

However, because certain segments of our industry already face serious difficulty and because this difficulty has made its appearance with relative suddenness, we would not include years prior to 1967 in the base period. Thus, as we would see the import surcharge in operation, 1968 surcharges would be based on imports as a percent of consumption in 1967 alone and 1969 surcharges would utilize a two-year base period consisting of 1967 and 1968.

For reporting and administrative purposes, there would have to be a certain time lag, possibly six months, between the close of the base period and the effective date of the surcharge. Subject to the recommendations of the Commerce and Treasury Departments and other interested agencies of Government, we would envisage a base period ending on June 30, with the annually revised surcharge to become effective the following January 1.

As for the amount of the surcharge, we would propose for consideration, for the first five years, a 3% ad valorem surcharge for each percentage point by which imports of the category involved exceeded 10% of consumption up to 15%, and a 4% surcharge for each percentage point after that, with an absolute surcharge ceiling of 50% ad valorem.

It is possible that our surcharge proposal might be viewed as an emergency measure to meet an immediate and critical problem for our industry and our country. We are not advocating a policy of rigid and permanent tariff protection. Accordingly, we would hope that the surcharge could be phased out over, say, a 15 year period. Under such a plan the ad valorem surcharges of 3% and 4% could perhaps be reduced to 2% and 3% during the second five-year period and to 1% and 2% during the third five-year period, with the 50% ceiling being reduced to 35% and 20% during the second and third five-year periods. Under such a plan, whose application to three TSUS classifications of machine tools is graphically illustrated in Figure 10 on the following page, the machine tool industry would be fully exposed to the then existing basic tariff structure after 15 years.

Ideally, in our view, a system of selective import surcharges like that we propose would be based on a more refined system of product classifications than the eight basic categories we propose to be utilized. As already noted, however, sufficiently reliable import figures are not available with respect to more refined categories than the eight noted above. Should such figures become available, we might well recast our proposal to correspond to the opportunities presented by the availability of such figures. In this connection, on March 15, 1968, this Association formally requested the Tariff Commission's Committee for Statistical Annotation of Tariff Schedules to extend the categories of machine tools on which statistical data are collected and reported from eight to 33 categories. A copy of our request, which we view as a matter of vital importance to the machine tool industry, is attached as Appendix L.

We do not, however, consider our present proposal for import surcharges as dependent on the availability of ideal statistical reports. Even in the absence of such reports we hope the Committee will give serious consideration to our proposal, which is based on product classifications for which official import and export figures are currently available. The Committee should evaluate it not only in the light of the evidence we have presented but that presented by other industries as well. It is possible that the approach suggested may have relevance not only for machine tools but also for other sectors of American industry.

VIII. RECOMMENDATIONS CONCERNING EXPORTS

The efforts we have made to promote exports and the difficulties we have encountered have already been noted. Net new foreign orders reported by NMTBA declined from \$231 million in 1964 to \$191 million in 1966, and to \$149 million in 1967, the lowest level since 1959. If the United States machine tool industry, already at a cost and price disadvantage, is to compete effectively in world markets, a more realistic and helpful approach by the U.S. Government is needed.

Perhaps the most helpful action our Government could take to promote exports would be to turn to indirect taxation as a more important source of Federal revenues. We have already noted the export benefits that accrue to our foreign competitors by virtue of the tax rebates, refunds, and exemptions granted to them with respect to exported machine tools. If our Government were in a position to exempt U.S. exports from the Federal tax base in the same manner, our exports would of course become more competitive in world markets. As noted, however, under GATT the Government is apparently not in a position to grant similar relief from the "direct" tax burden borne by exports in the form of the Federal corporate income tax.