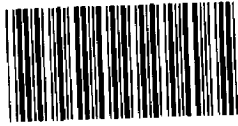


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UNITED STATES GENERAL ACCOUNTING OFFICE  
ENERGY AND MINERALS DIVISION

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9:30 AM, MONDAY, JULY 16, 1979

TESTIMONY OF  
J. DEXTER PEACH, DIRECTOR  
ENERGY AND MINERALS DIVISION  
ON [ OPEC FINANCIAL HOLDINGS IN THE UNITED STATES ]  
BEFORE THE  
SUBCOMMITTEE ON COMMERCE, CONSUMER  
AND MONETARY AFFAIRS

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*Peach*

Mr. Chairman, I welcome this opportunity to testify on OPEC financial holdings in the United States. The subject is an important one. We, like yourselves, have been concerned that these investments might give the OPEC nations a "money" weapon to accompany their near monopoly control of the supply of oil. On the other hand, these same investments may work to our benefit by giving OPEC nations a stake in our economic well being, providing needed investment capital for the United States, and providing additional strengths in our relations with the oil producing nations.

It is difficult to calculate precisely total OPEC investment because existing Federal data collection and reporting systems are limited and inconsistent. Therefore, any figure for total OPEC investment must be regarded as highly tentative. Our best estimate, which includes \$19.8 billion deposits in U.S. banks abroad, is about \$52.1 billion as of December 31, 1978. This \$52.1 billion can be further broken down as follows:

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direct investment	\$ .2 billion
portfolio investment in stocks and other equity	3.9 billion
non U.S. government debt instruments	3.6 billion
U.S. government securities	12.4 billion
deposits in U.S. banks here and abroad	32.0 billion

Recent increases in the price of OPEC oil will lead to larger OPEC surpluses and, it seems reasonable to assume, more investments in the United States.

Our recent report "Are OPEC Financial Holdings A Danger To U.S. Banks Or The Economy?" prepared at your request deals with OPEC monetary investments--holdings of dollars and dollar equivalents. In absolute terms, these investments are large. Nevertheless, OPEC holdings represent small portions of the 1978 U.S. public debt which totals \$789.2 billion or of total U.S. bank deposits which total \$1,111.6 billion. Some Western European countries and Japan are much larger holders of bank deposits and U.S. securities.

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, such as "African oil exporting countries," "Asian oil exporting countries," "Other

Africa," "Other Asia," or "Middle East." We have not been able to obtain data on these individual countries to include as part of our analysis for the subcommittee.

The figures I have cited may not accurately reflect the extent of OPEC financial holdings, however, because indirect transactions which occur through the Eurodollar market, third-country intermediaries and third parties would not necessarily be picked up by Government monitoring systems. There are also discrepancies between Government estimates of OPEC holdings. For example, the Bureau of Economic Analysis (BEA) valued OPEC direct investments as greater than \$157 million in 1978. The Office of Foreign Investment in the United States, also a part of the Commerce Department, estimates that OPEC direct investment since 1974 has totalled \$686.9 million. This total represents the announced amounts of initial OPEC investments and would include capital borrowed in the United States. The Bureau of Economic Analysis figures represent the depreciated value of investments over time. I have attached to my prepared testimony a list of OPEC direct investments which we identified through public sources.

In the letter requesting our testimony, you specifically inquired about OPEC purchases of \$12.4 billion in U.S. Government securities. This figure given to us by the Department of the Treasury includes all OPEC holdings of U.S. debt instruments which are part of the public debt; that is, all securities

issued under the Second Liberty Bond Act (31 U.S.C. 757b), as amended. It includes U.S. Treasury bills, notes and bonds as well as market-based specials sold to foreign governments and E bonds sold to individuals. In the past a number of U.S. Government agencies issued debt securities which are not included as part of this public debt. These agencies included the Defense Department (family housing and homeowners' assistance), Federal Housing Administration, Government National Mortgage Association, Export-Import Bank, Federal Home Loan Bank Board, Postal Service, and Tennessee Valley Authority. These securities are considered part of the Federal debt. These agencies now borrow money through the Federal Financing Bank.

Non-Government agencies also issue interest-bearing securities. These include Banks for cooperatives, Federal home loan banks, Federal intermediate credit banks, Federal land banks, the Federal National Mortgage Association and the District of Columbia Stadium Fund. The Government National Mortgage Association also sells mortgage-backed bonds to the public. Of these, the three largest are Federal home loan banks, Federal National Mortgage Association and Government National Mortgage Association. They regularly sell large amounts of debt instruments through dealers and explained to us that they have no way of knowing who owns their securities. The Federal National Mortgage Association, however, indicated that it had sold a bloc of securities through the Federal

Reserve Bank of New York which it understands was purchased for the account of the Saudi Arabian Monetary Authority. The Treasury reports transactions in non-Government agency bonds in the Treasury Bulletin under net foreign transactions in long-term domestic bonds.

You asked also that I address the question of the implications of the widespread availability of financial intermediaries such as nominee or custody accounts. They are certainly used by OPEC investors, but I am unable to quantify their role because U.S. regulations do not require that the actual beneficial owners be identified in all cases. The use of intermediaries probably leads to some underestimation of OPEC holdings.

We are currently examining the adequacy of Federal data collection on OPEC direct and portfolio investments. On a preliminary basis we believe that data collection for both forms of investment is incomplete. Direct investment may be easily hidden through the use of financial intermediaries. Existing U.S. regulations require that the foreign beneficial owners of over 5 percent of certain stocks file with agencies of the U.S. Government. This puts the reporting responsibility on the actual stockholder rather than the intermediary or institution making the investment. In the case of foreign owners or intermediaries, these regulations are difficult to enforce. The Treasury Department does not require that financial firms report foreign portfolio transactions by sector or industry

in which the investment was made. Apart from the periodic benchmark surveys undertaken by Treasury, the government has no record of how much portfolio investment in a U.S. sector or industry is being held by OPEC or other foreign investors.

Nevertheless, despite these deficiencies in monitoring, our investigations have detected nothing sinister in OPEC investment policies. In fact, most public and private authorities agree that these investors have acted in a prudent and responsible manner.

Let me briefly summarize the major findings of our report:

First, although data on individual OPEC countries are not always reported, we found that the collection systems for U.S. banking and trade data are adequate. These statistics are collected by the Treasury, Federal Reserve Board, and Office of Comptroller of the Currency for balance of payments and bank regulation purposes, rather than to monitor foreign investment.

Data on the import and export of services is not so complete. The Commerce Department depends on surveys with voluntary responses or on information collected by other agencies for its service data. The Bureau of Economic Analysis does not publish the value of service exports to OPEC countries by country, nor does BEA separate services from goods when reporting military transactions.

Second, we discussed foreign acquisition of U.S. Government securities. The Treasury Department's "add on" policy, which enables foreign official financial institutions to purchase these securities directly without entering the regular Treasury auctions, no longer favors OPEC countries. Although this system was first offered to Saudi Arabia, it is now available to all governments and central banks. The Treasury also offers foreign governments and official institutions certain nonmarketable securities called "market-based specials". Treasury and Federal Reserve officials informed us that OPEC countries have not purchased any of these securities.

A third major finding of our report deals with the possible impact of the liquidation by OPEC countries of their deposits in U.S. banks and their holdings of U.S. Government securities. In our view rapid liquidation would disrupt U.S. financial markets only temporarily. These markets and the structure of the banking system would be adequate to absorb this impact. While OPEC surpluses may increase significantly in the immediate future, the amounts which appear likely to be invested in the United States would not lead us to change our fundamental conclusions. In any case the International Emergency Economic Powers Act (Public Law 95-223) gives the President wide-ranging authority to deal with a financial emergency.

In contrast, the long-term implications of OPEC's severing its financial connections with the United States are likely to be adverse. American bankers feel they would lose a customer relationship with important clients and fear the loss of market share. Although U.S. banks could and would reacquire lost deposits through borrowing from intermediaries, they might incur increased costs leading to lower bank profits.

Fourth, you expressed particular interest in our finding that "policy" rather than statistical or legal reasons lay behind the publication of OPEC statistics in aggregate form, rather than by country. The effect of this aggregation is to suppress important Middle East country data. We were led to this conclusion, as we state in our report, by several factors:

--The coincidence of this form of reporting with the OPEC oil price rises and Arab oil embargo; prior to 1974, some statistics for OPEC were published individually by country.

--Statements by former Treasury officials, including former Secretary Simon, that an understanding to treat their investments confidentially was reached with Middle East governments to encourage or facilitate OPEC investment here, and

--The fact that the statistical treatment of OPEC nations is unique and is not consistent with our treatment of other nations. The material on this subject which you provided supports our view.



It may well be that no specific policy paper exists stating the reasons for special treatment of the Middle Eastern oil-producing nations. In this sense Treasury officials may be able to say that the treatment does not reflect policy. Instead the current handling of OPEC statistics may have evolved in an ad hoc fashion because various officials felt that we need either OPEC investment or the good will of the OPEC nations, and that suppression of data was a small price to pay. In our view special treatment of OPEC nations is an important issue. U.S. policy toward it should be clearly articulated and the product of consideration by responsible parties in both the executive and the Congress.

The major recommendations in our report focus on the need to justify the current method of reporting OPEC data. We strongly hold that the onus of justifying this form of reporting rests with the responsible executive branch agencies. We support the steps that you and the members of this subcommittee have taken to press the Department of the Treasury and other agencies to explain their rationale for reporting data for certain OPEC countries only in aggregate.

The justification for not publishing OPEC deposits and loans in U.S. banks by country must be particularly strong and should be examined separately and in detail. We believe that there is no statistical or legal basis for not reporting total figures for all OPEC countries' assets and liabilities by country. As you know, deposits and loans in domestic

and foreign branches of U.S. banks are published for all other countries in Federal Reserve releases and the Treasury Bulletin. These data are themselves already aggregates of public and private holdings. Among major countries of the world, only the data for certain OPEC countries are reported in aggregate form. Treasury asserts that transactions of official monetary institutions make up very large proportions of these statistics for the oil exporting countries. Yet, deposits and loans for Communist bloc countries are regularly published. In these countries, as well as some OPEC countries, the government is the principal if not the only investor. These publications raise doubt about the Government's position that to protect the identify of individual official institutions OPEC country data must be withheld. If, as we requested, the Treasury Department had provided us access to OPEC country data under appropriate safeguards, this issue might have been resolved.

However, actions to identify individual OPEC accounts with particular banks may violate investor privacy and lead to withdrawals from U.S. banks. Assets in and liabilities to individual U.S. banks need not be published.

Your hearings and our investigations have raised important legal issues concerning access to information both for Congress and for GAO. You asked that we comment on the report's conclusion that congressional access to confidential OPEC information is not limited by any statute. This is an important

legal issue that could affect the way in which Congress carries out its legislative responsibilities.

The executive branch agencies repeatedly refused to provide our staff with confidential 1/ OPEC information by country. They cited the provisions of two statutes-- the Bretton Woods Agreement Act (22 U.S.C. 286 et seq.) and the International Investment Survey Act of 1976 (22 U.S.C. 3101 et seq.)--that bar such disclosure. Both statutes authorize executive agencies to obtain confidential information from private and non-U.S. Government sources. Under the Bretton Woods Act, information is obtained for the International Monetary Fund and under the International Investment Survey Act, it is used to prepare reports to Congress on the levels of foreign investment in the United States.

These statutes generally restrict access to confidential information. Criminal penalties have been set for unauthorized disclosures. These provisions are similar to those in other laws that limit access to confidential information of all kinds. A 1975 Congressional Research Study indicated that about 100 statutes contain similar restrictions. In addition, many other laws restrict disclosure of confidential business information and trade secrets.

1/ The term confidential as used here does not refer to any classified material but to material which has been gathered on a confidential basis.

In our review of the Bretton Woods and International Investment Survey Acts, we found nothing to indicate that Congress intended itself to be covered by such restrictions. We have concluded that absent a clear statement of intention, these statutes could not limit congressional access to the confidential OPEC information. We believe that Congress has oversight and investigative responsibilities that are important to the Nation's constitutional system that cannot be surrendered without "clear and unmistakable evidence of the intent to part with it." (Rochester Railway Co. v. City of Rochester, 205 US 236, 248 (1907))

This issue faced another House subcommittee several years ago. In 1975, the Subcommittee on Oversight and Investigations sought information from the Secretary of Commerce concerning private U.S. companies involvement in the Arab boycott of

Israel. The Secretary refused to furnish the information *Lasbeen*  
*restricted* on the ground that *legislation* Section 7 (c) of the Export Administration Act barred the disclosure of confidential information unless

the head of the appropriate executive agency or department determined that the withholding of the information is contrary

to the national interest. The Attorney General issued an opinion supporting the Secretary's refusal to disclose the information. He argued that Congress was covered by this statutory restriction on disclosure. The subcommittee disputed this contention, adopting a position similar to ours.

We have reviewed a Congressional Research Service memorandum, dated July 19, 1978, which you forwarded to us. In general, we support its conclusions that restrictions meant to prevent public disclosure of information are not, in the absence of explicit provision otherwise, applicable to the Congress. In addition to the arguments based on the interpretation of the two statutes or their legislative history, we would emphasize the argument that Congress must explicitly waive its right to the confidential information because of its constitutional power to obtain information "pursuant to legislative and investigative functions." (CRS memorandum, p. 10)

As discussed in the CRS memorandum, after the Morton controversy Congress specifically amended the Export Administration Act to provide that Congress would have access to the confidential information. The House Committee Report is revealing in its statement of congressional attitude toward this amendment. It indicates that the amendment is unnecessary and is only needed to counter the executive branch's interpretation that Congress is subject to the statutory restriction. This congressional statement could equally be applied to the present situation.

We would like to invite the subcommittee's attention to Two recent cases, Ashland Oil, Inc. vs. FTC, (409 F Supp 297, affirmed 548 F2 977 (1978)) and EXXON Corp. vs. FTC, (589 F2 582 (1978), certiorari denied May 1979). These

cases established that providing confidential information to Congress as a rule is not a disclosure to the public. The purpose of most statutory provisions regulating access to confidential information is to avoid public disclosure.

We are also submitting for the record a copy of an article on this subject which appeared in the Harvard Journal on Legislation.

As I have already mentioned, we are continuing to examine OPEC direct and portfolio investments in the United States. We have particularly examined the implications of OPEC investments in energy and banking as well as university financing and public relations ties. In the future we may have additional recommendations to strengthen data collection and reporting in these areas.

In conclusion let me thank you for this opportunity to testify. I will try to answer any additional questions you and members of the subcommittee may have.

OPEC DIRECT INVESTMENT IN THE UNITED STATES  
1974 - 1978 1/

<u>Source Country</u>	<u>U.S. Company</u>	<u>State</u>	<u>Industry Type</u>
<u>1974</u>			
Kuwait	Kiawah Island	SC	Real Estate
Saudi Arabia	Arizona-Colorado Land & Cattle Company	AZ	Beef Cattle
<u>1975</u>			
Kuwait	Kirby Building Systems Inc.	TX	Prefab. Metal bldgs.
Kuwait	Kirby Real Estate	TX	Holding Co.
Saudi Arabia	Bank of the Commonwealth	MI	Banking
Venezuela	Int'l Basic Economy Corp.	NY	Holding Co.
<u>1976</u>			
Iran	Canal Place (w/ J. Canizaro)	LA	Real Estate
Iran	Rancho Matilija (Cattle Ranch)	CA	Real Estate
Kuwait	Atlanta Center Ltd	GA	Hotels
Kuwait	Vallco Park Ltd	CA	Realty Hdq.
Kuwait	Columbia Plaza Office Building	DC	Real Estate

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1/ Source: Office of Foreign Investment in the United States, U.S. Department of Commerce

## APPENDIX I

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<u>Source Country</u>	<u>U.S. Company</u>	<u>State</u>	<u>Industry Type</u>
Saudi Arabia	Arabian Shield Development Co.	TX	Oil and Gas*
Saudi Arabia	Bank of the Commonwealth	MI	Banking
Saudi Arabia	Sam P. Wallace Company	TX	Commercial Construction
<u>1977</u>			
Kuwait	Houston's Galleria	TX	Real Estate
Kuwait	Hotel	NV	Real Estate
Kuwait	Castle Residence	AZ	Real Estate
Nigeria	Embassy Residence	NY	Real Estate
Saudi Arabia	Land & Mineral Rights (Swamp w/Natural Gas Pot.)	LA	Real Estate
Saudi Arabia	Main Bank of Houston	TX	Banking
Saudi Arabia	National Bank of Georgia	GA	Banking
Venezuela	Beach Property	FL	Real Estate
Venezuela	Union Chelsea National Bank	NY	Banking
Venezuela	First National Bank of Hialeah	FL	Banking
Venezuela	Litco Corporation	NY	Holding Co.
Venezuela	Petroleos De Venezuela	NY	Oil and gas Business office
<u>1978</u>			
Iran	Land	CA	Real Estate
Iran	New Atlanta Hotel	VA	Hotels

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\*Actually nonfuel mineral exploration.



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<u>Source Country</u>	<u>U.S. Company</u>	<u>State</u>	<u>Industry Type</u>
Kuwait	Landmark Hotel	NV	Hotels
Kuwait	Petra Capital Corp.	NY	Inv. Banking
Middle East	Commonwealth Oil Co.	TX	Oil and Gas
Middle East	Financial General Bankshares Inc.	DC	Holding C.
Middle East	Union Bank Building	CA	Real Estate
Saudi Arabia	Arab News	DC	Newspaper Publishing
Saudi Arabia	Babst Services Inc.	LA	Construction Co.
Saudi Arabia	Commercial Property (Plaza of the Americas)	TX	Real Estate Dev.
Saudi Arabia	CRS Design Associates Inc.	TX	Construction Mgmt.
Saudi Arabia	Holstein Industries Inc.	CA	Real Estate Dev.
Saudi Arabia	Land-Galleria	TX	Real Estate
Saudi Arabia	Residence	GA	Real estate
Venezuela	Apartment House	NY	Real estate
Venezuela	Banco De Venezuela	NY	Banking
Venezuela	Land	FL	Real estate
Algeria	Sonatrach	TX	Inorg. Chemicals
Iran	Bijan	CA	Retail Clothing (Men & Boys)
Iran	Holyoke Shopping Center	MA	Real Estate
Kuwait/ Pakistan	Buckyarns Inc.	NH	Yarn Mills

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<u>Source Country</u>	<u>U.S. Company</u>	<u>State</u>	<u>Industry Type</u>
Saudi Arabia	Donaldson, Lufkin and Jenrette	NY	Banking/Finance
Saudi Arabia	RLC Corp.	DE	Trucking
Saudi Arabia	Switzer Mesa	AZ	Real Estate

OTHER REPORTED DIRECT INVESTMENTS BY OPEC COUNTRIES  
1974 - 1978 1/

<u>Source Country</u>	<u>U.S. Company</u>	<u>State</u>	<u>Type of Industry</u>
<u>1974</u>			
Kuwait	Land	KY	Real Estate
Kuwait	Johns Island	SC	Real Estate
<u>1975</u>			
Middle East	Land	NJ	Real Estate
Saudi Arabia	Security National Bank	CA	Banking
Saudi Arabia	Bank of Contra Costa	CA	Banking
Kuwait	Westwood Industrial Park	MA	Real Estate
Saudi Arabia	Land	TX	Real Estate
Kuwait	Industrial Building	CA	Real Estate
Kuwait	Commercial Property	MA	Real Estate
<u>1976</u>			
Middle East	Reynolds Securities	NY	Finance
<u>1977</u>			
Saudi Arabia	Office Building	MA	Real Estate
Middle East	Office Building	TN	Real Estate
Saudi Arabia	International Systems Inc.	AL	Modular Housing

1/ Source: Press reports - "Arab Investments and Influence in the United States," American Jewish Committee, and SEC Filings.

<u>Source Country</u>	<u>U.S. Company</u>	<u>State</u>	<u>Type of Industry</u>
<u>1978</u>			
Saudi Arabia	Land	VA	Real Estate
Kuwait	Buildings	NY	Real Estate Dev.
Kuwait	Korf Industries	NC	Steel