Machine tool shipments for the domestic market, which reached a peak in 1967, are expected to drop sharply in 1968 and 1969. Net new domestic orders have dropped from a monthly level of $157 million in 1966 to $106.1 million in 1967 to $96.1 million in the first four months of 1968. Subject to some variations that reflect periodic adjustments or "catching up," shipments generally follow new orders by about one year.

As already noted, exports are also expected to decline in 1968, with the monthly level of net new foreign orders dropping from $15.9 million in 1966 to $12.4 million in 1967.

Accordingly, wholly apart from the import problem, it can be seen that the years immediately ahead are likely to be difficult ones, with a severe threat to profits. When the added impact of imports is considered, it is apparent that something must be done. Any increase in the level of imports, either generally or with respect to particular segments of the industry, could seriously erode the health and stability of the domestic industry and quite possibly deprive it altogether of profits. Clearly research and development and necessary plant and equipment improvement would be imperiled.

VII. RECOMMENDATIONS CONCERNING IMPORTS

As we have seen (Table 6), annual imports of all machine tools have increased nearly five times in the last four years, from about $36 million in 1964 to nearly $180 million in 1967. During the same period imports of all machine tools as a percent of domestic consumption have increased from less than 4% to nearly 10%. For reasons we indicated, these increases are alarming. We urge as a minimum that the United States make no further tariff concessions on machine tools beyond those already agreed to in the Kennedy Round.

We also have an additional proposal for positive remedial action—one characterized by what we believe is a practical and highly desirable flexibility.

As the data we have presented show, particular segments of our industry are already experiencing serious difficulty as a result of imports. The severe pain is present, not merely anticipated. On a dollar basis imports of milling machine in 1967 exceeded 12% of domestic consumption. Imports of lathes exceeded 13% of domestic consumption, with the figure twice that on a unit basis. On a dollar basis, imports of boring machines in 1967 exceeded 15% of domestic consumption and on a unit basis the figure was more than twice as high. Further, we believe that within certain subcategories of these basic machine tool classifications, foreign penetration is very significantly greater.

Such levels of foreign penetration are not in the national interest. If realistic relief must await an across-the-board industry showing of present injury, irreparable damage will have been done to major and vitally important segments of the industry.

Accordingly, we propose that consideration be given to the adoption of a system of selective import surcharges under which imports of specific categories of machine tools would be subjected to additional levies when imports reached levels considered inimical to the best long term interests of the United States. We suggest to the Committee that it is undersirable, from the standpoint of the country as a whole, for imports of any major category of machine tools to exceed 10% of domestic consumption.

While the precise amount of the surcharge or the mechanics of its imposition are matters on which persons outside the machine tool industry will of course have views, we would suggest as a starting point for consideration an arrangement under which an import surcharge would be imposed where imports of that particular category of machine tool exceeded 10% of domestic consumption during a prior base period. The basic categories we have in mind are the eight categories for which import and export figures are currently available—(1) metal forming machines, (2) gear cutting and hobbing machines, (3) drilling machines, (4) lathes (except vertical turret lathes), (5) grinding machines, (6) milling machines, (7) boring machines (including vertical turret lathes) and (8) other types of metal cutting machines. We would suggest that the Bureau of the Census FT 135 import statistics and M35W export statistics be used as the basis for determining imports as a percent of consumption—"consumption" of course being defined as domestic shipments plus imports less exports.

For the base period we would suggest the use of a moving three year period under which, for example, surcharges in 1970 would be based on imports as a percent of consumption during the 1967–69 period and surcharges in 1971 would be based on imports as a percent of consumption during the period 1968–70.