tendered up to 360,000 short tons of aluminum, representing 5 years of production. The letter of intent was to be followed by a formal contract but such formal contract was never executed within the time limit prescribed, and accordingly the letter of intent expired by its terms. We are informed that the primary aluminum reduction facili-

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ties were installed in Montana by a company in which Harvey and the Anaconda Copper Mining Company had interests but such facilities were not covered by any Government contract.

The principal contract in which we believe you are interested is numbered DMP-78 and was effective September 13, 1955. It superseded, however, a letter of intent issued May 15, 1953, and accepted by Harvey on May 19, 1953.

This contract was awarded incident to the third Government-sponsored aluminum expansion program and was designed to bring into existence primary aluminum reduction facilities capable of producing 54,000 tons of aluminum pig per annum. The primary reduction facilities have been completed and are capable of producing something more than than 60,000 tons per annum, so that the primary purpose of the contract has been accomplished. As part consideration the Government agreed to purchase if tendered by Harvey, up to 270,000 short tons of primary aluminum pig over the life of the contract, this representing 5 years of production, if not utilized or otherwise disposed of by Harvey. As of December 31, 1961 the Government had purchased 114,068 short tons at a cost of $57,798,000. Harvey at that date had lost the right to tender 46,130 short tons which tonnage had been used or otherwise disposed of by the contractor, which left the Government's remaining exposure at 109,802 short tons. Our best estimate, however, based upon Harvey's historic consumption of aluminum in its integrated operations is that we shall be required to purchase only 101,948 tons of this remainder.

The price paid by the Government is in effect market price. While the contract calls for the lowest published price of the contractor, it provides that if the prices published by any of the three principal producers, the Aluminum Company of America, Kaiser Aluminum and Chemical Corporation or Reynolds Metals Company are lower, the weighted average of the prices published by those 3 companies averaged over the 90 day period preceding delivery shall be the effective price.

Under the date of December 24, 1952, Harvey was issued necessity certificate TA-NC-20722 by the Defense Production Administration covering 85% of the cost of construction of aluminum, alumina and bauxite facilities estimated at $65,250,000. The financial assistance extended by GSA aside from providing a market for up to 270,000 short tons of aluminum, took the form of a guarantee of bank loans up to $65,000,000 for the construction of the primary reduction facilities at The Dallas, Oregon, and facilities for the production of alumina and bauxite if the latter two are undertaken by Harvey. The bank loans covering the cost of constructing the primary reduction facilities amounted to $44,000,000. The Government obligation to guarantee loans obtained to finance the cost of the alumina plant and bauxite facilities is to guarantee an amount the Government participation in which, in the event of loss, shall not exceed $21,000,000. The contractor has elected to construct such facilities and under the terms of the contract such construction must commence by June 30, 1962. Incident to negotiations concerning the election to construct, GSA has substantially completed arrangements to be discharged of the guarantee of the reduction portion of the loan, originally $44,000,000, as of March 31, 1962.

As you have indicated, the alumina facilities we understand are to be constructed in the Virgin Islands, with the bauxite facilities in all probability to be constructed elsewhere. It is these two facilities which would be the subject of the guarantee up to $21,000,000 of bank loans for construction, if requested by Harvey. That company, however, has agreed to use its best efforts to accomplish the construction without the guarantee of loans by GSA.

This was a negotiated contract and did not involve competitive bids.

Harvey Machine Company, the predecessor of the present contractor, applied for a contract during the third Government sponsored aluminum expansion program in 1952. The company had experience in the aluminum industry and had obtained a firm power contract and a supply source of alumina. The development of competition in the primary aluminum production field was considered extremely advisable. Accordingly, and upon certification of Harvey by the Office of Defense Mobilization, the contract was executed. In essence the contract terms, particularly as to price and principal features are the same as the terms included in expansion contracts awarded to Alcoa, Kaiser and Reynolds.

If we can be of any further assistance please call upon us.

Sincerely yours,

BERNARD L. BOUTIN,
Administrator.

TREASURY DEPARTMENT,
Washington, May 17, 1962.

Hon. JOHN J. WILLIAMS,
U.S. Senate,
Washington, D.C.

DEAR SENATOR WILLIAMS: This is in response to your question at the hearings Friday, May 11, 1962, on whether the Virgin Islands could be used as a tax haven. You were concerned in particular about Harvey Alumina Virgin Islands, Inc., a Virgin Islands corporation which is a wholly owned subsidiary of Harvey Aluminum, a domestic corporation. The subsidiary has entered a contract with the Virgin Islands under which the inducements, such as free land, and exemption from real estate tax, commonly offered by local governments in the United States are granted. One of the additional inducements granted by the Virgin Islands is a subsidy based on income tax liability.

In general, the Virgin Islands taxes corporations created in the Virgin Islands at full Internal Revenue Code rates on the income from all sources. Under section 934, added in 1960, however, the Virgin Islands may grant subsidies based on the tax liability of a Virgin Islands corporation 80 percent of whose gross income is from sources within the Virgin Islands and 50 percent of whose gross income is from the active conduct of a trade or business in the Virgin Islands. Although section 934 in itself would not preclude all tax haven operations, Virgin Islands