Anti-boycott strains

There is a major confrontation taking place in Washington between the Treasury Department's anti-boycott section on the one hand and the Commerce and State Departments on the other, which may seriously affect US-Saudi relations.

The struggle has been going on for a year but came to a head recently when the Treasury gave both departments two weeks' notice of new guidelines it had drawn up, to insure compliance with certain tax laws. If applied, these would rule against the present Saudi practice of requiring shippers and insurers used by US exporters to make declarations of "self-certification" that they are fully complying with Saudi law, that is to say, Arab boycott of Israel rulings.

The Saudis are under the impression that both the State and Commerce departments have approved this practice, but it has caused resentment on the part of some US officials. "Commerce people view themselves as saviours responsible for allowing business to go forward. Many of their rules have intentionally created loopholes. There's been incredible pressure put on Treasury by Commerce," one noted.

"State Department people are convinced of their need to protect the world from the Treasury Department," was the cryptic comment of another insider. If the Treasury guidelines are issued there is general agreement in Washington that "Commerce's loophole will be destroyed". And even some Treasury officials are uneasy about this. "The Saudis have been accommodating to our anti-boycott laws. The 'self-certification' is a face-saving device they came up with and now we're going to kick them in the teeth," one said.

The problem began in March last year when the Saudi Arabian Monetary Agency (SAMA) issued its instructions requiring "self-certification". Everyone realised that they were designed to make possible a compromise between the Arab boycott regulations and the US anti-boycott provisions of the Export Administration Act (EAA).

The Commerce and State Departments therefore extended an informal approval of the Saudi practice at a meeting with SAMA officials from which, however, Treasury representatives were excluded.

The Treasury, for its part, insisted that the new Saudi procedure contravened the Ribicoff Amendment Tax Anti-Boycott Requirements (Section 999 of the Internal Revenue Code) which the Internal Revenue Service (IRS) enforces through an auditing procedure of required reports.

It accuses the Commerce Department of acting as if the EAA is the only anti-boycott law and of misleading the business community by failing to alert them to other tax penalties.

Then at a meeting in Tangiers last May with economic personnel from various Arab embassies, Treasury officials found themselves ostracised for "causing trouble" by insisting that the Ribicoff Amendment should be made known as well as the EAA. "Many people at Commerce and State just want the tax law to go away, and many lower-level people at Commerce are not even aware of it," one Government official commented.

The Treasury feels it is in a difficult position, as one official explained. "We are not in the business of selling this law. But it is the law and does result in tax penalties if it's violated. So we owe it to the public to make everyone aware of it." Moreover, informed sources believe that if nothing is done IRS auditors may start imposing penalties on businesses in a few years time for things being undertaken now.

If the Treasury guidelines are issued, some people argue, application of the tax law could be made prospective because the situation has been so confused.

Yet if the Treasury has its way, the accommodation carefully worked out between the State and Commerce Departments on the one hand and SAMA on the other to get round boycott and anti-boycott legislation will be able to point to another instance of Washington's lack of understanding. The US Government has to choose between millions of tax-penalty dollars on the one hand, and further obstacles to US-Saudi trade on the other. □