

manufacturing industry, much less the health of the economy as a whole." Mr. Ackley continues with the statement that viewing the question on this narrow ground alone, he does not conclude that watch imports are threatening to impair the national security.

FOREIGN POLICY CONSIDERATIONS

United States foreign policy interests and objectives were considered in this case. The comments of the Department of State, whose advice was sought in this investigation, were directed broadly toward an evaluation of the importance of watch imports to our foreign economic relations and the relevance of such relations to the overall national security and well being of the American people as a whole.

SUMMARY AND CONCLUSIONS

During 1956 and 1957 the Office of Defense Mobilization (ODM), a predecessor agency of OEP, conducted an exhaustive investigation, under the "national security clause" then embodied in Section 7 of the Trade Agreements Extension Act of 1955, to determine the effect on the national security of imports of horological products. The investigation led to a finding in February 1958 that the level of imports of such products did not threaten to impair the national security.

The present investigation which lasted nearly a year and a half, while parallel in scope to the Office of Defense Mobilization investigation, was conducted as a new and independent examination of the problem in light of many new factors that have arisen since 1958, such as changes in military concepts, new weapon technology, and changed military requirements.

The investigation was carried out in accordance with the criteria contained in the statute and OEP Regulation 4, giving consideration to the overall production facilities and capabilities available within and outside the domestic watch industry, in terms of the human resources, equipment and materials which are necessary to meet present and projected defense requirements for horological-type items, and giving recognition to certain other economic factors related to the national security.

Without question, imports of watch movements have in the past decade constituted a substantial portion of the total domestic watch consumption. These imports have had an economic impact on the domestic watch manufacturing industry as a whole and have contributed to some extent to the demise of a few watch manufacturing firms and to the curtailment of the activities of others in the field. On the other hand, nearly all the remaining watch manufacturing companies seem to have made far-reaching and fundamental adjustments to the economic environment of import competition, and were able at the same time not only to maintain but actually *increase* their related defense production capability.

We have considered carefully the statements by spokesmen for the industry that imports threaten the survival of unique watchmaking, managerial, and production-line skills needed in the manufacture of military end products. We do not believe that there would be any significant loss of skills and facilities important to national defense during emergency periods.

First, if the watch industry should find it advantageous from an economic standpoint to turn more and more to imports and gradually curtail or even phase out domestic watch production, it does not appear that it would abandon its defense production activities so long as the military demand for their products continues. In light of current military procurement plans involving an expanded industrial production base to meet ammunition and other inventory objectives, the defense capabilities of the watch industry should be in steady demand for a number of years to come.

Second, even if some of the watch companies should decide to discontinue their defense production along with that of watch manufacturing, there is reason to expect that the skilled personnel, production facilities and equipment now being utilized in production of defense items would be absorbed by or continued as separate entities of other watch or non-watch companies. This has happened in the not too distant past. For example, Waltham, Gruen, and Elgin, upon complete or partial discontinuance of watch manufacturing sold their defense production facilities to other companies engaged in the supply of defense or industrial products.

Third, an increasing number of non-watch companies are showing a capability to produce components requiring equally close or closer tolerances and to develop complex weapons systems employing such components.