

*Exports of capital goods for investment use without charge to allowables*

As presently administered, OFDI regulations require that equipment purchased in the United States and sent abroad as an investment must be chargeable in full against the firm's investment allowables for the current year—if it has sufficient allowables in the current year. At the same time, equipment purchased with the proceeds of borrowing abroad is not currently chargeable to allowables and is so chargeable in further years only as the borrowing is repaid.

Exports follow financing and, because this is true, present restrictions on shipments of equipment for production use by affiliates may be affecting our exports detrimentally. We believe that the program-induced resort to overseas financing (necessarily coming primarily from Western Europe) will not only permit the camel's nose in the tent in Latin America and other areas where U.S. companies traditionally have enjoyed a predominant position but, for the same reason, will affect adversely our export position in those Western European countries which provide the financing.

While it is difficult to quantify the effect that this shift in financing to Europe (and other financial centers) is having on purchases of U.S. equipment, in our judgment it can be quite substantial except in those relatively few areas where U.S. technology is clearly far ahead of foreign technology. We believe the export losses will be particularly severe in those cases where additional equipment purchases must be financed by foreign borrowings and management of a foreign affiliate is charged with determining the source of the procurement. As I am sure you realize, opportunities lost now for placing U.S. equipment in foreign plants will result also in the loss of further replacement business and the loss of the normally remunerative spare parts business. Further, it should be noted that, at least in some measure, the present requirement may result in the deferral of replacing equipment in this country. As more technologically advanced equipment becomes available here, some companies transfer less productive machines—as a form of further investment—to overseas subsidiaries, generally in less developed countries, where such equipment is perfectly adequate for competitive conditions in such countries.

We believe that this problem must be dealt with promptly lest patterns of financing induced by the controls program lead to establishment of new patterns of trade disadvantageous to this country. We have alternative suggestions.

Our principal suggestion is that shipments of production equipment from United States direct foreign investors to their foreign affiliates be permitted without charge to authorized investment allowables. Alternatively, some lower percentage might be used as a beginning. If it is considered inappropriate to take such a major step at this time, then we recommend an alternative, designed both to surmount this danger to the present level of U.S. exports and to provide a further incentive for increasing exports, as spelled out in appendix "A" to this letter.

*Summary and conclusion*

Let us summarize briefly our recommendations:

1. Regardless of difficulties, every effort should be made to abolish the foreign direct investment program forthwith.