of trying. For years U.S. machine tool builders have energetically endeavored to promote export sales. In these efforts they have cooperated closely with the Commerce Department, other Government agencies, and they have utilized the services of this Association. Appendix H attached hereto includes a summary description of some recent Association activities aimed at assisting in the promotion and development of export trade. The Exhibits we are filing with the Committee also include examples of some of our more significant NMTBA publications directed to the export problem.

But those factors contributing in a major way to our import problems, especially high U.S. labor costs and ever-improving foreign technology, also operate to impede exports. There are other factors, too, that operate to keep U.S. machine tools out of foreign markets. The most important perhaps is the widespread existence of formidable non-tariff trade barriers.*

In our 1964 testimony before this Committee we provided an extensive catalogue of the principal discriminatory tariff and non-tariff barriers to the sale of U.S. machine tools abroad. An expanded and updated catalogue of such barriers is attached here as Appendix J.

As the Committee knows, non-tariff trade barriers are of diverse sorts. In many major machine tool markets U.S. machine tool exports are exposed to additional non-tariff border taxes. In France, for example, these include a "value added" tax of 20% of the duty paid value and a customs stamp tax. Germany imposes an import equalization tax of 10% on the C.I.F. duty paid value of U.S. machine tools sold into the country. Non-tariff import taxes in Italy include a 4% turnover tax and a 7.5% compensatory import tax.

But U.S. machine tool builders also encounter other obstacles to export expansion. In Japan the purchaser must obtain an import license to buy an American machine tool. Potential Japanese customers frequently find that such licenses, while not affirmatively denied, are simply not acted upon. A recent machine tool mission sponsored by the Commerce Department found conclusive evidence that just plain administrative inaction is regularly used by Japanese authorities as an effective non-tariff barrier against U.S. machine tool exports to Japan. A copy of the Mission's report is attached hereto as Appendix K.

The evidence is also conclusive that difficulties in obtaining export licenses from our own Government constitute at times an effective U.S. non-tariff trade barrier to expanded exports. It is well known that despite the interest and efforts of the administration in relaxing export controls to preserve traditional foreign markets for U.S. machine tools members of Congress intervened to prevent the Commerce Department from issuing export licenses which would have improved the U.S. balance of trade.

VI. SIGNIFICANCE OF IMPORT AND EXPORT TRENDS

Significant and long-term increases in imports and decreases in exports are a source of deep and readily understandable concern to machine tool builders. Figures 7–9 below, prepared by Lee H. Hill Consultants, economic consultants to NMTBA, show the close relationship between sales volume and profit in this high fixed-cost industry. The statistics on which these charts are based are composite industry statistics for 1966, a year in which U.S. machine tool builders operated at peak levels.* Total sales of the 105 machine tool companies included in the composite were about $1.4 billion; profits before taxes were 12.1% of sales, or $169 million.

Figure 7 and Figure 9 illustrate the effect that changes in volume would have on industry profits. Figure 7 shows that the industry's break-even point would have been approximately 73% of net sales. The industry's reduced profits at various volume levels between 100% and 73% of actual shipments and its losses at particular shipment levels below 73% appear from Figure 9. For example, a 10% drop in sales would have cut profits before taxes to about 8%; a further drop to a level 15% or 20% below actual sales would have meant a drop in profits before taxes to 5½ or 3%.

Figure 8 shows the relationship between particular types of cost and volume.

Against this background, and in the light of the inelastic nature of machine tool demand, the critical importance of imports and exports to industry health becomes apparent.

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*The inherent obstacles to expanded export trade in machine tools has been recognized by our Government officials abroad with responsibility for analyzing and promoting U.S. export opportunities. See, for example, the official State Department Airgram issued in early 1968 by our Embassy in Madrid. A copy is reproduced in Appendix I.

*The data were compiled by Ernst & Ernst; 1967 data are not yet available.