

Mr. HAMILTON. Oh, yes; these capital transfers—category (d)—shown in the schedule, would be transfers of capital from the United States by the direct investor to its foreign affiliate as defined in some detail in the regulations. However, transfers to this affiliate from other affiliates of the U.S. investor outside the schedule C area would be similarly treated.

But the point I was leading to is that if capital transfers, during the base years, had been \$5 million instead of \$1 million, obviously not in compliance with the spirit of the voluntary program, then you can see that the required dividend actually decreases and could approach 10 percent, or in certain cases it could be zero.

We felt from the beginning that this was a helpful way of explaining the effect of the regulations as they are written.

I believe there has been considerable misunderstanding of these regulations. Many persons, in and out of Government, believe they require, on the one hand, repatriation only at the rate existing during the base period, or, on the other hand, at the maximum rate of 65 percent. This latter figure is one that is usually reported in the press.

Because the regulations are complex and difficult to understand, their actual effect has been overlooked. The facts are that, in many cases, they could lead to the extreme results I have described.

It is recommended that, as an alternative, companies be allowed in Europe a target of the equivalent of a 65-percent payout, to be achieved by dividends at a rate no less than the prior dividend rate mentioned in clause 1, plus repatriation through other means available to the company, such as foreign borrowings. Consideration also should be given to bringing all companies at least to the present average level of dividend payout and remittance for foreign subsidiaries of U.S. manufacturing companies.

Gentlemen, these regulations are also being read in Europe and an increasing number of examples are finding their way into the European public press, reflecting mounting irritation for needless interference regarding repatriation of earnings.

Importantly, and as evidenced by the data from the Commerce Department, referred to earlier, there is no need to interfere with any company that is repatriating earnings at a reasonable rate. Nevertheless, because of the high repatriation rate required by the regulations as they now stand, it is essential that they either be modified or administered with extreme flexibility if the reactions in Europe are not to jeopardize the earnings themselves, to say nothing of their repatriation.

Already, the French have warned that if U.S.-owned companies there—which are organized under and subject to French law—are compelled to pay out a disproportionate amount of earnings, the French Government may regulate the amount of payout. The French Government has already discussed this subject with its partners in the Common Market, and if relief is not granted on a judicious basis, it can be expected that not only France but the rest of the Common Market—certainly to be followed by the rest of Europe—may impose restrictions on the amount of earnings that may be returned to the United States.

We have also learned that the Spanish Government is preparing a brief for a change in its classification under the regulations so as to