**The original documents are located in Box B48, folder "Foreign Direct Investment Program, 1971-73" of the Arthur F. Burns Papers at the Gerald R. Ford Presidential Library.**

**Copyright Notice**

The copyright law of the United States (Title 17, United States Code) governs the making of photocopies or other reproductions of copyrighted material. Dr. Burns donated to the United States of America his copyrights in all of his unpublished writings in National Archives collections. Works prepared by U.S. Government employees as part of their official duties are in the public domain. The copyrights to materials written by other individuals or organizations are presumed to remain with them. If you think any of the information displayed in the PDF is subject to a valid copyright claim, please contact the Gerald R. Ford Presidential Library.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

# Office Correspondence

**Date** March 26, 1971

**To** Chairman Burns

**Subject:** Comments on the Greenspan Study for Ashland Oil Company

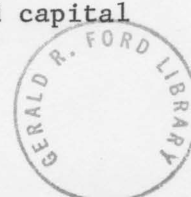
**From** A. B. Hersey ABH

This is an analysis of the study, "The U.S. Foreign Direct Investment Program: A Threat to the American Dollar," which was sent to you by Mr. Orin E. Atkins of Ashland Oil, Inc. with his letter of March 17, 1971.

1. To summarize the comments that follow, I would say that the argument of the paper is open to serious questioning at all its vital points. The whole cast of the study is propagandistic.

2. Statistical foundation. Mr. Pizer, who has had a great deal of experience with direct investment statistical material, tells me that a lot of interpolation and extrapolation is involved in producing the estimates for 1970 and projections for 1971 given in the study. The capital flow from the United States last year is now known to have been larger than the study estimated. Pizer believes that the 1971 outflow is probably underestimated in the study, and that the growth in foreign debt of the foreign affiliates since 1968 is probably overestimated.

Nevertheless, it is certainly true that foreign liabilities of the foreign affiliates have increased greatly in recent years. But this growth includes accounts payable and accrued liabilities as well as "borrowings," and it has served to finance inventories and receivables as well as plant and equipment. It is Mr. Pizer's opinion, and mine, that the rise in foreign liabilities of the foreign affiliates reflects primarily the very high (and still rising) level of their fixed capital


GERALD R. FORD LIBRARY

outlays and the large additions that have been made to working capital assets, rather than the pressures of the OFDI program. Much of the pressure of the OFDI program has worked to increase borrowings by US-based financing affiliates, about which the study's statistics say very little (except in Table 4 of the Appendix).

3. Deleterious effects of the OFDI Program. Starting from the thesis that foreign borrowing by the foreign affiliates is excessive, the study tries to suggest (pp. 4-5) that (a) in coming years, though perhaps not in 1971, affiliates may run into severe financing difficulties, and (b) that this may cause "deterioration in the competitive position of U.S. affiliates." Point (a) is flimsily supported, and (b) is merely asserted. Some very useful further comments by Mr. Pizer are appended to this memorandum.

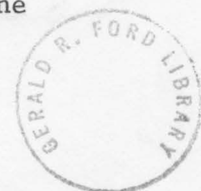
4. Purposes of U.S. Government programs. The government's aims are denigrated by the use of such phrases as "conventional view" and "conventionally measured deficit." Greenspan recognizes (pages 7 and 11) that the basic aim is "to preserve the status of the dollar as the critical reserve currency," and he then refers to "a large and growing body of views which largely dismiss concern over the U.S. balance of payments deficit and threats to the status of the dollar" (page 12). Citing a tabulation of government transactions dominated by military expenditures abroad and economic aid, he insinuates that "the source of our difficulties" (page 11) lies there. "Hence," he says (page 12), "justification for O.F.D.I. controls cannot be found in ... the conventional arguments" any more than in "the newer conceptual

GERALD R. FORD LIBRARY

frameworks governing balance of payments policies." One might with equal lack of logic put the blame for our balance of payments difficulties on tourist expenditures. The over-simplification here is typical of the study as a whole.

5. Usefulness of the OFDI program. Greenspan suggests (pages 14-15) that the program has not helped the balance of payments, because of "offsetting sales of other U.S. assets from the portfolios" of those who have been acquiring the debts of U.S. parent or affiliate corporations. No real attempt is made to support this thesis. He suggests that the worsening of the balance of payments (liquidity basis) in 1969 was a lagged reaction to the improvement in 1968 caused by the OFDI program; "net sales from foreign portfolios were only delayed." This is an unwarranted conclusion, which disregards the effect of the downturn in the U.S. stock market on foreign buying of U.S. equities in 1969 and the attraction of U.S. private funds to the Eurodollar market by the extraordinarily high interest rates U.S. banks were willing to pay there in 1969. Mr. Pizer (in the appended notes) gives a further comment on the issue of diversions of real savings.

6. Crisis ahead? The heart of the propagandistic argument of the paper lies in (a) the picture painted (on pages 8-10) of a collapse of international financial cooperation, when (b) the United States will need "secondary reserves" to supplement its gold and SDRs, for which purpose it should be able to fall back on U.S. direct investment assets abroad (pages 10-11)! But (c) the coming deterioration in the competitive position of U.S. affiliates will have impaired the


GERALD R. FORD LIBRARY

market value of "this huge stock of capital," much of which "is, in fact, quasi-liquid" (pages 5-6). I think you will agree that the idea that the United States Government would enact the controls needed to make corporate direct investments abroad serve as "secondary reserves" in a crisis is too fantastic to deserve a hearing. (Mr. Pizer adds a further comment.)

7. The perpetuation of controls. One of the less pleasant features of the paper is an attack on the "administrator" -- not "second and third-level administrators" but those "making the final decisions," "whose self-interest lies ... with their specific positions and/or their authority" (pages 16-17).

Some Further Comments on the Greenspan Study

The crux of the study's concern is that the financial position of the foreign affiliates is being undermined by the large amounts of their foreign debt, and that this will cause them to become ineffective competitors. This expression of concern about weakened balance sheets has persisted since the program began, and is generally put largely in terms of a future problem, though not without some current aspects. The thought is that the foreign affiliates would be looked on as better risks in capital markets if they had less debt to foreigners and more to their parent companies or other U.S. investors. How much weight should be given to such a consideration?

One fact not mentioned in the study is that a large part of the debt of foreign affiliates (certainly that part that arises because of the pressures of the OFDI) is explicitly guaranteed by the parent, or is implicitly guaranteed when the parent is a company of pre-eminent international stature. In fact, one of the first actions of the OFDI was to make clear in the regulations (originally General Authorization No. 1 and now Section 1000.1002) that a parent company would never be prevented by the regulations from making good on a guarantee which it had issued under normal conditions. Some companies are reluctant to give such guarantees, but that is their own policy decision, not forced on them by the controls. In general, however, the credit standing of a given foreign affiliate (where there is majority ownership by a major U.S. parent) depends mainly on the credit standing of the whole parent organization, rather than on its own balance sheet.

Admittedly, foreign lenders have their own view of financial analysis, and in some cases they may be concerned when they see a local balance sheet that contains too much debt, especially short-term debt. Repeated drawings on credit lines with foreign commercial banks, or other sources of funds, may in time become unwelcome, requiring a constant search for alternative sources. Thus, one cannot say that problems will not arise. However, the study puts the question in much too limited a framework. One option always available, which some have used but most companies avoid for business reasons they consider overriding, is to sell equities or convertible debentures of the foreign affiliates in capital markets abroad. It may be noted also that some U.S. companies find themselves in an easy liquidity position overall, and are naturally displeased at their or their subsidiaries' having to borrow anywhere, but especially overseas.

As to the weakening of the competitive position of the foreign affiliates, this is not spelled out at all in the study. What is happening is that they are expanding rapidly and borrowing in foreign capital markets to do it. That is what their foreign competitors have to do, and the competitors do not have access to any U.S. parent company funds or guarantees. If the investments are

GERALD R. FORD LIBRARY

being well chosen, there need be little concern about competitiveness on the score that the affiliates are financed in Europe rather than in the United States. The additional cost would certainly be a minor factor.

* * *

The discussion of the question of offsets to the balance of payments savings attributable to the OFDI controls is thoroughly confused. For example, the footnote on page 14 expresses skepticism that the proportion of real savings abroad going into U.S. assets can have increased significantly. What actually happens, if the program is working, is that private foreign claims on U.S. companies and their affiliates grow more, and foreign official reserve claims on the United States grow less than in the absence of the program; the savings that otherwise would have been channeled through foreign banking systems to build up central bank international reserves are used instead to finance productive enterprise in the foreign countries.

* * *

In one of its more lucid moments, the report alludes in a footnote to the ultimate support of the vast real domestic wealth of the United States, but never rises to the level of recognizing that it is the productivity of that wealth, in international market terms, that counts.

The view that one can look at a table of international assets and liabilities to find out the international strength of a nation, or to identify changes in that strength, is essentially naive, though it crops up even in official circles.

Samuel Pizer
March 26, 1971

GERALD R. FORD LIBRARY

THE SECRETARY OF COMMERCE
Washington, D.C. 20230

#55

JAN 14 1972

MEMORANDUM FOR: Honorable John B. Connally
Secretary of the Treasury

Honorable George P. Shultz, Director
Office of Management and Budget

Honorable Arthur F. Burns, Chairman
Board of Governors of the Federal Reserve System

Honorable Herbert Stein, Chairman
Council of Economic Advisers

Honorable Peter G. Peterson
Assistant to the President
for International Economic Affairs

Subject: Liberalization and Termination of the Foreign Direct Investment Program

We recommend the following program for the phaseout of the Foreign Direct Investment Regulations, pointing to a termination effective December 31, 1973.

1. We would announce a liberalization for 1972 consisting of a collapse of schedules, an increase in the earnings allowable from 40 percent to 50 percent of prior year earnings of foreign affiliates, and a $6 million minimum allowable (compared to the 1971 minimum allowable of $2 million for Schedules B/C and a supplemental $4 million in Schedule A). The cost of such liberalization would be just under $1 billion or about 40 percent of total current restraint, and would reduce the companies under restraint from about 220 to half that, or 113.

GERALD R. FORD LIBRARY

2. In 1973, we would increase the earnings allowable from 50 percent to 75 percent and the minimum allowable from $6 million to $25 million. This would provide an additional cost in 1973 of approximately $850 million, an additional 40 percent of current restraint, and would reduce the companies under restraint to about 30.

3. In 1974, all further restraint in terms of current investment activity would be terminated. The balance of payments cost of this final liberalization would be only approximately $400 or $500 million.

   We would retain control over the repayment of accumulated borrowings resulting from the prior controls. We believe this could be accomplished by the use of voluntary guidelines, but the discipline could be made mandatory if it appeared necessary at that time. A reasonable structure of the guidelines used for repayments of foreign borrowings could create a potential annual outflow of U.S.-source capital for repayment of the foreign borrowings of $2 to $3 billion per year. A greater or lesser outflow could be provided by varying the guidelines.

I would propose that the effective termination date be announced at this time and would also suggest that the same course be followed with regard to the succeeding liberalization stages beyond the 1972 liberalization. I believe this is absolutely necessary in order to redeem the President's commitment to the termination of the controls and I think a vigorous liberalization proposal for 1972 is equally crucial in establishing the credibility of our commitment to termination at the end of 1973.

A possible counter-argument to establishing the termination date at this time is that a specific Administration commitment to termination at this time might increase resistance from organized labor during 1972.

Maurice H. Stans
Secretary of Commerce

GERALD R. FORD LIBRARY

CONFIDENTIAL

January 18, 1972

To: Governor Brimmer

From: Samuel Pizer and Bernard Norwood

Subject: Proposed Changes in OFDI Program.

This note is an evaluation of the proposal in a memorandum of January 14, 1972 by Secretary Stans to substantially liberalize the OFDI program in 1972 and announce at this time an effective termination date. As we understand it, it would be announced now that the mandatory restraints would be removed at the end of 1973, but that a voluntary (or mandatory, if necessary) control over the repayment of foreign borrowing would be instituted. We will discuss (1) the nature of the proposed liberalization and some alternatives (2) the relationship of relaxation to the VFCR and IET and (3) some general considerations regarding the extent, timing, and procedure for relaxing controls.

The specific recommendation for relaxation in 1972 is in three parts, each of which bears a cost in terms of net additional use of U.S.-source funds.

| | Cost (millions) |
|---|---|
| a. Combine all foreign scheduled areas | $600 |
| b. Raise the earnings allowable from 40% to 50% | 250 |
| c. Raise the minimum to $6 million worldwide | 100 |
| | $950 |

Two other alternatives have been under consideration by OFDI. One would completely exempt Schedule A rather than merge it with the two other schedules, plus the changes in earnings and minimum

GERALD R. FORD LIBRARY

mentioned above. That would cost $1.2 - 1.3 billion, and we understand it is no longer being actively pushed. It would have involved a problem for the VFCR rule on tanker financing. The other alternative would have substituted an optional collapse of schedules for the full combination now being recommended. The difference would be that those choosing this option would be forced to relinquish their accumulated unused allowables in Schedule A, or they might only have the use of such allowables suspended. Under such a regime there would be a reduction in the cost of relaxation of about $350 million, corresponding to the accumulated unused allowables that OFDI calculates would be fully used if the schedules were combined. In effect, this is a measure of the foreign borrowing that would have had to take place given the investment plans of the companies, and which would no longer be needed since U.S.- source funds would be used.

One can envisage other alternatives, e.g., not raising the earnings allowable or the minimum, and giving only an optional collapse of schedules, that would cost much less -- perhaps only $250 million, or giving only the change in earnings and minimum, at a cost of perhaps $350 million, or doing nothing to liberalize.

The arguments for going as far to liberalize as OFDI has suggested are as follows:

1. This continues a rather steady trend toward liberalization that has come to be expected not only by the business community but probably also by authorities in other countries.

2. Something must be done to reduce the administrative complexities and rigidities of the controls. The proposal would reduce the companies under restraint from 220 to about 110, and would greatly simplify their operating problems.

3. If a low key announcement were made, without an estimate of the amount to be involved, this would be viewed as a relatively routine continuation of modest relaxations.

4. To substitute the optional method of combining schedules would make a difference of only $350 million, and would lead to further administrative problems, some of them probably unforeseeable.

5. Political pressures are thought to be intense, requiring an action that is not so meager as to be counter productive. This would be the case with any of the alternatives mentioned above.

It is in connection with this last aspect that Secretary Stans advocates not only a broad liberalization but also the immediate announcement that the program would be terminated at the end of 1973.

These two aspects of the extent of the liberalization and the wisdom of announcing the termination are to some degree separable. The announcement of abolition by the end of 1973 would raise immediate and substantive risks for U.S. relationships with other countries.

1. It would come at a time when there is great doubt about our intentions and about the viability of the new set of exchange rates. Our actions in easing credit conditions here have already created concern. The market has shown signs of restlessness that could

GERALD R. FORD LIBRARY

turn to outright speculation. There can be no doubt that other Governments would consider this action to be contrary to their understanding and would be seriously offended.

2. An announcement of outright abolishment of the controls will intensify the protectionist drive of all those opposed to the expansion of the multi-national corporations, especially organized labor.

3. With a fixed date for abolishment, the credibility of controls in the interim is undermined and compliance would suffer all along the line.

4. Announcement of termination, along with any 1972 relaxation, no matter how moderate, would make it impossible to present the change as part of a more-or-less routine easing of the programs.

5. Foreign central banks in particular would consider that such a final step would also imply a final end of controls over bank lending. In their minds this would signal a return to an unacceptable situation when the U.S. would be able to relax behind the protection of inconvertibility while forcing others to accommodate to whatever monetary and other policies were being pursued here.

There is next the aspect of whether there should be any relaxation at this time, or, if the option is taken to have some relaxation, whether it should be less than Secretary Stans is recommending. One position is that the choice lies between no

GERALD R. FORD LIBRARY

relaxation and a fairly sweeping relaxation of the type suggested by OFDI. To carry out the intermediate alternatives would be recognized by business to be merely cosmetic, and foreign governments might be just as much irritated by the minor actions as by the broader one, since they would have no real way of weighing the expected effect. However, this assumes that if the greater change were made it would not be accompanied by any statements about abolition of the program and would be presented as another relatively modest step in a series that began some time ago. Otherwise, there is no disagreement that the broader step would be extremely hazardous for some of our most basic objectives.

Another view is that a sweeping revision, no matter how presented, would be recognized as an important indication of policy attitudes and would therefore be too risky at this time. In that view, the external considerations militate against any but the more modest alternatives suggested above, and even those have a serious element of danger.

It might be added that major U.S. businesses with overseas commitments take a long view, and would very likely be seriously concerned if actions were taken that might be of some immediate benefit, but would cause disruptions and antagonisms that would be damaging in the years ahead. For many this would surely be an important argument against overt relaxation at this time.

Implications for the VFCR

1) Weakening of the request for voluntary action

An announcement that the Foreign Direct Investment Program is being phased out according to a definite schedule -- even the announcement that the FDIP will be terminated by a specified date -- would seriously weaken the Board's effort to get banks and non-bank financial institutions to observe the Voluntary Foreign Credit Restraint (VFCR) Guidelines. VFCR participating institutions would expect that the VFCR, an integral part of the Government's overall capital controls program, would also be phased out in parallel with the FDIP. In the face of an obvious phase-out, it would be awkward, to say the least, for the Board to resort to its stand-by authority to maintain the VFCR. If, as would be more probable, the Board had to administer the Program without invoking that mandatory authority, it might well find its task impossible.

Because of its essentially voluntary nature, and because of the need for a high and uniform level of observance by all participants, the Program could probably not be adequately maintained for long if an expectation were created that it would be terminated according to a schedule already in force or by a not distant fixed date.

GERALD R. FORD LIBRARY

2) Required liberalization of the VFCR

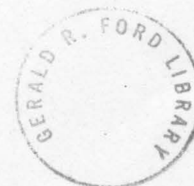
The VFCR would have to be liberalized generally in keeping with the liberalization of the FDIP; the liberalization would add to an outflow that will in any case probably occur under the Guidelines as revised last November; and the resultant outflow through financial institutions might well be in excess of what would be prudent or tolerable in light of our international economic negotiations.

Interest rates have been dropping in the United States, and interest rate differentials between the United States and Europe remain large. Pressures consequently persist for a capital outflow.

Under these pressures, credit subject to restraint could increase -- banks having had about $1.3 billion in leeway at the end of November. (We do not yet have corresponding data for nonbanks.) Also, credit outside the restraints may increase. This may occur as the result of the recent full exemption of export credits and the possible effectiveness of the Eximbank to strengthen programs under which it stimulates private U.S. financing.

<u>Alternative VFCR Steps</u>

If it were determined to phase-out the several sets of U.S. capital controls in a manner that did not provide an announcement schedule of steps or a definite terminal date, the VFCR should, and


GERALD R. FORD LIBRARY

could, be liberalized parallel with the liberalization of the FDIP.

The liberalization would have to be developed on the basis of selective steps. It probably could not be maintained beyond a particular, "threshold", at which point a full termination of the Guidelines would have to be effected.

GERALD R. FORD LIBRARY

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date January 19, 1972

To Chairman Burns

From Andrew F. Brimmer AFB

Subject: Possible Liberalization of Foreign Direct Investment Program

Summary

Personally, I would not have initiated the degree of liberalization and the specific modifications that Secretary Stans has proposed for the Foreign Direct Investment Program (FDIP) for 1972. However, if it is necessary to do "something," the steps proposed appear reasonable and do not in themselves create risks beyond what I would be willing to accept. The changes are not inconsistent with the revision made last November in the Federal Reserve's Voluntary Foreign Credit Restraint program (VFCR). The FDIP revisions could be presented publicly as an orderly process of relaxation and relief from burdensome administrative and reporting procedures.

On the other hand, I believe that Secretary Stans' further proposals for announcement at this time of a decision that the FDIP is to be phased out, with a terminal date at the end of 1973 (and that other specific steps will be taken in 1973 and 1974) would pose unacceptable risks in terms of our international relations. Such an announcement should not be made.

Discussion

Commerce Program

The first step recommended by Secretary Stans in his memorandum of January 14, for the phase out of the Commerce Department's Foreign Direct Investment Program, would be a liberalization in 1972 amounting to slightly less than $1 billion. This amount is larger than I would have recommended--since I would have kept the figure to about $750 million. Yet, I would not fight over the amount. It is modest compared to the extent of the liberalization eventually required to eliminate the FDIP and also when compared to last November's VFCR liberalization. Our liberalization included the exemption required by statute of $1.6 billion of export credits under ceilings--plus an additional liberalization of about $1 billion in general (non-export) VFCR ceilings. In the ensuing months (because of the provision for newcomer banks), the potential liberalization could be somewhat greater.

The step that Secretary Stans has proposed could be introduced without great fanfare. It might also be possible to do so without attaching any estimates of the effect. In the case of the last VFCR revision, as the result of a deliberate effort by us, the magnitude of our liberalization was not fully appreciated publicly; it was presented as small and "technical." With reasonable care, I believe the Commerce measures could also be introduced "in low key." The companies directly affected would quickly perceive that the change was of substantial benefit to them. Nevertheless, we must recognize that there would be some risk of enhancing foreign apprehensions.

The Commerce liberalization should avoid any indication that it is the beginning of an agreed upon phase-out schedule or that any terminal date for the program is under discussion.

We cannot offer any realistic alternatives to the collection of steps for 1972 that Commerce has put forward. Commerce appears to have included the most important variables that could be the basis for formulating an FDIP revision. Those elements could be varied, or some dropped out, if one wished to change the amount involved, but we could not propose an entirely different approach. It is difficult for us, or for anyone else outside OFDI, to place a value on possible alternative measures of liberalization and, therefore, to put together a package to achieve a particular target. Nor is it reasonable to propose at this time a sweeping reformulation of the program--e.g., by substituting a tax on direct investment outflows.

<u>VFCR</u>

I see no need for us to propose any liberalization in the VFCR to accompany a liberalization in the FDIP at this time.

Our November program revision was substantial--over $1 billion for non-export financing and an indeterminate amount for export financing. I doubt that the banks would expect a further relaxation to parallel the OFDI measures.

Also, the announcement of an FDIP liberalization without any accompanying VFCR liberalization would help to avoid the impression that the action is part of a Government plan to phase out all the capital controls programs.

GERALD R. FORD LIBRARY

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date January 20, 1972

To Chairman Burns

Subject: OFDI Program for 1972

From Robert Solomon

A case can be made against the amount and composition of Secretary Stans' proposals for relaxing the Commerce Program on direct investment for 1972.

1. An additional $1 billion in outflow of dollars from the United States is a large amount. It equals about one-eighth of the total improvement we expect in our trade balance from the recent realignment.

2. A substantial part of the $1 billion comes from the reallocation of unused "allowables" from LDC's to Europe and Japan. Both the Europeans and the LDC's are likely to react against this.

<u>Alternatives</u>

The Stans' proposal is as follows:

| | | Balance of Payments Cost (In millions of dollars) | |
|---|---|---|---|
| a. | Combine all foreign scheduled areas | $600 | |
| b. | Raise the earnings allowable from 40% to 50% | 250 | ok |
| c. | Raise the minimum to $6 million worldwide | 100 | ok |
| | | $950 | |

1. One alternative is simply to drop part <u>a</u>, thereby reducing both disadvantages cited above.

a. If this is too severe a cut back, the earnings allowable could be raised to 60%, rather than 50% as suggested by Secretary Stans. This would add about $100 million to the additional outflow, making it $450 million instead of $950 million.

2. Another alternative is to tell the corporations that from now on they need not distinguish between the three geographical areas but they have to give up unused allowables instead of using them in Europe and Japan. This would reduce the 1972 balance of payments cost by $350 million and avoid the second disadvantage cited in the first section of this memo.

RS

from developing countries

unused allowables 350
new " 250
(with collapse)

also (b+c)

January 26, 1972

Dear Pete:

The Foreign Direct Investment Program is again on our agenda. I have struggled long and hard with this issue. My letter to Maury Stans indicates where I have come out.

Sincerely yours,

Arthur F. Burns

The Honorable Peter Peterson
The White House
Washington, D.C.

Enclosure

AFB:ccm

identical letter to:
The President
Secretary Connally
Herbert Stein
George Shultz

CHAIRMAN OF THE BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

COPY

January 26, 1972

The Honorable Maurice H. Stans
Secretary of Commerce
Department of Commerce
Washington, D. C. 20230

Dear Maury:

I have given considerable thought to your memorandum of January 14 on "Liberalization and Termination of the Foreign Direct Investment Program." Although I am entirely in sympathy with your objectives, I differ with some specific parts of your proposal.

It would be unwise, in my view, to announce now a date for future termination of the program. My objections to such an announcement are:

1. So soon after the Smithsonian agreement, such an announcement by the United States would be regarded as aggressive by the other participants to the agreement. They would view the announcement as a threat to the structure of exchange rates agreed to on December 18.

2. It would be detrimental to the trade negotiations now under way and to the negotiations foreseen later.

3. It would encourage other countries to erect or reimpose controls on inflows of capital.

4. It would strengthen the opposition of the labor movement and some business people to direct investments overseas. We cannot dismiss lightly their argument that direct investment leads to the export of U.S. jobs. Announcement of termination of the program would strengthen support for the Hartke-Burke bill, which is aimed at both limiting direct investment and fixing quotas for imports.

GERALD R. FORD LIBRARY

5. Currently the foreign exchange markets are in an uncertain state. Announcement of termination of the program would put the dollar under additional pressure, increasing the danger that the Smithsonian agreement will unravel.

With regard to the 1972 program, I would suggest some modification in your proposal for collapsing the schedules. It seems to me undesirable to permit companies to shift unused allowables from LDC's to more developed countries. Thus I would suggest that the collapse of the schedules should apply only to the 1972 and later programs. This modification would reduce the amount of the prospective outflow, desirable in any event for the five reasons cited above, and would also reduce adverse political reaction in both developing and developed countries.

I am inclined to go along with your proposals for an increase in the earnings allowable from 40 to 50 per cent and for an increase in the minimum allowable to $6 million.

Sincerely yours,

/S/

Arthur F. Burns

GERALD R. FORD LIBRARY

#5

JAN 14 1972

MEMORANDUM FOR: Honorable John B. Connally
Secretary of the Treasury

Honorable George P. Shultz, Director
Office of Management and Budget

Honorable Arthur F. Burns, Chairman
Board of Governors of the Federal Reserve Sy

Honorable Herbert Stein, Chairman
Council of Economic Advisers

Honorable Peter G. Peterson
Assistant to the President
for International Economic Affairs

Subject: Liberalization and Termination of the Foreign Direc
Investment Program

We recommend the following program for the phaseout of the Foreign Direct Investment Regulations, pointing to a termination effective December 31, 1973.

1. We would announce a liberalization for 1972 consisting of a collapse of schedules, an increase in the earnings allowable from 40 percent to 50 percent of prior year earnings of foreign affiliates, and a $6 million minimum allowable (compared to the 1971 minimum allowable of $2 million for Schedules B/C and a supplemental $4 million in Schedule A). The cost of such liberalization would be just under $1 billion or about 40 percent of total current restraint, and would reduce the companies under restraint from about 220 to half that, or 113.

GERALD R. FORD LIBRARY

2. In 1973, we would increase the earnings allowable from 50 percent to 75 percent and the minimum allowable from $6 million to $25 million. This would provide an additional cost in 1973 of approximately $850 million, an additional 40 percent of current restraint, and would reduce the companies under restraint to about 30.

3. In 1974, all further restraint in terms of current investment activity would be terminated. The balance of payments cost of this final liberalization would be only approximately $400 or $500 million.

We would retain control over the repayment of accumulated borrowings resulting from the prior controls. We believe this could be accomplished by the use of voluntary guidelines, but the discipline could be made mandatory if it appeared necessary at that time. A reasonable structure of the guidelines used for repayments of foreign borrowings could create a potential annual outflow of U.S.-source capital for repayment of the foreign borrowings of $2 to $3 billion per year. A greater or lesser outflow could be provided by varying the guidelines.

I would propose that the effective termination date be announced at this time and would also suggest that the same course be followed with regard to the succeeding liberalization stages beyond the 1972 liberalization. I believe this is absolutely necessary in order to redeem the President's commitment to the termination of the controls and I think a vigorous liberalization proposal for 1972 is equally crucial in establishing the credibility of our commitment to termination at the end of 1973.

A possible counter-argument to establishing the termination date at this time is that a specific Administration commitment to termination at this time might increase resistance from organized labor during 1972.

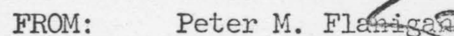
Maurice H. Stans
Secretary of Commerce

GERALD R. FORD LIBRARY

THE WHITE HOUSE

WASHINGTON

February 9, 1972



MEMORANDUM FOR: Honorable John B. Connally
Secretary of the Treasury

Honorable George P. Shultz, Director
Office of Management and Budget

Honorable Arthur F. Burns, Chairman
Board of Governors of the Federal Reserve System

Honorable Herbert Stein, Chairman
Council of Economic Advisers

Honorable Peter G. Peterson
Assistant to the President for International Economic Affairs

Honorable Nathaniel Samuels
Deputy Under Secretary of State for Economic Affairs

FROM: Peter M. Flanigan

Subject: 1972 Liberalization of the Foreign Direct Investment Program

The following proposal for liberalization in 1972 of the Foreign Direct Investment Program has been developed by the Commerce Department. Commerce reports that this proposal has been agreed to by the Fed and reflects inputs of the Treasury staff. The elements in the proposal are:

1. The schedules will be collapsed for 1972 and later years. Carryforward of unused allowables accumulated under Schedules B and C (the developed areas) will be permitted, but those allowables accumulated under Schedule A (less developed countries) will not be permitted. In order to avoid recrimination where the denial of Schedule A carryforward may work a hardship because of unusual circumstances, the Office of Foreign Direct Investments will grant specific relief on application where inequities are demonstrated. OFDI anticipates little actual need for such special relief.

GERALD R. FORD LIBRARY

2. The earnings allowable in 1972 will be increased to 50 percent of prior years' earnings by foreign affiliates, up from 40 percent in 1971.

3. The worldwide minimum allowable will increase to $6 million for 1972, compared to the 1971 minimum of $2 million in Schedules B/C and $4 million in Schedule A.

An announcement of the changes for 1972 is attached. It follows the form and tone of the 1971 announcement which was also designed to forestall adverse foreign reaction, in which objective it appears to have been successful. Announcement of limited changes for 1972 removes one element of uncertainty from the U.S. position, further insuring against adverse reaction.

While the announced changes might increase the scrutiny of restraints on direct investment abroad, the 1972 liberalization of the Foreign Direct Investment Program is in line with the Administration's commitment to termination and its past actions.

Please give me your response to this proposal by close of business Monday, February 14.

Attachment

GERALD R. FORD LIBRARY

STATEMENT OF
SECRETARY OF COMMERCE MAURICE H. STANS
ON THE FOREIGN DIRECT INVESTMENT PROGRAM FOR 1972

Changes in the Foreign Direct Investment Program incorporating a simplification of the Program and a modest increase in investment allowables for 1972 were announced today by Maurice H. Stans, Secretary of the Department of Commerce. Secretary Stans noted that recent developments in the international monetary area do not yet permit the Administration to terminate the Program, but give some promise of removal of foreign direct investment restraints as the U.S. balance of payments improves.

The changes were announced as follows:

1. The schedular feature of the direct investment restraints has been eliminated commencing in 1972. Allowables and the reporting of foreign direct investment will be consolidated on a worldwide basis. Historical allowables generally will be aggregated; however, the carryforward of unused Schedule A allowables will not be permitted except as authorized by OFDI in particular cases evidencing hardship. Canada will continue to be exempt from the Program and separately reported.

2. The optional earnings allowable, permitting investment equal to a percentage of the direct investor's share of the earnings of its foreign affiliates during the preceding year, has been increased from 40 percent in 1971 to 50 percent in 1972. The incremental earnings allowable has been correspondingly increased.

GERALD R. FORD LIBRARY

3. As a consequence of the elimination of the schedular feature, the minimum allowable of $2 million in Schedules B/C and supplemental allowable of $4 million in Schedule A during 1971 are aggregated, and the worldwide minimum allowable in 1972 will be $6 million.

The elimination of the schedular feature should significantly reduce the administrative burden on companies in reporting and planning their compliance under the Program. The increase in the worldwide minimum investment allowable that accompanies the elimination of the

schedules will be of substantial help to smaller direct investors and new entrants to foreign business in carrying out their foreign investment plans, while the increase in the earnings allowable to 50 percent will provide some relief for companies with rapidly growing foreign earnings.

Further details will be made available by the Office of Foreign Direct Investments.

THE WHITE HOUSE

WASHINGTON

February 9, 1972

MEMORANDUM FOR: Honorable John B. Connally
Secretary of the Treasury

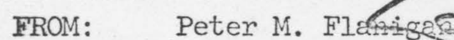
Honorable George P. Shultz, Director
Office of Management and Budget

Honorable Arthur F. Burns, Chairman
Board of Governors of the Federal Reserve System

Honorable Herbert Stein, Chairman
Council of Economic Advisers

Honorable Peter G. Peterson
Assistant to the President for International Economic Affairs

Honorable Nathaniel Samuels
Deputy Under Secretary of State for Economic Affairs

FROM: Peter M. Flanigan 

Subject: 1972 Liberalization of the Foreign Direct Investment Program

The following proposal for liberalization in 1972 of the Foreign Direct Investment Program has been developed by the Commerce Department. Commerce reports that this proposal has been agreed to by the Fed and reflects inputs of the Treasury staff. The elements in the proposal are:

1. The schedules will be collapsed for 1972 and later years. Carryforward of unused allowables accumulated under Schedules B and C (the developed areas) will be permitted, but those allowables accumulated under Schedule A (less developed countries) will not be permitted. In order to avoid recrimination where the denial of Schedule A carry-forward may work a hardship because of unusual circumstances, the Office of Foreign Direct Investments will grant specific relief on application where inequities are demonstrated. OFDI anticipates little actual need for such special relief.

GERALD R. FORD LIBRARY

2. The earnings allowable in 1972 will be increased to 50 percent of prior years' earnings by foreign affiliates, up from 40 percent in 1971.

3. The worldwide minimum allowable will increase to $6 million for 1972, compared to the 1971 minimum of $2 million in Schedules B/C and $4 million in Schedule A.

An announcement of the changes for 1972 is attached. It follows the form and tone of the 1971 announcement which was also designed to forestall adverse foreign reaction, in which objective it appears to have been successful. Announcement of limited changes for 1972 removes one element of uncertainty from the U.S. position, further insuring against adverse reaction.

While the announced changes might increase the scrutiny of restraints on direct investment abroad, the 1972 liberalization of the Foreign Direct Investment Program is in line with the Administration's commitment to termination and its past actions.

Please give me your response to this proposal by close of business Monday, February 14.

Attachment

GERALD R. FORD LIBRARY

STATEMENT OF
SECRETARY OF COMMERCE MAURICE H. STANS
ON THE FOREIGN DIRECT INVESTMENT PROGRAM FOR 1972

Changes in the Foreign Direct Investment Program incorporating a simplification of the Program and a modest increase in investment allowables for 1972 were announced today by Maurice H. Stans, Secretary of the Department of Commerce. Secretary Stans noted that recent developments in the international monetary area do not yet permit the Administration to terminate the Program, but give some promise of removal of foreign direct investment restraints as the U.S. balance of payments improves.

The changes were announced as follows:

1. The schedular feature of the direct investment restraints has been eliminated commencing in 1972. Allowables and the reporting of foreign direct investment will be consolidated on a worldwide basis. Historical allowables generally will be aggregated; however, the carryforward of unused Schedule A allowables will not be permitted except as authorized by OFDI in particular cases evidencing hardship. Canada will continue to be exempt from the Program and separately reported.

GERALD R. FORD LIBRARY

2. The optional earnings allowable, permitting investment equal to a percentage of the direct investor's share of the earnings of its foreign affiliates during the preceding year, has been increased from 40 percent in 1971 to 50 percent in 1972. The incremental earnings allowable has been correspondingly increased.

3. As a consequence of the elimination of the schedular feature, the minimum allowable of $2 million in Schedules B/C and supplemental allowable of $4 million in Schedule A during 1971 are aggregated, and the worldwide minimum allowable in 1972 will be $6 million.

The elimination of the schedular feature should significantly reduce the administrative burden on companies in reporting and planning their compliance under the Program. The increase in the worldwide minimum investment allowable that accompanies the elimination of the

schedules will be of substantial help to smaller direct investors and new entrants to foreign business in carrying out their foreign investment plans, while the increase in the earnings allowable to 50 percent will provide some relief for companies with rapidly growing foreign earnings.

Further details will be made available by the Office of Foreign Direct Investments.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date February 11, 1972.

To Chairman Burns

Subject: Direct Investment Controls.

From Samuel Pizer SP

We have been informed by the OFDI that they have sent on to the White House a proposal for their 1972 program that is very close to the one you have recommended. The program includes the consolidation of the present scheduled areas but cancels out the carry forward of Schedule A allowables; they will not be available for use in any scheduled area. However, OFDI finds that canceling the carry forward would impose special hardships in a few cases and they anticipate approving the use of perhaps $50 million of the unused allowable in such circumstances. This would mean that the 1972 program would represent a liberalization amounting to roughly $650 million.

We are told that the proposed press release presents the program in a very low key. We should be getting the proposed press release for comments very soon.

cc: Governor Daane
Governor Brimmer
Mr. R. Solomon
Mr. R. Bryant
Mr. Norwood

GERALD R. FORD LIBRARY

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date February 11, 1972.

To Chairman Burns

Subject: Direct Investment Controls.

From Samuel Pizer SP

Further to my memorandum of this morning, the attached material describes the OFDI program for 1972.

The only remaining issue that I can see is whether the second sentence of the statement should stand.

Attachment

cc: Governor Daane
Governor Brimmer
Mr. R. Solomon
Mr. Holland
Mr. R. Bryant
Mr. Norwood

GERALD R. FORD LIBRARY

THE WHITE HOUSE

WASHINGTON

February 9, 1972

MEMORANDUM FOR: Honorable John B. Connally
Secretary of the Treasury

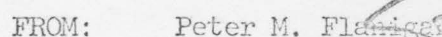
Honorable George P. Shultz, Director
Office of Management and Budget

Honorable Arthur F. Burns, Chairman
Board of Governors of the Federal Reserve System

Honorable Herbert Stein, Chairman
Council of Economic Advisers

Honorable Peter G. Peterson
Assistant to the President for International Economic Affairs

Honorable Nathaniel Samuels
Deputy Under Secretary of State for Economic Affairs

FROM: Peter M. Flanigan 

Subject: 1972 Liberalization of the Foreign Direct Investment Program

The following proposal for liberalization in 1972 of the Foreign Direct Investment Program has been developed by the Commerce Department. Commerce reports that this proposal has been agreed to by the Fed and reflects inputs of the Treasury staff. The elements in the proposal are:

1. The schedules will be collapsed for 1972 and later years. Carryforward of unused allowables accumulated under Schedules B and C (the developed areas) will be permitted, but those allowables accumulated under Schedule A (less developed countries) will not be permitted. In order to avoid recrimination where the denial of Schedule A carry-forward may work a hardship because of unusual circumstances, the Office of Foreign Direct Investments will grant specific relief on application where inequities are demonstrated. OFDI anticipates little actual need for such special relief.

GERALD R. FORD LIBRARY

2. The earnings allowable in 1972 will be increased to 50 percent of prior years' earnings by foreign affiliates, up from 40 percent in 1971.

3. The worldwide minimum allowable will increase to $6 million for 1972, compared to the 1971 minimum of $2 million in Schedules B/C and $4 million in Schedule A.

An announcement of the changes for 1972 is attached. It follows the form and tone of the 1971 announcement which was also designed to forestall adverse foreign reaction, in which objective it appears to have been successful. Announcement of limited changes for 1972 removes one element of uncertainty from the U.S. position, further insuring against adverse reaction.

While the announced changes might increase the scrutiny of restraints on direct investment abroad, the 1972 liberalization of the Foreign Direct Investment Program is in line with the Administration's commitment to termination and its past actions.

Please give me your response to this proposal by close of business Monday, February 14.

Attachment

GERALD R. FORD LIBRARY

STATEMENT OF
SECRETARY OF COMMERCE MAURICE H. STANS
ON THE FOREIGN DIRECT INVESTMENT PROGRAM FOR 1972

Changes in the Foreign Direct Investment Program incorporating a simplification of the Program and a modest increase in investment allowables for 1972 were announced today by Maurice H. Stans, Secretary of the Department of Commerce. Secretary Stans noted that recent developments in the international monetary area do not yet permit the Administration to terminate the Program, but give some promise of removal of foreign direct investment restraints as the U.S. balance of payments improves.

The changes were announced as follows:

1. The schedular feature of the direct investment restraints has been eliminated commencing in 1972. Allowables and the reporting of foreign direct investment will be consolidated on a worldwide basis. Historical allowables generally will be aggregated; however, the carryforward of unused Schedule A allowables will not be permitted except as authorized by OFDI in particular cases evidencing hardship. Canada will continue to be exempt from the Program and separately reported.

2. The optional earnings allowable, permitting investment equal to a percentage of the direct investor's share of the earnings of its foreign affiliates during the preceding year, has been increased from 40 percent in 1971 to 50 percent in 1972. The incremental earnings allowable has been correspondingly increased.

3. As a consequence of the elimination of the schedular feature, the minimum allowable of $2 million in Schedules B/C and supplemental allowable of $4 million in Schedule A during 1971 are aggregated, and the worldwide minimum allowable in 1972 will be $6 million.

The elimination of the schedular feature should significantly reduce the administrative burden on companies in reporting and planning their compliance under the Program. The increase in the worldwide minimum investment allowable that accompanies the elimination of the

schedules will be of substantial help to smaller direct investors and new entrants to foreign business in carrying out their foreign investment plans, while the increase in the earnings allowable to 50 percent will provide some relief for companies with rapidly growing foreign earnings.

Further details will be made available by the Office of Foreign Direct Investments.

THE SECRETARY OF COMMERCE
WASHINGTON, D.C. 20230

April 11, 1972

MEMORANDUM FOR: HONORABLE PETER FLANIGAN
Assistant to the President

FROM: PETER G. PETERSON

SUBJECT: OFDI Liberalization in the Area of Export Financing

International monetary conditions and domestic sensitivities to the Burke/Hartke proposals have inhibited an annual liberalization in the Foreign Direct Investment Program for the first time in four years. This is particularly unfortunate in 1972 in view of the President's 1968 commitment to terminate capital controls.

OFDI has come up with a proposal that may help. They propose to liberalize their specific authorization process in the export credit area to align OFDI policy with the export initiative comprehended in the DISC legislation and in the exemption of exports from the Federal Reserve Program on bank lending.

GERALD R. FORD LIBRARY

OFDI proposes that increases in export credit extended by a direct investor to its affiliated foreign nationals would be permitted under specific authorization policy where the credit has been extended on reasonable commercial terms. The policy would impose a limit on the total relief granted in any year equal to the increase in exports to affiliated foreign nationals, thereby assuming in part an incentive cast.

The recommended policy, further outlined in the attached memo, goes a long way toward eliminating the restrictive, contradictory export credit features of the Foreign Direct Investment Program. The balance of payments "cost" lies somewhere in a range between $100 million and $500 million --a guesstimate might be $200 or $300 million.

The proposals eliminates a major source of friction with the direct investment community, who feel that our current OFDI guidelines on exports are both contradictory of other Administration actions

and counterproductive of our announced goal of improving exports. It should be saleable domestically in terms of the export and job effect, and interpreted by foreign observers as a measure designed to redress the trade imbalance.

The attached mailing to direct investors would announce the revision in the export credit specific authorization policy. The announcement would be handled in a low-profile way.

The mailing to direct investors addresses certain other current issues in regard to the 1972 program so as to emphasize that this change is an "administrative" one. No direct investors have yet reported serious discomfort as a result of the lack of guidance with respect to OFDI regulations and policy in 1972, but they are postponing action on 1972 financing pending further information. We owe them an answer in the not too distant future. I support the OFDI response and hope we can reach an early accord.

Attachment

Peter G Peterson

cc: The Honorable John B. Connally
The Honorable George P. Shultz
The Honorable Arthur F. Burns
The Honorable Nathaniel Samuels
The Honorable Herbert Stein

GERALD R. FORD LIBRARY

DRAFT

MEMORANDUM FOR: Direct Investors

From: William V. Hoyt
Director

Subject: 1972 Program

1. There has been no announcement to date of modifications in the Foreign Direct Investment Program for calendar year 1972 and direct investors are reminded that the 1971 Regulations, and the allowables thereunder, continue without change in 1972. Direct investors should not anticipate any changes in the Program unless and until announced officially by this Office. The special 60-day features announced in December 1971 may or may not be reinstituted for the 1972 compliance year, as international monetary and trade developments indicate; however, the rescission of 203(d)(1) will be made permanent.

2. In order to ease the effect of the Program on the extension of normal trade credit by direct investors to their foreign affiliates, the specific authorization policy for 1972 will be revised. An increase in trade credit will be specifically authorized where the trade credit is extended in the ordinary course of business pursuant to arms-length

GERALD R. FORD LIBRARY

terms (but not in excess of the increase in exports to foreign affiliates in that year). This revision will align OFDI policy in the export area with other recently announced provisions in support of the export initiative, such as exemption of export credits from the VFCRP and enactment of the DISC legislation. Special consideration will be given to direct investors who shift from exporting to non-AFNs to exporting to AFNs, and to direct investors who utilized bank discount facilities for export sales to foreign affiliates in 1970 and 1971. Those direct investors wishing to continue to apply for specific authorization for export credit relief under the old historical formula approach will be permitted to do so.

3. Other features of specific authorization policy will be essentially unchanged from the guidelines set forth in the February 23, 1971 Memorandum to Direct Investors, except that provision will be made for more consistent treatment of expropriation losses under the Foreign Direct Investment Program. Further details and guidelines for application for specific authorization will be made available as soon as possible.

GERALD R. FORD LIBRARY

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date April 21, 1972.

To Chairman Burns

Subject: OFDI Liberalization of Export Credit.

From Robert Solomon, Ralph Bryant and Samuel Pizer

We have been asked by Mr. Flanigan to comment by April 24 on a proposal by Secretary Peterson to liberalize the OFDI program in the area of export financing. Secretary Peterson points out that there has been no liberalization of the Program for the first time in four years, and suggests that the proposed liberalization of the specific authorization process covering export credit extended by parent companies to their foreign affiliates would be a helpful gesture. Moreover, such a liberalization would be in line with the VFCR exemption for export credit and the export initiative in the DISC proposal.

Discussion: At present a direct investor can obtain additional leeway to finance exports to foreign affiliates by (1) arranging financing with a bank, which would utilize the export credit exemption of the VFCR or (2) by utilizing a special authorization procedure which was adopted by OFDI in 1968, and requires documentation justifying the need for extra credit to cover rising exports. Moreover, there is no limit to the export credit a direct investor can extend to nonaffiliated foreign customers, and under the DISC proposal there would be some encouragement of such credits.

The increased ease with which export credit can be extended through other channels cuts two ways insofar as the OFDI proposal is

GERALD R. FORD LIBRARY

concerned: (1) if so many alternatives are available, why is it necessary to liberalize the OFDI rules? (2) if the Government generally is moving away from limitations on export credit, why retain these complicated rules in the OFDI program, or force direct investors to use devious channels?

OFDI has estimated a net balance-of-payments "cost" of $200-$300 million connected with its proposal. The initial cost could be that low -- primarily because if direct investors do not get relief this way they will tend to avail themselves of the VFCR exemption. However, there are less direct costs that should be taken into account.

When banks extend export credit we can be reasonably sure it is on standard commercial terms, and we are able to observe month by month whether the aggregate amount of such credit, or the amount for any given bank, is growing excessively. When the credit is extended directly from a U.S. parent company to its foreign affiliates it will tend to be merged with other financing, can easily become a substitute for long-term financing, and will show up much less clearly and with considerable lags in the OFDI reporting system. If there is to be a credible OFDI program for the foreseeable future, it is necessary to proceed cautiously with liberalizations that may have little initial net balance of payments cost, but which undermine the basic operational rationale of the regulations.

GERALD R. FORD LIBRARY

The present rules governing the specific authorization are quite complicated, requiring that a number of tests be satisfied and a considerable amount of specific information is required. However, simplification need not take a form that weakens the effectiveness of the restraints. The OFDI proposal tends to do this when it provides as a ceiling for the increase in export credit to affiliates an amount not in excess of the increase in exports to affiliates: the present rule, generally, is that the increase in credit should be proportional to the increase in exports. The latter formulation tends to ensure that credit terms to affiliates are not being changed and that this credit is not being substituted for long-term credit covered by the regulations.

The proposed OFDI announcement would be much less likely to evoke adverse reaction from abroad than the liberalizations proposed earlier, but the direct investments are a particularly sensitive area and it is still important to avoid the appearance of deliberately opening up a substantial loophole. There has not yet been any noticeable adverse reaction abroad to the VFCR exemption of export credit.

Options:

(1) Recommend against any change in the export credit rules at this time.

(2) Accept without modification the OFDI proposal.

(3) Agree that some change could be made, but somewhat more cautiously.

Recommendation:

(1) The present proposal is much more limited in its overall effect and likely impact on foreign observers than earlier OFDI proposals, so that the ground for outright rejection is relatively weak. Agreement to a minor modification could lessen pressure for more sweeping changes.

(2) The liberalization proposal in its present form goes further than necessary if the objective is mainly to relieve any actual difficulties encountered by direct investors. It would be preferable that any OFDI announcement emphasize the simplification of procedures rather than suggest that the overall restrictiveness of the Program is being substantially affected. Apart from the way in which the change is presented, this would mean sticking to the existing rule that increases in export credit should be proportional to increases in exports, rather than equal to the whole increase in exports. The OFDI should be requested to modify its proposal in that respect.

(3) The modification suggested is relatively marginal to the general question of whether the OFDI should take this step at this time. It is worthwhile to attempt to get the modification, but if agreement cannot be reached this would not be sufficient ground for rejecting the OFDI proposal.

Subject: Proposed OFDI Liberalization

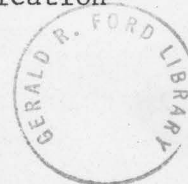
DRAFT
SP:RS:rmb
4-24-72

Draft Memorandum from Chairman to Mr. Flanigan

I have reviewed the liberalization of export credit to foreign affiliates under the OFDI Program proposed by Secretary Peterson, and can give you my own reaction at this time, as requested in your memorandum of April 18. Governor Brimmer may have some comments on the relationship of the proposal to the VFCR when he returns from Europe next week. I hope you will be able to defer action until he is able to consider the matter.

My own strong preference — for reasons that you know — would be to make no substantive changes in the OFDI Program at this time. In this connection, it is important to note that the exemption from the VFCR of bank-financed export credits already provides an escape valve for those parent companies that find they need more financing of their exports to or through foreign affiliates.

As I understand it, there is now a specific authorization process in OFDI that is intended to take care of any need for increased credit from parent companies to cover rising exports to their affiliates, but the procedure for applying for such authorization is rather burdensome and complicated. I would not object to a move to simplify that process, provided it did not undercut the effectiveness of the restrictions affecting longer-term investments of U.S. funds in those affiliates. We are concerned, however, that the present proposal by OFDI goes somewhat beyond a mere simplification


GERALD R. FORD LIBRARY

and has the appearance, and probably the result, of a relaxation in the effectiveness of the OFDI controls.

I would recommend that any announcement by the OFDI should stress the modification in the procedure, rather than the greater freedom for outflows of credit to affiliates. In particular, the existing general ground rule, which is that increases in export credit to affiliates should be no more than proportional to the increase in such exports, should be retained. ~~The~~ Secretary Peterson's proposal indicates that such credit could be increased by the full amount of any increase in such exports and I fear that this would make possible an increase in longer-term investment abroad.

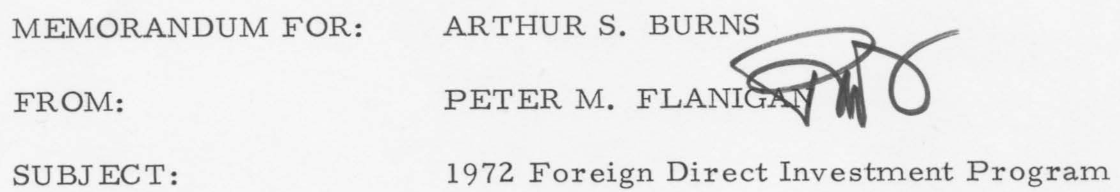
THE WHITE HOUSE

WASHINGTON

May 11, 1972

MEMORANDUM FOR: ARTHUR S. BURNS

FROM: PETER M. FLANIGAN



SUBJECT: 1972 Foreign Direct Investment Program

The attached OFDI announcement will be released to the press on Friday, May 12, at 1:00 PM.

GERALD R. FORD LIBRARY

**U.S. DEPARTMENT OF COMMERCE**
**Office of Foreign Direct Investments**
Washington, D.C. 20230

May 12, 1972

MEMORANDUM FOR: Direct Investors

From: William V. Hoyt
Director

Subject: 1972 Foreign Direct Investment Program

1. Direct investors are advised that the allowables generally authorized under the Foreign Direct Investment Regulations will be the same for 1972 as they were for 1971. As outlined below, the Office plans to continue the year-end features announced in December 1971, to make certain technical amendments to the Regulations, and to revise the specific authorization policy pertaining to export credit relief.

2. The two-month extensions of certain year-end deadlines, which were available at the direct investor's option for the 1971 compliance year, will be made available again for the 1972 compliance year. Section 203(d)(1) of the Regulations (relating to the holding of proceeds at year-end), which was previously revoked only for year-end 1971, will be permanently revoked. The Office will soon publish implementing provisions in the Federal Register, together with several proposed technical amendments to the Regulations concerning borrowings by overseas finance subsidiaries and the holding and allocation of available proceeds of long-term foreign borrowing.

3. The policy for issuing specific authorizations, upon application by individual direct investors, will be revised for 1972 with respect to the extension of export credit by direct investors to their affiliated foreign nationals (AFNs). The revision will provide for the specific authorization of an increase in such export credit extended on reasonable commercial terms (but not in excess of the increase in exports to AFNs in the year). In considering

GERALD R. FORD LIBRARY

applications for such relief, the Office will give particular attention to the problems of direct investors who shift from exporting to non-AFNs to exporting to AFNs, and of direct investors who utilized bank discount facilities for export sales to foreign affiliates in 1970 and 1971. This revision will align OFDI policy in the export area with other recently announced provisions in support of exports, such as exemption of export credits from the Voluntary Foreign Credit Restraint Program and enactment of the DISC legislation.

4. Other features of specific authorization policy will continue essentially unchanged from the guidelines set forth in the February 23, 1971, Memorandum to Direct Investors, except that provision will be made to assure consistent treatment of expropriation losses under the Foreign Direct Investment Program. The detailed 1972 instructions for applying for specific authorization will be made available as soon as possible.

GERALD R. FORD LIBRARY

UNITED STATES DEPARTMENT OF

# COMMERCE NEWS

WASHINGTON, D.C. 20230

OFFICE OF
FOREIGN DIRECT
INVESTMENTS

FDI 73-1

1973 Foreign Direct Investment Program

Enslow
Phone (202) 343-7317

For Release 3:00 P.M., January 2, 1973

William V. Hoyt, Director of the Office of Foreign Direct Investments, announced today that the following changes will be made with respect to the Foreign Direct Investment Program for 1973.

1. Credits extended by direct investors to their affiliated foreign nationals with respect to the export sale or lease of qualifying U.S. goods and services on normal commercial terms will be exempted under the Foreign Direct Investment Regulations.

2. The alternative minimum positive direct investment allowables (Sections 503 and 507 of the Regulations) will be consolidated into a single worldwide minimum allowable of $6 million per year.

3. As in the 1971 and 1972 Program years, direct investors will be allowed to count certain transactions effected in the first two months of 1974 for purposes of computing their 1973 Program compliance.

Mr. Hoyt noted that the consolidation of the alternative minimum allowables would simplify the reporting and compliance burden imposed on many smaller direct investors whose annual investment flows are relatively modest, individually and in the aggregate.

- more -

USCOMM-DC-22070

Mr. Hoyt said that the Office is preparing proposed Regulations with the objective of carrying out the exemption of qualifying export credits entirely within the Regulations, thereby relieving direct investors of the need to obtain specific authorization from the Office with respect to such credits. Mr. Hoyt noted, however, that in the complex field of export credit there are difficulties in establishing comprehensive standards to cover all cases. Thus, it may remain necessary to retain to some degree the use of the specific authorizations procedure in this area.

Mr. Hoyt observed that the exemption of qualifying export credits should eliminate any substantial distinction between the Foreign Direct Investment Program and the other U.S. capital controls in the treatment of extension of export financing. As a result of the exemption, there will be no Program restraint on direct investors' extensions of credit on normal commercial terms for exports of qualifying U.S. goods and services to their foreign affiliates. Relief from Program charge under the exemption will be similar to that previously available by specific authorization, but will be expanded to include qualifying U.S. services and lease transactions, and the exemption will not be limited by the year-to-year increase in exports to affiliated foreign nationals.

Since extensions of qualifying export credits would be exempt from Program charge after December 31, 1972, repayments of such credits to the direct investor after that date will not result in negative transfers of capital for 1973 or subsequent compliance years. No change will be made in existing regulations permitting direct investors to elect to count certain transactions entered into in January or February of 1973, including repayments of trade credit to the direct investor, for purposes of computing 1972 compliance. Mr. Hoyt emphasized, however, that direct investors using such repayments for 1972 compliance purposes would be subject in 1973 and subsequent years to appropriate deemed transfer of capital charges, to take the place of net charges they would have incurred if the present regulations were extended unchanged.

The Office will soon publish proposed Regulations encompassing the above modifications, as well as certain other technical features of the Regulations. The public will be invited to comment upon these proposals before they are adopted in final form. Protective interim amendments to the Regulations have been adopted and are being published in the January 3 <u>Federal Register</u>.

#