Mr. SALANT. It is a loan to the country.

Senator NELSON. But this is for the commercial market in that foreign country?

Mr. SALANT. That is correct.

Senator NELSON. So in that case, if they are ordering some very expensive drug, it does not come under the rules we are talking about?

Mr. SALANT. It does come under these rules at the present time. These rules definitely apply in all such instances.

Senator NELSON. As I recall, about 80 percent of the AID financed drug sales in foreign countries are sales really from American manufacturers to their own subsidiaries in the foreign country. Is that not correct?

Mr. SALANT. I do not recall the exact figures. I think that is approximately correct. About that amount would represent sales from parent to affiliates or to subsidiaries.

Senator NELSON. Just as a policy matter, what is the need for the Federal Government through its AID program to finance these exports from an American manufacturer to its own wholly owned foreign subsidiary? If a firm has a subsidiary in a foreign country, won't it supply whatever drugs they want or they need?

Mr. SALANT. No. Not necessarily. I think perhaps we had better view this as two independent companies that may have some relationship but the company abroad is subject to the rules of the country in which it operates. It can obtain foreign exchange only in accordance with the rules that exist in that particular country. It must import as any private firm in that country imports in the sense that it may need to get an import license. It would have to buy foreign exchange. It would have to adhere to all the laws and regulations of the country in which it is located.

Furthermore, at the present time we rarely have a situation of a wholly owned subsidiary operating abroad. In almost all instances it is a joint venture operation with the U.S. firm holding up to 50 percent of the control in the company, but with most countries requiring that at least 51 percent of the enterprise be owned by nationals of that country.

Thus, regardless of affiliation, we actually have two separate companies dealing with each other under contractual arrangements which tie them together from the standpoint of purchasing and possibly from the standpoint of the product that is produced.

Mr. GORDON. Mr. Salant, may I interrupt you for a second.

Mr. SALANT. Certainly.

Mr. GORDON. When you mentioned 51 percent being owned or that has to be owned by the foreign——

Mr. SALANT. By nationals of the country.

Mr. GORDON. That is from now on, isn't that correct?

Mr. SALANT. No. It has been in effect for a good long period of time.

Mr. GORDON. But isn't it correct that most of the subsidiaries of American parent companies are wholly owned by the American companies?