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BY THE COMPTROLLER GENERAL 111125

Report To The Congress

OF THE UNITED STATES

Changes Needed to Improve Government's Knowledge of OPEC Financial Influence in the United States

The bulk of OPEC holdings in the United States are or have been portfolio investments--dollars and dollar equivalents. Direct OPEC investment does not appear large and primarily is or has been in real estate and finance.

Government estimates of OPEC financial influence in the United States are likely to be underestimates. Small, private company, or third-party investments may escape attention; others have been misidentified in Government records.

In order to make the Government more aware of the extent and nature of OPEC financial influence in the United States, the Departments of the Treasury, Commerce, and Energy should improve their foreign investment monitoring efforts.

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UNITED STATES GENERAL ACCOUNTING OFFICE

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To the President of the Senate and the
Speaker of the House of Representatives

This report discusses the nature of the financial influence of the Organization of Petroleum Exporting Countries (OPEC) in the United States. It discusses OPEC monetary investment, conventional portfolio investment, and direct investment as well as other activities such as grants to, or contracts with, universities and public relations activities.

We are sending copies of this report to the Secretaries of Energy, Commerce, and the Treasury, and to interested Members of Congress.

Elmer B. Staats
Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

CHANGES NEEDED TO IMPROVE GOVERNMENT KNOWLEDGE OF OPEC FINANCIAL INFLUENCE IN THE UNITED STATES

D I G E S T

Whether large OPEC (Organization of Petroleum Exporting Countries) investments in the United States enhance the cartel's influence--financial and otherwise--on U.S. policy is a growing national issue. GAO's recent report "Are OPEC Financial Holdings a Danger to U.S. Banks or the Economy?" (EMD-79-45) dealt with OPEC monetary investments. This one focuses on the remaining forms of financial influence.

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THE NATURE OF OPEC FINANCIAL INFLUENCE IN THE UNITED STATES

OPEC investments are large in absolute terms, but constitute only a small portion of total foreign investment in the United States. OPEC holdings in the United States are in excess of $62 billion. Over 99 percent are portfolio investments, particularly deposits in U.S. banks and purchases of U.S. securities. The other 1 percent of identified OPEC direct investments has primarily been in real estate and finance.

OPEC direct investments--those likely to yield the maximum influence--are less than 1 percent of total foreign direct investment in the United States, according to Government figures. None of these direct investments could be identified as a strategically placed investment in major U.S. companies or in sensitive industries. Furthermore, no OPEC government, with the exception of Kuwait, has indicated a desire to make large acquisitions in the United States.

GAO examined OPEC investments in U.S. banks and in energy companies. (See ch. 2.) As of October 1979, at least 13 U.S. banks had been partially purchased by residents of OPEC countries. Bank regulators have not identified any problems with these banks since their acquisition. The one OPEC energy investment identified by the Department of Energy is a non-fuel mineral exploration company operating in Saudi Arabia.

Financial influence can take forms other than those of conventional investments. Some U.S. universities have received contracts and grants from OPEC countries. But, overall, OPEC sources provide relatively little financial support to U.S. schools, and such funds as they do provide appear to give OPEC members no additional influence over U.S. energy policy. OPEC members' financial involvement in lobbying and public relations, while often conspicuous, remains small in comparison to the expenditures of many other foreign governments.

The Treasury and Commerce Departments compile data on OPEC holdings on a country-by-country basis. But, in most cases, they refuse to release important statistics to outside analysts, including the U.S. Congress. Treasury's position is that

> "* * * the International Investment Survey Act of 1976 forbids revealing the affairs of individual investors. Treasury cannot reveal totals of certain countries because they would reveal the affairs of individual foreign investors."

Stated in this manner, Treasury's position appears to be one of protecting the privacy of individual human beings. In fact, the Department is withholding information concerning massive transactions of official Government monetary institutions.

CONCLUSIONS

U.S. Government efforts to monitor foreign investment are diffuse and shared among Treasury, Commerce, the Department of Energy, the Securities and Exchange Commission, and other agencies. Because small or private investments may escape attention and because OPEC members often use financial intermediaries, U.S. estimates of OPEC holdings are likely to be underestimates.

On the whole, OPEC investments do not appear to be a threat to the economy. However, GAO is concerned that U.S. officials might not be aware, on a timely basis, if particular strategic investments were made to influence policy. (See ch. 4.) Furthermore, as current developments in Iran illustrate, situations can arise in which the United States might wish to change its strategies toward OPEC financial influence. In recent days, spokesmen for the Governments of Iran and the United States have given widely differing estimates of total Iranian investment in the United States. Events have reinforced GAO's conclusion that more detailed and current knowledge of OPEC and other foreign investment is needed.

Country data are not shared among agencies nor disseminated to all who need them, including the Congress. GAO has seen no evidence that the Government takes financial interdependence with the OPEC nations into account in formulating U.S. international energy policy. Improvements are needed in some Federal monitoring activities to improve the Government's awareness of the extent and nature of OPEC financial influence in the United States.

RECOMMENDATIONS

To the Department of the Treasury:

Unless the Secretary of the Treasury can demonstrate that the costs to both the Government and private business of additional reporting would be excessive, the Treasury should collect, on International Capital Form S, data identifying the sector and industry of equity purchases. This additional information would permit timely and regular identification of the areas of the

U.S. economy into which foreign portfolio investment, including that of OPEC, is flowing. This data should be published at least annually in a format similar to other published investment statistics.

To the Department of Commerce:

The Secretary of Commerce should determine how foreign beneficial owners could be better identified under current Bureau of Economic Analysis reporting requirements. Forms should, at a minimum, attempt to identify whether the reporting entity is itself a subsidiary of another foreign company or the beneficial owners of the reporting entity are nationals of a third country.

The Secretary should carefully examine results of the Department's next benchmark survey to see whether the magnitude of increase in foreign investments in businesses with income under $5 million warrants closer annual monitoring.

To the Department of Energy:

The Secretary of Energy should transfer the responsibility for the Department's monitoring of foreign investment in U.S. energy from the Office of International Affairs to the Energy Information Administration. Given the Administration's legislative mandate to collect, evaluate, assemble, analyze, and disseminate energy data and information, it is a more appropriate focal point for the Department's monitoring responsibility.

The Department should also collect primary source information on foreign investment by amending its financial reporting system to include questions on foreign sources of equity capital, loans, and joint ventures. This reporting system covers a much wider range of energy producing, processing, transportation, and technology companies than is presently monitored by the Office of International Affairs.

AGENCY COMMENTS AND OUR REVIEW

A draft of this report was circulated to the Departments of Commerce, Energy, and the Treasury; the Federal Reserve Board; and the Securities and Exchange Commission. The Department of Energy and the Securities and Exchange Commission were unable to prepare their replies in a timely manner. Those of the Department of Energy were received a month late; those of the Securities and Exchange Commission were not received at all. The Commission's viewpoint, therefore, has not been included. Agency comments are included as appendices IV, V, VI, and VII.

The Department of the Treasury fundamentally disagrees with GAO's statement that it is important to know on a reasonably current and continuing basis "who owns whom?" and "who is buying whom?" with regard to foreign portfolio investment in the United States. Treasury states that no evidence suggests that this investment, wherever it may occur, operates against the interests of the United States. Therefore, Treasury feels that the expense required to generate additional current information on this subject is unjustified. GAO believes that the existence or nonexistence of a clear and present danger is not the issue. Instead, GAO questions the ability of the executive branch to detect such a threat on a timely basis, should it occur.

The Department of Commerce maintains that the Bureau of Economic Analysis releases more data to interested observers than is published in regular Department publications. GAO found that the bulk of these releases have been within the executive branch. Detailed data on OPEC investments were not made available to GAO during the course of GAO's examination. Furthermore, GAO believes that the International Investment Survey Act of 1976 does not exclude congressional access to confidential information such as that collected by the Bureau.

The Federal Reserve Board generally concurs with Treasury's comments. GAO thinks that the Federal Reserve Board and the Treasury should analyze these costs in greater detail before dismissing GAO's recommendation.

The Department of Energy concurs with GAO's recommendation that responsibility for its monitoring of foreign investment in U.S. energy be transferred from the Office of International Affairs to the Energy Information Administration. The Department also points to the problems associated with the expanded financial reporting effort which GAO proposes.

Contents

ABBREVIATIONS

AJC	American Jewish Committee
BEA	Bureau of Economic Analysis
CFIUS	Committee on Foreign Investment in the United States
DOE	Department of Energy
EIA	Energy Information Administration
FCN	Friendship, Commerce, and Navigation
FEA	Federal Energy Administration
FNB	First National Bank
FNMA	Federal National Mortgage Association
FRS	Financial Reporting System
HEW	Department of Health, Education and Welfare
IA	Office of International Affairs, Department of Energy
ICA	International Communications Agency
OFIUS	Office of Foreign Investment in the United States
OFSPS	Office of Federal Statistical Policy and Standards
OIA	Office of International Affairs
OMB	Office of Management and Budget
OPEC	Organization of Petroleum Exporting Countries
SAMA	Saudi Arabian Monetary Agency
SEC	Securities and Exchange Commission
TIC	Treasury International Capital Reporting System
U.A.E.	United Arab Emirates
UBAF	Union de Banques Arabes et Francaises
USG	United States Government

CHAPTER 1

INTRODUCTION

Certain members of the Organization of Petroleum Exporting Countries (OPEC) 1/ are investing large sums of money in the United States. Some observers regard these investments as a "money" weapon supplementing the influence derived from OPEC's near monopoly of the international supply of oil; others think that they give OPEC nations a stake in our wellbeing and enhance our ability to influence OPEC oil supply and price decisions. In this context, this report focuses on OPEC's financial influence in the United States--portfolio and direct investments, gifts to and contracts with U.S. universities, and public relations activities--and on the mechanisms in and out of Government which monitor these transactions and integrate their potential influence into U.S. policy.

OPEC financial influence is a valid and pressing subject for analysis. Clearly, OPEC nations derive influence from the fact that they are major customers of many U.S. businesses as well as suppliers of oil. While OPEC investment in the United States is part of the broader question of foreign investment in general, we have chosen to concentrate on OPEC for several reasons.

--These nations control about 62 percent of oil production outside China and the Soviet bloc and 80 percent of U.S. oil imports. This control gives OPEC members a unique influence over the economy of the United States. Could their financial holdings in the United States increase that influence?

--Some OPEC countries are popularly regarded as adversaries both because of their control over international energy supplies and because of Arab attitudes toward Israel. Could their financial activities in the United States be motivated or manipulated for non-economic reasons?

1/The members of OPEC include: Algeria, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates, and Venezuela.

--A large part of OPEC investment represents the holdings of governments; most other foreign investment flows from the private sector. Should U.S. policy differentiate between foreign private and government investments?

OPEC is not a monolith: The wealth and resulting power of OPEC members varies considerably, as do the goals of the individual OPEC governments. Countries such as Algeria, Venezuela, and Nigeria are investing most of their oil income on domestic development. Others such as Saudi Arabia, Kuwait, and the United Arab Emirates have invested much of their surplus funds abroad, including the United States, in order to diversify their assets and secure a financial return. Nevertheless, OPEC is popularly viewed as a cartel, and its members are thought to have common purposes and interests. Moreover, since the Department of the Treasury has thus far refused to release critical country-by-country statistics, 1/ analyzing the influence of particular OPEC members is difficult, if not impossible.

The subject of OPEC financial influence is particularly timely. Gas lines and price increases have heightened the sensitivity of the American people to the economic actions of OPEC countries. Moreover, recent increases in the price of oil are likely to lead to growing OPEC financial surpluses in the near term. Past experience would indicate that some of these funds will be invested in the United States.

SOURCES OF OPEC FINANCIAL INFLUENCE

One type of financial influence clearly grows out of investments. Foreign investment in the United States is the acquisition of assets in, or claims upon, the United States by foreign nationals or U.S. citizens living abroad. The United States balance of payments deficit creates foreign investment. When foreigners sell us their goods and accept dollars as future claims on the United States instead of buying American goods, they invest in the United States. This process creates what might be called "monetary" investments--holdings of dollars and dollar equivalents. OPEC monetary investments were discussed in an earlier report, "Are OPEC Financial Holdings a Danger to U.S. Banks or the Economy?" (EMD-79-45, June 11, 1979). Large holdings of dollars are also an invitation to invest in the United States in the more conventional sense--that is, to buy assets in this country such as stocks, bonds, real estate, etc. These latter investments are the primary concern of this report.

1/See "Are OPEC Financial Holdings a Danger to U.S. Banks or the Economy" (EMD-79-45, June 11, 1979).

Investments are broken down for analysis into direct and portfolio investment. Direct investment implies the ability to participate in management. Conventionally, it is defined as holdings of 10 percent or more of a given business or entity. This form of investment results in the most explicit influence over a firm's activities. Portfolio investment, on the other hand, implies only the desire for a financial return. It comprises everything that is not classified as direct investment, including "monetary" investments, bank accounts, U.S. Government securities, other bonds and stocks, and other U.S. liabilities to foreign nations and their nationals.

We have also examined OPEC financial ties to American universities and opinion-molding institutions because of their potential influence on U.S. public policy. OPEC governments have endowed chairs at American universities and have helped to finance academic programs. They have entered into contracts with American universities for specific services, and large numbers of students from OPEC countries attend U.S. institutions. Furthermore, like other countries, OPEC nations engage the services of public relations specialists and lobbyists.

U.S. POLICY TOWARD FOREIGN INVESTMENT

U.S. Government officials describe U.S. policy toward foreign investment here as "neutral" or "open door," that is, one which neither encourages nor discourages foreign investment. The practical effect of "neutrality" may encourage foreign investment. At a time when the United States is politically stable and its economy is the world's largest oriented toward the free market, our continuing deficits in world trade provide foreign governments and individuals with the wherewithal and incentive for large investment here. Moreover, several of our State governments actively seek foreign investment within their borders. The U.S. Government generally views inward investments, both direct and portfolio, as desirable. Maintaining an open door for foreign investment, it is believed, provides important benefits to the United States--more jobs, more productive capacity, and more competition.

Some U.S. laws and treaties tend to foster foreign investment. Since the nineteenth century, the United States has entered into treaties of Friendship, Commerce, and Navigation covering many areas other than foreign investment. Modern treaties of this sort--that is, those which postdate World War II--have been signed with several OPEC governments as well as many other nations. They were generally concluded at a time when the Government was trying to protect U.S. investment abroad. Their provisions are by and large reciprocal, and they usually provide for "national treatment" (that is, they require that a foreign company in the United States be treated no less favorably than a domestic company).

Our tax laws, a complex subject as emphasized by Treasury in their comments on our draft report, in some ways also favor foreign investment:

--They do not provide for withholding of taxes on capital gains by foreign or American investors. Foreign capital gains associated with the conduct of a trade or business in the United States are subject to U.S. taxation; gains from "passive" investments are not. U.S. Treasury figures make it clear that the overwhelming bulk of foreign investment falls in this latter category.

--They provide that 30 percent of dividends and interest payments to foreign investors be withheld except where tax treaties provide for a different, usually lower, tax liability. This policy may result in an effective rate of taxation for a foreigner that is substantially lower than for a comparable American investor.

--Investments by foreign governments are generally not taxed.

Some foreign governments, including those of some OPEC nations, are now investing in the United States in such a way as to involve them in commercial transactions. Consequently, the Internal Revenue Service is examining the tax status of certain foreign government investments.

Neither U.S. policy nor laws address foreign financial ties to U.S. universities. There are no controls or reporting requirements for either the foreign sponsor or the academic institution; we could find no U.S. agency which attempts to monitor these activities.

Public relations and lobbying activity by foreign countries, including OPEC, also take place in an atmosphere that is relatively free from constraints. The Foreign Agents Registration Act of 1938, as amended, places no limits on overall expenditures, but requires foreign agents to register with the Department of Justice. Other statutes prohibit them from making political contributions and forbid U.S. Government officials from acting as agents of foreign governments.

PREVIOUS GAO REPORTS

We have produced several previous staff studies and reports on foreign investment in the United States. The most comprehensive of these reports looked at the Government's control of foreign investment in national interest sectors of the United States. 1/ We have examined the issue of foreign ownership of farmland and recommended a Federal registration system to obtain nationwide data on foreign-owned land. 2/ Recently, we determined that most foreign-owned U.S. agricultural land has been purchased by West Europeans; Arab investors were not a factor. 3/

OPEC investments were discussed briefly in a report on Saudi Arabia 4/ and in a case study of foreign direct investments in North and South Carolina. 5/ We previously noted that the United States offers large and secure opportunities for capital investment by OPEC countries. 6/ We believe that U.S. policymakers have the responsibility for establishing appropriate links between this and other U.S. strengths in the formulation of international energy policy.

Most recently, in response to a request from the Chairman of the House Subcommittee on Commerce, Consumer and Monetary Affairs, we evaluated the impact of a possible

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1/"Controlling Foreign Investment in National Interest Sectors of the U.S. Economy" (ID-77-18, Oct. 7, 1977).

2/"Foreign Ownership of U.S. Farmland--Much Concern, Little Data" (CED-78-132, June 12, 1978).

3/"Foreign Investment in U.S. Agricultural Land--How It Shapes Up" (CED-79-114, July 30, 1979).

4/"Critical Factors Affecting Saudi Arabia's Oil Decisions" (ID-78-32, May 12, 1978).

5/"Impact of Foreign Direct Investments: Case Studies in North and South Carolina" (ID-76-43, Apr. 26, 1976).

6/"More Attention Should Be Paid to Making the U.S. Less Vulnerable to Foreign Oil Supply and Price Decisions" (EMD-78-24, Jan. 3, 1978).

liquidation of OPEC's assets. 1/ We determined that liquidation would not be a threat to U.S. banks or the economy in the short term. However, 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. This report is discussed in greater detail later in our analysis. (See pp. 10, 23, and 24).

METHODOLOGY AND SCOPE

Our intention has been to understand and assess the overall dimensions, character, and consequences of OPEC portfolio and direct investment, financial contacts with American universities, and public relations activities.

With regard to investments, this report relies upon data furnished by the Departments of Commerce and the Treasury as well as other U.S. Government agencies. Our findings are supported by extensive contacts both in Government and the private sector. We have made a particular effort to contact the U.S. entities involved--the companies in which OPEC countries or nationals have made investments.

Regarding financial involvement with academic institutions, our analysis is based on a review of written material and discussions with university officials as well as with representatives of national educational associations and private interest groups.

Our analysis regarding public relations activity was based on data provided by the Department of Justice.

We have not attempted to quantify U.S. trade with OPEC countries or to measure this influence, although it is clear that some of the U.S. companies and individuals who may attempt to influence U.S. policy and who support academic institutions and programs have extensive business contacts with OPEC member countries.

ISSUES DISCUSSED IN THIS REPORT

The following issues raised by OPEC financial influence are discussed in this report:

1/See "Are OPEC Financial Holdings a Danger to U.S. Banks or the Economy?" (EMD-79-45, June 11, 1979).

--Should the United States encourage or discourage OPEC investment in this country and should the Nation act differently toward certain types of investment or investments in different sectors?

--Are the U.S. Government data-reporting systems on foreign investments adequate and appropriate to identify potential problems?

--Would public disclosure of available OPEC data serve U.S. interests?

--Are OPEC connections with academic institutions and related public relations activities a source of potential influence?

--What are the implications for U.S. policy, particularly energy policy, of OPEC investments or financial activities?

CHAPTER 2

OPEC INVESTMENTS IN THE UNITED STATES

OPEC investments in the United States are large by any reckoning. Confusion over their size and importance arises, in part, from different estimates of their size and, in part, over different interpretations of which components should be included in the total. The following table shows total OPEC investment, according to official U.S. Government figures, broken down into its major components as of December 1978.

TABLE 1

Total OPEC (note a) Holdings in the United States

	Position, Dec. 1978 (millions)
Treasury bills and certificates	$ 3,277
Treasury bonds and notes	9,382
U.S. Treasury securities	12,659
Other U.S. Government liabilities (notes b and c)	4,414
Non-Government agency securities (note d)	3,796
Corporate bonds	2,365
Corporate stocks	6,299
Commercial bank liabilities in United States not included in table	10,255
Deposits in foreign branches of U.S. banks	19,815
Non-bank liabilities (note b)	2,253
Portfolio investment	61,856
Direct investment	325
Total foreign investment	$62,181

a/ Oil-exporting countries consist of OPEC plus Oman and Bahrain.

b/ Position consists of cumulative flows, 1972-78, OPEC only.

c/ Liabilities to foreign official agencies associated with U.S. Government transactions.

d/ Holdings are by foreign official institutions.

Source: U.S. Treasury, Office of International Banking and Portfolio Investment and Federal Reserve Board Statistical Release E-11.

These figures require some explanation. The "Other U.S. Government liabilities" category is similar to accounts payable. It consists primarily of prepayment for U.S. military sales. Some observers would not regard this as investment. Similarly, deposits in U.S. banks abroad would not be considered investment in the United States for balance of payments purposes. We have included them because they represent claims on U.S. resources and liabilities of the U.S. banking system.

Large as the figures for OPEC investment are, they should be kept in perspective. As the Treasury Department has explained:

--The oil-exporting countries account for 9 percent of all foreign holdings of Treasury securities, and about 1.6 percent of all holdings of Treasury debt.

--They hold an estimated 20 percent of all foreign investments in U.S. corporate and other securities, but only about six-tenths of 1 percent of all outstanding U.S. equities and about seven-tenths of 1 percent of all outstanding U.S. corporate bonds.

--They account for less than 10 percent of all liabilities to foreigners reported by banks in the United States, and for less than 1 percent of the total of $1.1 trillion of deposits held by Americans as well as foreigners in those banks; and

--Their direct investment holdings amount to less than 1 percent of all foreign direct investment in the United States, and about one-hundredth of 1 percent of the net worth of all U.S. firms.

OPEC INVESTMENT STRATEGIES

Because official statistics do not pinpoint OPEC investments, we contacted a number of firms which had accounts for OPEC countries and individual investors. Our sample is, of course, limited, and our discussions focused on general directions and trends and not on specific accounts. Most authorities agreed that the OPEC countries are particularly conservative investors. One small firm indicated that its Arab clients regarded the stock market as gambling. Another major financial institution indicated that it handled OPEC accounts much as it handled the funds of a major U.S. institutional investor, such as an insurance company. The financial institution operated at its discretion under general guidelines established by its OPEC clients. In general, these guidelines call for acquiring no more than 10 percent of their holdings in any one sector. One bank officer remarked that "the Arabs are heavily into oil, so why do they need to buy energy stocks? They have so much on deposit in U.S. banks, so why buy banks?" An official at another leading institution stated that OPEC countries placed no particular restrictions on investment in the United States except for religious or legal reasons (e.g., no liquor, tobacco, or entertainment stocks for religious reasons; no media or defense stocks because of perceived legal restrictions). 1/

OPEC PORTFOLIO INVESTMENT

Portfolio investment includes dollars deposited in U.S. financial institutions here and abroad, purchases of U.S. Government securities, agency and corporate bonds, equity investments (stocks, etc.)--when these amount to less than 10 percent of the ownership of the company concerned--and other loans or advances. The bulk of OPEC portfolio investment takes the form of dollars and dollar equivalents--that is, bank deposits (time and demand), money market instruments denominated in dollars, and U.S. Government securities, usually of short to medium term.

In our recent report entitled "Are OPEC Financial Holdings A Danger To U.S. Banks Or The Economy?" we concluded that OPEC holdings of U.S. Government securities and deposits in U.S. banks did not constitute a threat to market stability, U.S. banks, or the economy either because of their size or the possibility of their rapid liquidation. 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 under the International Emergency Economic Powers Act (Public Law 95-223). This act 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." (Public Law 95-223, Sec. 202).

Investment in stocks and bonds

OPEC investments in stocks and bonds are not so large as monetary investments; they are significant because they represent the flow of capital to specific industries or sectors. In contrast, purchases of U.S.

1/Actual restrictions on defense stocks pertain to ownership thresholds beyond which special security clearances are required for foreign owners.

Government securities or the deposit of dollars in a U.S. bank represent investments in the U.S. economy. They permit U.S. authorities or the market system to allocate the use of these resources. Purchases of particular stocks and non-Government bonds, however, are different since the investor determines to a higher degree the use of the resources. The Treasury publishes data on net foreign transactions in long-term domestic bonds (other than Treasury bonds and notes), and in domestic stocks, as well as other data on transactions in long-term securities by foreigners. The following table puts these investments in perspective.

TABLE 2

Foreign Transactions in Long-term U.S. Domestic Bonds (Other than Treasury Bonds and Notes) and Stocks

	Bonds			Stocks		
	(millions)					
Country	1976	1977	1978	1976	1977	1978
Ecuador	$ 1	$ (a)	$ (a)	$ 1	$ (a)	$ -1
Venezuela	(a)	-1	-3	16	18	11
Indonesia	(a)	(a)	2	7	(a)	1
Oil Exporting Countries (Asia)	1,179	1,695	810	1,803	1,390	781
Oil Exporting Countries (Africa)	(a)	-2	(a)	1	(a)	(a)
Total Europe	86	1,850	915	336	1,006	1,271
World Total*	1,202	4,179	2,446	2,753	2,675	2,408

a/Less than $500,000.
*/Includes countries other than OPEC and Europe.

Source: U.S. Treasury.

In 1978 purchases of both corporate stocks and non-Government bonds by OPEC nations declined. As with all types of OPEC investments, the most active investors have remained the "Asia" OPEC countries. 1/

OPEC purchases of FNMA securities

OPEC investors are known to hold some Federal National Mortgage Association (FNMA or Fannie Mae) debentures. FNMA, formerly an agency of the U.S. Government, is now a stockholder-owned, privately managed corporation. According to its congressional charter, FNMA provides supplementary

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1/The "Asia" OPEC countries include: Iran, Iraq, Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates.

liquidity to the secondary mortgage market. It does this by purchasing mortgages from primary lenders and financing them by internally generated funds and borrowings on the capital and money markets. FNMA's obligations are classified as "Agency Securities," though they do not represent obligations of the United States Government. In 1974 the Saudi Arabian Monetary Agency (SAMA) purchased $600 million Fannie Mae debentures through the Federal Reserve Bank of New York. The following year, an agency of the Venezuelan Government purchased $25 million in short-term notes, also through the Federal Reserve.

OPEC investors may well hold much greater amounts of FNMA securities. Fannie Mae short-term notes are bearer instruments, that is, they are not registered by the seller. Fannie May debentures are sold through a consortium of banks and brokerage houses. Because its formal relationships are with these sellers, FNMA does not maintain records as to which investors own its debt instruments. Although FNMA has no way of knowing who owns its securities, it believes that the majority of its debt instruments are held within the domestic banking system. OPEC investors, however, may be the ultimate or beneficial owners of some of these and other Fannie May securities.

Saudi investment in Dallas Power and Light bonds

Utility bonds are attractive to foreign investors because they represent low risk and relatively high-yield investments. As a case study of portfolio investment, we examined the purchase of $75 million of Dallas Power and Light bonds by the Saudi Arabian Monetary Agency. This investment interested us because it is large and in the energy sector.

In 1977, before the sale of bonds to SAMA, Dallas Power and Light contemplated additional debt financing and was aware of reports in the financial community that SAMA had purchased American Telephone and Telegraph bonds or those of its subsidiaries. At this juncture, a well-known Wall Street financial institution approached Dallas Power and Light with a proposal to sell bonds to SAMA. The deal was consummated through these financiers and a respected American law firm which represented SAMA. During and after the negotiations, Dallas Power and Light had no direct contact with SAMA or the Government of Saudi Arabia.

The purchase of these bonds, in the opinion of senior officers of Dallas Power and Light, gives SAMA no greater rights than other bond holders. Like other bond holders SAMA has no influence over policy. All Dallas Power and

Light bond issues are based upon a 1937 mortgage. The indenture for this bond issue is entirely comparable to those of other issues.

On the other hand, the SAMA bonds differ from previous Dallas Power and Light financing in several ways. Seventy-five million dollars is a higher figure than previous issues. The SAMA bonds are of medium term--6, 7, and 8 years rather than 30 years--at SAMA's request. Furthermore, SAMA requested that Dallas Power and Light not give this transaction undue publicity. While the company's previous practice had been to seek competitive pricing, the SAMA bonds represent a negotiated deal.

It is interesting to note that these SAMA bonds reflect oil-rich Saudi Arabia loaning money to a major utility in Texas to enable that utility to convert partially from oil and gas to lignite (soft coal) and nuclear power.

The Edison Electric Institute has encouraged Middle East investment in U.S. utilities. SAMA has made other private placements at Cleveland Electric Illuminating Corporation, Pacific Gas and Electric, and NICOR, the holding company for Northern Illinois Gas.

OPEC DIRECT INVESTMENT

Direct investment in a U.S. company is defined by the Department of Commerce as

> "* * * the direct, indirect, or a combination of direct and indirect ownership of 10 percent or more of the voting stock of an incorporated U.S. business enterprise or the equivalent interest in an unincorporated U.S. business enterprise."

Therefore, investments from citizens or residents of the oil-exporting countries would constitute direct investments if such investors purchased

--10 percent of an entity directly in their own names;

--10 percent of a company's stock through a bank, investment company, broker, or in the name of a third party; or

--part of a company's stock in their own names and part of a company's stock through a bank, investment company, or third party to total 10 percent.

According to the Bureau of Economic Analysis (BEA) of the Department of Commerce, direct investments from OPEC countries were valued at $256 million in 1977 and $325 million in 1978. By industry of major investments, $199 million was invested in real estate, $46 million in finance (primarily banks), and $56 million in manufacturing. Of the 1978 total, $248 million was from Arab OPEC countries, 1/ $5 million was from Iran, and $72 million was from all other OPEC countries. Some observers consider that these official estimates, particularly that of Iran, are low. The following table further breaks out these investments.

TABLE 3

OPEC Direct Investment Position in the United States as of 1978

	1977	1978 (note a)
	(millions)	
Ecuador	$ 7	$ 4
Venezuela	50	53
Latin America	b/56	57
Algeria	0	(d)
Gabon	1	1
Libya	0	0
Nigeria (note c)	(d)	20
Africa	(d)	21
Iran	4	5
Iraq	0	0
Kuwait	172	217
Qatar (note c)	1	1
Saudi Arabia	(e)	(e)
United Arab Emirates	(e)	(e)
Middle East	204	253
Indonesia = Pacific	-5	-6
OPEC TOTAL	256	325
Arab OPEC	200	248

a/Preliminary
b/Numbers may not add due to rounding.
c/Even though Nigeria and Qatar do not have any U.S. affiliates, a direct investment position is shown for them which reflects transactions between a U.S. affiliate and a foreign affiliate of the foreign parent located in one of these countries.
d/Less than $500,000, plus or minus.
e/Suppressed to avoid disclosure of data of individual companies.

Source: Bureau of Economic Analysis, U.S. Department of Commerce.

1/"Arab" OPEC countries include: Algeria, Gabon, Libya, Iraq, Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates.

While we are well aware of the constraints upon the accuracy of U.S. Government data, nevertheless direct OPEC investment in the United States does not appear to be large. Most OPEC investors, especially from the Middle East, seem to avoid financial transactions which would bring them into the public eye. Small companies in a variety of industries have been acquired by individual investors from the oil-exporting countries. But no OPEC government--with the possible exception of Kuwait--has made major acquisitions in the United States.

Investment counselors generally agreed that OPEC investors have been conservative and responsible. OPEC investors are looking for leverage and a substantial return through well-managed, income-producing investments. Real estate, hotels and development projects, such as construction companies and shopping centers, have been favored because they represent safe, tangible investments. Banking, to the extent Arab traders are familiar with the industry, also represents a popular investment area.

Bank investments

The Federal Reserve identified the following U.S. banks owned by individuals or for organizations from OPEC countries 1/ as of October 1979:

- Bank of Contra Costa, Calif.
- Pan American Nat'l Bank, Calif.
- Security Nat'l Bank, Calif.
- Caribbean Nat'l Bank, Fla.
- Dania Bank, Fla.
- FNB of Greater Miami, Fla.
- National Bank of Georgia, Ga.
- DuQuoin State Bank, Ill.
- Bank of the Commonwealth, Mich.
- UBAF Arab American Bank, N.Y.
- Union Chelsea Nat'l Bank, N.Y.
- Main Bank, Tex.
- Peoples Bank, Tex.

1/The degree to which these banks are "OPEC-owned" varies considerably. For example, 32 percent of the Bank of the Commonwealth is Saudi-owned, while 90 percent of Caribbean National Bank is Venezuelan-owned. According to the Federal Reserve, at least 25 percent of banks would have to be controlled for a bank to be "OPEC-owned."

In a past GAO report, 1/ we found that there was no systematic or comprehensive way to collect and compile information to monitor all foreign investments in U.S.-chartered depository institutions. Recently, however, the Government has taken steps to improve the quality, expand the coverage, and facilitate the exchange of data on foreign investments in these institutions. The Office of Foreign Investment in the United States (OFIUS) has proposed to undertake a study which would

- --maximize reporting of foreign ownership in existing financial reports,
- --minimize confidential classification of foreign ownership data,
- --maximize sharing of confidential foreign ownership data with OFIUS, and
- --establish retrieval systems in financial institutions to organize and deliver foreign investor data.

Some U.S. banks have sought OPEC investors in order to acquire capital to expand the bank's operations, carry out Eurodollar transactions or for other reasons. For example, a Saudi banking family added capital to the Main Bank of Houston and allowed the bank to take on more commercial and international transactions. Federal regulators believe that foreign ownership of the Main Bank has had a minimal effect. The debt/equity ratio of the bank has improved, and American managers with long years of banking experience continue to run the bank.

UBAF Arab American Bank of New York, 80 percent owned by a consortium of Arab banks, represents a different case. The bank engages in international wholesale commercial banking; it develops and serves financial relationships between the United States and Arab countries. No personal accounts are held by the bank, although the bank will advise Arabs or Americans who wish to invest in each other's countries. The bank has an active portfolio of U.S. securities and manages some small money-market instrument accounts. Federal regulators again have found no problems with UBAF's operation.

A prominent and controversial Saudi businessman has purchased the National Bank of Georgia. The move attracted national attention because it was associated with the former director of the Office of Management and Budget (OMB). The Saudi bought 60 percent of the bank's stock at a price higher

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1/"Federal Systems Not Designed to Collect Data on All Foreign Investments in U. S. Depository Institutions" (GGD-79-42, June 19, 1979).

than its market value at that time. He does not direct day-to-day operations at the bank, but acts through a U.S. representative on the bank's board of directors. Since his purchase, the bank's financial position has improved, and U.S. bank regulators believe that management has become more conservative.

In another well-publicized case, investors from Abu Dhabi, Kuwait, and Saudi Arabia each purchased 4.9 percent of Financial General Bankshares stock through the Bank of Commerce and Credit International in London. They have since announced their intention to acquire control. The Securities and Exchange Commission (SEC) determined that these investors, acting as a group, held over 5 percent of a registered security and had violated SEC regulations by not filing with the Commission. A U.S. District Court ordered the investors to make an offer to take over the bank as a group or to give up their shares of stock. While a tender offer has been made, the take-over attempt is still pending.

Energy investments

Investments by oil-exporting countries in the U.S. energy sector may be especially sensitive to the national interest. Why, some critics argue, should countries which control our external supply of oil be allowed to control internal distribution or supply?

The Department of Energy (DOE) and its predecessor, the Federal Energy Administration (FEA), have monitored foreign investment in U.S. energy since 1974. DOE has identified only one OPEC investment in the U.S. energy sector--a 1976 investment by Saudi Arabians in the Arabian Shield Development Company.

We have determined that the Arabian Shield Development Company is, in fact, a nonfuel, mineral exploration company operating in Saudi Arabia. The company also owns rights to some mineral lands in Nevada. When the Dorchester Gas Company (Texas) first formed the company, some U.S. oil and gas property was used for equity. These holdings, with the exception of small oil and gas properties in Louisiana, Alaska and a minor interest in Petroleos Hondurenos, have been disposed of. Current capital has come largely from 11 Saudi investors who have purchased 42.7 percent of the company. These investors, including members of the Saudi royal family, have not expressed interest in managing the company but support the company's exploration for copper, iron ore, and other mineral interests in southern Saudi Arabia.

None of the major U.S. oil companies we contacted has identified any OPEC investors as among their stockholders of record. This does not mean, however, that OPEC investors could not be holding shares of the EXXON or Gulf Corporations through third parties or street names. Mobil Oil Corporation, for example, told us that the majority of its shareholders are "* * * nominees of the Stock Clearing Corporation, brokers and banks. We have no means of knowing the identity of the beneficial owners of such shares." Even the Occidental Petroleum Company, in which a wealthy Saudi is said to have 1 million shares, denies that it can identify any OPEC holders of its stock.

Although these U.S. corporations cannot identify either the foreign owners or the value of their securities which have been purchased or held for foreigners by U.S. nominees, the Treasury Department's S Form Reporting System monitors transactions in U.S. stocks and bonds by foreigners. As discussed later in chapter 4, however, this system does not identify the specific corporation, industry or sector in which foreign investments are made. Thus neither the Federal Government nor the U.S. corporation is able to identify the beneficial owner of a particular security held by a third party.

The most publicized attempts by OPEC investors to purchase U.S. energy companies directly have involved Occidental and the Commonwealth Oil Company. In 1976 the Government of Iran indicated that it was pursuing a 13- to 17-percent interest in Occidental in order to obtain access to advanced technology. This deal later fell through when Iran and Occidental were unable to agree on terms of the final agreement. However, the Committee on Foreign Investment in the United States met to review the proposed investment to determine whether it would have adverse implications for the national interest. At that time, FEA expressed concern that Occidental's involvement in the International Energy Agency's emergency oil-sharing plan might give Iran access to confidential information and that such information should be safeguarded. Nevertheless, the Federal Government did not object to or intervene in the investment.

Another wealthy Saudi investor and a group of Arab investors have sought oil refineries in Newfoundland and Puerto Rico. The latter refinery is owned by Commonwealth Oil Refining Company, with headquarters in Texas. This investment would represent the first acquisition (35-percent ownership) of a large U.S. energy company by citizens of the oil-exporting countries. Resolution of the outstanding obligations of Commonwealth, creditor and regulatory approval, and shareholder agreement are expected to take several months. As of August 1979, this takeover was still in doubt. Commonwealth believes that equity investors from the Middle East will have no greater leverage than the OPEC nations now hold by virtue of their monopoly supply of crude oil to Commonwealth.

Other OPEC direct investments

Direct investments from the oil-exporting countries and especially from private wealthy entrepreneurs from the Middle East have been concentrated in the Southern and Western United States. In many cases, investment advisors to these countries have suggested States like Georgia, Texas, and California as growing areas for profitable ventures.

We interviewed representatives of several firms in which citizens of OPEC countries have purchased major shares of stock. In some cases, the business involved was looking for an entree to the Middle East and sought a foreign investor. In other cases, the business had a favorable reputation in the OPEC country, and the investor sought a share in the company. Management has usually remained in place after the takeover, and stock is voted through designees or by proxy. Rarely have OPEC investors taken an active role in running their direct investments.

Among the types of direct investments made by governments of OPEC countries is real estate (land, residences, resorts, shopping centers and hotels). Private OPEC investors have purchased investment banking and holding companies, construction companies, yarn and clothing concerns, and trucking establishments. None of the identified investments seem to be in either high technology or sensitive industries. A recent GAO report 1/ analyzed foreign investment in agricultural land. We found that most foreign-bought acreage was purchased by Western Europeans and that Arab investors were not a factor. Middle Eastern sources seem to account for about 75 percent of OPEC investments, including those made by both governments and private citizens. (See apps. I and II.)

1/"Foreign Investment in U.S. Agricultural Land--How It Shapes Up" (CED-79-114, July 30, 1979).

CHAPTER 3

OTHER TYPES OF POTENTIAL FINANCIAL INFLUENCE

Financial influence on energy policy can take forms other than conventional investments. The oil-exporting countries' ability to finance activities in the United States is especially noticeable in academia and public relations.

SCOPE OF OPEC FUNDING AT AMERICAN UNIVERSITIES

American universities receive OPEC funds in several ways:

--Contracts to perform specific services for the OPEC sponsor.

--Grants or endowments for academic programs related to the culture or interests of the donor.

--Financial support for students from the OPEC country enrolled at the university.

Given the overall cost of higher education in the United States and the total value of the contract work done by some universities, the value of OPEC gifts and contracts is not significant. Total gifts have amounted to less than $5 million. And contracts, while difficult to estimate, are unlikely to approach the amounts spent by the U.S. Government and private sector. Most observers agree that Arab nations have been particularly selective in their gifts to U.S. schools. Those universities which benefited have done so largely because of the influence or generosity of well-placed Arab alumni. Under its new government, Iran has stopped providing gifts to American universities.

We found no OPEC financial involvement with university programs which could reasonably influence national energy policy. In general, Arab OPEC donors have emphasized gifts to academic programs dealing with Arab matters. Their contracts with universities are usually concerned with developing educational programs in the sponsor countries. Iranian funding followed a similar regional focus, although the Shah also supported programs dealing with business administration.

In the last several years, large numbers of students from several OPEC members have enrolled in U.S. colleges. During 1977-78, the 73,550 students from 12 OPEC members accounted for 31.2 percent of all foreign students in the United States. As a portion of all enrolled students, this is quite small; but as a percentage of total foreign student enrollment, this is obviously significant. The State Department has encouraged this exposure to the American way of life for years. While in the United States, most foreign students support themselves with their own resources or with the help of their families. American schools are eager to enjoy the diversity associated with foreign students; few actively recruit them. Even at universities where OPEC students are relatively numerous, they make up only a small portion of the student body. To the extent that OPEC governments provide students with funds to study in the United States, these arrangements are made between the government and the student.

OPEC PUBLIC RELATIONS AND LOBBYING

Public relations and government lobbying are perhaps the most direct ways to influence public attitudes and official policies in the United States. Foreign governments, through their diplomatic representatives or other agents, routinely engage in such activities. OPEC governments should not be expected to be exceptions. The question is whether OPEC members are using their sizable financial resources to carry out particularly extensive public relations and lobbying efforts resulting in, presumably, disproportionate influence in the United States.

All countries with diplomatic representation in Washington enjoy at least some capability to engage in lobbying and public relations. Many countries, however, supplement these resources by employing the services of private individuals and companies to represent their interests before U.S. executive agencies, the Congress, the courts, the press, and the general public. Such representatives, called foreign agents, most commonly are lawyers and public relations firms. Our report does not cover the clandestine operations of OPEC foreign intelligence services. If OPEC governments are spending unusual sums to influence American public attitudes and government policy, they would be used to purchase the services of foreign agents who have the skills, knowledge, and personal associations to advance their interests.

According to the Justice Department's records, OPEC members are not especially active in employing foreign agents. In 1977, as a group, their expenditures of $14.1 million represented only about 4 percent of the total $348.3 million spent by all foreign countries on foreign agents. In 1978 this share declined to 2 percent. Even allowing that the unusually large figures for Chile and the Soviet Union include funds spent on certain commercial activites, OPEC nations do not stand out as big spenders for foreign agents. Of the 38 countries which spent more than $1 million on foreign agents in 1978, only four--Algeria, Venezuela, Saudi Arabia, and Indonesia--were members of OPEC. (See app. III.) Algeria's sizable sum is overwhelmingly devoted to the commercial activities in the United States of Sonatrach--an Algerian state-owned business--and to Sonatrach's support for a number of Algerian students enrolled at U.S. schools. OPEC governments have engaged the services of some of the best known U.S. lobbying and public relations firms. These firms, however, frequently represent other foreign governments.

We have been unable to calculate the extent to which the Justice Department's figures may understate reality. In the absence of any concrete evidence to the contrary, however, we do not believe that OPEC nations as a group are using their resources to influence public policy through public relations or lobbying differently than other foreign countries.

CONCLUSIONS

OPEC countries' financial involvement with American universities is limited in scope, and the ties that do exist are unlikely to provide OPEC members with added influence over U.S. energy policy.

OPEC members' financial involvement in lobbying and public relations, while often conspicuous, remains small in comparison to the expenditures of many other foreign governments. Public relations and government lobbying in the United States which have been funded by OPEC countries often involve well-known individuals. Yet, OPEC members as a group are not major spenders for foreign agents.

CHAPTER 4

EFFORTS TO MONITOR OPEC FINANCIAL INFLUENCE IN THE UNITED STATES

Gaps exist in identifying the extent of OPEC financial flows in the United States. Several Government agencies, as well as private groups, directly or indirectly track OPEC investments. Most Government data collection mechanisms were established to monitor the U.S. balance of payments and regulate the U.S. banking system not to determine the origin or permit an informed observer to infer the intent of specific foreign investments. Private groups, which often represent special interests, focus on the issues raised by OPEC and other foreign financial influence but lack the resources to provide a comprehensive appraisal.

PUBLIC MONITORING EFFORTS

The Department of the Treasury

The Treasury Department is the primary collection point within the Federal Government for portfolio investment data. The Treasury publishes data in the "Capital Movements" section of the Treasury Bulletin on transactions (purchases and sales) of all types of long-term domestic and foreign securities by foreigners as reported by U.S. banks and brokers. Nonmarketable U.S. Treasury notes (foreign series) and nonmarketable U.S. Treasury bonds and notes are exceptions; these are shown in the "International Financial Statistics" section. While, in most cases, Treasury publishes these data by country, for a number of OPEC countries it has decided to present the data in a less useful aggregate format.

For OPEC, Treasury publishes separate data on the amount of portfolio investment only for Ecuador, Indonesia, and Venezuela. Data for other OPEC members--notably the Arab OPEC countries and Iran--are reported only in aggregate form, such as "African oil exporting countries," "Asian oil exporting countries," "Other Africa," "Other Asia," or "Middle East."

The reasons cited by the executive branch for these aggregates are described in our report "Are OPEC Financial Holdings a Danger to U.S. Banks or the Economy?" (EMD-79-45). The Treasury Department takes the position that "the Investment Survey Act of 1976 forbids revealing the affairs of individual investors. Treasury cannot reveal totals of certain countries because they would reveal the affairs of certain individual foreign investors." We do not agree with these reasons.

Stated in this manner, Treasury's position appears to be one of protecting the privacy of individual human beings. In fact, they are withholding information concerning massive transactions of official government monetary institutions.

We recognize that, for policy reasons, there may be exceptions to the general desirability of publishing international financial data. But the onus for justifying this exception rests heavily on the agency wishing to suppress information. We further 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 have recommended that the Departments of the Treasury and Commerce, and the Federal Reserve Board provide additional justification to the Subcommittee on Commerce, Consumer and Monetary Affairs of the House Committee on Government Operations for not publishing data on OPEC countries. The Subcommittee should then (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. Treasury and Federal Reserve officials consider that in their testimony of July 18, 1979, they have already provided sufficient justification to the Subcommittee. Their explanations, however, failed to satisfy either our concerns or those of the Subcommittee. We have also recommended 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.

Treasury also collects data on foreign deposits in, and loans from, banks in the United States, while the Federal Reserve Board tracks deposits in, and loans from, foreign branches of U.S. banks. In our previous report, we identified bank deposits as a reporting area where the OPEC countries receive special treatment. While countries as small as Monaco, Brunei, and Cambodia are treated separately in Treasury statistics, OPEC Middle East countries are grouped.

Traditional portfolio investment statistics, that is, data on equity transactions under 10 percent of a company's stock, are also collected by Treasury. Country totals, except for African and Asian OPEC nations, are published, but a breakdown of foreign private vs. foreign official institution purchases or sales is not given. Treasury believes that last year, well over 75 percent of foreign equity purchases were made by foreign official institutions. Except for the 5-year benchmark surveys, no data is collected which indicates in which particular U.S. industries or sectors foreign portfolio investors have placed their money.

Under the International Investment Survey Act of 1976, the Treasury Department is working on a "benchmark" study which will describe foreign holdings in the United States as of 1978. The benchmark study is intended to determine the magnitude and aggregate value of portfolio investment, the form of investments by sector, types of investors, nationality of investors, and holders of record. However, certain types of foreign investments are not reported through either regular or benchmark methods. For example, we reported in September 1978 1/ that neither type of monitoring would pick up:

--Limited partnership interests.

--Fractional interests in oil, gas, and other investment property.

--Limited partnership or financial interests in crops and real estate.

The previous benchmark study reported that foreign holdings of U.S. stocks were equal to about 5 percent of the value of all publicly traded equities.

The Department of Commerce

Two offices in the Department of Commerce--the Office of Foreign Investment in the United States and the Bureau of Economic Analysis--collect information on foreign direct investment in the United States. BEA is the official Federal reporter of U.S. balance of payments statistics, and its estimates of OPEC direct investment are used as official Government data. BEA figures, however, are significantly lower than those of OFIUS or of other non-Government sources.

The Bureau of Economic Analysis requires U.S. businesses established or acquired by a foreign person holding at least 10 percent or more direct or indirect voting interest to file Form BE-15 and a new Form BE-13. It then summarizes the data on voting shares, operating costs, assets, and liabilities of the enterprise and reports them in The Survey of Current Business. However, even the new reporting form has weaknesses. BEA classifies investments according to a company's

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1/Letter report to the Chairman, Subcommittee on Commerce, Consumer and Monetary Affairs (GGD-78-114, Sept. 20, 1978).

first foreign parent rather than ultimate foreign parent. As a result, OPEC investments made in the United States through Luxembourg or Netherlands Antilles companies, that is, indirect transactions, are recorded as Luxembourg and Netherlands Antilles investments. BEA also classifies investment by country of residence and not the country of citizenship of the persons making the investment. Another gap in this official monitoring is that BEA's data from 1975-78 cover only businesses with assets, sales, and net income over $5 million. The Bureau is depending on the results of the next Commerce Department benchmark survey, similar to the previously described Treasury study, on foreign direct investment to pick up investments in companies worth $5 million or less. As of December 1978, BEA reported that OPEC direct investments totalled $325 million.

The Office of Foreign Investment in the United States collects information from the public domain (documents from Federal agencies such as the SEC 13D and 10-K forms, newspapers, magazines, industry reports, etc.) on the extent of foreign investment in the United States. According to OFIUS, OPEC direct investment totalled $786 million from 1974 to June 1979. This total represents the announced amounts of new OPEC investment including possible capital borrowed in the United States rather than the value of old and new investments financed only with funds from the foreign parent, and thus is not directly comparable to BEA data on the direct investment position. Also, OFIUS does not identify the actual year in which capital flows occur; rather OFIUS data are based on the announced date of the transaction. Because public sources are used for its reports, OFIUS identifies particular investments in terms of type of transaction, source country and amount of transaction, where possible, and publishes information on specific investments by individual firms. BEA data, on the other hand, is reported in the aggregate. One exception to this is the July 18, 1979 testimony of the Commerce Department's Chief Economist before the House Subcommittee on Commerce, Consumer and Monetary Affairs, wherein tables were used to show individual OPEC countries' total investments in the United States.

Securities and Exchange Commission

The Securities and Exchange Commission tracks foreign investment, direct or indirect, involving more than 5 percent of a company's stock. Section 202 of the "Domestic and Foreign Investment Improved Disclosure Act of 1977" requires persons who acquire more than 5 percent of a registered equity to file a statement of their background, identity, residence, and citizenship.

This system does not provide a complete view of foreign equity holdings. Owners of securities which are not registered with the SEC need not file. Thus, investments in some public and all private companies are not reported. Banks or brokers who purchase securities for clients may not always report on whose behalf the purchases have been made. According to the SEC, banks often report that they are investing "for their accounts," without identifying the actual investor. While the Domestic and Foreign Investment Improved Disclosure Act requires that the actual owner of the stock come forward, financial institutions need only report <u>if they know</u> a client holds over 5 percent of a stock. Moreover, in the case of a foreign intermediary or a foreign stockholder, these regulations are difficult to enforce.

Department of Energy

The Department of Energy and its predecessor, the Federal Energy Administration have monitored foreign investment in U.S. energy since 1974. Under section 26 of the Federal Energy Administration Act of 1974 (Public Law 93-275), FEA was directed to conduct a "* * * comprehensive review of foreign ownership of, influence on, and control of domestic energy sources and supplies." In December 1974, FEA submitted its report, which relied heavily on available direct investment data for petroleum, natural gas, coal, nuclear fuel cycle and alternative energy sources. The report notes that "* * * even without apparent control of domestic energy activities, influence over U.S. energy may be gained through portfolio investments and/or disguised direct investment in U.S. energy corporations." Yet neither the 1974 report nor the 1976 and 1978 reports which followed have made any attempt to analyze portfolio investments or disguised investments in U.S. energy corporations. DOE never used the results of Treasury's 1976 benchmark survey of foreign portfolio investment in energy.

Under the Department of Energy Organization Act (Public Law 95-91), DOE must include in its Annual Report

> "* * * a summary of activities in the United States of companies or persons which are foreign-owned or controlled and which own or control U.S. energy sources and supplies, including the magnitude of annual foreign direct investments in the energy sector * * *."

To fulfill this requirement, DOE has again reported direct investment in the production and/or development of U.S. primary energy resources. None of the reports issued by DOE has been concerned with foreign investment in U.S.

energy processing, transporting, and marketing apart from refinery capacity and gasoline sales. Therefore, the Department has no records of foreign investment in pipelines, utilities, transportation, or technology companies.

In 1974 FEA determined that its Office of International Affairs did not have the resources or time to do as broad a study as the FEA Act might allow. Work was narrowed to direct investment only and primary energy sources exclusively. The 1976 and 1978 reports followed this pattern despite increased manpower for international energy work at the Department of Energy and increased public and congressional interest in foreign investments. According to DOE sources the Department has not discussed expanding the scope of its current monitoring. Only one OPEC direct energy investment has been identified by DOE monitors. (See ch. 2.)

DOE relies on its regional offices to collect information on foreign investment in the uranium industry. Surveys are sent to mining and exploration companies requesting voluntary responses to a question on foreign financing of their activities. We reviewed this voluntary system in 1975 1/ and determined that improvements were needed to verify the accuracy of this information. We requested that DOE consider establishing a mandatory reporting system to collect more reliable statistics on foreign investment in the uranium industry. Unfortunately, despite an increase in foreign participation, the Department of Energy has done little to improve its reporting. Current information understates the extent of foreign involvement in uranium which DOE reports as $39.3 million or 13 percent of total domestic exploration expenditures. None of this funding has been identified as OPEC money, but it is known that OPEC investors were interested in Canadian uranium resources. Ten of the 18 foreign companies managing uranium exploration ventures in the United States are Canadian.

Other agencies' activities

Certain industries require special reporting by investors. The Civil Aeronautics Board, for example, requires any holders of 5 percent or more of air carriers or of a capital class of stock to report quarterly the beneficial owners of 1 percent or more of such stock. One such report by Morgan Guaranty Trust Company of New York received wide attention last Fall during hearings of the Senate Subcommittee on Antitrust, Monopoly and Business Rights. Morgan identified portfolio investments it had made on behalf of

1/See "Certain Actions that Can Be Taken to Help Improve this Nation's Uranium Picture" (EMD-76-1, July 2, 1976).

the Governments of Abu Dhabi and Kuwait in such airlines as Allegheny, Braniff, Eastern, Seaboard World, and TWA. The Federal Communications Commission also requires holding companies and investment companies to report beneficial owners and voting rights of investments over 1 percent in the communications field. These reporting requirements would identify foreign portfolio as well as direct holdings.

No U.S. Government agency keeps track of financial support provided American universities by foreign sources; hence no agency could provide us with independent estimates of the scope of OPEC funding. The Department of Health, Education and Welfare (HEW) provides grants to foreign area studies centers including Middle East centers. Officials at HEW do not seek to determine the sources of other university funds because they believe that the National Defense Education Act, which recognizes State and local primary responsibility for education, precludes such inquiries. Officials of the International Communications Agency (ICA) have expressed interest in OPEC financial involvement with U.S. schools but have no programs to track these developments.

Lobbying by OPEC governments would be tracked under current monitoring systems. Under the Foreign Agents Registration Act of 1938, as amended, any individual or business in the United States which acts as an agent for a foreign principal must regularly report these activities to the Department of Justice. These reports identify, among other matters, the foreign principal, the activities involved, and all expenditures and fees. To encourage compliance, the Department of Justice periodically audits the records of foreign agent registrants. The last GAO review of the Justice Department's foreign agent registration program was in 1974. That report 1/ criticized the Department of Justice for inadequately monitoring foreign agents' activities and for failing to ensure their compliance with U.S. law. Justice Department officials claim that their program is now more effective. It is beyond the scope and purpose of this report to evaluate this program. Nevertheless, we believe the foreign agent registration reports are adequate to identify the relative activity of OPEC members in employing agents to influence public and Government perceptions and policies.

Advance Government consultation arrangements

The Ford administration set up new administrative procedures on foreign investment in the United States in 1975. It also established a Committee on Foreign Investment in the

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1/"Effectiveness of the Foreign Agent Registration Act of 1938, as Amended, and Its Administration by the Department of Justice" (B-177551, Mar. 13, 1974).

United States (CFIUS) comprised of representatives of the Departments of the Treasury, State, Defense, and Commerce to assess general trends and significant developments in foreign investments on an ad hoc basis. Through CFIUS, all foreign governments which might be contemplating major investments in the United States are expected to consult with the Federal Government prior to such investments. These consultations apply only to large Government equity investments, not to private or portfolio investment.

The Governments of Saudi Arabia, Kuwait, Qatar and the United Arab Emirates have agreed to consult through the Committee on Foreign Investment in the United States on significant ventures. Apart from the Government of Kuwait, none of these governments indicated any desire to make large equity purchases in the United States. The former Government of Iran also agreed to consult with the U.S. Government on major investments once it had been assured that all foreign governments had been requested to do the same. According to U.S. Government officials, these government-to-government contacts would keep the United States informed of any efforts by the oil-exporting countries to make major acquisitions in the U.S.

The Committee on Foreign Investment in the United States has largely operated on an ad hoc basis to respond to Congressional and public concerns over foreign investment. It relies upon the data collected by OFIUS to highlight trends or problem areas with foreign investment in the United States. Contrary to what President Ford's Executive Order intended, the Committee does not serve as the focal point for monitoring the impact of foreign investment or for coordinating the implementation of U.S. policy towards this investment.

PRIVATE MONITORING EFFORTS

As part of their normal financial operations, U.S. banks monitor their exposure to country risk from an overcommittal to loans or deposits for any one country. Banks can and do refuse deposits which would be inappropriate to their asset structure. In this way, the U.S. banking community acts as a screen against unmanageable deposits by OPEC or other foreign investors.

Trade associations also analyze the activities of foreign investors in U.S. securities markets. One New York association has identified the Middle East oil-exporting countries as large purchasers of U.S. corporate stocks and bonds in 1978, and as sellers of U.S. Treasury bonds and notes during the same period. This association bases its analyses on copies of Treasury Department reporting forms

(International Capital Form S) submitted by its members to the association at the same time they file with Treasury. While the association's data and analyses are more timely than Treasury's, they may not be as complete because all those reporting to Treasury may not be members of the association. Nevertheless, private analysts have access to essentially the same data on transactions by individual OPEC countries which Treasury has withheld from both the Congress and us.

Another private group which watches over the financial activity of the oil-exporting countries is the American Jewish Committee (AJC). In 1978 the AJC published a study on "Arab Investments and Influence in the United States" which argued for a more informed and realistic perception of Saudi Arabia on the part of U.S. policymakers. The AJC is the only public or private organization we could find which attempts to monitor OPEC, especially Arab OPEC, financial involvement with American universities. The AJC bases its estimates on newspaper and magazine articles and other informal sources. According to the AJC, seven Arab oil-exporting countries and the Arab ambassadors in Washington have given American universities about $3.7 million in grants and endowments, while Iran has given $2.25 million in endowments and $1 million in grants to U.S. universities. In addition, the AJC reports that 10 schools have contracts with Arab oil-exporting countries and 8 with Iran, but is unable to provide the dollar value of many of these contracts.

CONCLUSIONS

U.S. Government data systems are geared to monitor foreign investments acquired directly. Specific investments made through a broker, bank, third party, or third country are less readily identified from Government data. OPEC investors, both because they desire confidentiality regarding their financial dealings and because they seek expert financial advice, use financial intermediaries. U.S. officials might not be aware on a timely basis if through such third parties, particular strategic investments were made so as to influence policy.

Data as collected and published may understate the extent of OPEC holdings for other reasons. Some small firms may not be aware of the reporting requirements; some foreign firms dealing in U.S. securities may not be subject to them. Data may be adequate for balance of payments purposes, that is, for tracking international flows of goods, services, and capital. They are not useful for monitoring possible foreign interest in or leverage over specific industries or sectors, such as energy. Treasury officials have emphasized that a restructuring of the data collection systems, for example, to show foreign purchases and sales of securities by industry or sector, would involve substantial costs. But under current methods, it is unlikely that the government could answer the questions "who owns whom" or "who is buying whom" for OPEC or any other foreign investors.

CHAPTER 5

CONCLUSIONS, RECOMMENDATIONS, AND

AGENCY COMMENTS AND OUR REVIEW

Some observers fear that foreign investment may cause the United States to lose some degree of economic freedom. When the sources of foreign investment are OPEC members, these fears grow as the "oil weapon" appears to be joined by a "money weapon." On the other hand, the recent freezing of the assets of the Government of Iran shows that the "money weapon" cuts both ways. We cannot assess definitively the extent of OPEC's influence on U.S. affairs nor any additional leverage given the United States until Federal agencies cease to withhold county-by-country data concerning OPEC investments. For example, we could not assert that any one OPEC government, e.g., Saudi Arabia, does not hold the bulk of purchases of U.S. securities or deposits in U.S. banks. Therefore, we cannot completely dismiss the fears of those who question the implications of OPEC financial influence. Nevertheless, we can put this issue in perspective.

We have previously determined that the rapid liquidation of OPEC assets in the United States, whether motivated for political or economic reasons, could be absorbed by the market. Only if OPEC funds were withheld from the United States for an extended period would the profitability of banks and perhaps the economy of the United States be impaired. In any event, the President has sufficient authority to deal with a financial emergency.

The accumulation of assets in the United States by OPEC nations would perhaps be another way of defining the "money weapon." According to official Government estimates, OPEC investments are small in proportion to foreign investment as a whole and to the size and scope of the U.S. economy. A very small part of OPEC investment has gone toward direct acquisitions of U.S. businesses. None of these direct investments could be identified as a strategically placed investment in either major U.S. companies or sensitive industries. Most OPEC investments fall into the portfolio category. These holdings are often managed as passive investments by third parties and do not give the OPEC clients much influence in an enterprise. Bank deposits and purchases of U.S. securities allow the U.S. banking system or the Treasury Department to control, to a high degree, the use and allocation of these funds.

At the outset of this study, we raised the issue of whether OPEC financial influence constitutes a threat to the United States or whether it might improve the U.S. bargaining position with OPEC nations. We have already discussed the extent to which we believe OPEC financial influence is not a threat to the United States at this time. (See ch. 2.) As a group, OPEC investors have generally supported the dollar by investing here, purchasing U.S. securities, and keeping a large part of their reserves in dollar-denominated accounts. Any effort specifically to encourage or discourage OPEC investments would, of course, be a deviation from the stated, long-standing U.S. policy of neutrality toward foreign investment. It might invite retaliation by other foreign investors or discourage new investment by making the United States appear to be a less attractive investment market. However, in the event that OPEC financial influence becomes a problem to the United States, many options exist to strengthen our negotiations with these nations.

These options include the following:

--The United States could require foreign investors to register their purchases subject to the approval of a review board which would determine whether the investment was of "significant benefit" to the United States.

--Sanctions could be imposed on investors who fail to meet SEC, BEA, or other reporting requirements. Failure to file would, in effect, mean the investment would be disallowed in the United States.

--Limits could be placed on the percentage of control a foreign person could acquire in U.S. companies. Legal restrictions against investments in certain industries could be extended to include energy, transportation, or others.

--Limits could be placed on the amount of voting power a foreign investor could exercise once he has acquired control of a company.

--Any commercial transaction of a foreign government could be taxed to encourage purchases of U.S. securities and passive investments.

For the United States to treat OPEC government investments differently from other foreign investments would be difficult. Some large foreign investments in the United

States are government-owned. Therefore, countries with which we have had close economic ties may fear that their investments would be similarly treated. Moreover, the widespread availability and use of financial intermediaries probably would make discrimination among investors from particular countries impossible.

Rather than restrict OPEC direct investments, the United States might want to channel or encourage such investment in particular areas or sectors where it is most needed. In the past, the United States tried to convince OPEC countries to expand their downstream energy activities in the United States. These governments were not interested, however, because they wanted then and still want to increase the value added for their own economies through domestic industrial development. This policy option, therefore, may no longer be viable for petroleum investments, but the Government could pursue the interests of OPEC countries in technology areas and alternative energy sources. Joint ventures and investments in these areas might be mutually beneficial and could increase the interdependency between the United States and OPEC.

We do not believe that it would be appropriate for the United States to place restraints on OPEC holdings at this time. However, we are concerned that the Government does not take financial interdependence into account in formulating U.S. international energy policy. Financial policy is generally handled separately from other aspects of our relations with OPEC nations. When they were interviewed prior to the Iranian crisis, Government officials believed that OPEC governments were helpful in supporting the dollar. They wished to maintain friendly commercial relations with these nations. Recent events show that situations may arise in which the United States may want to change its strategies toward OPEC investment. In these cases, more detailed and current information is needed.

In order to improve the Government's knowledge of the extent and nature of OPEC financial influence in the United States, we believe that improvements are needed in some Federal monitoring activities. Monitoring of OPEC financial flows and their potential for influence in the United States is fragmented. Many agencies have responsibilities for collecting investment information for particular industries, but none can provide an overall picture of the extent of OPEC influence. Country data is not shared among agencies nor disseminated to all who need them, including the Congress. Apart from periodic benchmark studies, portfolio investment data do not show in which sector or industry a foreign investment has been made. The Department of Energy relies on information gathered by other agencies to detect foreign investment and has no records of investments in many ancillary energy industries.

We have found no national energy policy implications in OPEC financial ties to U.S. universities. Compared with those of other nations, OPEC public relations activities were not unusual in scope or financing.

RECOMMENDATION TO THE DEPARTMENT OF THE TREASURY

Unless the Secretary of the Treasury can demonstrate to the House and Senate Committees on Government Operations and on Appropriations that the costs to both the Government and private business of additional reporting would be excessive, we recommend that Treasury collect on International Capital Form S data identifying the sector and industry of equity purchases. This additional information would permit timely and regular identification of the areas of the U.S. economy into which foreign portfolio investment, including that of OPEC, is flowing. We further recommend that this data be published at least annually in a format similar to other published investment statistics.

RECOMMENDATIONS TO THE DEPARTMENT OF COMMERCE

We recommend that the Secretary of Commerce determine how foreign beneficial owners could be better identified under current Bureau of Economic Analysis reporting requirements. Forms should, at a minimum, attempt to identify whether the reporting entity is itself a subsidiary of another foreign company or whether the beneficial owners of the reporting entity are nationals of a third country.

We further recommend that the Secretary of Commerce carefully examine the results of the Department's next benchmark survey to see whether the magnitude of increase in foreign investments in businesses with income under $5 million warrants closer annual monitoring.

RECOMMENDATIONS TO THE DEPARTMENT OF ENERGY

We recommend that the Secretary of Energy transfer responsibility for DOE's monitoring of foreign investment in U.S. energy from the Office of International Affairs to the Energy Information Administration (EIA). Given EIA's legislative mandate to collect, evaluate, assemble, analyze, and disseminate energy data and information, we believe that it is a more appropriate focal point for DOE's monitoring responsibility.

We further recommend that the Department collect primary source information on foreign investment by amending its Financial Reporting System to include questions on foreign sources of equity capital, loans, and joint ventures. This reporting system covers a much wider range of energy producing, processing, transportation, and technology companies than is presently monitored by the Office of International Affairs.

AGENCY COMMENTS AND OUR REVIEW

A draft of this report was circulated to the Departments of Commerce, Energy, and the Treasury; the Federal Reserve Board; and the Securities and Exchange Commission. In addition, we furnished relevant portions of the draft report to certain private groups for comment.

The Department of Energy and the Securities and Exchange Commission were unable to prepare their replies in a timely manner. Those of the Department of Energy were received 1 month late; those of the Securities and Exchange Commission were not received at all. The Commission's viewpoint, therefore, has not been included in our discussion. Comments by private groups were considered and incorporated where appropriate. Agency comments are included in appendices IV, V, VI, and VII.

Treasury Department comments

The Department of the Treasury fundamentally disagrees with our contention that it is important to know on a reasonably current and continuing basis "who owns whom?" or "who is buying whom?" with regard to foreign portfolio investment in the United States. Treasury states that no evidence suggests that this investment, wherever it may occur, operates against the interests of the United States. Therefore, Treasury feels that the expenses required to generate additional current information in this regard is unjustified.

Based upon information obtained during our review, we found no evidence that foreign investments are placed in such a way as to operate against the national interest. However, the existence of a clear and present danger is not the issue. Instead, we question the ability of the executive branch to detect such a threat in a timely manner, should it occur.

Many Americans take the view that foreign influence or control over key sectors of our economy is undesirable, however benign or well-intentioned the foreign investors may be. Increasing financial and economic interdependence is inevitable and possibly desirable. We cannot, however, accept the complacent attitude that there is no need to monitor this development in greater detail than is currently the case.

Comprehensive "benchmark" studies are conducted every 5 years. These studies take a number of months to complete. Therefore, long periods elapse during which responsible officials lack up-to-date information on circumstances which might change rapidly.

Many private companies and some Government officials believe that annual reporting would be easier and less expensive in the long run than accumulating data every 5 years. More detailed investment reporting might not, therefore, be the financial burden to the private sector that Treasury officials contend. We maintain that the Treasury Department should show some cost analysis of amending International Capital Form S before dismissing the idea that more detailed foreign equity information is needed.

The Treasury Department also made extensive comments on specific language and ideas expressed in our draft. We have changed and amended our report, where possible, to accommodate Treasury's points. However, there are several instances where we do not believe that such accommodation is appropriate.

As stated previously, persons who acquire more than 5 percent of equity securities in companies which (1) are traded on major exchanges or (2) meet certain asset and shareholder requirements must report these transactions to the SEC. According to SEC officials, failure to comply with reporting requirements for certain transactions, particularly those originating through financial intermediaries abroad, is difficult to detect. We have correctly noted that public and private transactions could thus escape Government monitoring. Whether, as Treasury contends, such omissions would be small has not been demonstrated. Yet, these gaps remain in foreign ownership monitoring.

The Government of Kuwait has already made several large purchases in the United States, particularly of real estate. (See app. I.) We believe that "major investments," nebulously defined by the Committee on Foreign Investment in the United States, would include such acquisitions.

While Treasury has correctly pointed out that investments made through third parties "are as identifiable in the Treasury data as investments made directly," this statement means that aggregate information is available on a country's total investments. Specific investments, as we have stated repeatedly, cannot be identified. Furthermore, Treasury's own comments note that, for direct investments (monitored by the Department of Commerce), "* * * to the extent that such investments are held by foreign nominees on behalf of beneficial owners the original source of foreign investment is frequently impossible to determine." Therefore, we continue to believe that the Federal Government may not be aware of particular strategic investments in a timely manner.

Treasury believes that all U.S. Government agencies which have a need for foreign investment data have access to such data. This is not the case. Department of Commerce officials have made several requests for OPEC portfolio investment data by country to Treasury officials; these requests have been refused. DOE's Office of International Affairs is requesting access to some BEA investment data on energy companies which, if approved, may not be shared within the Department.

Treasury comments that U.S. policy has never encouraged OPEC investment in downstream energy activities in the United States. Our investigations revealed the contrary. We suggest that Treasury officials discuss past efforts to attract OPEC downstream energy investment with the Departments of Energy and Commerce.

Commerce Department comments

The Department of Commerce argues that the Bureau of Economic Analysis, in fact, releases more data to specific interested users than it publishes. This data must meet BEA's statistical confidentiality provisions prior to disclosure, however. Agencies delegated to perform analytical and statistical functions under the International Investment Survey Act--namely Treasury and Commerce itself--are given somewhat wider access to country data. Commerce officials also believe that tables, such as those provided to the Subcommittee on Commerce, Consumer, and Monetary Affairs, in the July 18 testimony of the Chief Economist, are available to all users. This has not been the case. BEA officials denied us information on OPEC investments other than that which appeared in the April 1978 article in the Survey of Current Business, entitled "OPEC Transactions in U.S. International Accounts." Furthermore, we believe that the International Investment Survey Act does not exclude congressional access to confidential information. The Congress would have to indicate clearly that it is subject to the limitations of the act. Yet, the Commerce Department has demonstrated a willingness to share information only with other designated members of the executive branch.

Commerce officials recognize that their current data system in non-benchmark years presents some gaps. However, they do not believe that requiring annual reporting would improve data accuracy at a reasonable cost. We believe that the Commerce Department should carefully examine the results of its next benchmark survey to see whether the magnitude of increase in foreign investments in businesses with income under $5 million warrants closer annual monitoring.

Commerce officials expressed concern that a transfer of responsibility for monitoring foreign investment from DOE's Office of International Affairs to the Energy Information Administration would be inappropriate. The Office of International Affairs has requested access to BEA data on individual companies from the Office of Federal Statistical Policy and Standards. These data, however, could not be shared with agencies not authorized to have access to them. Commerce officials go on to describe how EIA could not have access to BEA data since, by law, EIA must share all information in its possession with other offices in DOE.

We believe that the Commerce Department has overlooked the intent of our recommendation. We have previously described how BEA data underestimates some types of foreign holdings. Access to this data is unlikely to improve reporting on foreign direct investment in U.S. energy. Furthermore, the Office of International Affairs at DOE has been monitoring foreign investment since 1974, yet this is the first time that the Office has acted to expand its coverage. Until we began this examination, moreover, the Office of Federal Statistical Policy and Standards was unaware that the Office of International Affairs did such energy data gathering. We maintain that the Energy Information Administration is a more appropriate focal point for DOE's monitoring of foreign investment in U.S. energy. EIA can collect its own primary source information by amending its financial reporting system. It need not rely on access to BEA data.

Federal Reserve Board comments

The Federal Reserve Board generally concurred with Treasury's comments and emphasized the added cost of accumulating additional data on foreign investments to both respondents and to the Federal Reserve, which processes this data. As discussed above, we believe that the Federal Reserve Board and the Treasury Department should analyze these costs in greater depth before dismissing our recommendation.

We have added to our list of OPEC-owned banks two additional banks that the Federal Reserve identified in its comments.

Department of Energy comments

The Department of Energy agrees that EIA should be responsible for gathering information relating to foreign investment in U.S. energy. However, DOE either does not agree with or fails to understand our recommendation on how this responsibility should be carried out. The Department questions our recommendation to amend the Financial Reporting System to include data on foreign sources of equity capital, loans, and joint ventures. The Department believes that the intent of our recommendation is that DOE contact financial intermediaries here and abroad. DOE indicates that inquiries such as these would be beyond the scope and intention of section 205 (h) of the Department of Energy Organization Act (Public Law 95-91).

We are not suggesting that DOE contact financial intermediaries but that the Department ask energy companies the sources of their financing. Such inquiries would reveal foreign investors such as Robeco (Netherlands), an equity fund which has large holdings in several U.S. oil companies and utilities. At present, investments such as this are not identified in DOE records.

DOE also points out that efforts have been made to improve its monitoring of foreign investment in energy by requesting access to Bureau of Economic Affairs data. We commend these efforts but still believe it is necessary to amend the Financial Reporting System in order to obtain adequate data. In our opinion, access to BEA data is unlikely in itself to significantly improve reporting on foreign energy investment.

OPEC DIRECT INVESTMENT IN THE UNITED STATES, 1974 to 1978

Source Country	U.S. Investment	State	Type of Industry
	1974		
Kuwait	Kiawah Island	S.C.	Real estate
Saudi Arabia	Arizona-Colorado Land and Cattle Company	Ariz.	Beef cattle
	1975		
Kuwait	Kirby Building Systems, Inc.	Tex.	Prefabricated metal bldgs.
Kuwait	Kirby Real Estate	Tex.	Holding Co.
Saudi Arabia	Bank of the Commonwealth	Mich.	Banking
Venezuela	Int'l Basic Economy Corp.	N.Y.	Holding Co.
	1976		
Iran	Canal Place (w/ J. Canizaro)	La.	Real estate
Iran	Rancho Matilija (Cattle Ranch)	Calif.	Real estate
Kuwait	Atlanta Center Ltd.	Ga.	Hotels
Kuwait	Vallco Park Ltd.	Calif.	Realty Hdq.
Kuwait	Columbia Plaza Office Building	D.C.	Real estate

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

Source Country	U.S. Investment	State	Type of Industry
Saudi Arabia	Arabian Shield Development Co.	Tex.	1/Oil and gas
Saudi Arabia	Bank of the Commonwealth	Mich.	Banking
Saudi Arabia	Sam P. Wallace Co.	Tex.	Commercial construction
	1977		
Kuwait	Houston's Galleria	Tex.	Real estate
Kuwait	Hotel	Nev.	Real estate
Kuwait	Castle residence	Ariz.	Real estate
Nigeria	Embassy residence	N.Y.	Real estate
Saudi Arabia	Land & Mineral Rights (Swamp w/ Natural Gas Potential)	La.	Real Estate
Saudi Arabia	Main Bank of Houston	Tex.	Banking
Saudi Arabia	National Bank of Georgia	Ga.	Banking
Venezuela	Beach property	Fla.	Real estate
Venezuela	Union Chelsea National Bank	N.Y.	Banking
Venezuela	First National Bank of Hialeah	Fla.	Banking
Venezuela	Litco Corporation	N.Y.	Holding Co.
Venezuela	Petroleos De Venezuela	N.Y.	Oil and gas business office

1/Actually, nonfuel mineral exploration.

Source Country	U.S. Investment	State	Type of Industry
	1978		
Iran	Land	Calif.	Real estate
Iran	New Atlanta Hotel	Va.	Hotels
Kuwait	Landmark Hotel	Nev.	Hotels
Kuwait	Petra Capital Corp.	N.Y.	Investment banking
Middle East	Commonwealth Oil Co.	Tex.	Oil and gas
Middle East	Financial General Bankshares, Inc.	D.C.	Holding Co.
Middle East	Union Bank Bldg.	Calif.	Real estate
Saudi Arabia	Arab News	D.C.	Newspaper publishing
Saudi Arabia	Babst Services, Inc.	La.	Construction Co.
Saudi Arabia	Commercial Property (Plaza of the Americas)	Tex.	Real estate development
Saudi Arabia	CRS Design Assoc., Inc.	Tex.	Construction management
Saudi Arabia	Land-Galleria	Tex.	Real estate
Saudi Arabia	Residence	Ga.	Real estate
Venezuela	Apartment house	N.Y.	Real estate
Venezuela	Banco De Venezuela	N.Y.	Banking
Venezuela	Land	Fla.	Real estate
Iran	Bijan	Calif.	Retail clothing (men's & boys')

APPENDIX I

Source Country	U.S. Investment	State	Type of Industry
Iran	Holyoke Shopping Center	Mass.	Real estate
Kuwait/ Pakistan	Burkyarns, Inc.	N.H.	Yarn Mills
Saudi Arabia	Donaldson, Lufkin and Jenrette	N.Y.	Finance
Saudi Arabia	RLC Corp.	Del.	Trucking
Saudi Arabia	Switzer Mesa	Ariz.	Real estate

OTHER REPORTED DIRECT INVESTMENTS BY OPEC COUNTRIES,

1974 to 1978 (note a)

Source Country	U.S. Investment	State	Type of Industry
	1974		
Kuwait	Land	Ky.	Real estate
Kuwait	Johns Island	S.C.	Real estate
	1975		
Middle East	Land	N.J.	Real estate
Saudi Arabia	Security National Bank	Calif.	Banking
Saudi Arabia	Bank of Contra Costa	Calif.	Banking
Kuwait	Westwood Industrial Park	Mass.	Real estate
Saudi Arabia	Land	Tex.	Real estate
Kuwait	Industrial Bldg.	Calif.	Real estate
Kuwait	Commercial Property	Mass.	Real estate
	1976		
Middle East	Reynolds Securities	N.Y.	Finance
	1977		
Saudi Arabia	Office Building	Mass.	Real estate
Middle East	Office Building	Tenn.	Real estate
Saudi Arabia	International Systems, Inc.	Ala.	Modular housing

a/These investments were identified by GAO from other sources including: press reports--"Arab Investments and Influence in the United States," American Jewish Committee, and SEC Filings.

Source Country	U.S. Investment	State	Type of Industry
	1978		
Saudi Arabia	Land	Va.	Real estate
Kuwait	Buildings	N.Y.	Real estate development
Kuwait	Korf Industries	N.C.	Steel

EXPENDITURES IN EXCESS OF $1 MILLION

ON FOREIGN AGENTS

1978

	Country	Expenditures
1.	Chile	$729,743,614
2.	USSR	56,834,105
3.	France	28,548,296
4.	Algeria (note a)	17,774,828
5.	Poland	12,518,538
6.	Fed. Rep. Ger.	12,162,689
7.	Japan	10,765,501
8.	Israel	10,426,725
9.	Canada	8,697,566
10.	Mexico	7,712,055
11.	Ireland	7,436,538
12.	Great Britain	7,141,915
13.	Iceland	5,313,045
14.	Columbia	4,825,380
15.	Liberia	4,341,419
16.	Bermuda	3,517,009
17.	Jamaica	3,320,683
18.	South Africa	3,155,770
19.	Australia	2,523,263
20.	International (note b)	2,494,067

a/Member of OPEC.
b/Department of Justice grouping of countries acting together.

Country	Expenditures
21. Korea	$2,415,538
22. India	2,317,628
23. Spain	2,315,963
24. Italy	2,301,718
25. China (ROC)	2,126,885
26. New Zealand	2,054,489
27. Austria	1,924,297
28. Greece	1,854,122
29. Bahamas	1,749,095
30. Hong Kong	1,692,183
31. Trinidad and Tobago	1,671,080
32. Philippines	1,657,605
33. Switzerland	1,646,055
34. Indonesia (note a)	1,609,852
35. Netherlands	1,524,529
36. Venezuela (note a)	1,472,416
37. Saudi Arabia (note a)	1,347,918
38. Portugal	1,273,736

a/Member of OPEC.
Source: U.S. Department of Justice.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

OCT 15 1979

Dear Mr. Voss:

This is in response to your letter to Secretary Miller, received September 14, 1979, requesting comments on the draft GAO report "Improvements Needed in Government Monitoring of OPEC Financial Influence." [See GAO note 1, p. 59.]

With respect to the report's recommendations, the Treasury Department believes that data now collected by the U.S. Government on foreign investments in the U.S. are adequate for analytical uses and for policy formulation. Additional information would not significantly improve the formulation of public policy and would not provide benefits equal to the additional costs that would be incurred. This is particularly true with respect to the recommendation for collection of additional data under Treasury's Capital Form S by sector or industry. We believe that the draft GAO report is itself evidence of the dubious utility of such an exercise. Nowhere in the report has the GAO made a case for collecting such data. The report simply argues definitionally that collection of data by sector and industry would permit the identification of the areas of the U.S. economy receiving such investment.

The Treasury Department also does not agree with the recommendation to the Department of Energy. We believe that the collection of data on the foreign sources of equity capital, loans, and joint ventures associated with foreign investments in energy would also be of little utility. The main effect of the recommended action would be to increase the cost to the government and the public of the data collection efforts of the U.S. Government.

Attached you will find detailed comments on the other sections of the report.

Sincerely yours,

C. Fred Bergsten

Mr. Allen R. Voss
Director
U.S. General Accounting Office
Washington, D.C. 20548

Attachments

Comments on Draft GAO Report on "Improvements Needed In Government Monitoring of OPEC Financial Influence"

Digest--page ii.* At the bottom of this page it is stated that the Treasury refuses to release important statistics to outside analysts, including the Congress of the United States. The reasons why the Treasury has refused should be stated in the Digest as well as in the main report.

Page 2. We believe that the statement that a large part of the growing OPEC surpluses in the coming years will be invested in the U.S. is probably exaggerated. In the past, less than one third of these surpluses has been invested in the U.S.

Page 3. As a technical matter the definition of portfolio investment needs to be changed. Bank accounts, U.S. Government securities, bonds, stocks and "monetary investments" are all U.S. liabilities to other nations. Consequently, they should not be considered as separate and distinct.

Page 3. The analysis in the third paragraph is overly simplistic. We do not need to run a trade deficit for foreign investment in the U.S. to increase.

The report should make the point that FCN treaties are reciprocal, also requiring a U.S. company abroad to be treated no less favorably than a domestic company.

Page 4. The broad statement that "our tax laws in some ways also favor foreign investment" is misleading. It is based upon an overly simplistic, one dimensional analytic approach that selects a single provision out of the Internal Revenue Code and then considers it, in isolation and out of context thereby ignoring other relevant considerations. The assertion that our tax laws "do not provide for withholding of taxes on capital gains" is illustrative of this approach and the misleading conclusions that are the likely outcome. Our tax laws do not provide for withholding on capital gains of U.S. citizens. In this respect therefore, foreigners are not "favored" over U.S. citizens. If the implication is that these gains are not taxed the assertion is, in part, incorrect. Capital gains associated with the conduct of a trade or business in the United States are subject to U.S. taxation. The gain from passive investments, in general, is not. In this latter case where a foreigner is not subject to the U.S. capital gains tax he is also not permitted to deduct a capital loss from ordinary income as American taxpayers can. These are some of the complexities the statement glosses over.

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*/See GAO note 2, p. 59.

The report also notes in the same context of favorable tax treatment for foreign investors that our tax laws provide a 30 percent withholding tax for dividends and interest payments to foreign investors except where reduced by a treaty. This particular withholding tax does not favor foreign investment. It may discriminate against it to the extent that dividends and interest payments to U.S. citizens and resident aliens are not subject to withholding and can therefore more easily escape tax. Apart from this collection aspect, the question is largely one of rates. A zero tax on interest to non-residents favors them over domestic investors, but a 30 percent tax may be higher than the tax on a domestic lender. Furthermore, the U.S. withholding tax is on gross income, whereas U.S. citizens are taxed on their net income. It also ignores the fact that the reductions provided in our bilateral treaties are in exchange for similar tax reductions by foreign governments on interest and dividends earned by U.S. investors in their countries.

The statement that "investments by foreign governments" are generally not taxed is also misleading. A more accurate description is that portfolio investments by foreign governments are generally not taxed. Income from commercial transactions is subject to U.S. taxation. Difficulties can and do arise at the margin where distinctions between commercial and portfolio transactions are blurred. Similarly, there may be technical questions as to whether certain entities are governmental or private. Foreign governments are not unique in this respect as similar questions arise in the U.S. regarding the governmental status of such entities as the Federal Reserve Banks, OPIC, Federal National Mortgage Association, etc.

The report also implicitly suggests that foreign investors have an economic advantage over competing U.S. investors in those instances where "our tax laws . . . favor foreign investment." This interpretation too is simplistic in that it overlooks the fact that this income may be subject to taxation by the foreigner's government at rates equal to or greater than those imposed by the Internal Revenue Code.

In short, the comments simply ignore the myriad of difficult technical policy considerations inherent in the question of how to or even whether we should tax foreign investment income in the U.S.

Page 4. The report should note that all foreign countries' public relations and lobbying activities here are relatively free from constraints. OPEC should not be singled out.

Page 5. The implication that U.S. policy makers do not take into account financial and other factors in the formulation of U.S. international energy policy is in error.

Page 10. There are no U.S. legal restrictions on foreign investment in defense stocks. The restrictions on foreign investment in media stocks are applicable only to investments in radio, television and telegraph companies which would give aliens more than 20 percent ownership of any such company.

Page 10. The statement on page 10 that OPEC investments in stocks and bonds "are significant because they represent the flow of capital to specific industries or sectors" is difficult to understand. All investments represent flows of capital to specific industries or sectors. Therefore, investments in stocks and bonds are no more significant in this regard than any other forms of investment. The report should explain why such investments are especially significant.

Page 11.* The first full paragraph is in error. The Treasury Department publishes data monthly in the Treasury Bulletin which include "direct loans and accounts payable." A copy of the pertinent table is attached.

Page 16. In the interest of completeness, the report should include a discussion of the efforts the Administration is undertaking to compile information on foreign investments in U.S. depository institutions and to ensure that such information is available to the appropriate officials and agencies which have responsibility in the area of foreign investment. A memorandum which describes the system that is now being put into place is attached.

Page 17. The entire section on "Energy Investments" appears designed to give the impression that oil-exporting countries are a threat to the national interest by means of secret or potential investments in U.S. petroleum companies. Yet nowhere in the section is any evidence cited of any significant OPEC investments in U.S. oil companies nor does the section explain what the potential threat to the national interest would be if there were any significant investments.

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*/See GAO note 3, p. 59.

The first paragraph of this section sets up a straw man with the specter of investments by OPEC countries as leading to "control (of) internal distribution or supply" but gives no explanation of what is meant by this language. In this regard the view attributed to the Commonwealth Oil Refining Company on page 19 is instructive and to the point. Also instructive is the implication on page 35 that OPEC investments in down-stream energy activities in the U.S. might be desirable from our viewpoint, if not that of the OPEC countries.

Page 18. The report should make clear that although some U.S. corporations may be unable to identify the value of their securities which have been purchased for foreigners by U.S. nominees or are held for foreigners in custody in the U.S., such securities are nonetheless covered by the Treasury S Form collection system.

Page 18. The second paragraph states that the Government did not object to the Government of Iran's investment in Occidental even though FEA expressed concern that Occidental's involvement in the International Energy Agency's oil-sharing plan might give Iran access to confidential information. This statement is incomplete and misleading. The minutes of the meeting of the Committee on Foreign Investment in the United States of July 7, 1976, state that Mr. Thompson of FEA "indicated that there must be safeguards on the confidentiality of information distributed through the Industry Advisory Board channels. He noted, however, that even American officials of IAB member companies have access to such information on a 'need-to-know' basis." The minutes later state, "In sum, Mr. Thompson indicated that the problems he had discussed were not of such a nature that the proposed investment should be inhibited."

Page 23. It is inaccurate to state that U.S. Government data systems help monitor the balance of payments and regulate the U.S. bank system but do not determine the origin of specific foreign investments. Most of the capital movements data collected by the Treasury Department do, in fact, identify the country of origin of such investments. All of the direct investment data published by the Commerce Department are also on a geographic basis. Of course, to the extent that such investments are held by foreign nominees on behalf of beneficial owners, the original source of foreign investment is frequently impossible to determine.

This section of the report also notes that these data systems were not established to determine the intent of specific foreign investments. Suffice it to say, no data will reveal intent, a basic point which is overlooked throughout the GAO report.

Pages 23-24. The discussion at the top of the page should be changed to indicate that the Treasury Department takes the position that the International Investment Survey Act of 1976 forbids revealing the affairs of individual investors. Treasury cannot reveal totals of certain countries because they would reveal the affairs of certain individual foreign investors.

The discussion at the bottom of the page should note that the Treasury, citing the recommendation by the GAO, has provided extensive justification in its testimony before the Subcommittee on Consumer, Commerce and Monetary Affairs.

Pages 24-25.The last sentence is incorrect. One of the main purposes of the benchmark survey is in fact to identify the particular industries and sectors in which foreigners have made investments. This sentence typifies the failure of the entire report to distinguish between the collection of data by industry and sector and the frequency of such collection.

Page 25. The second sentence is also in error. Almost all of the TIC reporting system is designed "to determine the magnitude and aggregate value of portfolio investment" in the U.S. as well as the type of such investment and the nationality of the investors.

Page 27. It is our belief that foreign investments in most public companies are, in fact, reported to the SEC. The GAO may wish to include in its report any evidence it has to the contrary.

Pages 29-30. The section on "Advance Government Consultation Arrangements" is inaccurate and/or incomplete and hence misleading in several respects. The basic facts regarding these arrangements are: (1) <u>all</u> governments contemplating major investments in the U.S. <u>are expected to consult</u> (not "could consult" as stated in the report) with the CFIUS on such investments. (2) "Major investments" have not been defined for this purpose but they exclude only diversified

portfolio investments in U.S. corporate securities and investments in U.S. Government securities. Thus the statement that "these consultations apply only to large government equity investments. . ." is not correct.
(3) Saudi Arabia, Kuwait, Qatar, the U.A.E. and Iran are the only countries which have had occasion to agree to consult because they are the only countries which were asked to respond to our request for consultations (since these were the major, and probably only, potential governmental investors in the U.S. we wanted to be doubly sure they were aware of and agreeable to the arrangements). To merely note that these countries have agreed to consult leaves the impression that it is questionable whether other governments will consult.
In fact, we have every reason to believe that no foreign government has made or will make a major investment in the U.S. without consulting the CFIUS. (See testimony of July 30, 1979 by Assistant Secretary Bergsten to Rosenthal subcommittee for a full explanation of the CFIUS and consultation procedures.) The report is also inaccurate, or at least misleading, in regard to Kuwait's intentions. The Government of Kuwait has told USG officials that it has no intention of acquiring more than 5 percent of the stock of any major U.S. company.

Page 31. With regard to the first two sentences of the conclusions, investments made indirectly through brokers, banks and other third parties in the U.S. are as identifiable in the Treasury data as investments made directly.

Page 31. We believe that any OPEC investments in the U.S. by small firms or through foreign firms dealing in U.S. securities which are not captured by U.S. reporting systems are very small.

Page 33. We believe the GAO report should demonstrate how the data discussed in the first paragraph (and on page ii) would permit it to "assess definitively" the extent to which OPEC investment in the U.S. may provide these countries with the "ability to wield undue influence." This contention has been directly or indirectly asserted by the GAO on a number of occasions, but without supporting analysis. The Treasury Department does not see how provision of these data would have the effect asserted by the GAO and if the GAO cannot provide a basis for it, the Treasury Department believes that the GAO should cease making this assertion.

Page 35. The statement that "the United States might want to channel or encourage investment by OPEC into particular areas or sectors where it is most needed" makes little sense. For the Government to make judgments on where investment is most needed would be a major departure from long-standing USG policy, on which there is is still general consensus in the country, that market forces, not the Government, should allocate investments. Certainly, the mere fact that OPEC governments have large and diversified holdings here is not a basis for contemplating such a drastic change. The suggestion is also curious in that it implies that the GAO believes it might be desirable to have OPEC investments in the U.S. channeled away from banks and USG securities, toward direct investments and portfolio investments in private bonds and stocks.

The report states "in the past the United States tried to convince OPEC countries to expand their downstream energy activities in the United States." This has never been U.S. policy and we are not aware of any such effort on the part of U.S. officials.

Page 35. In the second paragraph it is stated that "the Government does not take financial interdependence into account in formulating U.S. international investment policy." What is meant by this statement? What precisely should the Government do that it is not doing in this regard? Again, in the last sentence in the first paragraph, what information or analyses does the GAO believe should be available for the purpose of a possible change in strategies toward OPEC financial influence here?

Regarding the last paragraph on this page, we believe that all U.S. Government agencies which have a need for data collected on foreign investment in the U.S. have access to such data.

The last paragraph also states "apart form periodic benchmark studies, portfolio investment data do not show in what particular sector or area a specific investment has been made." The basic question is what purpose, if any, would be served by more frequent collection of these data.

Page 36. We have already stated that the recommendation that the Treasury collect data on its S Form to identify the sector and industry of equity purchases has not been justified in the report. Thus the burden of proof which is put on the Treasury in this section is particularly troublesome, namely that the Secretary should show that the cost of the additional reporting would be "exorbitant." Such words as "exorbitant" have no meaning or usefulness in this kind of abstract context. Sensible public policy calls for a cost-benefit analysis, thus the cost is not assessed in such absolute terms as "exorbitant" but in relation to the benefits to be derived. More importantly, as noted above the GAO has not identified the benefits that could be expected from implementing its proposal for additional data collection.

Attachments

GAO note 1: The title of our draft report was changed to "Changes Needed to Improve Government's Knowledge of OPEC Financial Influence in the United States."

GAO note 2: Page references in this appendix were changed to correspond with the page numbers of this final report.

GAO note 3: This paragraph was deleted from this final report because we concurred with Treasury's comments.

UNITED STATES DEPARTMENT OF COMMERCE
Office of Inspector General
Washington, D.C. 20230

October 16, 1979

Mr. J. Dexter Peach
Director, Energy and Minerals Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Peach:

This is in reply to Mr. Eschwege's letter of September 13, 1979 requesting comments on the draft report entitled "Improvements Needed in Government Monitoring of OPEC Financial Influence."*

We have reviewed the enclosed comments of the Chief Economist and the Director, Office of Foreign Investment in the United States, Industry and Trade Administration, and believe they are responsive to the matters discussed in the report.

Sincerely,

Mary P. Bass

Mary P. Bass
Inspector General

Enclosure

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*/See GAO note 1, p. 65.

COMMENTS ON THE GENERAL ACCOUNTING OFFICE DRAFT REPORT: "IMPROVEMENTS NEEDED IN GOVERNMENT MONITORING OF OPEC FINANCIAL INFLUENCE"

Following are the comments of the Office of Foreign Investment in the United States on the subject General Accounting Office draft report.

General Comments

The description of OFIUS' data collection system, in the first sentence of the second paragraph on page 26* of the GAO report, should be revised to read: "The Office of Foreign Investment in the United States collects information from the public domain (documents from Federal agencies such as the SEC 13-D and 10-K forms, newspapers, magazines, industry reports, etc.) on the extent of foreign investment in the United States."

On page 26 in the same paragraph, following the statement, "This total represents the announced amounts of new OPEC investment including possible capital borrowed in the United States rather than the value of old and new investments and thus is not directly comparable to BEA data," an additional sentence should be inserted: "Also, OFIUS does not identify the actual year in which capital flows occur; rather, OFIUS data are based on the announced date of the transaction."

To clarify the statement on page 26 on how OFIUS identifies investors, please revise the sentence beginning in the fourth line from the bottom of the page to read as follows: "Because particular investments in terms of type of transaction, source country and amount of transaction, where possible, and publishes information on specific investments by individual firms."

*/See GAO note 2, p. 65.

COMMENTS ON THE GENERAL ACCOUNTING OFFICE DRAFT REPORT: "IMPROVEMENTS NEEDED IN GOVERNMENT MONITORING OF OPEC FINANCIAL INFLUENCE"

Following are the comments of the Chief Economist on the subject General Accounting Office draft report.

General comments

In several instances, the GAO report does not adequately distinguish between the data collected, the data available to outsiders, and the data published by BEA. BEA collects data on an affiliate by affiliate basis, that is, U.S. affiliates of foreign parent investors. Data are available to outsiders by individual country and/or industry as long as BEA's statistical confidentiality provisions are not violated, i.e., as long as the data for an individual affiliate cannot be identified. Data are published at a much higher level of aggregation, mainly because of space considerations in the Survey of Current Business, BEA's monthly publication, and because there is generally little analytical interest in country-industry cells where investment is very small. Thus, the statement made on page ii of the report that "although Treasury and Commerce compile country-by-country data on OPEC holdings, in most cases they refuse to release important statistics to outside analysts, including the Congress of the United States" is misleading. BEA does not refuse to release its country-by-country data to anyone, as long as the data are readily available and do not violate BEA's statistical disclosure rules. In fact, as mentioned later in the report itself (page 26), my June 18th testimony before the House Subcommittee on Commerce, Consumer, and Monetary Affairs included tables prepared by BEA on investment by individual OPEC countries. (A copy of the testimony is attached.) These tables are available to all users. Their provision to the Subcommittee was not an "exception." Similarly, on page iv, the statement that "country data is not shared among agencies nor disseminated to all who need them, including Congress" is not true as far as BEA is concerned. In fact, upon request, BEA routinely gives out country data not otherwise published, and will share even data on individual affiliates with agencies that are delegated by the President to perform analytical and statistical functions under the International Investment Survey Act. Again, on page 24 of the report, GAO states that "We have recommended that the Department of the Treasury, Commerce and the Federal Reserve Board provide additional justification to the Subcommittee on Commerce, Consumer, and Monetary Affairs of the House Committee on Government Operations for not publishing data on OPEC countries." I have already noted in my June 18th testimony before the Subcommittee that data for the individual OPEC countries are not published separately on a regular basis by BEA simply because of the small size and volume of the investments. This treatment is consistent with the treatment for other countries with small investments. However, as noted above, this does not mean that the data for individual countries are not available, upon request, to interested users.

As regards the confidentiality of data, discussed on page 24 of the report, I fully explained the Department's position in my June 18th testimony before the Subcommittee on Commerce, Consumer, and Monetary Affairs.

The description of BEA's data collection system on pages 25 and 26 of the GAO report is somewhat misleading. On page 25, the report states that "BEA figures...are significantly lower than those of OFIUS or of other non-government sources." Presumably, the report is referring to BEA's data on the foreign direct investment position, which is defined as the net book value of foreign direct investors' equity in, and outstanding loans to, their U.S. affiliates. It includes only funds invested directly by foreign parents; it excludes funds obtained from other sources, such as those from existing U.S. affiliates of the foreign parent that are used to establish or acquire stock in other U.S. companies. OFIUS' definition of direct investment is much broader. It includes the total cost of all forms of investment activity regardless of the source of financing. Thus, it includes not only funds from foreign parents but also any U.S.-source funds. The latter usually provide a large share of the total cost of new investments in a given year. Other differences between the two series were discussed in my June 18th testimony. 1/ The GAO statement on page 25, therefore, is true as concerns BEA data on the direct investment position, but only because of these definitional differences. It is not true as concerns other data now collected by BEA--specifically, the data on the sources of financing of new investments, collected on Form BE-13, and data on external financing of U.S. affiliates, collected on Forms BE-12 and BE-15. The distinction between data collected by OFIUS and those collected by BEA should be discussed more fully on page 26. In addition, the sentence at the bottom of page 26 should be changed to read (underlined portions added): "This total represents the announced amounts of new OPEC investment including possible capital borrowed in the United States rather than the value of old and new investments financed only with funds from the foreign parent and thus is not directly comparable to BEA data on the direct investment position."

The report correctly notes that BEA classifies its data only by country of first foreign parent. However, with the information on ultimate foreign parent now collected on Form BE-13 for new investments and to be collected on the next Form BE-12 for all investments, BEA will have the ability to classify data by ultimate foreign parent as well. (See discussion below.)

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1. The Office of Federal Statistical Policy and Standards plans further study and clarification of the reasons for the differences between the two series.

The report states that there is a "gap" in BEA's data system because in nonbenchmark years it covers only businesses with assets, sales and net income over $5 million. 2/ We believe that not requiring annual reporting by the entire direct investment universe is a sound policy. The cost to the Government and to the business community would far outweigh any minor improvements in accuracy that would result from annual surveys of the universe. The businesses covered under the $5 million cutoff level account for nearly 90 percent of the universe in terms of values. Surely, this is sufficient coverage in nonbenchmark years for all reasonable research and policymaking purposes, especially now that benchmark surveys, by law, must be taken regularly--at least once every 5 years. Also, with the introduction of Form BE-13, which has very minimal exemption criteria, BEA will have data on virtually all new investments made in nonbenchmark years.

Comments on GAO recommendations

My comments follow each of the GAO recommendations below.

GAO recommends that the Secretary of Commerce determine how foreign beneficial owners could be better identified under current BEA reporting requirements. (Page iv and 36)

We agree that the identification of foreign beneficial owners is important, and BEA has already taken steps to obtain this type of information. BEA has introduced Form-BE-13 for reporting new foreign direct investments in the United States. There are very minimal exemption criteria for this form so that nearly all new direct investments must be reported. On this form, the foreign parent or existing U.S. affiliate of the foreign parent making the new investment is asked to trace the chain of ownership back to the ultimate foreign beneficial owner (defined as the foreign person in the ownership chain that is not more than 50 percent owned by another person) and to give the name, country of location and percentage ownership at each level. BEA is evaluating the quality of response to this question on the BE-13 in order to design a question for the next BE-12 benchmark survey that will identify foreign beneficial owners of existing investments as well. (In the 1974 benchmark survey, similar information was sought but the question asked was not widely understood by reporters and the response was poor.)

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2. It also covers investment involving ownership of 200 or more acres of U.S. land, regardless of the level of assets, sales or net income.

GAO recommends that the Secretary of Energy transfer the responsibility for DOE's monitoring of foreign investment in U.S. energy from the Office of International Affairs to the Energy Information Administration (EIA). (Page v and 6)

We wish to point out some implications which are inherent in the recommendation to the Secretary of Energy to transfer the monitoring of foreign investment in U.S. energy from the Office of International Affairs to the Energy Information Administration. These should be considered fully before the proposed recommendation to the Secretary of Energy is included in the final report.

The Office of Federal Statistical Policy and Standards (OFSPS) in Commerce is presently considering a request by the Office of International Affairs (OIA) for access to BEA's data collected under the International Investment Survey Act (the Act) on individual companies. If it is determined that OIA has a statistical or analytical need for BEA's data, the Secretary of Commerce, under the authority delegated to her in Executive Order 11961, as amended by Executive Order 12013, October 7, 1977, may designate OIA as an agency which may have access to such data provided that OIA can give assurance that the confidentiality provisions of the Act will not be violated; thus, OIA may not share such data with other agencies (including other offices in DOE) not authorized to have access to these data.

If OIA's monitoring activities were transferred to EIA, it would be improper for EIA to have access to BEA data because by law [42 U.S.C. 7135(f)] EIA must share all information in its possession with all other agencies and offices within DOA, and such sharing of BEA data would violate the statistical confidentiality requirements of the Act.

Thus, we believe that GAO should consider the appropriateness in keeping the function of monitoring of foreign investments in U.S. energy within OIA which would be able to provide an improved reporting capability with BEA data. On the other hand, the transfer of such function to EIA could result in the placing of an additional reporting requirement on business and industry before it could provide similar reporting capability as OIA.

GAO note 1: The title of our draft report was changed to "Changes Needed to Improve Government's Knowledge of OPEC Financial Influence in the United States."

GAO note 2: Page references in this appendix were changed to correspond with the page numbers of this final report.

BOARD OF GOVERNORS
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FEDERAL RESERVE SYSTEM
WASHINGTON

FREDERICK H. SCHULTZ
VICE CHAIRMAN

October 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 September 14, 1979, transmitting the GAO draft report: "Improvements Needed in Government Monitoring of OPEC Financial Influence." [See GAO note 1, p. 67.]

That report recommends that the Treasury collect information on the sector and industry represented by foreign purchases of U.S. equities. This recommendation would involve a major increase in reporting burden on respondents--one that could reduce the timeliness and accuracy of existing reporting systems. Such an expanded reporting system would be justifiable in the context of current government-wide efforts to reduce reporting burden only if it were likely to yield important public benefits. It is our view that potential benefits of the proposal would not appear to warrant the costs involved, particularly since information on the true nationality of a buyer is hard to pin down because of nominees and third party agents. Indeed, efforts to obtain specific data on owner nationality might very well produce undesirable effects. Also, the proposed reporting system would collect information that for the most part reflects transitory shifts in foreign investment portfolios; gross foreign purchases and gross foreign sales of U.S. equities during the past year and a half have each been on the order of 8-10 times the volume of net foreign purchases. The draft GAO report notes that the United States already conducts detailed periodic benchmark surveys of foreign portfolio investment, and it appears that such surveys are the appropriate cost-effective method of obtaining sectoral and other detailed information on this type of foreign investment. Information on major foreign investments that involve important management interests, as distinct from portfolio investments, is obtained through programs of the Commerce Department and the SEC.

APPENDIX VI

Mr. Voss

As you are aware, Federal Reserve Banks act as agents for the U.S. Treasury in collecting data on international transactions in securities, and the recommendation in the draft report for greatly expanded reporting in this area would also add to the processing burden on the Federal Reserve.

The draft report identifies certain U.S. banks that are owned by investors in OPEC countries (Chapter 2, page15). The Federal Reserve has identified two other banks as owned by such investors: Union Chelsea National Bank (New York) and Pan American National Bank (California). The enclosed appendix to Governor Wallich's testimony before Congressman Rosenthal on August 1, 1979 lists these banks.

Finally, the report notes (Chapter 4, page24) that the GAO has recommended that the Federal Reserve provide to the Subcommittee on Commerce, Consumer and Monetary Affairs of the House Committee on Government Operations a detailed justification for not publishing more information than is now published on OPEC investments. That matter was dealt with in Governor Coldwell's testimony before the Subcommittee on July 18, 1979, and the text of the report should be changed to reflect this fact.

Thank you for the opportunity to comment.

Sincerely,

Frederick H. Schultz

Enclosure

GAO note 1: The title of our draft report was changed to "Changes Needed to Improve Government's Knowledge of OPEC Financial Influence in the United States."

GAO note 2: Page references in this appendix were changed to correspond with the page numbers of this final report.

Department of Energy
Washington, D.C. 20585

NOV 9 1979

Mr. J. Dexter Peach, Director
Energy and Minerals Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Peach:

We appreciate the opportunity to review and comment on the GAO draft report entitled "Improvements Needed In Government Monitoring of OPEC Financial Influence."* Our views with respect to the text of the report are discussed below.

The Department of Energy (DOE) believes that there are several problems associated with the type of data gathering effort proposed in the report. Many stocks are purchased through institutional investors, such as bank trust departments and mutual funds, and the identity of the ultimate owner is generally unknown. As the report points out (page 18),** 14), oil companies have no means of knowing the identity of the beneficial owners of such shares. The same is true for debts. The sources of portfolio loan and equity capital are not distinguishable by geographic origin and large public firms generally lack knowledge of ultimate owners of their liabilities. There are also the complicating problems of the secondary market in which resales of financial instruments take place. This adds to the difficulty of identifying security holders.

Your recommendation that we amend our Financial Reporting System to collect information on foreign investment would, if implemented, create a different reporting emphasis than that prescribed by statute (Sec. 205(h) Public Law 95-91).

The report also appears to require the obtaining of data on foreign investment by OPEC in any industry, and not merely the energy industry. The energy aspect of a detailed analysis of OPEC investment activity should be a component of the larger foreign investment studies in which the Departments of Treasury and Commerce are engaged.

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*/See GAO note 1, p. 71.

**/See GAO note 2, p. 71.

Mr. J. Dexter Peach 2.

Paragraph 3, page 27, asserts that "none of the reports issued by DOE has been concerned with foreign investment in U.S. energy processing, transporting and marketing." While our most recent report on foreign direct investment (prepared in April 1978) does not address foreign investment in the energy transportation sector, it does report the refinery capacity, branded retail outlets and gasoline sales of those U.S. companies identified as foreign owned or controlled. Your attention is directed to pages A-4 through A-8 of DOE's 1978 Annual Report to Congress.

On page 28, the report states that DOE "has not discussed expanding the scope of its current monitoring" and later on in this page, the GAO contends that DOE "has done little to improve its reporting." However, the facts are that following the completion of the April 1978 foreign direct investment report, DOE's Office of International Affairs (IA) conducted an exploratory survey to identify potentially relevant information that could be used to improve monitoring. While the survey did not resolve all the difficulties encountered in monitoring any foreign investment it did identify additional sources for identifying new and/or incremental foreign investment which will be useful in preparing future reports. The survey also prompted DOE to request access to disaggregated information collected by the Bureau of Economic Analysis, Department of Commerce, on Forms BE-15 and BE-13. Form BE-15 contains information on investment in oil, gas and mineral properties; Form BE-13, which reports foreign investments in excess of 10 percent on a current basis starting with January 1, 1979, covers all forms of foreign investment including newly established enterprises and acquisitions of U.S. companies that are not publicly held. DOE has attempted to improve monitoring responsibility in this area.

With regard to the draft recommendations and the action to be taken by DOE the following comments are provided:

GAO Recommendation

"...that the Secretary of Energy transfer responsibility for DOE's monitoring of foreign investment in U.S. energy from the Office of International Affairs to the Energy Information Administration (EIA). Given EIA's legislative mandate to collect, evaluate, assemble, analyze, and disseminate energy data and information, we believe that it is a more appropriate focal point for DOE's monitoring responsibility."

DOE Comment

DOE concurs that the EIA should be responsible for gathering information relating to foreign investment in the United States; with the IA providing such technical assistance as may be required. DOE will also consider the delegation of responsibility to EIA for the preparation

Mr. J. Dexter Peach 3.

of that portion of the DOE annual report which relates the results of DOE's data gathering as required by Section 657, Subpart 8, of the Department of Energy Organization Act (P.L. 95-91).

IA will retain responsibility for developing policy relating to foreign direct investment in U.S. energy sources and supplies. In addition, IA will continue to represent the Department at meetings of the Committee on Foreign Investment in the United States.

GAO Recommendation

"...that the Department collect primary source information on foreign investment by amending its financial reporting system to include questions on foreign sources of equity capital, loans, and joint ventures. This reporting system covers a much wider range of energy producing, processing, transportation, and technology companies than is presently monitored by the Office of International Affairs."

DOE Comment

The recommendation calls for the collection of energy investment activity by foreign investors located in OPEC nations whether these investments are accomplished directly or through third parties. The substantive focus of this concern differs markedly from that underlying the development of the Financial Reporting System (FRS).

The legislative authority for the FRS is most clearly and completely described in Section 205(h) of the Department of Energy Organization Act, Public Law 95-91, which states as follows:

> 205(h)(i)(A)...The administrator [of the EIA] shall identify and designate "major energy-producing companies: which alone or with their affiliates are involved in one or more lines-of-commerce in the energy industry so that the energy information collected from such major energy-producing companies shall provide a statistically accurate profile of each line-of-commerce in the energy industry in the United States."

The FRS is not designed to collect information on the ownership of the financial resources of energy companies, but it does contain detailed information about the financial and operating activities of international energy companies which have large U.S. affiliates. To that extent, the FRS can make a contribution to the monitoring effort which is presently the responsibility of DOE's Office of International Affairs.

Mr. J. Dexter Peach 4.

The IA report on foreign direct investment is contained in the DOE's Annual Report to Congress, Appendix A. The report uses data generated by organizations external to DOE such as the Department of Commerce and the Department of the Interior, as well as private industry annual reports and trade publications. The report does not address either OPEC investment or portfolio investment activities. As previously stated, such transactions cannot be monitored. However, EIA can assume the requirements of the current report and improve on the report with certain FRS data addressed above.

We appreciate your consideration of these comments in the preparation of the final report and will be pleased to provide any additional information you may desire.

Sincerely,

for

Jack E. Hobbs
Controller

GAO note 1: The title of our draft report was changed to "Changes Needed to Improve Government's Knowledge of OPEC Financial Influence in the United States."

GAO note 2: Page references in this appendix were changed to correspond with the page numbers of this final report.

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