Senator NELSON. Are any of them in default on principal? Apart from the United Arab Republic?

Mr. DWINELL. No, Mr. Chairman.

Senator NELSON. Please continue.

Mr. DWINELL. Development projects involve substantial local currency expenditures to defray costs such as land purchase, rentals, labor, indigenous materials and services. For many developing countries, these items cost a great deal more money than their financial resources can provide. The commercial import program offers a partial solution. It creates a channel through which imported commodities, purchased with American dollars, can be converted into local currency accruals to the Government of the importing country. This local currency is then available to support joint economic and, where necessary, defense programs. The mechanics of the system explain how this is done.

This addresses itself to the point which we were discussing, Mr. Chairman, but I think this gives the details which may be of interest to the committee.

The commercial import program works through commercial banking channels and is dependent upon the activities of private businessmen. A firm which sees an opportunity for profit in the importation and resale of particular goods eligible for AID financing obtains an import license if it is required, consumates an "exchange contract" with the local bank, arranges for the procurement and transportation of the goods, pays to his local bank the total cost of the goods in local currency, pays customs duty to his government on arrival of the goods, warehouses, and then processes or sells the goods on the open market. The risk inherent in this transaction falls to the importer, the profit or loss also goes to him.

Senator NELSON. May I interrupt a moment?

Mr. DWINELL. Yes.

Senator NELSON. I do not see the risk involved when it is a case of the parent company dealing with its own subsidiary in a foreign country. Can you explain to me where the risk is?

Mr. DWINELL. Yes, Mr. Chairman.

The business risk is on the part of the subsidiary, in this instance in the foreign country, as to whether or not it can sell the product commercially at a profit. There is a normal business risk undertaken here.

This process only finances the importation in the case of pharmaceuticals, the raw materials, if you will; and the drug company takes a normal business risk as to whether or not it can sell the product.

Senator NELSON. That is the part that puzzles me in looking at the prices. I cannot understand where the risk is. The subsidiary is not going to import the drug unless there is a market.

Mr. DWINELL. Well, may I say, Mr. Chairman, that any importer takes a risk in importing something for resale, as to whether or not his market still exists by the time he is ready to make his sale. And may I add, Mr. Chairman, he has competition within the importing country.

Senator NELSON. Do you have a copy of the chart which the staff made up?

(The chart above-referred to, follows:)