPEC financial and monetary holdings in U.S. banks and U.S. Government securities. It addresses the questions: "Who is watching the till?" and "Are financial data collection and reporting systems adequate?" It describes the processes by which foreign governments, particularly those of OPEC countries, acquire U.S. Government securities. We examine the threat posed by possible rapid liquidation by OPEC countries of both their deposits in U.S. banks and holdings of U.S. Government securities. Finally, we look into the possible existence of a large, unreported OPEC surplus.

Our analysis included extensive contacts both in Government and in the private sector. We contacted the Departments of the Treasury, State, and Commerce; the Office of the Comptroller of the Currency; the Federal Reserve Board; the Federal Reserve Bank of New York; leading private banks; and financial institutions.

CHAPTER 2

GOVERNMENT COLLECTION AND REPORTING OF DATA ON OPEC FINANCIAL HOLDINGS AND TRANSACTIONS IN THE UNITED STATES

DATA ON OPEC INVESTMENTS

The total amounts of OPEC investments in the United States, both direct and portfolio, are compiled by the Department of Commerce and the Department of the Treasury. The Survey of Current Business, published by the Commerce Department, includes annual articles on foreign direct investment in the United States. Instead of including OPEC countries individually, these articles include OPEC as a separate geographical area. For 1976, total OPEC direct investment in the United States was \$163 million; and for 1977, it was \$157 million. (Data for 1978 will be available in late summer 1979.)

The Treasury Department reports OPEC portfolio holdings under the Capital Movements section of the monthly Treasury Bulletin. These reports include liabilities and claims to oil exporters as reported by banks and others, and transactions in U.S. securities. Treasury's Office of International Banking and Portfolio Investment also estimates the disposition of OPEC investible surpluses in the United States. These estimates are prepared quarterly and are available to the public on request. The Treasury Department receives many requests for these reports. According to latest estimates, OPEC banking and portfolio placements in the United States totaled \$7.9 billion in 1976, \$6.9 billion in 1977, and \$6.7 billion in 1978.

DATA ON OPEC COUNTRIES AGGREGATED AS RESULT OF TREASURY DEPARTMENT PROMISES

Investments of individual OPEC members are only partially identified in published U.S. Government data. Breakdowns of the amount of investment, whether portfolio or direct, are usually given for Ecuador, Indonesia, and Venezuela. However, all other OPEC countries--notably the Arab OPEC countries and Iran--are reported in some aggregate form, i.e., as "African oil exporting countries," "Asian oil exporting countries," "Other Africa," "Other Asia," or "Middle East."

Various explanations have been offered for this aggregation. According to Department of Commerce officials, most of the Bureau of Economic Analysis (BEA) statistics are reported voluntarily. The reporters are promised that in exchange for information, their identities will not be disclosed. Once these individual reporters are grouped by residence (nationality), a country total is not published when:

1. The amount of investment is small, e.g., less than \$500,000.
2. The reporting population is not large. (BEA only publishes a total when there are at least three reporting entities in a system. The three reporting investors must be approximately the same size for any given country or industry, and the top two investors in an industry cannot have more than 90 percent of the investments.)
3. Data is sensitive for one investment area, and releasing a country total may make that data easy to identify. Once a decision is made to suppress one figure in a series (a country, type of investment, or total), the remaining members of the series must be checked to ensure that the suppressed figure could not be derived from the remaining data. This practice often leads to deleting two additional entries in order to suppress one.

In the case of the Asian and African oil exporting countries, the major investors in the United States tend to be the governments themselves. Therefore, breaking investment figures down by country would, according to U.S. Government officials, reveal individual investors and violate the confidentiality pledged to reporters. Yet Treasury and Commerce do report investments of individual Communist countries--countries where the major investor is presumably the government, acting perhaps through several entities.

Treasury Department officials cited many of the same reasons for aggregating information on OPEC countries' holdings in the United States and stressed the need to preserve the confidentiality of individual investors' accounts. Under the International Investment Survey Act

of 1976, both Treasury and Commerce officials believe they are forbidden to disclose individual sources of investment to anyone outside of their agencies. Therefore, we have been unable to include country breakdowns of OPEC statistics in this report.

The policy of aggregating OPEC investments from the Middle East ^{1/} began in the early 1970s, according to Treasury, when the sizes of investments by OPEC governments increased. While OPEC countries may be especially sensitive to having their finances disclosed, Treasury believes they receive the same treatment as other investors in the United States.

Other sources whom we interviewed, including the former Secretary of the Treasury, stated that information on specific OPEC countries is not held confidentially for statistical or legal reasons. Rather, they assert that the Treasury Department has made special commitments of financial confidentiality to Saudi Arabia and perhaps other OPEC governments. Part of these agreements was an understanding that OPEC statistics would be reported by region in exchange for Saudi Arabian purchases of U.S. Government securities. According to Government sources, OPEC nations told the Treasury Department and the Federal Reserve Board that OPEC money would not be put in the United States without a pledge of confidentiality. The Treasury Department denies that such promises were made to OPEC nations. Treasury maintains that OPEC countries receive no special treatment.

Conclusion

Statistics for certain individual OPEC countries began to disappear from Treasury and Federal Reserve Board publications in December 1974. The Treasury Department states that as reporting coverage increased,

^{1/}The Office of Federal Statistical Policy and Standards, Department of Commerce, is responsible for developing and coordinating statistical policy throughout the Federal Government. We have made available to members of your staff a description of the statistical disclosure policy and disclosure avoidance techniques prepared by that Office.

data which had been reported separately by the U.S. Government at this juncture became subject to aggregation. Timing arouses the suspicion that this information was suppressed for foreign policy reasons.

The 1973-74 rises in OPEC oil prices and resulting huge OPEC surpluses, combined with a severe recession in the United States and other nations, led to the U.S. Government's desire to attract OPEC funds. Some OPEC nations expressed a strong desire for confidential treatment of their financial transactions with the United States.

Without access to the data, we are unable to confirm whether normal reporting practices have been the only reason for not publishing information on Middle East OPEC countries. The extent to which promises of confidentiality made to the countries concerned and foreign policy considerations contributed to the aggregation of OPEC data remains unclear.

INFORMATION ON OPEC BANK DEPOSITS AND LOANS

Both the Federal Reserve Bank and the Comptroller of the Currency collect information on foreign deposits and loans in U.S. banks. Monthly reports broken down by dollar and non-dollar assets and liabilities are reported to the Treasury for domestic banks and to the Federal Reserve for overseas branches of U.S. banks. The authority to monitor deposits and loans in foreign branches of U.S. banks stems from the Federal Government's bank examination authority. Under the Federal Reserve Acts (12 U.S.C. 602), U.S. banks operating foreign branches are required to report on the condition of these branches to the Comptroller of the Currency and the Federal Reserve.

The Comptroller of the Currency does not maintain a breakdown of deposits in foreign branches of U.S. national banks which could identify the origin of a deposit. For example, data from call reports could show total deposits in branches of U.S. banks located in Venezuela. This total, however, would represent deposits made by all depositors whether owned by Americans, Germans, Japanese or others. No breakdown of total deposits is made to the Comptroller, unless national bank examiners determine that a concentration problem exists because of heavy deposits from any one country in a particular branch. In this case, bank examiners would call a deposit question to the attention of the Federal Reserve or Comptroller of the Currency.

In 1974-75, bank examiners were asked to specifically report to the Comptroller of the Currency on OPEC deposits in U.S. national banks and their foreign branches. These deposits were determined to pose no danger to any U.S. bank because they were not overly concentrated in one institution. Under the present bank examination system, many reports made to the Federal Government cover different periods. Since the times and types of examination reports to the Comptroller differ, information on OPEC deposits which might be available to the Government from these reports would not be particularly meaningful.

The Federal Reserve collects quarterly reports (Form 2502S) on the assets and liabilities of foreign branches of U.S. banks by country. These data are recorded by residence of customer for banks with at least \$100 million in assets. The Federal Reserve then publishes quarterly press releases (Notice E-11) which summarize foreign branch assets and liabilities.

As with the Treasury and Commerce Departments, data on OPEC holdings reported by the Federal Reserve do not give country-by-country breakdowns for OPEC finances. African and Asian OPEC members are reported collectively. The Bank of England, however, publishes in detail semi-annually the total claims of United Kingdom banks and financial institutions on individual OPEC countries.

A particular U.S. bank would, of course, know the origin of any deposit placed directly in it and would report this to the Federal Reserve. Such is not the case for any indirect placement. If a French bank were to deposit \$1 million in the Paris branch of a U.S. bank, that U.S. bank would have no regular or official way of knowing whether the deposit was, for example, Saudi Arabian money channeled through France. Both bankers and U.S. Government officials mentioned, however, that informal contacts enable senior banking officials and the Government to keep abreast of most major developments.

According to Comptroller of the Currency records, OPEC country deposits and other liabilities with foreign branches of U.S. national banks in the OPEC countries were as follows:

Table One

Deposits and other liabilities in U.S.
branches located in OPEC countries (note a)

1974 1975 1976 1977

(millions of U.S. dollar equivalents)

Ecuador	\$114	\$ 101	\$ 110	\$ 139
Gabon	-	-	1	15
Indonesia	301	272	353	382
Qatar	15	22	39	48
Saudi Arabia	255	442	618	1,108
United Arab Emirates	152	328	417	585
Venezuela	<u>154</u>	<u>161</u>	<u>139</u>	<u>165</u>
Total	<u>\$991</u>	<u>\$1,326</u>	<u>\$1,677</u>	<u>\$2,442</u>

a/There are no branches of U.S. national banks in Algeria, Iran, Iraq, Kuwait, Libya, and Nigeria.

It should be emphasized that the majority of OPEC deposits with the United States would be held in various other locations and not in the branches identified in this table.

The following table represents the Federal Reserve's and Treasury Department's records of OPEC deposits with U.S. banks, both home offices and foreign branches.

Table Two

	OPEC deposits in U.S. banks			
	<u>1975 (note a)</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
<u>U.S. Domestic Banks</u>	----- (millions of U.S. dollars) -----			
Ecuador	\$ 109	\$ 290	\$ 266	\$ 293
Indonesia	348	311	391	417
Venezuela	3,186	2,933	2,531	3,065
African Oil Exporters	2,180	1,086	1,126	1,482
Asian Oil Exporters	<u>7,090</u>	<u>9,059</u>	<u>8,685</u>	<u>6,931</u>
Subtotal	<u>12,913</u>	<u>13,679</u>	<u>12,999</u>	<u>12,188</u>
<u>Foreign Branches</u>				
Ecuador	72	149	261	235
Indonesia	219	673	836	786
Venezuela	1,295	1,696	2,073	1,573
African Oil Exporters	626	1,485	1,618	1,132
Asian Oil Exporters	<u>12,354</u>	<u>13,727</u>	<u>14,341</u>	<u>16,089</u>
Subtotal	<u>14,566</u>	<u>17,730</u>	<u>19,129</u>	<u>19,815</u>
TOTAL	<u>\$27,479</u>	<u>\$31,409</u>	<u>\$32,128</u>	<u>\$32,003</u>

a/All data as of December 31 of given year.

These records do not identify the particular domestic foreign branches of U.S. banks in which OPEC deposits are held.

DATA ON SERVICES IMPORTED FROM
AND EXPORTED TO OPEC COUNTRIES

The Bureau of the Census, Department of Commerce, releases aggregate amounts of U.S. merchandise exports to OPEC on a country-by-country basis. These merchandise figures are further broken down into both agricultural and non-agricultural sectors, and the statistics are published monthly in the Census publication "Highlights of U.S. Export and Import Trade."

Data on services imported from and exported to OPEC countries are collected by the Bureau of Economic Analysis (BEA), Department of Commerce. According to BEA, anything other

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than merchandise which is exported or imported is considered a service. Statistics on services are published by regions on a quarterly basis in the Commerce Department's Survey of Current Business. BEA does not publish the value of service exports to OPEC countries by country, nor does BEA separate services from goods when reporting military transactions. It is difficult to determine exactly exports to or imports from oil exporting countries.

BEA officials gave the following explanations for releasing OPEC information only in aggregate form:

- Some of the forms used by BEA do not require the identification of countries of origin or destination. For example, the survey on foreign personal remittances does not require identification for individual OPEC countries.
- Country information is also withheld in order to protect the confidentiality of reporters. If there are few firms carrying out service functions in a country, a total may not be reported because individual reporters could be identified.
- BEA bases its estimates of international transactions in services on a variety of sources. Some data is made available through other agencies; some is collected by BEA on a voluntary basis.

CHAPTER 3

ACQUISITIONS OF U.S. SECURITIES BY OPEC NATIONS

THE "ADD ON" SYSTEM

The "add on" system enables foreign central banks or monetary authorities to purchase U.S. Treasury securities non-competitively--that is directly from the Department of the Treasury but without entering the regular auctions at which Treasury offers bills, notes, and bonds. The amount of each public issue is announced 1 week in advance.

Add ons represent additional securities in excess of the announced amount for the particular issue. Auctions determine the price of these additional securities and, therefore, interest rates payable on them. Foreign central banks purchase securities at the average price determined at that day's auction. The Federal Reserve acts as an intermediary. According to the Federal Reserve Bank of New York, fees or commissions are charged in connection with certain other investment services; these fees tend to offset the cost of add-on services provided to foreign accounts.

Foreign countries' central banks may purchase securities both through the add-on facility and by participating in the regular auction. No country, however, may purchase more than 20 percent of the publicized amount of a single offering, including both add ons and regular bids. In addition, the amount of add ons a country--whether government agency, central bank, or both--may purchase from a given offering is limited to \$300 million.

Some foreign governments purchase securities outside the add-on system presumably because they feel that their market judgment or that of their agents will enable them to obtain a better price than the average for that day. However, add ons are sold at the average price for that issue with the result that their purchasers receive the same average rate of interest as other purchasers of the same issue. These rates of interest are made public by the Treasury Department following each auction.

In February 1979, a change was made in the operation of add ons. Previously, the amount of the add on for a specific issue was the amount of new cash which foreign central banks sought to invest. If one or more central

banks redeemed maturing securities instead of rolling them over--i.e., purchasing new securities with the proceeds of maturing securities rather than redeeming them--this amount was absorbed by the market. The policy since February has been to net these redemptions with new cash from central banks. For example, if foreign central banks possessed \$50 million in maturing securities but desired to roll over \$25 million, and at the same time other central banks desired to purchase \$35 million in the issue being offered, under the old policy, Treasury would have sold \$35 million in add ons and the market would have absorbed \$25 million. Under the new policy, Treasury would sell \$10 million in add ons. Treasury officials expect this change to reduce the need for or size of add ons.

Customers other than foreign central banks and monetary authorities also may purchase U.S. Treasury securities without bidding at the auction. Individuals may purchase up to \$1 million on noncompetitive tenders. In fact, this is the normal practice for small investors.

Although procedures vary between Treasury bills and larger maturities, rollovers generally take place in a non-competitive manner as well. The Federal Reserve, foreign governments, and individuals are allowed to roll over their securities on a noncompetitive basis at an average price for a given auction. Treasury officials emphasize that such allowances bring more surety to the market because foreign central banks are carrying out transactions at the average auction price.

DEVELOPMENT OF ADD ONS

In 1974, the add-on system was originally offered as part of a bilateral financial package to Saudi Arabia. Treasury officials explained that it was created to attract and manage petrodollars. In 1975, it was offered to other OPEC countries and then extended to all official foreign financial institutions.

Treasury officials cited the Second Liberty Bond Act of 1917, as amended, as authority for the Secretary of the Treasury to initiate this system. This act gives the Secretary broad powers to borrow in various forms upon the credit of the United States.

Statistics on purchases of U.S. Government add ons by country are not available prior to 1976. Nevertheless, the following table puts the use of add ons in perspective.

Table Three

	OPEC and U.S. public debt				
	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
	------(billions)-----				
Total U.S. public debt	\$492.7	\$576.6	\$653.5	\$718.9	\$789.2
OPEC holdings of U.S. debt	5.5	8.0	11.0	14.5	12.4
<u>Add-on purchases of U.S. securities</u>					
Total add ons	0.2	2.5	4.9	11.7	9.2
Add ons purchased by OPEC (note a)	-	-	-	3.8	.4

a/ Treasury officials believe they cannot report OPEC purchases for 1974-76 since most of these were made by a single institution.

This table illustrates that OPEC countries do not hold substantial shares of the U.S. debt. At the end of 1978, these countries held only 1.6 percent of U.S. securities. Moreover, although the add-on facility was created to facilitate large OPEC purchases of securities, OPEC countries have decreased their purchases of add ons in recent years to only 4.3 percent of total 1978 add ons. At the present time, the principal users of the add-on facility appear to be the industrialized countries--particularly Germany and Japan.

The impact of using the add-on system for some foreign purchases of U.S. Government securities is hard to assess. The issue is tied to the question of whether prices and interest rates for these issues should reflect conditions in the domestic U.S. market or in a larger international one. Add ons would appear to insulate the direct sale of U.S. securities at auction from some foreign demand. From this insulation, it is possible to infer lower prices and higher interest rates than would otherwise occur. On the other hand, other authorities pointed out that the willingness of foreigners to purchase U.S. securities has led to generally lower interest rates than if the domestic market had had to absorb a larger amount of debt.

Officials at the Treasury Department and the Federal Reserve tend to minimize these impacts. A Treasury official stated that if the Department detected a sharp interest rate impact from add ons, it would step in to correct the situation. At the Federal Reserve, it was suggested that the impact of foreign demand for Treasury bills might alter the dollar rate structure for similar instruments, i.e., the relationship between interest rates for 3- or 6-month Treasury bills and those of 3- or 6-month certificates of deposit or commercial paper.

From time to time U.S. monetary authorities for various reasons try to raise or lower interest rates. Whether it tends to raise or lower interest rates, the impact of foreign purchases may not coincide with the effect which is desired for domestic reasons. By insulating some foreign demand for U.S. Government securities through use of the add-on system, the Federal Government retains a greater degree of control over U.S. interest rates.

Foreign government ownership of U.S. Government securities has other effects as well as those on interest rates. For example, by law, foreign governments do not pay tax on the income received from these securities. To the extent that these securities would otherwise be owned by individuals who would be liable for U.S. taxes, the U.S. Treasury foregoes some tax revenue. But discouraging foreign government ownership of U.S. securities would reduce the demand for them; taxes would be capitalized into the price of the securities. Foreign governments, of course, have the option of holding dollar deposits abroad in Eurodollar banks 1/ where they would also not incur any U.S. tax liabilities.

NONMARKETABLE U.S. GOVERNMENT SECURITIES

The United States offers nonmarketable securities (called market-based specials) to foreign countries when these countries have large amounts of new cash to invest. These holdings occur often as a result of intervention in international currency markets. Most of these securities are payable in dollars; some are payable in foreign currencies. The total amounts outstanding as of December 1978 were \$22.6 billion (payable in dollars) and \$1.9 billion (dollar equivalent payable in foreign currencies). These securities are or have been held by official institutions

1/ Foreign banks which accept dollar deposits.

and other residents of Belgium, Canada, Denmark, Germany, Italy, Japan, Korea, Sweden, Switzerland, Taiwan, and Thailand. No OPEC nations, with the possible exception of Saudi Arabia as discussed below, have purchased nonmarketable securities.

Market-based specials have all the characteristics of public offerings with an early redemption feature. They carry the same coupon and maturity as publicly offered securities; their price is set as the mean between the bid and asked price of comparable publicly offered securities at noon on the day they are offered.

Market-based special bills are purchased and sold by foreign countries (if sold prior to maturity) at a discount. If sold before the maturity date, the sale price for these securities is the noon bid price on the date of sale. If sold at maturity, the sale value is the face value of the securities. The yield interest earned depends on interest rates prevailing on the day of sale and the period held.

Saudi Arabia, under the U.S.-Saudi Arabian Technical Cooperation Agreement, places funds in a special deposit fund with the U.S. Treasury. Saudi Arabia, in effect, pays in advance for services it will receive under the agreement. The Treasury Department does not consider these funds to be Saudi Arabian investments because decisions as to the disbursement of these funds are made by the United States. Yet, Saudi Arabia receives interest on these funds.

Funds in the Saudi Arabian Technical Cooperation Account are invested by the Treasury Department in market-based special bills. This investment is a book entry form only within the Bureau of the Public Debt; there are no actual securities issued. This procedure was developed about 4 years ago to handle U.S. Government investments, such as those of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, Overseas Private Investment Corporation, U.S. Postal Service, and others. It has also been used occasionally in connection with arms sales to European countries. As a deposit fund, the U.S.-Saudi Arabian Technical Cooperation Agreement Account holdings are reported monthly by the Bureau of Public Debt as part of total Treasury Deposit Funds.

The average amount kept in the U.S.-Saudi Arabian Technical Cooperation Agreement Account over the last 44 months was \$75 million. Total amounts purchased through this account over the past several years were: \$66 million, 1975; \$51 million, 1976; \$83 million, 1977; and \$89 million, 1978. The Treasury Department disburses funds from this account based on the cash requirements generated by project activities.

CHAPTER 4

LIQUIDATION OF OPEC HOLDINGS IN THE UNITED STATES

Questions about the rapidity with which OPEC investors could liquidate their holdings of U.S. Government securities and the possible impact of these sales are difficult to answer. Such a turn of events has not occurred in spite of fears that OPEC would liquidate its holdings in 1974-75. Therefore, we have had to base our analysis upon the opinions of responsible officials in the U.S. Government and leading authorities in banking and finance.

LIQUIDATION OF U.S. SECURITIES

As of December 31, 1978, the total U.S. public debt was \$789.2 billion. Of this total, 1.6 percent or \$12.4 billion represents OPEC holdings. The market for U.S. Government securities is worldwide, efficient, and broad; it handles an average of over \$10 billion a day. The consensus among authorities we interviewed was that the market could absorb an unusual liquidation of \$1 billion of U.S. securities over 2 to 3 days. For OPEC to sell \$10 billion to the Treasury Department over a week would result in temporary instability, but the market would absorb this amount. On the other hand, the sale of large amounts of coupon bonds might affect interest rates, because these issues are bought and sold less frequently. Since OPEC holdings of securities totaled \$12.4 billion in 1978, officials believe there is little probability that all countries would liquidate their securities at the same time to cause a \$10-billion transfer. Furthermore, if an OPEC country liquidated its holdings of U.S. securities, this action might lead to a substantial loss in the value of its other investments denominated in dollars and those of other OPEC countries.

If an OPEC country or countries wished to sell large amounts of U.S. Government securities for financial reasons, they probably would do so through the Federal Reserve Bank of New York. In such a case, the bank would advise them how to sell these securities over a period of time and might purchase some for its own account. Some large OPEC sales of U.S. Government securities for normal financial or economic reasons, therefore, are unlikely to have more than a limited and temporary impact on the market. This impact might lead the Treasury Department to postpone offerings of similar securities, but would not materially interfere with the orderly management of the U.S. public debt.

If, on the other hand, OPEC countries sold U.S. securities with the intention of disrupting the market, the impact of this action would reflect the circumstances in which it was carried out. For example, a hostile sale would presumably be made in the secondary or over-the-counter market. In this case, the Federal Reserve would retain the option of buying some or all of these securities for its own account. The result would be the same as if the Federal Reserve made similar purchases from domestic sources in similar circumstances. Officials at the Federal Reserve Bank of New York suggested that the Bank might even choose not to intervene so that the adverse price impact of these sales would fall upon the OPEC sellers themselves. Apart from financial transactions, however, a statement by an OPEC government that its oil production was about to be severely limited might have a greater market impact than the sale of securities.

Over the past year, various observers have noticed some withdrawals of OPEC investment from the United States, particularly by Middle East countries. For most of 1978, OPEC surpluses were declining; this trend had the natural result of leading to a small flow of new money into the United States or fewer purchases of dollar-denominated instruments. OPEC disinvestment may have represented (1) hedging against the dollar at a time when its value was falling or (2) a normal inclination of OPEC governments to diversify their international reserves. One U.S. bank official attributed part of this move to Saudi Arabia's need to sell U.S. securities in order to meet a temporary cash flow problem. Of course, given the recent increases in oil prices, OPEC surpluses may temporarily increase.

A liquidation of securities would principally affect exchange rates and might weaken the dollar. If countries with strong currencies purchased dollars to prevent the appreciation of their currencies, they would probably use the dollars obtained to purchase U.S. Government securities. In these circumstances, the industrialized countries would acquire comparable securities to those having been sold by OPEC nations. The impact of a large liquidation of U.S. securities would thereby be minimized.

One authority with whom we spoke indicated that the sale of U.S. securities for the specific purpose of disrupting markets would not be a financial problem but would constitute "economic warfare". In this case, the President might wish to invoke his powers to freeze assets under the International Emergency Economic Powers Act (Public Law 95-223).

The authority granted to the President by this act is delineated as follows:

- the President may, :
- (A) investigate, regulate, or prohibit--
 - (i) any transactions in foreign exchange,
 - (ii) transfers of credit or payments between, by, through, or to any banking institution, to the extent that such transfers or payments involve any interest of any foreign country or a national thereof, (iii) the importing or exporting of currency or securities; and
 - (B) investigate, regulate, direct and compel, nullify, void, prevent or prohibit, any acquisition, holding, withholding, use, transfer, withdrawal, transportation, importation or exportation of, or dealing in, or exercising any right, power, or privilege with respect to, or transactions involving, any property in which any foreign country or a national thereof has any interest; by any person, or with respect to any property, subject to the jurisdiction of the United States." 1/

These powers would clearly enable the President to freeze funds or to prevent the resale of U.S. securities "in the event of a threat to the national security, foreign policy or economy of the United States." 2/

The use of these powers is not to be taken lightly; any financial restrictions must be imposed quickly to be effective. Their application must be selective and sufficiently justified, or else this action risks impairing the future ability of the United States to market securities abroad or to carry out international finance.

These comments, of course, reflect a hypothetical situation. All of the authorities we interviewed, both with in and outside the Federal government, emphasized that OPEC countries have been conservative investors and have responsibly handled their finances. A senior official at the Federal Reserve Bank of New York stressed that Saudi Arabia has been particularly scrupulous in notifying United States authorities prior to transfers of funds and in explaining the reasons for such transfers.

1/Public Law 95-223, Sec. 203.
2/Loc cit, Sec. 202.

WITHDRAWALS OF OPEC BANK DEPOSITS

Large-scale withdrawals of OPEC funds from American banks either in this country or from their branches abroad in themselves are likely to have little or no immediate impact upon the U.S. banking system. However, the competitive position of a particular bank which experiences large-scale withdrawals might be impaired by increased funding costs.

The withdrawal of OPEC bank deposits from the United States could have a psychological impact on U.S. bank performance and perhaps on the dollar. If other foreign customers lose confidence in the soundness of U.S. banks, they might also pull out their funds. Measuring the impact of such a loss in confidence is difficult. Nevertheless, large withdrawals by OPEC and other depositors, though they would create serious temporary problems, are unlikely to undermine the fundamental soundness of the U.S. banking system. Of course, if these withdrawals accompany a serious international crisis, the crisis may have a disrupting effect on the economy. OPEC withdrawals, however, may have more serious long-term effects. These effects are discussed later in this report.

IMMEDIATE IMPACT OF WITHDRAWALS

Because we did not have access to information on specific accounts, our conclusions are based on informed opinion, the logic of the system, and the fact that OPEC surpluses are smaller now than in the recent past. Several factors tend to limit the short-term effect of OPEC withdrawals. Officials of leading U.S. banks informed us that OPEC nations maintain only limited funds in the United States in "demand" accounts (that is, subject to immediate withdrawal), in order to meet operational cash needs. By law, accounts of this nature in the United States pay little or no interest. OPEC depositors can obtain a substantial interest advantage by maintaining funds in the Eurodollar market, where interest rates are higher. As of June 1978, OPEC nations held about \$29.6 billion as deposits in United Kingdom banks and financial institutions. Only \$12.2 billion were deposited by OPEC countries in domestic U.S. banks as of December 1978.

Some Eurodollar funds are kept in overseas branches of U.S. banks and could be withdrawn. If this were done, they would be deposited in a bank of another nationality.

The foreign bank would then offer these funds on the Euro-dollar market, where the American bank could borrow them back.

The Eurodollar interbank market is very large and efficient. U.S. banks would face no liquidity problems, but might incur additional costs. The cost to the American bank of replacing deposits through borrowing on the Eurodollar market is likely to be a few basis points (hundredths of 1 percent) or thirty-seconds of a percent above the interest it would have paid on the direct deposits.

Other short-term deposits are not available on "demand," but are limited to specific withdrawal periods from several days to several months. These deposits could be withdrawn as they become due; but because of staggered withdrawals, it is unlikely that removal of such OPEC deposits would disrupt U.S. banks.

Major money center banks bid for and accept deposits on terms which match their needs, thus limiting their own vulnerability to withdrawals. Furthermore, banks can and do refuse deposits which would be inappropriate to their asset structure. As discussed earlier, bank examiners, in their regular reviews of bank soundness, scrutinize dependence on specific sources of deposits. At no time has dependence upon OPEC deposits caused a U.S. bank to be put on the national problem bank list.

During a financial crisis, large depositors often shift their funds from medium-sized banks to a few very large banks--banks so important to their countries' economies that they cannot be allowed to fail. The impact of this shift on banks which lose direct funds does not create a crisis; instead, it increases slightly the cost of money to them, because they then must reborrow the funds they need from the very large banks at the going interbank (Federal funds or Euromarket) rates.

Whatever the possible dangers of sudden OPEC withdrawals when used as a political or economic weapon, the U.S. Government has adequate authority to deal with this contingency. The provisions of previously cited International Emergency Economic Powers Act (Public Law 95-223), when necessary, would apply to the withdrawal of OPEC bank accounts if these constituted a threat. This act would give the President power to stagger withdrawals, limit withdrawals, or freeze deposits. Other preventive measures could be taken as well.

For example, countries which wish to discourage short-term deposits often set low or negative interest rates. In fact, as mentioned earlier, U.S. limitations upon the interest paid by commercial banks for demand deposits have this effect.

LONG-TERM EFFECT OF THE LOSS OF OPEC BANK DEPOSITS

The long-term effects of a withdrawal of OPEC funds from U.S. banks are likely to be adverse. American bankers feel they would lose a customer relationship with important clients, and fear the loss of market share. Furthermore, though U.S. banks could and would reacquire lost deposits through borrowings from intermediaries, they might incur increased costs. The effect of the long-term loss of OPEC deposits is likely to impair the competitiveness of U.S. banks and lead to lower bank profits. Over the long term, this weakened international competition could impair the viability and effectiveness of the U.S. banking system.

PROS AND CONS OF CONFIDENTIALITY ON OPEC ACCOUNTS IN INDIVIDUAL U.S. BANKS

As noted above, the Federal Government does not report total assets or liabilities by individual Middle East oil producers in U.S. banks. The Federal Government does, however, report assets and liabilities of banks in the United States for very small countries, such as Monaco, which are not regularly reported separately. While the same detail is not published for transactions in U.S. securities or other financial instruments, banking data--with the exception of the Middle East--is broken out. In addition, England breaks out claims on individual OPEC countries of United Kingdom banks and financial institutions. We believe that there is no statistical or legal basis for not reporting total figures for all OPEC countries' assets and liabilities in U.S. banks.

Information on individual U.S. bank holdings of OPEC deposits has never been made public. The argument for maintaining the confidentiality of individual OPEC accounts rests in part on the adverse effect that weakening the competitiveness of the U.S. banking system may have upon the American economy. Furthermore, access to OPEC funds was considered important in 1974-75 and may be so again.

In 1976 the Federal Reserve collected data for the Senate Subcommittee on Multinational Corporations on foreign assets and liabilities of 21 U.S. banks. This information was aggregated and reported to the subcommittee by groups,

e.g., the six largest banks, etc. U.S. banks argued at that time that any further disaggregation of data in order to identify deposits within a particular bank would threaten the international competitiveness of that bank. No further studies or breakdowns of OPEC assets and liabilities with U.S. banks have been done by the Federal Reserve since that time.

Bankers and Federal authorities argue that the American banking system is already one of the most open in the world. The threat of further revelations would in their view lead many if not most OPEC investors to withdraw their deposits and thereby limit our direct access to these funds. As a result of their culture and background, Arab OPEC investors place a great emphasis on confidentiality perhaps more than other individuals. Alienating these investors through changes in account disclosure policies may impair the ability of U.S. banks to attract OPEC finances.

U.S. banking tradition tends to respect the right of individuals by protecting information concerning their bank accounts, both domestically and abroad. Banks feel that they must offer the same confidences as foreign competitors who do not disclose information on customer accounts because of their bank secrecy laws. However, recent Supreme Court decisions, particularly U.S. v. Bisceglia, 420 U.S. 141 (1975), and more importantly, U.S. v. Miller, 425 U.S. 435 (1976) concluded that account information was the property of the bank rather than the individual. The Congress, in turn, severely limited access to this information by the Financial Institutions Regulatory Act of 1978.

The arguments in favor of releasing information concerning OPEC assets and liabilities in individual U.S. banks rest on the public's right to know. In this view, the position of OPEC governments, when they use the facilities of the U.S. economy in a commercial manner for their own benefits, is more analogous to that of a public official than to a private individual. The financial positions of many U.S. public officials are now disclosed. It is also possible to argue that the very openness of the American banking system has contributed to its stability. Therefore, further openness might, in the long run, make the system more stable and more attractive to depositors. Another advantage to releasing data on foreign assets in U.S. banks is that such data would assist an independent analysis of the deposit exposure of U.S. banks.

After a review of these arguments and our discussions with bankers and public officials, our opinion is that Government actions, such as identifying OPEC accounts with particular banks, are likely in the short run to lead to withdrawals from U.S. banks and thus, are not consistent with efforts to defend the dollar. In any event, increased openness concerning foreign accounts, when and if it becomes appropriate, should not be aimed at a particular group of investors, but should be applied more generally, for example, to all foreign governments and central banks.

OTHER NATIONS' CONTROL OF FOREIGN FINANCIAL TRANSACTIONS

We have studied the banking, foreign exchange, and emergency monetary authorities of France, Germany, Japan, Switzerland, and the United Kingdom. None of these countries have foreign investment policies which would particularly restrict transactions by OPEC countries. Both Germany and Switzerland have sought bilateral understandings with some of the major Middle East oil producing nations, whereby these countries would inform the host governments prior to making sizable direct investments. These arrangements are similar to those of the United States which, through the executive branch's Committee on Foreign Investment in the United States, seeks prior notification by foreign governments of major investments.

Most major industrialized countries have laws requiring banks to keep their customers' affairs confidential. Tax authorities and auditors in foreign countries are given access to bank records. In 1977, for example, Japan introduced inspections of its overseas banks as well as foreign banks in Japan.

Emergency Legislation

The United States has more comprehensive emergency financial control laws than the other countries studied. The laws of the United Kingdom, for example, are limited to control of foreign property during wartime. For exceptional reasons of public utility, security, or national interest, sovereign countries can enact laws which could result in freezing bank accounts or other assets, or preventing repatriation of funds.

Capital controls

Some of the countries studied have, in recent years, taken measures to control capital flows. These restrictions were partly a reaction to developments in foreign exchange markets and were aimed at reducing unwanted capital flows, and absorbing liquidity generated by the foreign exchange market's intervention of the respective central banks. Controls have been implemented primarily through the banking system.

The movement of capital can, of course, be impeded by the imposition of direct controls. Many less developed countries do this to some extent, and the United States did so in the late 1960s. Using incentives within the context of a market system, however, there are two less draconian ways to control capital flows, one is to decrease interest rates; the other is to raise reserve requirements.

Other countries have employed both of these measures. In 1978 Germany increased the minimum reserve requirements on its banks' liabilities to foreigners in order to resist upward pressure on the deutsche mark. Switzerland introduced a series of measures aimed at restraining capital inflows. The gentleman's agreement between the Swiss National Bank and the Swiss Bankers Association has been strengthened to provide better surveillance of foreign exchange transactions. Switzerland no longer exempts foreign monetary authorities from the negative interest charged on foreign deposits of Swiss francs. Japan has also increased its reserve requirements for foreign currency liabilities of foreign exchange banks.

Some of these measures may be inappropriate for the United States. First, the dollar plays a major role as a currency for international monetary reserves. Some restrictions may be inconsistent with this role. Second, most of these measures are concerned with speculative money coming into a country. The problems addressed in this report are those of money leaving. Nevertheless, one way of avoiding any problems associated with rapid withdrawals would be to discourage unwanted deposits in the first place.

CHAPTER 5

BALANCE OF PAYMENTS INFORMATION--

SURPLUSES VS. DEFICITS

Data collection systems used by the United States for balance of payments reporting are considered to be among the best in the world. Those of other nations vary in sophistication, accuracy, and completeness. Moreover, not all reporting systems are consistent in their treatment of similar transactions. For example, what some countries record as current account payments, others consider as capital account payments.

The international monetary reporting system is always building on past data which may not be comprehensive or compatible with current data categories. Other problems concern recordings of commitments versus disbursements of goods, goods in transit, and how non-merchandise flows, such as services, are recorded. Even in a perfectly consistent international system, one could not expect world surpluses and deficits to total zero. For example, certain types of transactions of international organizations, such as the European Economic Community and the International Monetary Fund (IMF), although they involve receipts and payments, are not entered in international statistics. Inflation also causes a predictable error.

The following are the Treasury Department's estimates of the residual errors contained in international balance of payments reporting.

Table Four

	<u>Global payments patterns (note a)</u>				
	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
	------(billions)-----				
OPEC	\$ +69.5	\$ +34	\$ +36	\$ +33.0	\$ +7.5
OECD:	-27.5	0	-19	-27.0	+1.0
(U.S.)	(+2.0)	(+18)	(+4)	(-15.0)	(-16.5)
(others)	(-29.5)	(-18)	(-23)	(-11.5)	(+17.5)
non-oil LDCs	-24.0	-28	-19	-14.0	-18.0
others	<u>-9.5</u>	<u>-18</u>	<u>-11</u>	<u>-9.0</u>	<u>-9.0</u>
Unexplained residual	\$ <u>-8.5</u>	\$ <u>+8</u>	\$ <u>+14</u>	\$ <u>+17.0</u>	\$ <u>+16.5</u>

a/Current account balance (including official transfers).

To put these figures in perspective, \$16.5 billion represents less than 0.7 percent of \$2.3 trillion, or total world trade in 1978.

Data on bilateral balance of payments between oil exporting and oil importing countries are incomplete and misleading. Nevertheless, none of the officials we interviewed believed that the differences between the recorded surpluses of the oil exporting countries and the recorded deficits of the oil importing countries were particularly worrisome, nor did anyone believe that a \$30-billion discrepancy existed or could be attributed to unrecorded Arab investments. The Bank of England has specifically analyzed OPEC surpluses and their deployment, and found no unaccounted for money in 1975, perhaps \$1 billion in 1976, and \$4 billion in 1977.

In order to substantially improve balance of payments data collection methods, new uniform accounting systems would have to be adopted worldwide. While the International Monetary Fund has reporting standards and some influence which could be used to lead other countries to improve their reporting, foreign countries still fit their own numbers into IMF concepts. Some international organizations put little faith in the accuracy of self-reporting. Organization for Economic Cooperation and Development (OECD) statistics are assembled on the assumption that all members' numbers are correct and that the proper number for other countries is the obverse of OECD data--that is, exports from developing to developed countries are assumed to equal OECD imports.

No U.S. Federal agency has the power to compel other countries to change their balance of payments accounting systems so as to minimize discrepancies in international balance of payments. The United States is, however, making every effort to cooperate with international efforts to improve balance of payments reporting. OECD and IMF have recently agreed to a new joint reporting system that is designed to improve quality and reduce duplication in balance of payments data. Beginning with first quarter 1979 data, countries will try to have their national reporting systems conform to standards and classifications of the Fourth IMF Balance of Payments Manual.

OECD has also been investigating discrepancies in global balance of payments. Transportation accounts have been identified as the largest problem area. No specific recommendations for improving these accounting systems have been made by the OECD, however.

CHAPTER 6

CONCLUSIONS, RECOMMENDATIONS,

AND AGENCY COMMENTS

CONCLUSIONS AND RECOMMENDATIONS

Treasury, Commerce, and the Federal Reserve regularly report balance of payments, capital flows, and banking data by country for most of the world. Other countries report international financial data, including some OPEC financial transactions, by country. Prior to 1974, the United States regularly published separate data for OPEC nations. As already discussed, various factors, including the treatment of these data by the Treasury Department, raise our suspicion that this information is now reported in aggregate form by region not only for statistical and legal reasons, but also for foreign policy reasons. These reasons may include a promise of confidentiality made by former Treasury officials in return for investment in U.S. securities and may also reflect valid national interests.

We recommend that the Secretaries of the Departments of the Treasury and Commerce, and the Chairman, Federal Reserve Board, explain fully to the House Subcommittee on Commerce, Consumer and Monetary Affairs, the policy reasons for aggregating information on

- the financial holdings and transactions of individual OPEC countries in the United States and
- deposits and loans of individual OPEC countries in domestic and foreign branches of U.S. banks.

If the policy reasons for either of these aggregations reflect concerns that disaggregation would reveal the specific holdings of a foreign central bank or monetary authority, the data which support these concerns should be made available under appropriate safeguards to the subcommittee and to us.

In addition to providing this general justification, we recommend that Treasury and the Federal Reserve give particular explanations for failing to publish, by country, data on OPEC deposits in and loans from U.S. banks, both here and abroad. The Federal Government now reports this information for all other countries. If country data were published, particular OPEC accounts in individual U.S. banks need not be identified.

We also recommend that the Subcommittee on Commerce, Consumer and Monetary Affairs, House Committee on Government Operations, should require the Departments of the Treasury and Commerce, and the Federal Reserve Board, to separately justify the aggregations of the financial holdings and transactions and of the bank deposits and loans of individual OPEC countries. The subcommittee should (1) analyze the validity of these justifications, with particular attention to the degree of sensitivity of OPEC statistics; (2) determine the appropriate disclosure of these data, and if necessary; (3) require such disclosure by the agencies.

BEA surveys on international transactions in services request country identifications, although some surveys depend on voluntary responses. In order to have the Commerce Department report U.S. exports of services to OPEC countries, surveys would have to be mandatory. Unless changes are made in statistical disclosure and aggregation policies as discussed above, however, BEA may decide not to publish OPEC totals by country in order to protect the confidentiality of reporters. We recommend that the Bureau of Economic Analysis review its reporting of imports and exports of services in order to include regular and detailed breakdowns of country data.

The executive branch has repeatedly refused to furnish OPEC financial data by country to us and the Congress. It has based its refusal on provisions of the Bretton Woods Act and the International Investment Survey Act of 1976, which limit access to confidential information gathered by Commerce and the Treasury. We believe that these statutes do not limit congressional access to such confidential data and that the Congress would have to indicate clearly that it is subject to these limitations. We recommend that the Congress consider establishing a mechanism to facilitate the sharing of this data under appropriate safeguards with the executive branch. If such an accommodation is not possible, the Congress should remove any doubt that the statutes do not limit congressional access to such information.

AGENCY COMMENTS

We sent a draft of this report to the Departments of Commerce, State, and the Treasury; the Office of the Comptroller of the Currency; the Federal Reserve Board; and the Federal Reserve Bank of New York. The Department of State had no formal comments on the report. Suggested

changes in the text from the Comptroller of the Currency have been incorporated where appropriate. Comments from the other agencies are included as appendices II, III, IV, and V.

Treasury Department comments

The Department of the Treasury explained its view that financial statistics for OPEC nations are treated in a manner consistent with the treatment received by all other countries, and data are suppressed solely for statistical reasons in order to avoid revealing the holdings of individual foreign investors, including individual foreign central banks. The Department also provided a legal memorandum supporting the view that the International Investment Survey Act of 1976 and other acts prevent the disclosure of certain data to us and the Congress. (See Appendix II.) The Department disagreed, therefore, with our recommendation that OPEC assets and liabilities in U.S. banks be reported by country. Treasury also disagreed with our analysis of why these and other statistics are suppressed.

Treasury's position is based in large part upon careful analysis of data which we have not been permitted to examine. This denial of access unfortunately has turned what otherwise would have been a creditable assertion of fact into an unsupported declaration.

In carrying out our audit activities, GAO frequently receives and safeguards confidential data from executive agencies. To have given us access to OPEC data would not have violated the confidentiality of these governments or official monetary authorities any more than routine examinations of U.S. banks violate the privacy or confidentiality of individual depositors.

On the larger issue of openness in the international financial system, in an increasingly interdependent world, we believe that the publication of the external financial position of governments serves an important public interest and purpose. We do not, of course, advocate revealing the specific assets of individuals or of individual official monetary institutions in specific banks. The publication of OPEC data by country would not reveal the specific assets or liabilities of their monetary institutions unless the proportions of these assets to the country total were widely and accurately known or simultaneously published.

The phrase "foreign official institutions" as used in Assistant Treasury Secretary Bergsten's letter may be ambiguous when applied to Communist countries. Subsequent Treasury explanations have indicated that it comprises only foreign treasuries, central banks, or other monetary authorities. The data published for Communist countries, though not disclosing the financial position of specific monetary authorities, in all probability, substantially reveal the assets in the United States controlled by these governments.

We recognize that there may be exceptions to the general desirability of publishing international financial data. In this case, the onus for justifying this exception must rest heavily on the agency wishing to suppress information.

Commerce Department comments

The Department of Commerce limited its comments to our recommendation which applied to data on OPEC services reported by the Bureau of Economic Analysis.

According to Commerce, BEA bases its estimates of international transactions in services on data made available by other Federal agencies as well as its own surveys. BEA believes that it has the data to compile separate service estimates for individual countries. However, any more detailed presentation would, in BEA's opinion, be time-consuming and require additional staff. In the case of "the likely small dollar amounts for individual OPEC members," such costs, according to BEA, would not seem justified. BEA is willing to update and publish tables on selected U.S. transactions with OPEC members as a group, but believes that our recommendation that service transactions with individual OPEC members be compiled regularly is impractical and undesirable.

While we recognize that information on international transactions in services is published periodically in BEA's Survey of Current Business, we still believe that such aggregated and intermittent data do not provide a ready basis for Federal monitoring or analysis nor meet the legitimate needs of the Congress. We maintain that BEA should review its reporting of imports and exports of services in order to include more detailed data. In the military sector, for example, BEA reports Department of Defense data on goods and services. This means that

military hardware sales are not separated from service functions, such as training, and construction assistance. This type of reporting distorts the extent of actual activity in U.S.-OPEC service transactions.

BEA now claims that its survey of foreign personal remittances which does not request information on specific OPEC countries is recorded under unilateral transfers in the U.S. balance of payments rather than services. Thus, data on services is requested by each foreign country for whom a transaction is done. In the case of the OPEC countries, BEA then aggregates the information to protect the confidentiality of few reporters.

Federal Reserve comments

AGC 00404
DLG 01787

Both the Federal Reserve Board and the Federal Reserve Bank of New York expressed concern that publication of total assets and liabilities by individual OPEC countries in U.S. banks, as we recommend, would disrupt relations with these countries. They believe that authorities particularly sensitive to financial disclosure would redirect their placements to escape from the reporting system. Publication could lead to the withdrawal of certain OPEC funds from U.S. banks and their branches, according to these officials.

During the course of our review, we spoke with other members of the banking and regulatory community who do not believe that such withdrawals are likely to occur if country totals for OPEC assets and liabilities in the United States are released. The Federal Reserve itself believes that, along with the Treasury, it could handle any surge or change in financial flows.

We continue to maintain that bank deposit and loan information should be made public for all countries including individual OPEC members. This information is already reported in great detail for countries as small as Monaco. Aggregating information on the deposits and loans of OPEC countries in U.S. banks affords these countries special treatment. We recommend that the Treasury and the Federal Reserve Board give particular justification to the subcommittee on why this information is withheld.

BENJAMIN S. ROSENTHAL, N.Y., CHAIRMAN
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NINETY-FIFTH CONGRESS
Congress of the United States
House of Representatives
 COMMERCE, CONSUMER, AND MONETARY AFFAIRS
 SUBCOMMITTEE

OF THE
 COMMITTEE ON GOVERNMENT OPERATIONS
 RAYBURN HOUSE OFFICE BUILDING, ROOM B-377
 WASHINGTON, D.C. 20515

January 3, 1979

GARRY BROWN, MICH.
 CLARENCE J. BROWN, OHIO
 TOM CORCORAN, ILL.

(202) 225-4407

Hon. Elmer B. Staats
 Comptroller General
 of the United States
 General Accounting Office
 441 G Street, N.W.
 Washington, D. C. 20548

Dear Mr. Comptroller General:

The Commerce, Consumer and Monetary Affairs Subcommittee of the Committee on Government Operations has been conducting an investigation into the operations and activities of Federal agencies, under the International Investment Survey Act of 1976 and other laws, in monitoring and reporting on foreign investment in the United States. On September 19, 20, and 21, 1978, hearings were held on Federal agency data collection efforts in this area, and further hearings will be held during 1979.

Based on contacts subcommittee counsel has had with Mr. Bill Mullen, Chief, International Energy Branch, Energy and Minerals Division, GAO, and others within that branch, I understand that GAO is undertaking a broad examination of OPEC investments in the United States, with an emphasis on energy.

Because the Energy and Minerals Division will be examining areas of interest to and within the oversight jurisdiction of the subcommittee, I am requesting that GAO expand the scope of its planned examination and issue a separate report to the subcommittee covering the following:

Data Collection and Reporting

1. Do any of the aggregate figures, issued by either the Treasury or the Commerce Departments, showing foreign portfolio and foreign direct investments provide breakdowns as to the amounts of (1) OPEC investments and (2) investments of individual OPEC members, including specifically Saudi Arabia, Kuwait and United Arab Emirates? If not, what are the reasons for this omission?

Hon. Elmer B. Staats

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January 3, 1979

2. While it is estimated that all foreigners, including members of OPEC, had deposited \$141.59 billion in foreign affiliates or branches of U.S. banks, as of the end of 1976, this figure appears to be nothing more than a guess, because of the lack of specific data on these deposits. Are OPEC and other foreign deposits in foreign branches of U.S. banks reported or available to any agency of the Federal Government? If not, why not? Is there authority to monitor these deposits either within the Federal banking agencies or the Treasury Department? And how could such deposits be monitored, i.e., which agency has a system which most logically would be best for this purpose?
3. In recent years there have been major discrepancies between the recorded surpluses of the Arab oil producing countries and the recorded deficits by the oil-consuming nations, averaging around \$30 billion per year. It appears that the international financial data collection systems used for balance of payment data are therefore inadequate. How, therefore, could Federal agencies (including OECD) improve their data collection methods so that the discrepancies could be avoided and so that it would be possible to know where this additional Arab money was being invested, if it is not being spent?

Treasury Department Operations

4. The Treasury Department has had an "add-on" policy enabling the Saudi Arabians and possibly other Arab OPEC investors to purchase U.S. Government securities (primarily if not exclusively Treasury instruments) away from the open market. (a) Describe how this "add-on" policy works including the procedures used and the nations and/or types of investors to whom it is available. (b) What were the reasons for creating this system? (c) What is Treasury's legal authority for its establishment? (d) What has been the dollar total of securities purchased in this manner for the most recent 5 years for which data is available? (e) What were the interest rates for government securities purchased by Arab investors off the market under "add on" and how did these compare to the interest rates for the government securities purchased in the open market at around the same time? (Please provide as many comparisons as possible since 1974.) Did this "add-on" system result in higher interest rates for government securities in the open market since there was less competition there?
5. Fears have been expressed about the ability of Arab OPEC investors to liquidate quickly their U.S. Government securities, possibly for political purposes. (a) How quickly, realistically, could they sell off their securities? (b) What would the consequences be both (1) to the Treasury Department's attempt to sell such securities at the time and (2) to the prices for such securities in the open market? Would there be any other consequences? (c) Is there authority to make government

Hon. Elmer B. Staats

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January 3, 1979

securities nonmarketable before specific dates? Has this been done for securities purchased by Arab investors? (d) In case of an attempted liquidation, what authority does the Federal Government have (1) to freeze repatriation of funds obtained from the sales of such securities (either under the Trading with the Enemy Act or other statutes) or (2) to prevent the resale of these securities by making them nonmarketable on an emergency basis?

Operations of the Federal Banking Agencies

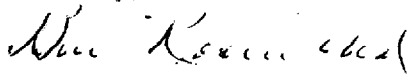
6. A similar fear about possible very large Arab OPEC withdrawals of funds from American banks (both foreign and domestic branches) has been expressed. (a) What would be the consequences to the American banking community if such a withdrawal occurred? (b) Data showing the extent of OPEC, including Arab, investment in domestic branches of American banks is not released publicly; is there any reason why it should not be made public given the financial risks surrounding Arab investments in those banks? (What are the pros and cons?) (c) Could these deposits, e.g., possibly deposits over a certain percentage of a bank's reserves held by the citizens of a certain country, be regulated so that they could (1) be withdrawn only on a term basis, (2) not be withdrawn all at once, or (3) even be frozen for a short duration of time. In other words, is there authority for these alternatives and would it be feasible to implement them?

Commerce Department Operations

7. (a) Does the balance of payments or any other data released by the Commerce Department show the aggregate amounts of U.S. exports to OPEC countries with a breakdown on a country-by-country basis? (b) If not, what are the problems with the release of such data? (c) If such data does not exist, what additional legislation and/or data gathering systems are needed?

If there are any questions about the above, please contact Stephen R. McSpadden, subcommittee counsel. Also, I would request that the GAO personnel involved brief Mr. McSpadden during the course of their examination.

Sincerely,



Benjamin S. Rosenthal
Chairman

BSR:mt



ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

APR 19 1979

Dear Mr. Voss:

On behalf of the Treasury Department, I am happy to provide you our comments on the GAO's draft report entitled No Immediate Danger to the United States from OPEC Financial Holdings. I am also enclosing some of the additional data you have requested.

The draft report evidences a great deal of painstaking effort and we hope you will find our comments of assistance in preparing the final report on this highly complex and technical subject.

The report correctly notes the Treasury Department's view that The International Investment Survey Act of 1976, and the Bretton Woods Agreements Act, prohibit disclosure to the GAO or the Congress of OPEC country data collected pursuant to these Acts, to the extent that disclosure would disclose the affairs of any person--either an individual reporting institution or its customer. I am enclosing a memorandum outlining the legal considerations in greater detail.

The Treasury Department believes that the report is misleading in its characterization of other elements of Treasury's position regarding disclosure of individual country data. The Department does not agree with the GAO's assessment of our position.

The Treasury Department, in this and previous Administrations, has given confidential treatment to data on the holdings of individual foreign investors, including individual foreign central banks. Over the years, some of the OPEC Governments which have expressed concern over possible disclosure of the details of their investments in the United States have been told of this treatment. This treatment is not applied preferentially to any one group of foreign investors or foreign countries. It is applied uniformly to all foreign investors, including foreign governments, except for the Government of Canada (which has indicated it has no objection to such disclosure).

[See GAO note 1, p. 39.]

- 2 -

In order to avoid disclosing the holdings of any individual foreign central bank, the Treasury Department typically aggregates such data with data on the assets of other banks in the respective country and publishes these aggregate numbers in the Treasury Bulletin. This statistical approach is adequate to avoid disclosure of an individual investor's position for most countries because the holdings of central banks generally do not constitute the bulk of the holdings of residents in the particular country. The draft GAO report disputes this statement. It contends that the publication of statistics covering individual European countries is proof that the holdings of some non-OPEC individual investors (central banks in Eastern Europe) are disclosed. The facts are, however, that in no case do the holdings of foreign official institutions of any single Eastern Europe country exceed 70% of the total holdings of all residents of those countries. Indeed, with one exception, the holdings of the foreign official institutions in each of these countries account for less than 40% of that country's total. Thus publication of the holdings of all residents of individual Eastern European countries does not disclose central bank holdings and is consistent with the standard Treasury policy on disclosure.

In contrast, holdings by foreign official institutions of the principal Middle East oil producing countries generally account for 90% or more of the total holdings of each of these countries. Consequently, publication of data by country would effectively disclose the holdings of the official institutions in each country. For this reason a change in present practice would discriminate against the oil producing countries.

It should be emphasized that the change in the method of presentation of the statistics in 1974 did not represent a change in our disclosure policies, but instead reflected both a shift in the distribution of the holders in these Mideast countries and a change in the amount of data available. Before 1974 the data collected by the Treasury Department on holdings of individual OPEC countries were partial data and were collected irregularly. The data were available only for the short term liabilities of U.S. banks to these individual countries. At the end of 1973, holdings in U.S. banks by official institutions of the major Mideast oil producing countries did not exceed 65% of the holdings in U.S. banks of all residents of each of these countries. In all but one country the proportion held by official institutions did not exceed 35%.

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In 1974, the Treasury increased the coverage of its reporting system to capture on a regular basis all financial data on the individual Middle East oil producing countries. As a result of the substantial increase in oil revenues of these countries in 1974, the assets held in the U.S. by their central banks also increased significantly, in absolute and relative terms. Thus, at the end of 1974, the proportion of the total assets of each of these countries held by their respective official institutions increased to over 80%, and in all but one country, to over 90%. For this reason it was necessary to change the manner in which data for these countries were released to avoid disclosure of the financial holdings of these individual official institutions.

With respect to balance of payments information, the U.S. Government does publish data on bilateral balance of payments transactions with individual foreign countries (for Canada, Japan and U.K., quarterly, and for Belgium-Luxembourg, France, Germany, Italy, Netherlands, Mexico, Venezuela, Australia and South Africa, annually). However, the data on official banking and securities assets of those countries in the United States are, in all cases except Canada, combined with the banking and Treasury securities assets of commercial banks and other private residents of those countries, to avoid disclosure of their official holdings in the United States.

The Treasury Department takes issue with the report's assertions that other nations disclose data on assets of individual OPEC countries held in their countries. We are unaware of any major country which provides such information publicly. The report is in error in citing the United Kingdom as an example of a country which reports data on the assets of all OPEC countries individually. The Bank of England does not publish data on holdings of the individual Mideast oil exporting countries in the U.K.

The approach of the U.S. and other countries toward disclosure of data on the assets of individual investors reflects a long-standing acceptance of the principle that information on the details of the activity of individual investors should be treated confidentially. Most of the major surplus OPEC countries have made it clear that disclosure of their assets would be a serious breach of confidence and would require them to reassess their investment policies. Disclosure of such information by the United States would affect the willingness not only of OPEC countries to invest here, but also the willingness of other foreign governments and private foreign investors.

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With regard to the add-on facility, it should be emphasized that investments in any financial instrument in the U.S. by OPEC Governments--or other governments--are exempt from taxation by this country. Since purchases of U.S. Government securities through this facility are probably substitutes for investments in other U.S. financial instruments, the income from which would also not be subject to tax, we doubt that the add-on facility indirectly entails a loss of tax revenue, as suggested by the report.

We agree with much of the report's discussion on the effects of withdrawal of OPEC deposits from the U.S. and the view that seems to emerge that such action would create problems, but not of a catastrophic nature. We recommend rephrasing the introductory section on page 28 to avoid leaving any implication that in the event of withdrawal there would be a possibility of some sort of collapse of the U.S. financial system. We recognize, of course, that a sudden, massive attempt, whether by OPEC countries, by other foreigners, or by Americans, to convert into other currencies dollar assets held in the U.S. or abroad, could adversely affect the dollar exchange rate.

Finally, we do not understand the arguments in the report in favor of releasing information on OPEC deposits in individual banks. The analogy between the financial holdings of senior U.S. officials and investments by foreign governments is questionable at best. Further, the "openness" of the American banking system does not extend to the disclosure of the amount of funds held in individual accounts in U.S. banks. Such information is not in the public domain. Moreover, the logical extension of the argument that disclosure of OPEC deposits would provide the capability for independent analysis of the deposit exposure of U.S. banks could be disclosure of all transactions of U.S. banks with individual customers.


One function of bank examinations, of course, is the evaluation of any concentrations of banks on either side of the balance sheet and a move for public disclosure of individual transactions would in our view be clearly deleterious to our banking system, could infringe on basic rights to privacy, and would not enjoy broad public support.

[See GAO note 2, p. 39.]

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We appreciate the opportunity to comment on your report and would be grateful if you would incorporate our views in the final version.

Sincerely yours,



C. Fred Bergsten

Mr. Allen R. Voss
Director, General
Government Division
United States General
Accounting Office
Washington, D.C. 20548

Enclosures

GAO note 1: Title of report was changed after it was submitted to agency for comment.

GAO note 2: Page references in this appendix refer to the draft report and do not necessarily agree with the page numbers in this final report.

Disclosure of Information Concerning OPEC Investments in the United States

Information on OPEC Investments in the United States is collected and given confidential treatment pursuant to the International Investment Survey Act of 1976, 22 U.S.C. 3101 et. seq., (the "Survey Act"), and the Bretton Woods Agreements Act, 22 U.S.C. 286 et seq., (the "Bretton Woods Act").

These two Acts preclude Treasury from disclosing to Congress data obtained under their authority to the same extent that they preclude disclosure of such data to persons other than government agencies which are specifically authorized to obtain the data under the Acts. This conclusion is based on the fact that neither the Acts, nor their legislative histories, contain any indication that an exception to their confidentiality requirements, which are very stringent, was to be made for Congress. In statutes under which Congress has intended that it have access to information which is to be kept confidential according to the mandate of those statutes, Congress has explicitly indicated that intention and has placed certain restrictions on such access.

1. Survey Act

The general purpose of the Survey Act is to provide "clear and unambiguous authority for the President to collect information on international investment and to provide analyses of such information to the Congress."

Nothing in the Survey Act indicates that the reports prepared pursuant to the Survey Act and raw data from the reports will be used for purposes other than producing the statistics to be published pursuant to Subsection 4 (a) (4), of the Survey Act, or that the Executive Branch is required to provide these reports and raw data to Congress. The fact that in the Survey Act Congress explicitly required certain types of information be furnished to it and did not mention its access to data which it required be kept confidential indicates that it did not intend to receive the confidential data received from reporters under the Survey Act.

-2-

The Survey Act provides that information obtained from reporters (a) will be used only for analytical or statistical purposes within the United States Government and (b) may not be published or made available to any person in a manner that the person who furnished the information can be specifically identified. "Person" is defined in Section 2 (3) of the Survey Act to include "... any government (including a foreign government, the United States Government, a State or local government, and any agency, corporation, financial institution, or other entity or instrumentality thereof, including a government-sponsored agency)." Thus, Congress is a "person" subject to the above-described limitations on disclosure of information.

Within the United States Government, access to the information is strictly limited to officials or employees designated to perform functions under the Survey Act. However, the President may authorize the exchange of such information between agencies or officials designated by him. Since the Congress is not an "agency" and since we believe that the "officials" who may be designated to receive information refers to officials of agencies, it is apparent that the President could not designate Congress, its members and its staff as an "agency" or "officials" with whom the information could be exchanged. In any event, no such designation has been made by the Secretary of Commerce, to whom the responsibility for designation has been delegated.

A person who reveals data that would identify a reporter to any person other than a person designated to perform functions under the Survey Act is subject to a criminal fine of up to \$10,000. Given this strong expression of congressional concern about maintaining the confidentiality of the information obtained from reporters, it would be anomalous to find implicit in the Survey Act a congressional intent to make such information available to the Congress without any limitations.

Moreover, the Survey Act provides that "no person" can compel the submission or disclosure of any report or constituent part thereof, without prior written consent of the person who maintained or furnished such report and without the prior written consent of the customer, where the person who maintained or furnished such report in-

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cluded information identifiable as being derived from the records of such customer. Thus, GAO or the Congress would appear to be "persons" within the meaning of the Survey Act and would lack authority to compel disclosure of data except on the condition that the data not identify the reporter or customer of the reporter.

Finally, in Section 7(c) of the Survey Act, Congress stated, "Nothing in this Act is intended to restrain or deter foreign investment in the United States or United States investment abroad." The very strict confidentiality provisions of the Survey Act are in furtherance of this statement of intent. Certain OPEC countries which invest in the United States almost exclusively through their official institutions would be deterred from investing in the United States were the details of their investments in the United States to be disseminated to persons other than those expressly mentioned in the Survey Act. Officials of these governments have stated on a number of occasions to high level Treasury officials the great importance they attach to having the details of their government's investments in the United States remain confidential. From the perspective of these governments, disclosure of the information to the Congress or the GAO could appear to be inconsistent with the requirement of confidentiality. Thus, it could result in a withdrawal of investments from the United States, causing a disruption in our relations with the OPEC countries and thwarting U.S. policy to encourage productive investment of petrodollars. Such a result would be directly contrary to the express intention of Congress that nothing in the Survey Act is intended to restrain or deter foreign investment in the United States.

2. Bretton Woods Act

Section 8(a) of the Bretton Woods Act 22 U.S.C. 286f(a) provides that the President may require any person to furnish such data as the President may determine to be essential to comply with a request by the International Monetary Fund (IMF). Section 8 of the Bretton Woods Act expressly authorizes disclosure of the information collected only to the IMF. However, information acquired by the President under the section may not even be furnished to the IMF in a degree of detail that would disclose the affairs of any person --either

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the reporter or its customers.* The purpose of the prohibition protecting the affairs of particular persons from disclosure when the data is used for its intended purpose of reporting to the IMF would be frustrated if the same data could be released to all entities other than the IMF in a manner that would disclose the affairs of the persons whom they pertained.

Section 8(a) speaks in terms of limiting the amount of detail in the release of information only in the context of releases to the IMF, because the data collected pursuant to that section was expected to be released only to the IMF. Since it was not contemplated that ~~that~~ section would authorize the release of this data to any other entity, the issue of the extent of detail in releases to other entities would not arise.

* Treasury currently furnishes the IMF with aggregate data similar to that published in the Treasury Bulletin. However, in order to obtain this aggregate data, Treasury must collect disaggregated data from individual reporters. This raw data, together with certain country totals produced from this raw data, could reveal the affairs of individual reporters or their customers and for this reason is not published in the Treasury Bulletin or furnished to the IMF.



UNITED STATES DEPARTMENT OF COMMERCE
The Assistant Secretary for Administration
Washington, D.C. 20230

23 APR 1979

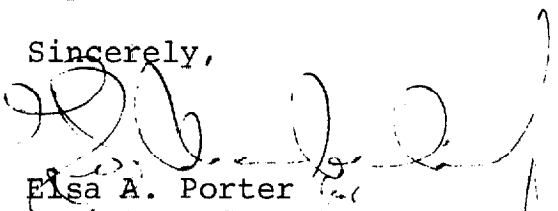
Mr. Henry Eschwege
Director, Community and Economic
Development Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Eschwege:

This is in reply to your letter of April 3, 1979, requesting comments on the draft report entitled "No Immediate Danger To The United States from OPEC Financial Holdings."

We have reviewed the enclosed comments of the Chief Economist and believe they are responsive to the matters discussed in the report.

Sincerely,



Elsa A. Porter
Assistant Secretary
for Administration

Enclosure



UNITED STATES DEPARTMENT OF COMMERCE
Chief Economist for the Department of Commerce
Washington, D.C. 20230

April 12, 1979

Mr. Henry Eschwege
Director
Community and Economic
Development Division
United States General Accounting Office
Washington, D. C. 20548

Dear Mr. Eschwege:

Secretary Kreps has asked me to review and comment on your draft report, "No Immediate Danger to the United States from OPEC Financial Holdings," as requested in your letter of April 3. Since the major part of the report concerns the Treasury Department and the Federal Reserve Board, I will restrict my comments to points relating to the work of the Bureau of Economic Analysis (BEA).

First, I would like to clear up some possible misunderstanding concerning the compilation of U.S. balance of payments statistics, particularly on international transactions in services. For some service items, BEA bases its estimates on data made available by other U.S. Government agencies. These items consist of military transactions, miscellaneous U.S. Government receipts from and payments to foreigners, and payments and receipts of interest on foreign and U.S. holdings of securities. Data necessary for the estimation of other service items are collected directly by BEA by means of periodic reports; some of these are filed by reporters on a voluntary basis and others are mandatory. In all of the reporting forms, respondents are instructed to identify the foreign country for which the transaction is reported; there is no specific country list attached.

The reporting form that evidently was the object of your recommendation (p.5, DIGEST) that BEA "review its reporting forms for imports and exports of services to determine the feasibility of including more detailed breakdowns of country data," is BE-579, "Foreign Personal Remittances." Data are requested for specific countries on this form, because experience has shown that these countries account for the major portion of the global total. However, transactions of this type are not included in services but rather are included in unilateral transfers in the balance of payments. The value of these transfers appears to be negligible for OPEC members.

Thus, apart from this non-service balance of payments account referred to in the GAO report, BEA has the data to compile separate service estimates for individual countries. However, such disaggregation for OPEC members is not advisable for a number of reasons. First, to present data obtained

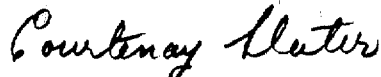
[See GAO notes 1 and 2, p. 46.]

from the survey forms in more geographic detail than that used in the regular quarterly presentations of U.S. international transactions would be time-consuming and require an expanded staff. For many service accounts, the likely small dollar amounts for individual OPEC members certainly would not seem to justify staff expansion. Second, periodic research articles present estimates for some transactions; for example, an article on military transactions in the May 1978 issue of BEA's Survey of Current Business showed annual data for the larger OPEC members. A table presenting data on U.S. contractors' receipts from individual OPEC members was included in the April 1978 Survey article on U.S. international transactions with members of OPEC in the 1972-77 period. Country details relating to direct investment activities are presented annually in the Survey, generally in the August issue. Third, for some services transactions, the statistical validity of country estimates would be open to question, due to a narrow sample base, abrupt changes in the number of reporters, and time lags in receiving completed survey forms.

Finally, BEA cannot ignore confidentiality requirements in the case of too few reporters and/or a concentration of transactions with one or two reporters. Such confidentiality requirements are spelled out in the International Investment Survey Act of 1976 (22 USC 3104); we are of the opinion that the Act was intended to apply to Congress (this was questioned on page 3, DIGEST).

In summary, it appears that the GAO's recommendation that BEA compile data on services transactions with individual OPEC members on a regular basis is neither practical nor desirable. What BEA can and will do is to update and publish the table on selected U.S. transactions with OPEC members as a group, that first appeared in the June 1976 Survey, and subsequently was expanded and presented in the context of a special article in the April 1978 Survey. We plan to publish an updated table in the June 1979 Survey; in addition, we will continue to present relevant country data, to the extent feasible, in our periodic research articles published in the Survey.

Sincerely,



Courtenay M. Slater
Chief Economist for the
Department of Commerce

- GAO note 1: Title of report was changed after it was submitted to agency for comment.
- GAO note 2: Page references in this appendix refer to the draft report and do not necessarily agree with the page numbers in this final report.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

G. WILLIAM MILLER
CHAIRMAN

April 12, 1979

Mr. Allen R. Voss
Director
General Government Division
United States General Accounting Office
Washington, D. C. 20548

Dear Mr. Voss:

This is in response to your letter of April 4 transmitting the GAO draft reply on OPEC financial holdings. The Board is concerned that delicate relationships with OPEC countries could be disrupted by implementing the recommendations contained in the report which suggest that country totals for deposits in U.S. banks by OPEC countries should be published.

Publication of totals for individual countries would reveal information on individual accounts where the total for the country consisted almost entirely of the holdings of a government institution. This is the case for holdings of some OPEC countries in U.S. banks. Release of this information would also be contrary to the longstanding Federal Reserve policy of preserving the confidentiality of individual accounts. We believe that this policy is consistent with Congressional intent, as expressed in the International Investment Survey Act of 1976, that international investment information collected under that Act may not be published or made available if information about the party involved would be disclosed.

Therefore, it is our view that GAO's recommendation to the Board to publish country totals for deposits in U.S. banks should be withdrawn.

Thank you for the opportunity to comment.

Sincerely,

A handwritten signature in black ink, appearing to read "G. William Miller", written over a horizontal line.

FEDERAL RESERVE BANK OF NEW YORK

NEW YORK, N.Y. 10045

AREA CODE 212 791-6173

PAUL A. VOLCKER
PRESIDENT

April 13, 1979

Mr. Allen R. Voss
Director
United States General Accounting Office
General Government Division
Washington, D. C. 20548

Dear Mr. Voss:

We appreciate the opportunity you have given us to review the General Accounting Office's report on OPEC financial holdings. We agree with the general thrust of the report that such holdings do not themselves present a significant potential for affecting adversely the U.S. financial system or economy. Our financial institutions and markets have coped well with the massive international flows of funds that have developed in recent years in the wake of major increases in energy prices and other dislocations in the world economy. The Federal Reserve and Treasury working together have shown that they can deal effectively with major surges in financial flows, and we see no grounds for undue concern about our ability to handle future challenges of this sort.

I do not agree with the report's recommendation that country totals be published for deposits in U.S. banks by OPEC countries. Aside from legal and technical questions about disclosure, which are referred to in the report, we think there could be serious drawbacks to publication from a policy standpoint. Specifically, our concern is that it might very well lead certain countries where the deposit totals are dominated by a central authority especially sensitive to disclosure to redirect their placements so that they would no longer be captured by the reporting system. It is even possible that publication could itself touch off the withdrawal of certain OPEC funds from United States banks and branches. It is hard to see what interest, including that of disclosure, would be served in that event but there would be obvious drawbacks from the standpoint of U.S. financial markets and institutions, and perhaps repercussions on the dollar itself.

We also have made a number of technical comments for your consideration in the enclosed memorandum.

Sincerely yours,



Paul A. Volcker

Enclosure

OFFICE CORRESPONDENCE

DATE April 13, 1979TO Mr. VolckerSUBJECT Comments on GAO DraftFROM Peter D. Sternlight PDS

The following comments are made on the draft Appendix discussion prepared by the GAO staff on "Government Collection and Reporting of Data on OPEC Financial Holdings in the United States"--sent to you by Mr. Voss of GAO on April 4, 1979. The comments incorporate suggestions from the Foreign and Research areas of the Bank, as well as the Open Market Desk.

1. Appendix I, page 6, line 8. The breakdown "by type of currency" in the monthly reports referred to here is simply a dollar-nondollar distinction.

2. Appendix I, page 8, line 4. Our understanding is that while the Bank of England publishes United Kingdom claims separately by OPEC country, liabilities are aggregated for "oil exporting countries".

3. Appendix I, page 8, end of first full paragraph. The draft indicates that the GAO staff were assured by bankers and Government officials that informal contacts enable senior banking officials and the U. S. Government to keep abreast of major developments even where OPEC deposits were channeled indirectly through foreign branches of U. S. banks. This assertion seems too sweeping, however; informed contacts can indeed be helpful in retaining some knowledge about major flows of funds but information would probably not be nearly as good as if foreign deposits (OPEC or other) were placed directly with U. S. banks.

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4. Appendix II, page 10, Table Two. Heading should read "U. S. Banks' Liabilities to OPEC".

5. Appendix II, page 14, second paragraph. In the description of procedures for foreign central bank purchases of add-on Treasury securities, reference is made to the Federal Reserve serving as an intermediary and charging a fee or commission as part of its cost recovery operations. Actually, a fee is not charged in direct connection with add-on or out-right market purchases of Treasury issues by foreign central banks. However, foreign central banks are charged fees in connection with certain other investment services performed by the Federal Reserve Bank of New York, and these fees tend to offset costs of services provided to the foreign accounts.

6. Appendix II, page 17. The first full sentence states that the Federal Reserve, foreign governments, and individuals are allowed to roll over their securities on a non-competitive basis "at an average price as of noon on a given day". This is not quite accurate--rather the noncompetitive awards of a new issue are made at the average price set by competitive bids in the particular auction.

7. Appendix II, pages 18 and 19. The draft infers that the add-on procedure may cause lower securities prices and higher interest rates for the Treasury--apparently on the theory that the foreign central bank demand, if it came to the market competitively, would tend to push prices up and rates down. However, this overlooks the point that through the add-on procedure the Treasury has been able to sell more securities without pressing them on the competitive market--and this works

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in the direction of higher prices and lower interest rates than might have occurred otherwise. On balance, it seems likely that the interest rate effect of the add-on procedure is about neutral.

8. Appendix II, page 19, first full paragraph.

Reference is made to foregone U. S. tax revenues because of foreign ownership of U. S. Government securities. One might note that the exemption from taxation is conveyed by U. S. law, which recognizes a public purpose in exempting such income from taxation. It should be recognized that foreign governments have the option of holding dollar deposits and other assets abroad in Eurodollar banks, where they would also not incur any U. S. tax liabilities.

9. Appendix II, page 21, line 5. First word should apparently be "bid".

10. Appendix III, page 29, lines 6 and 7. The incomplete sentence on these lines seems to be an inadvertent repetition of part of the following sentence. In that following sentence, the word "demand" may be inappropriate, as some of these funds are time deposits.

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