At the request of the Mission, the Honorable John Shaw, Commercial Counselor, U. S. Embassy, Tokyo, summarized the present status of the Japanese market for U.S. machine tools, which report is as follows:

Market for U.S. Machine Tools: Key Factors

I. The Market

The Japanese machine tool market is somewhat elastic and easily influenced by a number of outside factors. Out of a $330 million market in 1967, imported machine tools accounted for about $36 million, up 69 percent from the preceding year. American suppliers boasted a 40 percent share or $14 million in sales with major purchases being made by the Japanese automotive, steel and shipbuilding industries.

The local machine tool industry is characterized by strong competition between a large number of medium-sized firms (250-300) and a few large manufacturers. Approximately 40 Japanese producers in this field have purchased technology through 60 licensing agreements with foreign firms, 20 of which are major U.S. suppliers. New orders received by 70 major builders of metal cutting machine tools in 1967 were valued at $395 million, or an increase of 39 percent over the preceding year. Of the total, 11 percent was represented by foreign orders and the rest, by domestic orders (see table). Prospects for the future are for a more selective market in which newer technologies (e.g. n/c machine tools) will play the determining role.

II. Import Duties and Barriers

Import duties on machine tools range from 15 to 25 percent. These will be reduced by one-half before January 1972 under Kennedy Round concessions. A license is required for the import of machine tools; however, this license is usually granted automatically for all categories with the exception of (1) used machine tools and (2) large plano-millers and planners (equipment with a 2,000 milometer wide table or larger).

III. Capital Liberalization

Capital investments in the machine tool field are approved on a case-by-case basis by MITI. The investment process usually entails prolonged negotiations and extensive review by the Japanese Government and Japanese firms in the same field. It is anticipated that capital "liberalization" will take place in the machine tool industry by 1971; we do not know, however, the extent to which foreign investments will actually be freed from Government control.

IV. Financing Restrictions

As a general rule, there are no restrictions or impediments to the import and sale of foreign machine tools. There are, however,