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APPROVED
JAN 2-1975

ACTION

THE WHITE HOUSE
WASHINGTON

Last Day: January 4

December 30, 1974

*Posted
1/3
Jo Archine
1/3*

MEMORANDUM FOR THE PRESIDENT
FROM: KEN COLE
SUBJECT: Enrolled Bill H.R. 14600
Panama Canal Company Borrowing Authority

Attached for your consideration is H.R. 14600, sponsored by Representative Sullivan and seven others, which increases from \$10 million to \$40 million the amount which the Panama Canal Company may borrow from the Treasury, and changes the method of computing interest on funds borrowed.

OMB recommends approval of this Administration proposal and provides additional background information in its enrolled bill report (Tab A).

Max Friedersdorf and Phil Areeda both recommend approval.

RECOMMENDATION

That you sign H.R. 14600 (Tab B).





EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

DEC 27 1974

MEMORANDUM FOR THE PRESIDENT

Subject: Enrolled Bill H.R. 14600 - Panama Canal Company
Borrowing Authority
Sponsor - Rep. Sullivan (D) Missouri and 7 others

Last Day for Action

January 4, 1975 - Saturday

Purpose

Increases from \$10 million to \$40 million the amount which the Panama Canal Company may borrow from the Treasury, and changes the method of computing the interest on any funds borrowed.

Agency Recommendations

Office of Management and Budget	Approval
Panama Canal Company	Approval
Department of the Army	Approval
Department of the Treasury	No objection
Department of State	No objection

Discussion

The Panama Canal Company is a self-sustaining Government corporation which is funded from tolls collected from vessels transiting the Canal. A 1959 Act gave the Company authority to borrow up to \$10 million from the Treasury if needed to continue operations during an emergency, such as a rockslide or a vessel accident. The borrowing authority has never been used. The enrolled bill would increase the amount that could be borrowed to \$40 million, and change the method of computing



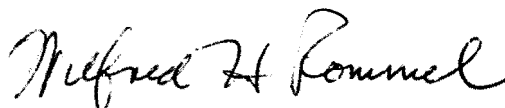
the interest on any funds that might be borrowed.

H.R. 14600 is an Administration proposal that was enacted without change. The increase reflects the Company's estimate of the amount that would be needed to cover major repairs or salvage costs and to keep the Company operational for 3 or 4 months. Before the bill was introduced, the interest rate provisions were revised at the suggestion of Treasury to conform to current Administration policy.

In its enrolled bill letter, the Company states:

" the increase . . . represents a conservative action . . . it is not anticipated that the Company will actually draw on the increased borrowing authority except in extreme emergency situations. The authorization will be utilized, as at present, to backstop the Company's obligations"

We agree with the Company that the bill merits your approval. The probability of an accident requiring emergency funds has increased significantly since 1959 due to an increase in the number of vessels using the Canal and the fact that nearly one-fourth of them are almost as wide as some of the locks.



Assistant Director for
Legislative Reference

Enclosures





DEPARTMENT OF STATE

Washington, D.C. 20520

December 23, 1974

Honorable Roy L. Ash
Director, Office of
Management and Budget

Dear Mr. Ash:

Thank you for your communication of December 23 requesting the views and recommendations of the Department of State on the Enrolled Bill H.R. 14600, "To increase the borrowing authority of the Panama Canal Company and revise the method of computing interest thereon."

The Department of State does not object to the passage of this legislation.

Please continue to call on me whenever you believe I might be of assistance.

Cordially,

A handwritten signature in cursive script that reads "Linwood Holton".

Linwood Holton
Assistant Secretary
for Congressional Relations





THE GENERAL COUNSEL OF THE TREASURY

WASHINGTON, D.C. 20220

DEC 23 1974

Director, Office of Management and Budget
Executive Office of the President
Washington, D. C. 20503

Attention: Assistant Director for Legislative
Reference


Sir:

Reference is made to your request for the views of this Department on the enrolled enactment of H.R. 14600, "To increase the borrowing authority of the Panama Canal Company and revise the method of computing interest thereon."

The enrolled enactment would amend section 71 of title 2 of the Canal Zone Code to increase the amount which the Panama Canal Company may borrow from the Treasury from \$10 million to \$40 million outstanding at any one time. The enrolled enactment would also revise the method of computing the rate of interest on amounts borrowed under the authority of section 71 of title 2, Canal Zone Code from a rate computed on the coupon rates prevailing on the last day of the month preceding the Company's borrowing to a rate determined by the Secretary of the Treasury, taking into consideration the average market yield on outstanding marketable obligations of the United States of comparable maturities during the month preceding the issuance of the notes or obligations. This rate conforms to current Administration policy.

The Department would have no objection to a recommendation that the enrolled enactment be approved by the President.

Sincerely yours,


General Counsel



DEPARTMENT OF THE ARMY
WASHINGTON, D.C. 20310

27 DEC 1974

Honorable Roy L. Ash

Director, Office of Management and Budget

Dear Mr. Ash:

The Secretary of Defense has delegated responsibility to the Department of the Army for reporting the views of the Department of Defense on enrolled enactment HR 14600, 93rd Congress, "To increase the borrowing authority of the Panama Canal Company and revise the method of computing interest thereon."

The Department of the Army on behalf of the Department of Defense recommends approval of the enrolled enactment.

The title of the act states its purpose and what it will accomplish.

The enactment of this measure is recommended because section 71 of Title 2, Canal Zone Code, 76A Stat. 13, provides that the Panama Canal Company may borrow from the Treasury for corporate purposes up to \$10 million. That amount is the total that may be outstanding at any given time. Such loans are subject to interest at a rate determined by the Secretary of the Treasury based on the coupon rates for comparable marketable obligations of the United States on the last day of the month preceding the Company's borrowing. This borrowing authority was established by Public Law 86-200, approved August 25, 1959, 73 Stat. 428.

The potential requirement for emergency funds has significantly increased since 1959. In that year, the \$10 million available fund was equivalent to the average tolls income for vessel transits that would be generated over 78 days. However, in Fiscal Year 1973, the borrowing limit equaled tolls income the Panama Canal Company received in 32 days. Estimates for Fiscal Year 1974 predict tolls receipts of \$10 million for each 31-day period. If for any reason the Panama Canal were to become inoperable for more than a few days under present conditions, the \$10 million available from the Treasury would be inadequate to cover major repairs or salvage costs and also keep the Canal organization operational as a self-sustaining enterprise. The need to have immediate access to funds sufficient to meet any emergency situation is essential.

The Board of Directors of the Panama Canal Company at its July 1972 meeting, after considering the emergency contingency needs of the Company, adopted a

Honorable Roy L. Ash

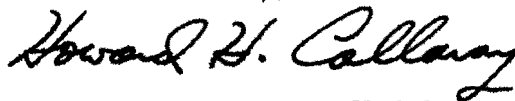
resolution to seek legislation to increase the borrowing authority to \$40 million. Such a sum will assure adequate resources to react on a timely basis to emergencies during periods when Congress is not in session.

The revision of the method of computing the rate of interest on amounts borrowed under the authority will place Canal Company borrowings on the same interest rate formula now applicable to a large number of Federal agencies.

Approval of the enactment will cause no apparent increase in budgetary requirements of the Department of Defense.

This report has been coordinated within the Department of Defense in accordance with procedures prescribed by the Secretary of Defense.

Sincerely,

A handwritten signature in black ink, reading "Howard H. Callaway". The signature is written in a cursive style with a prominent, sweeping flourish at the end of the name.

Howard H. Callaway
Secretary of the Army

PANAMA CANAL COMPANY

312 PENNSYLVANIA BUILDING

WASHINGTON, D.C. 20004

**OFFICE OF
THE SECRETARY**

December 23, 1974

Honorable Roy L. Ash
Director, Office of Management
and Budget
Washington, D.C. 20503

Dear Mr. Ash:

This is in response to your request for comment on H.R. 14600 which would increase the borrowing authority of the Panama Canal Company from the present limit of \$10 million to \$40 million. The legislation would also change the method of computing the interest upon any funds the Company might borrow from the United States Treasury.

This legislation was proposed by the Panama Canal Company with the full support of the Governor of the Canal Zone. It is pointed out that since this borrowing authority was established in 1959, it has never been used by the Company and would provide funding only in case of an emergency, such as the possible closing of the Canal by reason of an accident involving a ship in transit. Due to the increase in salaries and the cost of materials, the cash requirements of the Company to cover expenses that are fixed or that, as a practical matter, are irreducible have grown far beyond the needs of 1959. It is felt that an increase of the borrowing authority to \$40 million represents a conservative action to meet potential emergency needs of the Company in the foreseeable future.

It is not anticipated that the Company will actually draw on the increased borrowing authority except in extreme emergency situations. The authorization will be utilized, as at present, to backstop the Company's obligations. Accordingly, enactment of the proposed legislation does not entail any foreseeable expenditure of funds by the United States Government in the future.

The Panama Canal Company and the Canal Zone Government both recommend signature of this bill by the President.

Sincerely yours,

A handwritten signature in cursive script that reads "Thomas M. Constant". The signature is written in black ink and is positioned above the typed name.

Thomas M. Constant
Secretary, Panama Canal Company
Assistant to the Governor of the
Canal Zone



EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

DEC 27 1974

To Hendricks
12-27-74
KSC

MEMORANDUM FOR THE PRESIDENT

Subject: Enrolled Bill H.R. 14600 - Panama Canal Company
Borrowing Authority
Sponsor - Rep. Sullivan (D) Missouri and 7 others

Last Day for Action

January 4, 1975 - Saturday

Purpose

Increases from \$10 million to \$40 million the amount which the Panama Canal Company may borrow from the Treasury, and changes the method of computing the interest on any funds borrowed.

Agency Recommendations

Office of Management and Budget	Approval
Panama Canal Company	Approval
Department of the Army	Approval
Department of the Treasury	No objection
Department of State	No objection

Discussion

The Panama Canal Company is a self-sustaining Government corporation which is funded from tolls collected from vessels transiting the Canal. A 1959 Act gave the Company authority to borrow up to \$10 million from the Treasury if needed to continue operations during an emergency, such as a rockslide or a vessel accident. The borrowing authority has never been used. The enrolled bill would increase the amount that could be borrowed to \$40 million, and change the method of computing

THE WHITE HOUSE
WASHINGTON

MEMORANDUM FOR: WARREN HENDRIKS
FROM: *Sam Looney* MAX L. FRIEDERSDORF
SUBJECT: Action Memorandum - Log No. 863 B
Enrolled Bill H. R. 14600

The Office of Legislative Affairs concurs in the attached proposal and has no additional recommendations.

Attachment



THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG NO.: 863

Date: December 27, 1974

Time: 7:00 p.m.

FOR ACTION: Geoff Shepard *ok*
NSC/S *no obj*
Phil Areeda *no obj*
Max Friedersdorf *ok*

cc (for information): Warren Hendriks
Jerry Jones

FROM THE STAFF SECRETARY

DUE: Date: Monday, December 30

Time: 1:00 p.m.

SUBJECT:

Enrolled Bill H.R. 14600 - Panama Canal Company
Borrowing Authority

ACTION REQUESTED:

For Necessary Action

For Your Recommendations

Prepare Agenda and Brief

Draft Reply

For Your Comments

Draft Remarks

REMARKS:

Please return to Judy Johnston, Ground Floor West Wing

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

K. R. COLE, JR.
For the President

THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG NO.: 863

Date: December 27, 1974

Time: 7:00 p.m.

FOR ACTION: Geoff Shepard ✓
NSC/S
Phil Areeda
Max Friedersdorf

cc (for information): Warren Hendriks
Jerry Jones

FROM THE STAFF SECRETARY

DUE: Date: Monday, December 30

Time: 1:00 p.m.

SUBJECT:

Enrolled Bill H.R. 14600 - Panama Canal Company
Borrowing Authority

ACTION REQUESTED:

___ For Necessary Action

For Your Recommendations

___ Prepare Agenda and Brief

___ Draft Reply

For Your Comments

___ Draft Remarks

REMARKS:

Please return to Judy Johnston, Ground Floor West Wing

Approval
H.C.S.

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

Warren K. Hendriks
For the President

THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG NO.: 863

Date: December 27, 1974

Time: 7:00 p.m.

FOR ACTION: Geoff Shepard
NSC/S
Phil Areeda
Max Friedersdorf

cc (for information): Warren Hendriks
Jerry Jones

FROM THE STAFF SECRETARY

DUE: Date: Monday, December 30

Time: 1:00 p.m.

SUBJECT:

Enrolled Bill H.R. 14600 - Panama Canal Company
Borrowing Authority

ACTION REQUESTED:

For Necessary Action

For Your Recommendations

Prepare Agenda and Brief

Draft Reply

For Your Comments

Draft Remarks

REMARKS:

Please return to Judy Johnston, Ground Floor West Wing

*No objections
P Areeda OK*

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

Warren K. Hendriks
For the President

INCREASING THE BORROWING AUTHORITY OF THE
PANAMA CANAL COMPANY

AUGUST 12, 1974.—Committed to the Committee of the Whole House on the
state of the Union and ordered to be printed

Mrs. SULLIVAN, from the Committee on Merchant Marine and
Fisheries, submitted the following

REPORT

[To accompany H.R. 14600]

The Committee on Merchant Marine and Fisheries, to whom was referred the bill (H.R. 14600) to increase the borrowing authority of the Panama Canal Company and revise the method of computing interest thereon, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

PURPOSE OF LEGISLATION

The purpose of H.R. 14600 is to increase the borrowing authority which the Panama Canal Company possesses to borrow from the United States Treasury. The present limit of the authority is \$10 million; this legislation will raise that limit to \$40 million. The legislation would also change the method of computing the interest upon any funds the Company might borrow from the Treasury. Presently, that computation of interest is based upon the coupon rate of current marketable obligations of the United States of comparable maturities as of the last day of the month preceding the Company's borrowing. H.R. 14600 would make the rate of interest dependent upon the average market yield of these obligations for the preceding month.

LEGISLATIVE BACKGROUND

H.R. 14600 was introduced on May 6, 1974, by Mrs. Sullivan, for herself, Mr. Leggett, Mr. Murphy of New York, Mr. Stubblefield, Mr. Metcalfe, Mr. Bowen, Mr. Grover, and Mr. Mosher. Hearings on this legislation were held on April 24, 1974, prior to its introduction.

The bill was ordered reported unanimously from the Panama Canal Subcommittee on May 16, 1974, and ordered reported unanimously by the Full Committee on Merchant Marine and Fisheries on August 6, 1974. The need for this legislation derives from the financial obligations of the Panama Canal Company and from the specific financial environment within which the Panama Canal operates today.

The Panama Canal Company operation is a cost recovery enterprise which derives the great majority of its revenues from the tolls on vessels which transit the Canal. The revenues of the Company are expended for general administrative and operating expenses and for any capital projects which the Company might undertake after authorization from Congress. Any disruption or significant decrease in Panama Canal traffic for any reason would place the Panama Canal Company in a situation in which it might be difficult for that organization to meet its operating expenses. For this reason, a reserve borrowing fund was instituted many years ago in order to provide a source of capital by which the Company could insure continued operation.

In 1948, a special fund of \$10 million was set up in the national Treasury consisting of contributions of revenue which had been deposited by the Panama Canal Company and which were excess to the needs of the Company.

In 1959, Public Law 86-200 changed the basis of the borrowing authority. In lieu of any special fund set up in the Treasury by the Panama Canal Company, the Company was given authority to borrow up to \$10 million from the United States Treasury and then repay the required amount at a rate of interest determined by the Secretary of the Treasury taking into account the coupon rate on current marketable obligations of comparable maturities as of the last day of the month preceding the Company's borrowing (Section 71 of Title II, Canal Zone Code, 76A Stat. 13).

The borrowing authorization under Public Law 86-200 has never been used. The efficient operation of the Panama Canal and the fortunate continuance of traffic without major interruption has alleviated the need to utilize the authorization.

The projected effectiveness of the financial protection of the \$10 million authority has decreased significantly from that time when the fund was first established. In 1952, for example, the total sum of tolls revenue for the calendar year was \$30.4 million, and \$10 million was an amount equal to nearly four months of tolls revenue. In 1959, \$10 million was equivalent to 78 days of tolls revenue. Today it is equivalent to somewhat less than one month's revenue. In actuality, the \$10 million borrowing authority represents only about one-quarter of the financial protection originally provided by that sum when first established by statute.

While the tolls revenue has risen so have the general expenditures of the Panama Canal Company so that the Panama Canal has continued to operate successfully on a cost recovery basis, but has not generated excess revenues since 1969.

A major reason why tolls revenue and expenditures have increased so greatly in past years has been the increased usage of the Canal by vessels in interoceanic commerce. In 1952, for example, the first year after Panama Canal reorganization, there were 7,324 interoceanic transits of the Canal; in 1972, there were 14,238 interoceanic transits. This doubling of traffic has made necessary a constant increase in the rapidity of the sequence with which vessels must move through the Canal. Also, this increase in Canal traffic has brought with it an increase in the number of large vessels which move through that waterway. This year, nearly one-quarter of those vessels which will transit the Canal will have beams with a width of 80 feet or more. Since the width of the Panama Canal locks is only 110 feet, the danger of a blockage, stoppage, or collision in the Canal has greatly increased. In short, notwithstanding the efficiency with which the Panama Canal is run and the excellent ship-handling skills of the Canal pilots, the danger of a maritime accident in the Canal which could cause a major blockage of that waterway and eliminate transit and tolls revenue for a significant period of time has multiplied.

Given the vital commercial importance and the national strategic interest in the Panama Canal, it is imperative that the operation of the Canal be continuous and efficient. The particular circumstances which affect Canal transits today, as they have been enumerated above, render even more important a satisfactory level of borrowing authority for the Panama Canal Company.

A technical provision of H.R. 14600 would change the method by which the rate of interest on any money borrowed by the Company would be determined. This change in determination of rate of interest was enumerated above. H.R. 14600 would in this respect place Canal Company borrowings from the Treasury on the same basis as that which many other federal agencies experience, such as the Postal Service, the Federal Home Loan Banks, and the Federal Housing Authority.

As mentioned previously, H.R. 14600 was recommended and is fully supported by agencies of the Executive Branch. This legislation was unanimously reported by your Committee.

COST OF LEGISLATION

The borrowing authority of the Panama Canal Company is a back-stop provision which to this date has never been used. Since the Panama Canal Company is by statute a self-sustaining enterprise and since any monies borrowed from the United States Treasury are to be re-paid by the Company at market rates, it is estimated that this legislation will result in no additional cost to the government.

DEPARTMENTAL REPORTS

H.R. 14600 was the subject of an Executive Communication (No. 2204) from the Governor of the Canal Zone. The text of the Executive Communication and agency reports on H.R. 14600 follow herewith:

[Exec. Comm. No. 2204]

PANAMA CANAL COMPANY,
OFFICE OF THE PRESIDENT,
Balboa Heights, Canal Zone, April 10, 1974.

HON. CARL ALBERT,
Speaker of the House of Representatives,
Washington, D.C.

DEAR MR. SPEAKER: Enclosed for consideration by the Congress is a proposed bill that would increase the amount of money that the Panama Canal Company is authorized to borrow from the Treasury from a present limitation of \$10 million to not more than \$40 million and would revise the method of computing the rate of interest thereon.

Section 71 of Title 2, Canal Zone Code, 76A Stat. 13, provides that the Panama Canal Company may borrow from the Treasury for corporate purposes up to \$10 million. That amount is the total that may be outstanding at any given time. Such loans are subject to interest at a rate determined by the Secretary of the Treasury based on the coupon rates for comparable marketable obligations of the United States on the last day of the month preceding the Company's borrowing. This borrowing authority was established by Public Law 86-200, approved August 25, 1959, 73 Stat. 428.

Prior to the amendment of section 71 by Public Law 86-200, the Company was required to leave on deposit with the Treasury a special fund amounting to \$10 million. Any part of that sum could be withdrawn and expended whenever the corporation determined that it was necessary. Under the prior law, however, the Company was obligated to pay interest on the entire \$10 million even as it remained intact in the Treasury. That anomaly was corrected when Congress substituted the present right to borrow out of general funds in the Treasury.

The fixing of the amount of the original emergency fund and the subsequent borrowing authority at \$10 million had been done somewhat arbitrarily. It appears from the record that there had been established in 1948 for the predecessor corporation (the Panama Railroad Company) an emergency fund consisting of that amount of surplus on hand that had accrued to the Railroad Company at that time as a result of funding depreciation reserves.

Public Law 86-200 as the bill was originally introduced would have provided for payment of the Panama Canal Company's excess funds into a special account in the Treasury from which the agency could borrow. Money paid into the fund by the Company would have reduced the interest bearing investment of the United States in the Canal enterprise, and amounts borrowed from the fund would have served to increase the interest base until the loan was repaid. The final text of the bill, however, specified that the borrowing authority would be limited to \$10 million, with interest payable on the amount borrowed.

The limitation was considered by the House Merchant Marine and Fisheries Committee to be adequate at that time, and the report on the bill noted that the agency could apply to Congress to have the limitation increased when such a change seemed desirable. The Committee report, in part, read as follows:

The bill as introduced would authorize the creation of a fund which would include the \$10 million referred to, plus additions to be made by the Board of Directors from time to time, which fund would be available for the use of the Company. Accretions to the fund would decrease the base upon which interest is payable and withdrawals would increase the base to the extent of the withdrawal. The committee took the view that such a fund might be built up to far more than the present \$10 million figure in the course of time and that to permit withdrawal of such increased amount without any control by the Congress was undesirable.

Accordingly, the bill was amended to authorize a borrowing authority of \$10 million, with interest payable on the amount borrowed. Since there had been no withdrawals from the original fund, the committee was of the opinion that this limit was not likely to prove unduly restrictive. *However, if future needs of the Company indicate that a larger sum would be desirable, application can be made to the Congress for enlargement of the authority.* H.R. Rept. No. 86-655, at p. 2 (1959). (Emphasis added.)

The Panama Canal Company has so far not had need to exercise its authority to borrow from the Treasury. Nevertheless the potential requirement for emergency funds has significantly increased since 1959. In that year, the \$10 million available fund was equivalent to the average tolls income for vessel transits that would be generated over 78 days. In fiscal year 1973, the borrowing limit equaled tolls income received in 32 days. Estimates for fiscal year 1974 predict tolls receipts of \$10 million for each 31-day period. The Canal organization is necessarily maintained at an operational level that can handle the vessel traffic through the waterway. Due to the increase in salaries and the cost of materials, the cash requirements of the Company to cover expenses that are fixed or that, as a practical matter, are irreducible have grown far beyond the needs of 1959. If for any reason the Canal were to become inoperable for more than a few days under present conditions, it is reasonably certain that the \$10 million available from the Treasury would be inadequate to cover major repairs or salvage costs and also keep the agency operational as a self-sustaining enterprise.

The basic danger of closure of the waterway stems from the passage of large vessels and those with hazardous cargo. Inasmuch as the Canal locks are only 110 feet wide and a considerable part of the channel, which is used for two-way traffic, is limited to 500 feet, the marked increase in the beam of vessels arriving for transit is a valid measure of the seriousness of the problem. The record shows that 309 ships with a beam greater than 80 feet transited the Canal in fiscal year 1959. The total in 1973 had increased to 3,205 such vessels. The projection for 1974 is an estimate of 3,500 vessels with a beam in excess of 80 feet.

The Company has a well-trained force of highly skilled pilots, tug masters, and other marine and locks personnel. It carries on a continuous program of instruction in accident prevention. Every effort is made to minimize the possibility of a major marine disaster. Notwithstanding these precautions, however, the need to have immediate access to funds sufficient to meet any emergency situation is essential.

Approximately two-thirds of all cargo carried through the Panama Canal originates in or is destined to the United States. Canal traffic constitutes roughly 16 percent of all ocean-born commerce of the United States. Consequently, paralysis of canal operations, even for a short period of time, must be avoided if possible.

After due consideration of the emergency contingency needs of the Panama Canal Company, the Board of Directors, at its July 1972 meeting, adopted a resolution to seek legislation to increase the borrowing authority to \$40 million. In my view an increase of the borrowing authority to \$40 million represents a conservative action to meet potential emergency needs of the Company in the foreseeable future. Such a sum would assure adequate resources to react on a timely basis to emergencies during periods when Congress is not in session.

At the suggestion of the General Counsel of the Treasury, the proposed legislation transmitted herewith would also revise the method of computing the rate of interest on amounts borrowed under the authority of section 71 of Title 2, Canal Zone Code. This section presently provides that the interest rate shall be computed on the coupon rates prevailing on the last day of the month preceding the Company's borrowing. According to the General Counsel of the Treasury that formula "is technically deficient and not in accord with current Administration policy." He suggests that the interest formula should be based on current market yields averaged over the month preceding any borrowing by the Company. The attached proposed bill would accomplish this purpose. Such a revision of the formula, if enacted, would place Canal Company borrowings on the same interest rate formula now applicable to a large number of Federal agencies which have authority to borrow from Treasury.

It is not anticipated that the Panama Canal Company will actually draw on the increased borrowing authority except in extreme emergency situations. The authorization will be utilized, as at present, to backstop the Company's obligations. Accordingly, enactment of the proposed legislation does not entail any foreseeable expenditure of funds by the United States Government in the future.

The Office of Management and Budget advises that it has no objection to the presentation of this legislative proposal.

Sincerely yours,

DAVID S. PARKER, *President.*

Enclosure.

A BILL To increase the borrowing authority of the Panama Canal Company and revise the method of computing interest thereon

Be it enacted by the Senate and the House of Representatives of the United States of America in Congress assembled, That section 71 of Title 2 of the Canal Zone Code is amended as follows:

1. By striking out from the first sentence "\$10,000,000" and inserting in lieu thereof "\$40,000,000".
2. By striking out the third sentence and inserting in lieu thereof "Such notes or other obligations shall bear interest at a rate determined by the Secretary of the Treasury, taking into consideration the average market yield on outstanding marketable obligations of the United States of comparable maturities during the month preceding the issuance of the notes or other obligations."

DEPARTMENT OF THE ARMY,
Washington, D.C., May 13, 1974.

Hon. LEONOR K. SULLIVAN,
Chairman, Committee on Merchant Marine and Fisheries, House of Representatives, Washington, D.C.

DEAR MADAM CHAIRMAN: This will respond to your request to the Secretary of Defense for the views of the Department of Defense on H.R. 14600, 93d Congress, a bill "To increase the borrowing authority of the Panama Canal Company and revise the method of computing interest thereon."

The title of the bill states its purpose.

The Department of the Army favors the bill.

Section 71 of Title 2, Canal Zone Code, 76A Stat. 13, provides that the Panama Canal Company may borrow from the Treasury for corporate purposes up to \$10 million. That amount is the total that may be outstanding at any given time. Such loans are subject to interest at a rate determined by the Secretary of the Treasury based on the coupon rates for comparable marketable obligations of the United States on the last day of the month preceding the Company's borrowing. This borrowing authority was established by Public Law 86-200, approved August 25, 1959, 73 Stat. 428.

The potential requirement for emergency funds has significantly increased since 1959. In that year, the \$10 million available fund was equivalent to the average tolls income for vessel transits that would be generated over 78 days. However, in Fiscal Year 1973, the borrowing limit equaled tolls income the Panama Canal Company received in 32 days. Estimates for Fiscal Year 1974 predict tolls receipts of \$10 million for each 31-day period. If for any reason the Panama Canal were to become inoperable for more than a few days under present conditions, the \$10 million available from the Treasury would be inadequate to cover major repairs or salvage costs and also keep the Canal organization operational as a self-sustaining enterprise. The need to have immediate access to funds sufficient to meet any emergency situation is essential.

The Board of Directors of the Panama Canal Company at its July 1972 meeting, after considering the emergency contingency needs of the Company, adopted a resolution to seek legislation to increase the borrowing authority to \$40 million. Such a sum would assure adequate resources to react on a timely basis to emergencies during periods when Congress is not in session.

A revision of the method of computing the rate of interest on amounts borrowed under the authority would place Canal Company borrowings on the same interest rate formula now applicable to a large number of Federal agencies.

For the foregoing reasons, the Department of the Army strongly recommends that the bill be favorably considered.

The enactment of this bill will cause no apparent increase in budgetary requirements of the Department of Defense.

The Office of Management and Budget advises that, from the standpoint of the Administration's program, there is no objection to the presentation of this report for the consideration of the Committee.

Sincerely,

HERMAN R. STAUDT,
Acting Secretary of the Army.

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D.C., May 14, 1974.

HON. LEONOR K. SULLIVAN,
Chairman, Committee on Merchant Marine and Fisheries, House
of Representatives, Washington, D.C.

DEAR MADAM CHAIRMAN: With respect to your request of May 8, 1974, for our consideration of H.R. 14600, 93d Congress, a bill to increase the borrowing authority of the Panama Canal Company and revise the method of computing interest thereon, this to advise that we have no comment to offer.

Sincerely yours,

ROBERT F. KELLER,
Acting Comptroller General
of the United States.

THE GENERAL COUNSEL OF THE TREASURY,
Washington, D.C., May 15, 1974.

HON. LEONOR K. SULLIVAN,
Chairman, Committee on Merchant Marine and Fisheries, House of
Representatives, Washington, D.C.

DEAR MADAM CHAIRMAN: Reference is made to your request for the views of this Department on H.R. 14600, "To increase the borrowing authority of the Panama Canal Company and revise the method of computing interest thereon."

The bill would amend section 71 of title 2 of the Canal Zone Code to increase the amount which the Panama Canal Company may borrow from the Treasury from \$10 million to \$40 million outstanding at any one time. The bill would also revise the method of computing the rate of interest on amounts borrowed under the authority of section 71 of title 2, Canal Zone Code from a rate computed on the coupon rates prevailing on the last day of the month preceding the Company's borrowing to a rate determined by the Secretary of the Treasury, taking into consideration the average market yield on outstanding marketable obligations of the United States of comparable maturities during the month preceding the issuance of the notes or obligations. This rate conforms to current Administration policy.

The Department has no objection to the bill.

The Department has been advised by the Office of Management and Budget that there is no objection from the standpoint of the Administration's program to the submission of this report to your Committee.

Sincerely yours,

EDWARD C. SCHMULTS,
General Counsel.

CHANGES IN EXISTING LAW

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, as amended, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

SECTION 71 OF TITLE 2, CANAL ZONE CODE

§71. Borrowing from Treasury

The Panama Canal Company may borrow from the Treasury, for any of the purposes of the Company, not more than **[\$10,000,000]** *\$40,000,000* outstanding at any time. For this purpose, the Company may issue to the Secretary of the Treasury its notes, or other obligations, which shall have maturities agreed upon by the Company and the Secretary of the Treasury, but shall be redeemable at the option of the Company before maturity in such manner as may be stipulated in the obligations. **[Each obligation shall bear interest at a rate determined by the Secretary of the Treasury, taking into consideration the current average rate on current marketable obligations of the United States of comparable maturities as of the last day of the month preceding the issuance of the obligation of the Company.]** *Such notes or other obligations shall bear interest at a rate determined by the Secretary of the Treasury, taking into consideration the average market yield on outstanding marketable obligations of the United States of comparable maturities during the month preceding the issuance of the notes or other obligations.* The Secretary of the Treasury shall purchase obligations of the Company to be issued under this section, and for such purpose the Secretary of the Treasury may use as a public-debt transaction the proceeds from the sale of any securities issued pursuant to the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued pursuant to the Second Liberty Bond Act, as amended, are extended to include any purchases of the Company's obligations pursuant to this section.

Calendar No. 1325

93^D CONGRESS }
2d Session }

SENATE

{ REPORT
No. 93-1397

AN ACT TO INCREASE THE BORROWING AUTHORITY OF THE PANAMA CANAL COMPANY

DECEMBER 17, 1974.—Ordered to be printed

Mr. MAGNUSON, from the Committee on Commerce,
submitted the following

REPORT

[To accompany H.R. 14600]

The Committee on Commerce, to which was referred the bill (H.R. 14600) having considered the same, reports favorably thereon without amendment and recommends that the bill do pass.

The Committee on Commerce, to which was referred the Bill (H.R. 14600) to increase the borrowing authority of the Panama Canal Company and revise the method of computing interest on the amount borrowed, having considered the same, reports favorably thereon without amendment and recommends that the Act do pass.

SUMMARY OF PROPOSED LEGISLATION

H.R. 14600 would increase the borrowing authority of the Panama Canal Company. At present, the limit of this authority is \$10 million. This legislation would raise that limit to \$40 million. The legislation would also change the method of computing the interest upon any amount which the Company might borrow from the Treasury. The present method of computation of interest is based upon the coupon rate of current marketable obligations of the United States of comparable maturities as of the last day of the month preceding the Company's borrowing. H.R. 14600 would make the rate of interest dependent upon the average market yield of these obligations for the preceding month.

BACKGROUND

The Panama Canal Company operation is a cost recovery enterprise deriving a majority of its revenues from the tolls imposed on ships which transit the Canal. The revenues of the Company are utilized for general administrative and operating expenses and for any capital

projects which the Company might undertake after authorization from Congress. Any disruption or significant decrease in Panama Canal traffic for any reason would place the Company in a situation in which it might be difficult to meet its operating expenses. For this reason, a reserve borrowing fund was instituted many years ago in order to provide a source of capital by which the Company could insure continued operation.

In 1948, a special fund of \$10 million was set up in the Federal Treasury consisting of contributions of revenue which had been deposited by the Company and which were excess to the needs of the Company.

In 1959, Public Law 86-200 changed the basis of the borrowing authority. In lieu of any special fund set up in the Treasury by the Company, the Company was given authority to borrow up to \$10 million from the United States Treasury and to repay the amount at a rate of interest determined by the Secretary of the Treasury.

The borrowing authorization under Public Law 86-200 has never been used because of the efficient operation of the Canal and also because of good fortune in that there have been no serious natural disasters or ship collisions or groundings which have delayed or stopped traffic through the Canal for a sufficient period of time to effect substantially the collection of tolls.

However, the \$10 million limitation of the borrowing authority is no longer adequate. Since 1959 construction and labor costs have risen astronomically and should a major interruption of traffic occur, this amount would, in all likelihood, be insufficient to provide for restoration of normal traffic through the Canal.

Toll revenues and expenditures have increased greatly in past years because of the increased usage of the Canal by vessels in interoceanic commerce. In 1952 there were 7,324 interoceanic transits of the Canal; in 1972 there were 14,238 such transits. In effect, traffic has doubled in twenty years. Also, the number of large vessels using this waterway has increased. This year, nearly 25 per cent of those vessels which transit the Canal will have beams with a width of 80 feet or more. The width of the Panama Canal locks, however, is only 110 feet. Therefore, the danger of a blockage, stoppage or collision in the Canal has increased greatly.

Because of the vital commercial importance and the strategic interest of the United States in the Panama Canal, it is necessary that the operation of the Canal be continuous and efficient. Therefore, the Panama Canal Company requires an increase in its borrowing authority in order to insure that the Canal remain open at all times to interoceanic traffic.

H.R. 14600 would also place Canal Company borrowings from the Treasury on the same basis which many other Federal agencies experience.

COST

The Panama Canal Company is, by statute, a self-sustaining operation and since any funds which the Company might borrow from the United States Treasury pursuant to this legislation must be repaid, the enactment of this legislation will result in no additional cost to the government.

AGENCY COMMENTS

The comments of the agencies and departments received by the committee follow:

DEPARTMENT OF THE ARMY,
Washington, D.C., September 27, 1974.

HON. WARREN G. MAGNUSON,
Chairman, Committee on Commerce,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: This will respond to your request to the Secretary of Defense for the views of the Department of Defense on H.R. 14600, 93d Congress, a bill "To increase the borrowing authority of the Panama Canal Company and revise the method of computing interest thereon."

The title of the bill states its purpose.

The Department of the Army favors the bill.

Section 71 of Title 2, Canal Zone Code, 76A Stat. 13, provides that the Panama Canal Company may borrow from the Treasury for corporate purposes up to \$10 million. That amount is the total that may be outstanding at any given time. Such loans are subject to interest at a rate determined by the Secretary of the Treasury based on the coupon rates for comparable marketable obligations of the United States on the last day of the month preceding the Company's borrowing. This borrowing authority was established by Public Law 86-200, approved August 25, 1959, 73 Stat. 428.

The potential requirement for emergency funds has significantly increased since 1959. In that year, the \$10 million available fund was equivalent to the average tolls income for vessel transits that would be generated over 78 days. However, in Fiscal Year 1973, the borrowing limit equaled tolls income the Panama Canal Company received in 32 days. Estimates for fiscal year 1974 predict tolls receipts of \$10 million for each 31-day period. If for any reason the Panama Canal were to become inoperable for more than a few days under present conditions, the \$10 million available from the Treasury would be inadequate to cover major repairs or salvage costs and also keep the Canal organization operational as a self-sustaining enterprise.

The need to have immediate access to funds sufficient to meet any emergency situation is essential.

The Board of Directors of the Panama Canal Company at its July 1972 meeting, after considering the emergency contingency needs of the Company, adopted a resolution to seek legislation to increase the borrowing authority to \$40 million. Such a sum would assure adequate resources to react on a timely basis to emergencies during periods when Congress is not in session.

A revision of the method of computing the rate of interest on amounts borrowed under the authority would place Canal Company borrowings on the same interest rate formula now applicable to a large number of Federal agencies.

For the foregoing reasons, the Department of the Army strongly recommends that the bill be favorably considered.

The enactment of this bill will cause no apparent increase in budgetary requirements of the Department of Defense.

The Office of Management and Budget advises that, from the standpoint of the Administration's program, there is no objection to the presentation of this report for the consideration of the Committee.

Sincerely,

HERMAN R. STAUDT,
Acting Secretary of the Army.

THE GENERAL COUNSEL OF THE TREASURY,
Washington, D.C., September 24, 1974.

HON. WARREN G. MAGNUSON,
*Chairman, Committee on Commerce,
U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: Reference is made to your request for the views of this Department on H.R. 14600, "To increase the borrowing authority of the Panama Canal Company and revise the method of computing interest thereon."

The bill would amend section 71 of title 2 of the Canal Zone Code to increase the amount which the Panama Canal Company may borrow from the Treasury from \$10 million to \$40 million outstanding at any one time. The bill would also revise the method of computing the rate of interest on amounts borrowed under the authority of section 71 of title 2, Canal Zone Code from a rate computed on the coupon rates prevailing on the last day of the month preceding the Company's borrowing to a rate determined by the Secretary of the Treasury, taking into consideration the average market yield on outstanding marketable obligations of the United States of comparable maturities during the month preceding the issuance of the notes or obligations. This rate conforms to current Administration policy.

The Department has no objection to the bill.

The Department was advised by the Office of Management and Budget that there was no objection from the standpoint of the Administration's program to the submission of an identical report on this bill to the House Committee on Merchant Marine and Fisheries.

Sincerely yours,

General Counsel.

DEPARTMENT OF STATE,
Washington, D.C., September 24, 1974.

HON. WARREN G. MAGNUSON,
*Chairman, Committee on Commerce, U.S. Senate,
Washington, D.C.*

DEAR MR. CHAIRMAN: Thank you for your letter of September 11 requesting State Department comments on H.R. 14600, legislation to increase the borrowing authority of the Panama Canal Company and revise the method of computing interest thereon.

The Department of State has no objection to the enactment of this legislation.

The Office of Management and Budget advises that from the standpoint of the administration's program there is no objection to the submission of this report.

Cordially,

LINWOOD HOLTON,
Assistant Secretary for Congressional Relations.

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D.C., September 26, 1974.

A-60428

HON. WARREN G. MAGNUSON,
*Chairman, Committee on Commerce,
U.S. Senate.*

DEAR MR. CHAIRMAN: With respect to your request of September 11, 1974, for our consideration of H.R. 14600, 93d Congress, a bill to increase the borrowing authority of the Panama Canal Company and revise the method of computing interest thereon, this is to advise that we have no comment to offer.

Sincerely yours,

R. F. KELLER,
Deputy Comptroller General of the United States.

○

Ninety-third Congress of the United States of America

AT THE SECOND SESSION

*Begun and held at the City of Washington on Monday, the twenty-first day of January,
one thousand nine hundred and seventy-four*

An Act

To increase the borrowing authority of the Panama Canal Company and revise the method of computing interest thereon.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 71 of title 2 of the Canal Zone Code is amended as follows:

(1) By striking out from the first sentence "\$10,000,000" and inserting in lieu thereof "\$40,000,000".

(2) By striking out the third sentence and inserting in lieu thereof "Such notes or other obligations shall bear interest at a rate determined by the Secretary of the Treasury, taking into consideration the average market yield on outstanding marketable obligations of the United States of comparable maturities during the month preceding the issuance of the notes or other obligations."

Speaker of the House of Representatives.

*Vice President of the United States and
President of the Senate.*

December 24, 1974

Dear Mr. Director:

The following bills were received at the White House on December 24th:

S.J. Res. 40 ✓	B. 3481 ✓	H.R. 8958 ✓	H.R. 14600 ✓
S.J. Res. 133 ✓	B. 3548 ✓	H.R. 8981 ✓	H.R. 14689 ✓
S.J. Res. 262 ✓	B. 3934 ✓	H.R. 9182 ✓	H.R. 14718 ✓
✓ S. 251 ✓	✓ S. 3943 ✓	✓ H.R. 9199 ✓	✓ H.R. 15173 ✓
✓ S. 356 ✓	✓ S. 3976 ✓	✓ H.R. 9588 ✓	✓ H.R. 15223 ✓
✓ S. 521 ✓	✓ S. 4073 ✓	✓ H.R. 9654 ✓	✓ H.R. 15229 ✓
✓ S. 544 ✓	✓ S. 4206 ✓	✓ H.R. 10212 ✓	✓ H.R. 15322 ✓
✓ S. 663 ✓	H.J. Res. 1178 ✓	✓ H.R. 10701 ✓	✓ H.R. 15977 ✓
✓ S. 754 ✓	✓ H.J. Res. 1180 ✓	✓ H.R. 10710 ✓	✓ H.R. 16045 ✓
✓ S. 1017 ✓	✓ H.R. 421 ✓	✓ H.R. 10827 ✓	✓ H.R. 16215 ✓
✓ S. 1083 ✓	✓ H.R. 1715 ✓	✓ H.R. 11144 ✓	✓ H.R. 16596 ✓
✓ S. 1296 ✓	✓ H.R. 1820 ✓	✓ H.R. 11273 ✓	✓ H.R. 16925 ✓
✓ S. 1418 ✓	✓ H.R. 2208 ✓	✓ H.R. 11796 ✓	✓ H.R. 17010 ✓
✓ S. 2149 ✓	✓ H.R. 2933 ✓	✓ H.R. 11802 ✓	✓ H.R. 17045 ✓
✓ S. 2446 ✓	✓ H.R. 3203 ✓	✓ H.R. 11847 ✓	✓ H.R. 17085 ✓
✓ S. 2807 ✓	✓ H.R. 3339 ✓	✓ H.R. 11897 ✓	✓ H.R. 17468 ✓
✓ S. 2854 ✓	✓ H.R. 5264 ✓	✓ H.R. 12044 ✓	✓ H.R. 17558 ✓
✓ S. 2888 ✓	✓ H.R. 5463 ✓	✓ H.R. 12113 ✓	✓ H.R. 17597 ✓
✓ S. 2994 ✓	✓ H.R. 5773 ✓	✓ H.R. 12427 ✓	✓ H.R. 17628 ✓
✓ S. 3022 ✓	✓ H.R. 7599 ✓	✓ H.R. 12884 ✓	✓ H.R. 17655 ✓
✓ S. 3289 ✓	✓ H.R. 7684 ✓	✓ H.R. 13022 ✓	
✓ S. 3358 ✓	✓ H.R. 7767 ✓	✓ H.R. 13296 ✓	
✓ S. 3359 ✓	✓ H.R. 8214 ✓	✓ H.R. 13869 ✓	
✓ S. 3394 ✓	✓ H.R. 8322 ✓	✓ H.R. 14449 ✓	
✓ S. 3433 ✓	✓ H.R. 8591 ✓	✓ H.R. 14461 ✓	

Please let the President have reports and recommendations as to the approval of these bills as soon as possible.

Sincerely,

Robert D. Linder
Chief Executive Clerk

The Honorable Roy L. Ash
Director
Office of Management and Budget
Washington, D. C.