

orders and operating performance so far, we expect all divisions to complete the year ahead of 1967 in both sales and profits."

A second major development in recent years has been the marked trend toward the internationalization of watch production. This trend has affected the domestic manufacturers as well as it has affected most other watch producers in the world.

In testimony before the U.S. Tariff Commission in March 1964, a U.S. Time executive asserted that "the importation of parts keeps our labor force at work here." He was saying, in other words, the U.S. Time has taken advantage of international specialization, based on production of certain parts in its foreign factories, production of certain other parts in its U.S. factories, and assembly of completed movements for the U.S. market in Puerto Rico, the Virgin Islands, and in the continental United States. This formula enabled U.S. Time to achieve the lowest possible unit cost of production, and is one very important reason for U.S. Time's fantastic success, which has led to a manifold increase in the company's U.S. employment.

Certainly there is no basis in fact for the subterranean argument encountered again and again, that U.S. Time could do better by shutting up its U.S. factories and supplying the American market entirely from abroad. On the pin-lever watches which continue to be the mainstay of U.S. Time's business, the protection which the company continues to enjoy since the tariff reduction amounts to approximately 75 cents per unit, which is considerably in excess of anything U.S. Time could possibly save by producing movements abroad instead of in the United States.

The simple fact is that today the watch industry has become a truly international industry. Even though Switzerland remains by far the largest producer, Swiss and other foreign-based companies, like those in the United States, are using facilities in a number of nations to make watches with components from a variety of sources. I believe we will see more of this in the future. I also believe firmly that there will continue to be a large and growing role for the American watch industry in this picture.

(3) Developments in 1967 confirm that the domestic producers are capable of competing effectively at current rates of duty. As reflected in table 1, domestic production in 1967 reached 16,599,000 units, an increase of 9.2 percent from the 1966 level. Dutiable imports amounted to 22,913,000 units, an increase of only 6 percent. Shipments from U.S. insular possessions, which are entered free of duty under a special tariff provision, dropped 30.6 percent, to 3,782,000 units, largely because of a quota imposed by Congress, but also partly because the tariff reduction reduced the edge enjoyed by insular watch shipments over dutiable imports.

Thus, in spite of the tariff rollback, which might have been expected to stimulate imports relative to domestic production, the total number of watches and watch movements entering the United States from off-shore sources—that is, dutiable imports plus shipments from the U.S. Virgin Islands and Guam—actually declined 1.3 percent last year. This development substantiated the prediction which the AWA made in 1954 in its testimony before the U.S. Tariff Commission. We said at that time that the principal result of restoring the 1936 tariffs would be to limit production in the Virgin Islands and Guam, and that