

continue for the foreseeable future and should constitute an important source of volume for the watch companies of particular interest to them should domestic production of watches decline.

"In the interest of preserving both a quick reaction capability and a mobilization base, the Defense Department can under Exception 16 to the Armed Services Procurement Regulations confine contract awards for horological type items to watch companies or other companies capable of making the needed items.

"The watch industry is currently up to capacity in military production which necessitated a continuing introduction by the Department of non-watch companies as producers of these items. Companies outside of the watch industry are a growing source of capability for the horological-type items produced by the watch industry and are currently able to meet the peak mobilization requirements for safety and arming devices. As a result of the experience these companies are gaining in the current procurement program to meet Vietnam needs, their capability for making the more difficult timing devices used in fuzes and other ordnance items is increasing substantially, there is a basis for believing that they would be able to meet peak mobilization requirements for mechanical timing devices as well as safety and arming devices.

"If necessary, the Government could establish an in-house capability for making critical components in the event that circumstances disclose that they cannot be obtained from either the watch or non-watch companies. The Department does not believe, however, that such an alternative is likely to become necessary in view of the broad capability of American industry.

"Over the long run the current dependence upon mechanical timing devices for rockets, missiles and ammunition in general may be reduced if non-mechanical devices based on chemical or electronic techniques prove to be feasible.

"In the area of research and development, the Department's principal use of the industry has been in the developmental area, particularly in production engineering. Fuze design philosophy, conception, engineering design and other phases of invention are ordinarily done in the Department's own arsenals and laboratories. Although technical know-how and equipment is, to a minor degree, available in-house for prototype production, it is customary to use private industry for this work. The watch industry relies on its production resources to support its capabilities in developmental work. While these companies have contended that loss of production facilities would result in an impairment of developmental resources, the continued requirement for a defense production base should prevent any diminution in these capabilities in the foreseeable future.

"In the light of the above, the Department cannot assert that the continued importation of watch movements will threaten to impair the national security, because action will be taken to assure a source of production with or outside the watch industry."

It is worth noting also that the O.E.P. report expressed substantial doubt that watch production and defense production are interdependent, as claimed. Governor Bryant observed that U.S. Time's own non-watch capabilities "are of such a nature and size as to be largely self-sustaining." In other words, it was O.E.P.'s judgment that U.S. Time's own defense production was largely unrelated to watch production. Similar observations about the separability of defense production and watch production were made with respect to General Time and Ingraham. Attached for the Committee's files is a copy of the entire O.E.P. report.

3. Mr. Carmody notes that several U.S. companies have discontinued domestic watch production during the past 15 years, but he neglects to mention that competition from U.S. Time, not imports, was the principal factor in the decision of most of these companies to abandon domestic production. U.S. Time's rise to dominance in the watch market came at the expense of many other firms, just as General Motors' rapid growth was accompanied by the failure of many of its competitors. The analogy to the automobile industry is carried through in the sales and profits performance of the three domestic wrist watch producers. As I testified, in spite of the restoration of the pre-1954 watch tariff rates, domestic watch production is at all-time high; the sales of the domestic producers are at an all-time high; the profits of the domestic producers are at an all-time high. These are the incontestable facts which rebut Mr. Carmody's testimony.

We would be grateful if you would include this letter in the record of the June 25 hearings.

Very truly yours,

Attachment

BERTRAM LOWE.