

situation is quite complex and that there are no easy solutions to this aspect of the balance of payments problem. Nonetheless, the problems must be evaluated in light of the fact that U.S. private enterprise is not only the largest but also a growing source of dollars earned abroad. The total contribution of earnings to the balance of payments has risen from \$17.4 billion in 1966 to \$19.8 billion in 1967.

Some of the basic problems include discouragement of repatriation of earnings by foreign governments, the difficulty in controlling repatriation where U.S. firms hold a minority interest and the reduction of profitability of foreign subsidiaries—which in the long run could worsen the balance of payments problems. These issues become magnified by the fact that companies which have cooperated in the voluntary program are now penalized more heavily than those which cooperated to a lesser degree.

#### *B.1 Export Financing*

Effective export development of aerospace industry products hinges to a very large extent upon adequate financing: availability, timing, costs, and interest rates, and tailoring of terms to specific situations, especially in the growing markets of developing countries. Flexibility demands that existing operational procedures of financing institutions and regulatory bodies allow them to carry out the main objective of promoting aerospace exports. Provisions should be made for (1) Export-Import Bank guarantees on national interest non-military credits in developing countries, or for (2) a fully adequate and dependable export rediscount facility, or for (3) reduced interest rates to match foreign competition.

Financing aerospace exports involves large sums, because of the magnitude of commercial aircraft prices. By the same token, the contribution of aerospace exports to the U.S. trade surplus is exceptionally large (See Table A attached).

A recent study made by a leading aircraft manufacturer showed that the average annual exports of commercial aircraft during four periods (1947-58, 1959-68, 1969-75, 1976-85) have risen or will rise at the ratio of 1 : 6 : 10 : 20. This includes piston airplanes, current subsonic jets (707, DC-8, etc.), high-capacity jets (747, stretched DC-8, airbus) and supersonic jets.

*Recommendations Regarding Export Financing.*—a. To implement the President's New York's message on the balance of payments by allocating \$500 million of Export-Import Bank resources for liberalized credits to developing countries. This is similar to what the Export Credits Guarantee Department (ECGD) of the United Kingdom has allocated for "national interest" export credits. Applied to the aerospace industries, this facility will enable the Export-Import Bank to match competitive financing terms hitherto impossible.

b. To enlarge the sources of export financing by enabling institutional investors, not now able to do so, to finance aircraft exports beyond the current 7-year term. This includes providing Eximbank guarantees (or alternative type of government guaranty as may be necessary) to loans by such institutional investors over the extended repayment period. If applicable, such guaranty should also be made available to non-U.S. financial institutions, e.g., to Euro-dollar transactions involving U.S. exports.

c. To provide through the Export-Import Bank fully adequate rediscount facilities for export papers as recommended by the President in his New Year's message. Such facilities will stimulate exports which are often delayed or impossible for no other reason than export financing.

d. To modify the practice of securing manufacturer's participation in export financing by the Export-Import Bank where private credits backed by government guaranty clearly indicate that such participation is unnecessary. The exporter's participation is usually required to ensure his continued support to the transaction after completion of sale. In the commercial aircraft industry, the exporter's involvement after sale is an inherent necessity. In fact, there are few if any other industries which practice post-sale servicing to the same degree.

e. To make available the benefits of Export-Import Bank guarantees to manufacturers participating in guaranty or loan transactions in a manner enabling them to dispose of such participation without severe interest penalty. These guarantees can be made available after due "seasoning" of the credit.

f. To provide, when necessary, government assistance in the form of adequate guarantees relating to repossession, expropriation, inconvertibility, and war risk and insurrection in those instances where leasing of aircraft from a U.S. source cannot be executed due to lack of adequate protection from political