

tion namely the U.S. If the place of incorporation principle is applied to the earnings of foreign branches of foreign corporations, the direct investment calculations would at least be mechanically correct since branch earnings would be included in the direct investment base. However, that approach would remain economically unsound because repatriation of the branch profit to the direct investor would be deemed to come from the country of incorporation rather than the country where earned.

On the other hand, if the activities of the branch were performed by a subsidiary of the foreign corporation, the repatriation of profits would not only appear in the direct investment calculation but would be deemed to emanate from the country of operation. Thus, a mere change in legal form can change the direct investment calculations and repatriation ratios from country to country and from Schedule to Schedule. The Foreign Direct Investment Regulations are, among other things, a statistical reporting device. Therefore, insofar as balance of payments considerations are concerned, reporting with respect to earnings, repatriations of earnings, and transfers of capital, as they relate to foreign operations should be the same for a branch or foreign subsidiary.

Accordingly, a branch operation (whether a branch of a foreign subsidiary or of a U.S. corporation) should be treated as if it were subsidiary operation solely for purposes of the Foreign Direct Investment Regulations. Branch earnings should be treated as the earnings of a subsidiary, and branch profits should be remitted as if a dividend.

Mr. LANDRUM. Mrs. Griffiths.

Mrs. GRIFFITHS. I have no questions.

Mr. LANDRUM. Mr. Utt.

Mr. UTT. No questions.

Mr. LANDRUM. Do any members desire to ask any questions?

Thank you, Mr. Scott. We appreciate your statement.

Mr. SCOTT. Thank you very much, sir.

Mr. LANDRUM. The next witness is Murray Vidockler, New York City. Is Mr. Vidockler present? Is his representative here?

Then the next witness is Mr. Bernie Brody, World Tobacco Co.

Mr. Brody, if you will identify yourself for the record, you may proceed with your statement.

STATEMENT OF BARNIE BRODY, PRESIDENT, WORLD TOBACCO CO., INC.; ACCOMPANIED BY HAROLD A. TAFT, COUNSEL

Mr. BRODY. Mr. Chairman and members of the committee, it is truly an honor and a privilege to appear before you and be given an opportunity to express my views with respect to the travel legislation proposed by President Johnson to alleviate the balance-of-payments problem confronting our Government.

My name is Bernie Brody. I speak as a leading member of the bonded merchandise industry in this country. I am president of World Tobacco Co. of New York and am thoroughly familiar with U.S. Customs and U.S. Treasury regulations applicable to duty-free goods.

I have prepared and submitted a formal statement for the consideration of this honorable committee. At this time I will confine myself to the highlights of that statement.

My remarks will be brief.

At the outset, I wish to make it clear that I am in complete accord with the aim and desire of the administration to curb the critical outflow of American dollars to foreign shores.

It is with this thought in mind that I respectfully oppose the reduction of the duty-free purchase allowance sought to be imposed on the American tourist traveling abroad.