DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

MEMORANDUM FOR THE MEMBERS OF SIG - IEP

FROM: Norman A. Bailey
Executive Secretary

SUBJECT: The U.S. - Netherlands Antilles Tax Treaty

Issues

Based on a number of tax policy considerations, the U.S. Treasury is negotiating a new tax treaty with the Netherlands Antilles. The outcome of these treaty negotiations involves not only U.S. international tax policy, but also important U.S. economic and political interests. For example:

o U.S. business relies heavily on the existing U.S. - Netherlands Antilles treaty for access to the Eurodollar market.

o Restrictions in the proposed new treaty will clearly reduce Antilles revenues. Although the actual revenue loss and its relative importance are difficult to evaluate, reduced government revenues raise the possibility of increased unemployment and political discontent.

o If the U.S. were to attempt to compensate the Antilles for revenue losses arising from the proposed treaty by providing direct aid, this would result in less aid being available to the rest of the Caribbean Basin.

o U.S. drug enforcement efforts are greatly assisted by cooperation and facilities provided by the Netherlands Antilles. Although Treasury is unaware of linkage between current tax treaty negotiations and U.S. - Antilles drug enforcement efforts, some U.S. officials believe that a breakdown in treaty negotiations would lead to a U.S. expulsion from the islands.

Treasury, the Antilles treaty negotiators and other U.S. Government officials differ in their opinions of how close to agreement the U.S. and Antilles are in the current round of treaty negotiations. The Antilles negotiators have indicated that if the highly technical tax issue of "derivative treaty benefits" can be resolved, a treaty could be concluded. Treasury negotiators believe that other important issues are still unresolved and that agreement on the derivative benefits provision would not necessarily result in a a rapid conclusion of the treaty.

A breakdown in treaty negotiations would not be a disaster for either side. Failure of the U.S. Treasury and the Antilles to conclude treaty negotiations and to obtain Senate ratification of the proposed treaty leaves the existing tax treaty in force. The existing treaty would thus continue to maintain Antilles revenues. It is unlikely that either side would unilaterally abrogate the existing treaty given the mutual interest in maintaining Eurobond financing.

Of course, a change in U.S. domestic tax law that removes the 30 percent U.S. tax on interest paid to foreign lenders, or a decision to grant the Eurofinancing benefits available under the Antilles treaty to other countries (or even U.S. territories) would result in serious revenue losses to the Antilles. The Administration has supported legislation repealing the 30 percent withholding tax on foreign lenders.

Options

1. Instruct Treasury to reach a compromise on derivative treaty issues.

   Pro:

   - Per Antilles negotiators, this would result in successful conclusion of the treaty.

   Con:

   - Per Treasury, there is no guarantee that a Treasury compromise on derivative treaty benefits will not be met by Antilles objections over other treaty issues, in particular exchange of information and effective date provisions.

   - Treasury concessions on derivative treaty provisions could be viewed as excessive by Congress and result in its refusal to ratify the treaty.

2. Permit Treasury to continue negotiations and make concessions on the basis of its evaluation of enforcement/administrative difficulties and Congressional sentiment.

   Pro:

   - Treasury is best situated to evaluate the merit of highly technical international tax issues and Congressional acceptance of Treasury's concessions.

Con:

- o Treasury's evaluation of treaty negotiations and concessions does not reflect sufficient awareness of nontax issues.

- o Failure to compromise on derivative treaty issues may result in breakdown of treaty negotiations.

Background

The U.S. Treasury has been meeting with representatives of the Netherlands Antilles over the past two years in an effort to renegotiate a mutually agreeable tax treaty. The existing treaty, which took effect in 1955 and was updated by protocol in 1963, is widely used by foreign investors to channel funds into the U.S., and by U.S. multinationals seeking access to the Eurodollar market.

Treasury and Congress have long viewed the Netherlands Antilles treaty as subject to abuse. The ability of third-country nationals to route investments through the Antilles and claim the benefits of a treaty to which they are not a party is considered extremely undesirable U.S. tax policy.

This practice, which is referred to as "treaty shopping," undercuts the incentive of countries to negotiate bilateral tax treaties with the U.S. Furthermore, the existence of treaty shopping hampers Treasury negotiators in obtaining concessions from existing U.S. tax treaty partners.

Although a wide variety of U.S. tax treaties could theoretically be used by third parties, in practice the transaction and tax costs of establishing offshore companies generally results in treaty shopping being undertaken out of tax havens, such as the Netherlands Antilles and the British Virgin Islands (BVI). Last year, the U.S., with Congressional support, abrogated its treaty with the BVI after an unsuccessful attempt at renegotiating a treaty that would have limited treaty shopping.

Because of its status as a tax haven, any U.S. treaty with the Netherlands Antilles will be subject to intense Congressional inspection. The widespread use of bearer shares and the country's bank secrecy laws, in conjunction with the U.S. tax treaty, have made the Netherlands Antilles a well-publicized jurisdiction for investors who value anonymity. IRS and Treasury are convinced that substantial sums of illegal money move through the Netherlands Antilles. A successful resolution of the bank secrecy and bearer shares rules would greatly aid IRS enforcement efforts.

The current U.S.-Netherlands Antilles tax treaty negotiations have not yet resolved a number of important issues. The U.S and the Netherlands Antilles are in disagreement over the extremely technical subject of "derivative treaty benefits." The Antilles negotiators have suggested that if the issue of derivative treaty benefits can be resolved, agreement on the entire treaty could be reached. However, Treasury negotiators believe that a resolution of the derivative benefits issue does not assure that a treaty could then be successfully concluded.

The existing treaty is of great benefit to the Antilles and delaying the adoption of a new, more restrictive treaty may to be in the best interest of the Antilles.

The following discussion covers not only the derivative treaty question as well as other tax issues, but also the consequences of a breakdown in the negotiating process.

Treaty Issues

Eurodollar Financing

The Netherlands Antilles tax treaty is extremely important to U.S. multinationals because it provides a mechanism by which U.S. companies obtain access to the Eurodollar market without subjecting foreign lenders to the U.S. 30 percent withholding tax. From both the U.S. and Antilles economic viewpoint, this is really the overriding issue of the treaty. Fortunately, the U.S. and the Netherlands Antilles have reached at least a tentative agreement on this issue.

The U.S. will provide an interest exemption on qualifying Euro issues outstanding, but shall have the right to withdraw this interest exemption on six months notice for seven years after the new treaty comes into force. However, in the event of such termination, existing issues would be protected for ten years. Treasury advises that this agreement is acceptable to U.S. business.

Exchange of Information

Because of the widespread use of bearer shares and Antilles bank secrecy laws, the exchange of information provisions contained in the existing U.S.-Netherlands Antilles tax treaty are of little use to the IRS in preparing civil or criminal tax cases. Under the proposed treaty, the Antilles has agreed in principle to permit the secrecy provided by bearer shares and existing banking laws to be pierced in some cases, and to provide much more significant information to U.S. tax authorities. This broadening of the exchange of information provisions -- although not totally settled -- would offer substantial aid to the IRS and Justice Department.

The Derivative Treaty Provisions

In an attempt to limit treaty shopping, the U.S. general negotiating position with respect to all treaty partners, not just the Netherlands Antilles, is to insist on a "Limitation of Benefits" Article in its tax treaties. One purpose of this Article is to deny the benefits of the tax treaty to corporations which are resident in the treaty country, but which are owned by nonresidents of either the treaty country or the United States.

The derivative treaty rules constitute an exception to the above general rule. Essentially, they operate to permit a corporation owned by third-country nationals, who are resident in a country that is a treaty partner with the U.S., to qualify for treaty benefits.

The U.S. and the Antilles cannot agree on how far the derivative treaty exception should be extended. This disagreement has come to issue over the questions of 1) indirect holdings and 2) rate differentials.

While both sides have agreed that there should be a derivative treaty provision in the treaty, the U.S. wants to limit the derivative treaty benefits to situations where third-country owners are either individuals or publicly traded companies.

1.- Indirect Holdings

The U.S. insists that Antilles companies owned by third-country <u>holding companies</u>, i.e. nonpublic companies, resident in a country with which the U.S. has a tax treaty, <u>should not</u> qualify for the Antilles treaty benefits under the derivative treaty rule. For example, the U.S. would not permit a Canadian holding company of a U.K. public company with a Netherlands Antilles subsidiary to qualify under the U.S. - Antilles treaty.

The Antilles insists that such <u>indirect ownership</u> should qualify Antilles companies for treaty benefits.

The Antilles believes the holding company provisions provide perfectly appropriate recognition of common international business practices and corporate structures. Treasury believes that extending these provisions to holding companies opens up the possibility of abuse, creates additional complexity and enforcement problems for the IRS and may be unacceptable to Congress.

2. - Rate Differentials

The rate differential question is even more technical. The U.S. position is that derivative treaty benefits apply only if the rates in the derivative treaty are as low or lower than the rates in the Antilles treaty.

For example, if the benefits available to a resident of France are greater than the benefits available under the U.S.-Antilles treaty, the French resident will qualify for derivative treaty benefits. However, under the U.S. proposal, the derivative treaty benefits will not apply in cases where the third-country resident's treaty benefits are less than those available under the U.S.-Antilles treaty.

The Antilles believes that derivative treaty benefits should be available to any third-country resident provided there is a tax treaty between the third country and the U.S. Where the third-country treaty provides for fewer benefits than the Antilles treaty, for example, a higher rate of tax on dividends, then the higher rate of tax would apply.

It is not obvious why these derivative treaty provisions are so important to the Antilles for they generate little revenue for its economy. The Antilles has argued that such provisions are essential in order to maintain their financial infrastructure, which is dependent on contacts with a large number of European countries. Treasury's primary objection to the Antilles position is that it would undermine relations with other treaty partners. Moreover, Treasury does not believe Congress would accept such a position. It is also Treasury's position that such rules would create administrative complexity and enforcement difficulties.

Political and Economic Considerations

In the event that a treaty cannot be concluded with the Netherlands Antilles, or in the event that whatever treaty is concluded significantly reduces business activities and tax revenues of the Antilles, the following possible reactions must be considered:

1.- The loss of tax revenues to the Antilles would reduce indigenous government spending and services. Unless such revenue losses were compensated for by additional U.S. aid, the likelihood of economic and political turmoil could increase. Should aid be required, the only available possible current source of funding would have to come from the already too meager Caribbean Basin Initiative.

2.- The Drug Enforcement Administration (DEA) and the Customs Service, currently with facilities in the Antilles, could be asked to leave. The White House Drug Abuse Office believes this would in all likelihood result in a significant increase in aircraft and boat traffic through Aruba for potential drug smuggling. DEA would be forced to station aircraft on the unsecured north coast of Columbia, and Customs, currently stationed in Aruba, would be forced back to Puerto Rico or Guantanamo.

Balancing the Issues

It is obvious that the tax treaty negotiations with the Netherlands Antilles involve more than just tax issues. However, the impact of the current treaty negotiations on economic and political issues of great concern to the U.S. will differ sharply depending on whether:

1.- Treaty negotiations break down, but the existing treaty remains in force;

2.- The treaty is concluded and ratified by the Senate at roughly its present state of negotiation; or,

3.- No agreement on a treaty can be reached and either the U.S. or the Antilles abrogates the existing treaty.

In terms of the political and economic damage to the U.S. and the Antilles, it should be kept in mind that the failure to reach a new treaty leaves the current treaty in force. Clearly, this is the alternative the Antilles would prefer because this provides it with the greatest benefits. Furthermore, the U.S. interest in preserving Eurocurrency financing and the difficulty of passing legislation such as Gibbons-Conable (removing the 30 percent tax on interest payments to foreigners) at this time, make it unlikely that the U.S. would abrogate the existing treaty with the Antilles.

The Eurofinancing role granted to the Antilles under the existing U.S.-Netherlands Antilles treaty now accounts for nearly 70 percent of the Antilles revenues generated under the current treaty. If a new treaty is concluded at the current stage of negotiations -- regardless of which way the derivative treaty issue is decided -- there will be some loss of revenues to the Antilles.

Treasury believes that its resolution of the Eurofinancing issue under the proposed treaty will largely preserve Antilles revenues and the access of U.S. multinationals to the Eurocurrency markets. Presumably, this would minimize the possibilities of political unrest and the threat of U.S. drug enforcement personnel being expelled from the area.

The Antilles negotiators have provided Treasury information that shows 30 percent of total Antilles revenues are due to offshore activities. By way of comparison, individual income taxes account for about 45 percent and Social Security taxes for almost 37 percent of total U.S. federal budget receipts. Approximately 20 percent (64 percent of the 30 percent) of total Antilles revenues are currently due to activities arising under the U.S.-Antilles treaty.

The Antilles treaty negotiators estimate that adoption of the proposed treaty would halve the 30 percent of total revenues currently due to offshore activities. However, the derivative treaty question involves negligible direct revenue effects.

If the U.S. Treasury is able to reach agreement on a tax treaty with the Netherlands Antilles, it will not take effect unless it is ratified by the Senate. To the extent that Treasury negotiators take positions unacceptable to Congress, the time and effort spent on the treaty will be wasted.

In the event that the current round of treaty negotiations breaks down completely and either the U.S. or the Antilles decides to abrogate the existing treaty, the consequences would be more dire. U.S. multinationals would lose the Antilles as an avenue to Eurofinancing, the Antilles would suffer a large revenue loss (20 percent of total Antilles revenues are generated through the U.S.-Antilles treaty), and the threats of political unrest and U.S. loss of drug enforcement resources would become more serious.

If this were to occur, it is likely that Treasury and Congress would quickly seek to create another Eurodollar window, perhaps through another country or a U.S. territory. However, the Netherlands Antilles loss of revenues from its present Eurofinancing monopoly could not be compensated for so easily.

Prepared by the Department of Agriculture

Summary of the
Agricultural Export Equity
and Market Expansion Act, S. 822

The Agricultural Export Equity and Market Expansion Act, S. 822, as approved by the Senate Agriculture Committee, is a bill designed to restore equity in agricultural trade and maintain and enhance foreign markets for U.S. agricultural products. To accomplish this, the bill expands authority for the use of CCC stocks, requires the export sale of CCC dairy products, modifies the P.L. 480 program, and directs that several other actions be taken. Major provisions and a proposed USDA position are outlined below.

Export Sale of Dairy Products

Section 201 provides that the Secretary must make sales of at least 150,000 MT of CCC owned dairy products annually during fiscal years 1983, 1984 and 1985. These sales are to be made at no less than the minimum price under the International Dairy Agreement. Provision is made for fewer sales if they could not be made at or above this minimum.

USDA Comment: The provision should be amended to make it discretionary as the Secretary already has the authority to carry out its intent. We have been exporting significant amounts of dairy products in the past two years (68,000 MT in 1981 and 145,000 MT in 1982, excluding P.L. 480 donations) and intend to continue to do so as is appropriate given international market conditions. An arbitrary minimum amount would not serve us well as a policy instrument vis-a-vis our trading partners or as a means to recoup the maximum amount for the CCC.

Agricultural Export Assistance

Section 202 (b) provides in part that one half of the funds realized from the sale of product under Section 201 be used to promote exports in whatever form is necessary to compensate for other countries' price and credit subsidies.

USDA Comment: This provision should be amended to make it discretionary. We would find it exceedingly difficult to estimate from both a price and quantity standpoint the returns to the CCC from any dairy sales and, thus, would not be in a position to develop an effective long-term program with the proceeds from such sales.

Section 202 (c) would require the use of $90 million in fiscal year 1983 for price or credit subsidies for exports of value-added or high-value U.S. agricultural products, with at least $20 million to be used for poultry and eggs, $15 million for raisins, and $5 million for canned fruit.

USDA Comment: This provision should be amended to allow the use of $90 million of CCC funds rather than mandating the use of those funds for this purpose. This brings it into conformity with the Secretary's existing authority. The requirement to direct portions of these funds to specified products should be eliminated.

Expansion of Markets for U.S. Agricultural Products

Section 203 provides authority for an export "PIK" program, using CCC owned stocks as payment to exporters, users, and foreign purchasers to encourage foreign market development for U.S. agricultural commodities.

USDA Comment: The Department recognizes that a PIK export program could expand U.S. agricultural exports by generating new demand and/or by restoring U.S. competitiveness in world markets against unfair competition from the European Community and other subsidizing exporters. At the same time, USDA believes that authority for a PIK export program exists under the CCC Charter Act. In fact, USDA already has implemented a PIK export program for wheat flour to Egypt. The Administration's position therefore is that the legislation is not needed. However, strong Administration opposition to the PIK export proposal would undermine current agricultural trade policy initiatives. Such opposition would be perceived by the European Community and other subsidizing competitors as a weakening in our position against export subsidies and a clear rejection of the option to meet those subsidies with subsidies of our own.

Use of Food Security Wheat Reserve for Export Expansion

Section 204 authorizes the use of up to 1.5 million metric tons of wheat from the Food Security Wheat Reserve in each of the fiscal years 1983 and 1984 to carry out an export PIK program and requires that the amount taken from the Reserve must be replenished before October 1, 1984. The Reserve currently includes 4 million metric tons of wheat which is withheld from the market and may be drawn upon, for food security reasons, in a situation in which there is insufficient wheat on the market to be used to satisfy PL-480 programs.

USDA Comment: In view of the apparent overwhelming success of the domestic PIK program, it is expected that there will be some drawdown of U.S. wheat stocks. Furthermore, the flour program with Egypt will virtually deplete existing CCC stocks of wheat, and the domestic PIK is likely to use any additional stocks CCC may acquire from the 1983 crop. Therefore, the authority proposed in this bill could be useful for gaining access to additional supplies, should the opportunity for further export PIK programs arise. It is our view that a temporary drawdown of the Food Security Wheat Reserve would in no way threaten the U.S. capability to provide sufficient wheat for food security needs, as overall stocks over the next two years are expected to be more than adequate to satisfy both domestic and foreign requirements.

Agricultural Export Credit Revolving Fund

Section 208 expresses the sense of the Congress that during FY 1983 not less than $1 billion should be made available to fund the Agricultural Export Credit Revolving Fund authorized by Section 1201 of the Agricultural and Food Act of 1981, which amended Section 4(d) of the Food for Peace Act of 1966.

USDA Comment: The Department opposes enactment of this provision. While the Department recognizes that establishment of the Agricultural Export Credit Revolving Fund could assist the Department in its export promotion efforts, budgetary constraints preclude capitalization of the Fund at this time. Moreover, the Department has taken other steps to assist with export promotion, including establishment of the blended credit program under general authority of the CCC Charter Act.

Export Transportation of Agricultural Commodities

Section 209 provides that the provisions of the cargo preference laws shall not apply to future export payment-in-kind or blended credit activities of the Commodity Credit Corporation.

USDA Comment : This Department supports section 209 (Export Transportation of Agricultural Commoditeis) which provides that the cargo preference laws shall not apply to future payment-in-kind or blended credit activities of the Commodity Credit Corporation. The application of the cargo preference laws of the United States to the export shipment of agricultural commodities under payment-in-kind or blended credit activities of the CCC would more offset the benefits of such programs and would generally make more difficult the ability of the U.S. Government to promote agriculture exports at the time of a depressed agricultural economy.

Expanded Donation of CCC Stocks Abroad

Section 301 expands existing authority provided in Section 416 of the Agriculture Act of 1949 which authorizes the donation of CCC owned dairy products to foreign governments and public and private nonprofit humanitarian organizations for distribution overseas, to include other commodities acquired by CCC. In addition, it authorizes the sale and barter of these commodities, as approved by the Secretary of Agriculture, to facilitate providing assistance to needy people. The donation of commodities under this authority is to be coordinated through the same mechanism established by the President to coordinate P.L. 480 food assistance.

USDA Comment: The Department supports enactment of this provision, provided it is amended to incorporate Section 416 overseas donations within the P.L. 480 Title II program authority and operations. This change would render explicit authority for the sale and barter of these commodities unnecessary as they are presently authorized within the P.L. 480 Title II legislation.

Expanded Use of CCC Stocks Under P.L. 480

Section 302 amends Public Law 480 by adding a new Section 116, which would authorize the President to use CCC acquired commodities and their products to increase the level of agricultural exports through Titles I,II, and III of P.L. 480 above the level of assistance programed under the Act in any given year.

USDA Comment: The Department does not support enactment of this provision. Existing authority already provides for the use of CCC acquired commodities in the P.L. 480 program. More important, this provision would generate increased demand on CCC funding and borrowing authority. Making CCC acquired commodities available for P.L. 480 with no increase in available P.L. 480 funding to reimburse CCC would increase financial losses in the domestic price support programs. In addition, ocean freight differential payments under Titles I and III and ocean transportation costs in Title II would need to be funded through general CCC borrowing authority.

Famine Relief

Section 303(a) amends Title II of Public Law 480 by requiring the President to consider the nutritional assistance to program recipients and benefits to the United States which would result from providing processed and protein fortified products through the Title II program. In addition, it directs that, as feasible, approximately 55 to 60 percent of total Title II Program tonnage be distributed each year in the form of processed and protein-fortified products.

USDA Comment: The Department opposes enactment of this provision. Title II is in large part a targetted feeding program; commodities are programed to meet a combination of nutritional, humanitarian, and developmental objectives. In determining the commodity mix for the program, Title II managers attempt to include the least expensive commodities which can still meet these objectives, thus allowing the program to reach the greatest number of people within budgetary constraints. The Department opposes a legislatively mandated percentage target as program requirements shift from year to year. In a year in which normal programing requirements would result in a lower percentage of processed foods, this provision would result in greater costs than necessary or the donation to fewer people of higher cost processed foods than would be possible with a different commodity mix.

Section 303(b) would amend P.L. 480 Title II by requiring the President in using nonprofit voluntary agencies to distribute Title II food commodities to consider any nutritional and developmental objectives established by those agencies which are based on their assessment of the needs of the recipient people.

USDA Comment: The Department does not oppose enactment of this provision.

Food for Development Programs

Section 304 (1) Amends Section 302 (c) of P.L. 480 by adding a requirement that consideration be given to using the capabilities and expertise of U.S. nonprofit voluntary agencies and cooperatives in developing and carrying out Title III Food for Development programs.

USDA Comment: The Department of Agriculture does not oppose enactment of this provision.

Section 304 (2) would require the President to ensure, to the extent feasible, that the total value of Title III agreements for each fiscal year equal approximately 17 to 20 percent of the total value % Title I agreements for that year. If the aggregate value target for Title III financing is not achieved in any fiscal year, the President would be required to submit to Congress a detailed statement on the reasons for the lack of acceptable agricultural and rural development projects that qualify for Title III assistance and a detailed description of U.S. Government efforts to assist eligible countries to identify appropriate Title III projects.

USDA Comment: The Department opposes enactment of this provision. Food commodities are provided under Title III only when it is found that the recipient country will be able to use the commodities or currencies generated therefore in mutually agreed upon projects or programs designed to help achieve development goals. Experience has shown that the countries designated by law as eligible for Title III assistance often lack the institutional capacity to implement a complex program to address agricultural production constraints. An attempt at this time to mandate legislatively a greater remainder of Title III programs would be counterproductive. The U.S. Government does leave other vehicles of assistance, e.g. development assistance programs, which may be more appropriate in particular countries and situations. Moreover, existing legislation provides a target of 15 percent of Title I financing be used for Title III programs. This is a minimum, not a maximum, and can be exceeded whenever appropriate Title III program candidates are identified.

Section 304 (3) requires that Title III agreements provide, to the extent feasible, that the commodities made available on the funds generated from the sale of the commodities be used at the farm and village level in famine-prone countries, particularly in sub-Saharan Africa, to establish rural projects emphasizing post-harvest food conservation and provide for participation in development and administration of such projects by the intended project beneficiaries. In addition, Title III agreements entered into to establish rural projects must ensure that the commodities or funds generated therefrom be used primarily to benefit the poor in participating countries.

USDA Comment: The Department of Agriculture opposes enactment of this provision which is unnecessary since existing administration policy adequately addresses these issues. Current Title III policy and program guidance to the field directs that the special needs of the poor be considered in program design.

In addition, its focus on project specific activities, and on problems of food security in particular, may distort the focus of Title III away from policy reform which may be a more appropriate application of Title III, including its application in Africa. To the extent the legislation mandates precise forms of project specific activity and implies uniform solutions to problems which may vary remarkably in their dimensions and their causes from country to country. Title III programming potential will be greatly constrained and unable to respond to unique situations.

CCC Sales of Extra Long Staple Cotton

Section 401-Amends section 407 of the Agricultural Act of 1949 to permit Commodity Credit Corporation (CCC) stocks of extra long staple (ELS) cotton to be sold for unrestricted use at such price levels as thee Secretary determines appropriate to maintain and expand export and domestic markets for such cotton. Currently, such sales cannot generally be made at less than 11.5 percent of the loan rate. Elimination of the 11.5 percent minimum sales price restriction on CCC sales would permit movement of CCC stocks to the marketplace and should reduce government costs.

USDA Comment: The Department supports this provision.

Barter of Agricultural Commodities

Section 403 (2) requires the Secretary to the maximum extent practical, in consultation with the Secretary of State, to use CCC commodities to barter for strategic and critical materials; use normal commercial channels; and take action to avoid displacing usual marketing of U.S. agricultural commodities.

USDA Comment: The Department opposes this provision. The authority now contained in the CCC Charter Act and in Section 310, Title III of P.L. 480 provide the Departmet with adequate authority to carry out barter arrangements for the exchange of CCC commodities and strategic materials

Section 403 (4) directs the Secretary, to the maximum extent practicable, in consultation with the Secretary of Energy and the Secretary of State, to accept petroleum products in exchange for CCC commodities and transfer them, without reimbursement, to the Strategic Petroleum Reserve.

USDA Comment: The Department opposes this provision. As cited above, the Department currently has adequate authority to undertake such barter arrangements. Further, transfer of commodities without reimbursement would expend funds appropriated to carry out agricultural price support programs in acquiring petroleum for the Strategic Petroleum Reserve.

Economic Support Fund

Section 404 requires the President to use not less than 35 percent of funds appropriated for the Commodity Import Program of the Economic Support Fund for the purchase of U.S. agricultural commodities and agricultural related products. In addition, not less than 20 percent of the funds appropriated for the Commodity Import Program shall be used for the purchase of U.S. agricultural commodities, and of this 20 percent, one half shall be used to purchase processed or value-added products.

USDA Comment: The Department does not oppose enactment of this provision. It would assist in increasing the volume of U.S. agricultural commodities being exported through the Commodity Import Program.

Congressional Reports Required

Section 501 requires a report by July 1983 on use of agricultural subsidies.

Section 502 requries a report on progress on negotiations for a US-USSR long term agreement by March 1983.

Section 503 requires a report on bilateral agreements by July 1983.

Section 504 requires a report on barter within 90 days of enactment.

Section 505 requires a report by the secretary of State on programs under which surplus agricultural products could be distributed to foreign countries.