

Originally Processed With FOIA(s):
2025-0373-S

FOIA Number:
2025-0373-S

FOIA MARKER

**This is not a textual record. This is used as an
administrative marker by the George Bush Presidential
Library Staff.**

Record Group/Collection: George H.W. Bush Presidential Records
Collection/Office of Origin: Chief of Staff, White House Office of
Series: Card, Andrew, Files
Subseries:

OA/ID Number: 05215
Folder ID Number: 05215-001b

Folder Title:
Background Material from James Baker IV to Andrew Card [2]

Stack:	Row:	Section:	Shelf:	Position:
G	15	22	1	

Congress of the United States

House of Representatives

Washington, D.C. 20515

August 15, 1991

President George Bush
White House
Washington, D.C. 20500

Dear Mr. President

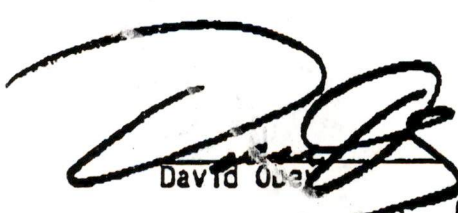
As Members of the Wisconsin Congressional delegation, we are writing to express our interest in the extension of the machine tool Voluntary Restraint Agreements (VRAs) beyond their December 1991 expiration date.

Although the United States machine tool industry is small in terms of dollar shipments, it is vital to our national defense. It's also an important element of our state's economy. Our recent involvement in Operation Desert Storm demonstrates the importance of a strong domestic machine tool industry. Machine tools are needed to manufacture ships, planes, tanks, transport vehicles and many other elements of America's defense industrial base.

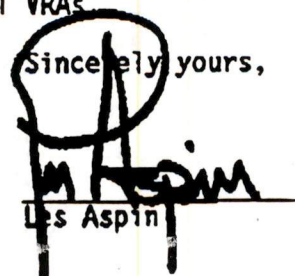
As you are aware, the machine tool VRAs were negotiated with Japan and Taiwan in 1987 at the direction of President Ronald Reagan, who recognized that a dramatic rise in machine tool imports threatened the health of this critical domestic industry and, therefore, undermined national security. At that time, machine tool imports were at 50 percent of domestic consumption. Today, the import level remains at roughly 50 percent (that figure is much higher in some machine tool categories).

An extension of the VRAs appears necessary for America's machine tool industry to continue to rebuild after the devastation it suffered in the early 1980's. It has made progress over the last five years, but we must not make the mistake of assuming that the industry has achieved lasting stability during such a short period. We urge you to keep our long term national security requirements foremost in your mind as you consider extending the machine tool VRAs.

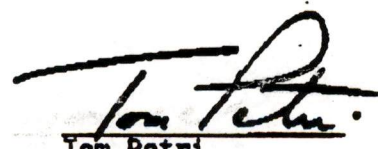
Sincerely yours,



David Ober



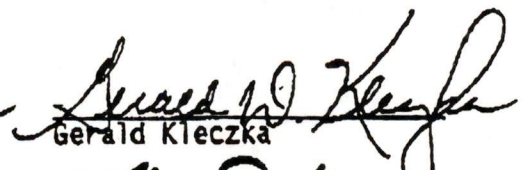
Les Aspin



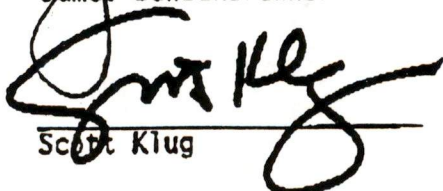
Tom Petri



James Sensenbrenner



Gerald Kleczka



Scott Klug



Toby Roth

Congress of the United States

Washington, DC 20515

July 10, 1991

The Honorable George Bush
President of the United States
The White House
1600 Pennsylvania Avenue
Washington, D.C. 20050

Dear Mr. President:

We write today to call your attention to the fact that the Voluntary Restraint Agreement with Japan and Taiwan regarding machine tools is due to expire at the end of the year.

As recent events in the Persian Gulf have demonstrated, a healthy defense industrial base is absolutely critical to America's capacity to defend its friends as well as its vital interests around the world. We would note, Mr. President, that the machine tool industry is at the heart of that defense industrial base. Without machine tools America could not produce the ships, planes, tanks and guns that are so necessary for our military and industrial operations.

Mr. President, the machine tool VRA has succeeded in stemming the erosion of this vital industrial sector during the past four years. In the process, the VRA has allowed U.S. companies the breathing space to reinvest profits and increase new investment in the machine tool industry in this country. All the more remarkable, this has been accomplished without raising the price of machine tools to U.S. industrial customers.

Yet, while the VRA has been a success to date, it would be dangerous to allow it to lapse at the end of 1991. The low prices and high investment levels that have increased quality while keeping costs to U.S. industry at a minimum have also meant low profit margins. This, in turn, has meant that while the industry has held its own and indeed reversed past erosion, it has not yet built up the competitive edge it would need to meet foreign (often subsidized) competition and satisfy defense mobilization requirements should the VRA be lifted.

As an example of the need to maintain and nurture in the U.S. the basic critical technologies used by machine tools, The National Critical Technologies Panel's Critical Technologies Report warns of the danger of further erosion in all critical technologies related to machine tools to Europe and Japan.

We, therefore, ask you to extend the machine tool VRA beyond December 1991. Such an extension would provide the additional breathing space necessary to complete the rebuilding of this vital segment of our defense industrial base while guaranteeing that our nation will have the capacity to respond to any mobilization contingency. Thank you.

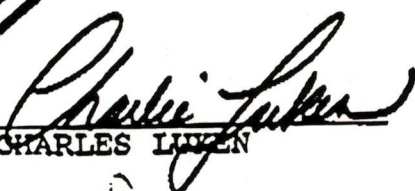
Sincerely,


MARCY KAPTUR

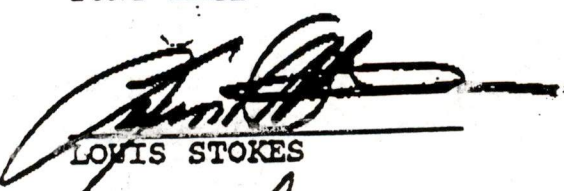

DON PEASE


DOUGLAS ABERNETHY

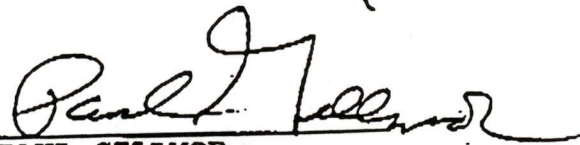

JAMES TRAFICANT

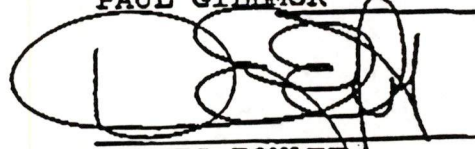

CHARLES LUJAN

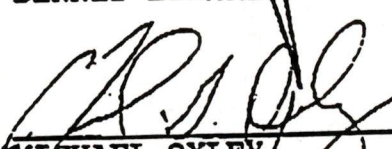

TONY HALL


LOUIS STOKES


THOMAS SAWYER

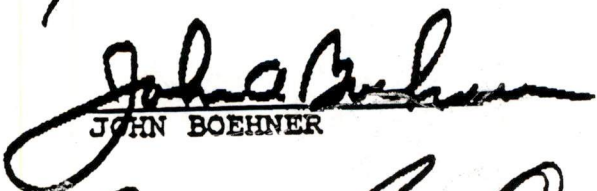

PAUL GILLMOR


DENNIS ECKART


MICHAEL OXLEY


EDWARD FEIGHAN


BOB MCEWEN


JOHN BOEHNER


MARY ROSE OAKAR

Congress of the United States

House of Representatives

Washington, DC 20515

June 19, 1991

The Honorable George W. Bush
President of the United States
The White House
Washington, D.C. 20500

Dear Mr. President:

As you are aware, Voluntary Restraint Agreements (VRAs) pertaining to the machine tool industry expire on December 31, 1991. We request that you extend these important VRAs for two years with an option to renew the extension for an additional three years.

There are more machine tool manufacturers in Michigan than in any other state. Yet, employment in this industry dropped from 10,500 in 1982 to 8,200 jobs in 1990. This is compared with a national machine tool industry employment level of 77,600 jobs, reduced to 66,600 by 1990. This is a concern that affects Michigan and it is one that affects our national security interests, as well.

The VRAs with Japan and Taiwan went into effect in 1987 after machine tool imports had risen to a level that was devastating the industry and threatening national security. At that time, imports accounted for half of the machine tools consumed in America. Since then, the United States machine tool industry has used this breathing space the VRAs provided in an attempt to rebuild and strengthen. Although some progress has been realized, the industry is still not strong enough to assume its vital role in maintaining our defense industry base. Imports still amount to approximately 50 percent of domestic consumption, indicating to us that the national security risk is no less critical today than it was five years ago.

The machine tool VRAs must be extended to allow the industry the additional time it needs to regain its health. Otherwise, our future as a military and economic leader will be at risk.

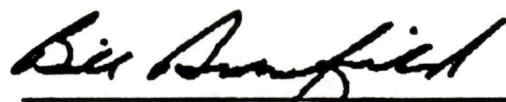
The Honorable George W. Bush
Page 2

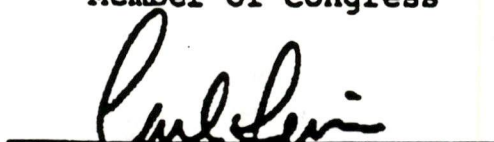
June 19, 1991

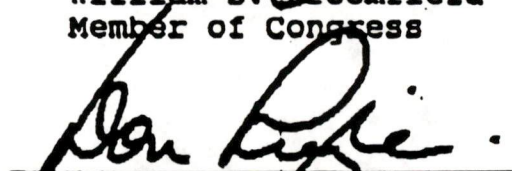
Thank you, Mr. President, for addressing our concerns.

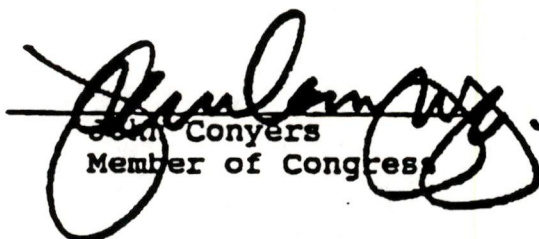
Respectfully,


John D. Dingell
Member of Congress


William S. Broomfield
Member of Congress

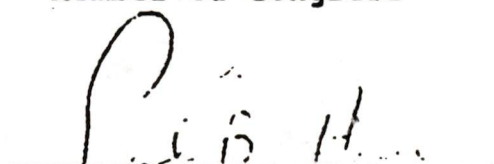

Carl Levin
U.S. Senator

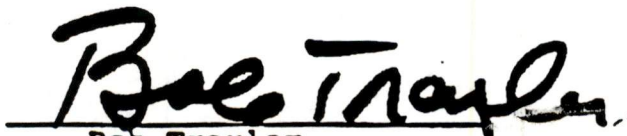

Donald W. Riegle, Jr.
U.S. Senator


John Conyers
Member of Congress

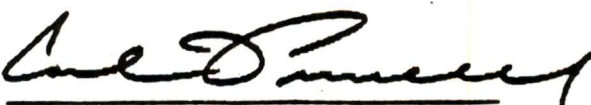

Robert W. Davis
Member of Congress

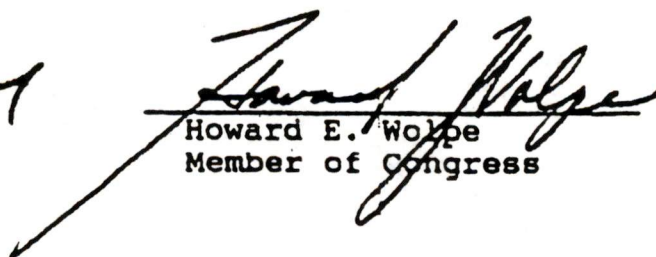

William D. Ford
Member of Congress


Paul B. Henry
Member of Congress

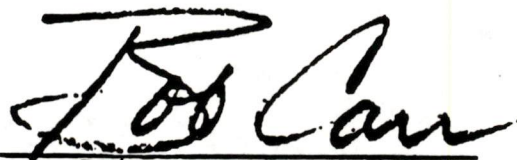

Bob Traxler
Member of Congress


Dennis M. Hertel
Member of Congress

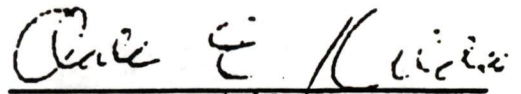

Carl D. Pursell
Member of Congress


Howard E. Wolpe
Member of Congress

June 19, 1991



Bob Carr
Member of Congress



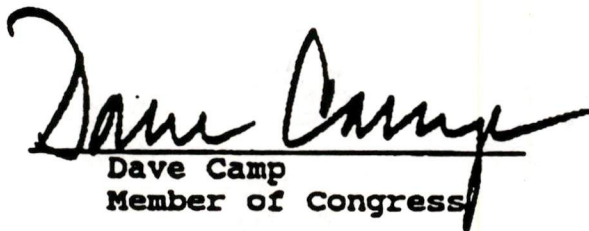
Dale E. Kildee
Member of Congress



Barbara-Rose Collins
Member of Congress



Fred Upton
Member of Congress



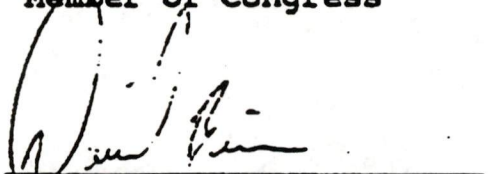
Dave Camp
Member of Congress



Sander Levin
Member of Congress



Guy Vander Jagt
Member of Congress



David E. Bonior
Member of Congress

MARTY RUSSO
3D DISTRICT, ILLINOIS

CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515

May 23, 1991

Dear Mr. President:

We are writing, as members of the Illinois Congressional delegation, to voice our support for the extension of the machine tool Voluntary Restraint Agreements (VRAs) beyond their December 1991 expiration date. This is a national security decision that merits your prompt consideration.

America's machine tool industry is vitally important to our national defense. Machine tools are needed to produce every ship, tank, plane, missile, and transport vehicle used by our Armed Forces. However, during the early 1980's the industry experienced alarming deterioration as imports climbed to 50 percent of domestic consumption. This period left the United States with a defense industrial base which was increasingly reliant on foreign sources for critical machine tools and parts, prompting President Reagan to negotiate VRAs with Japan and Taiwan on certain machine tool imports. They went into effect in 1987 and run through 1991.

Since then, the U.S. machine tool industry has made progress. But progress should not be mistaken for strength. American machine tool manufacturers are a long way from the thriving companies they must be to ensure national security. Imports still account for roughly half of all machine tools consumed in the United States.

The conflict in the Persian Gulf demonstrates what is at stake if America is foreign-source dependant for elements of our defense bases. Recent press reports point to our troubling dependence on other nations for critical parts and machinery during the Desert Storm operation. According to the Washington Post, "On nearly 30 occasions, the Bush administration needed help from foreign governments to get delivery of crucial parts for the war effort...defense contractors required semiconductors, video display terminals and other computer equipment from Japan; electronic components from Japan and France for measuring and calibrating equipment made here; and radio gear and avionics from Britain." Stories like this and others have solidified our view that the United States needs to maintain and strengthen a base of critical technology.

COMMITTEE ON
WAYS AND MEANS
SUBCOMMITTEE ON HEALTH,
VICE CHAIRMAN
SUBCOMMITTEE ON OVERSIGHT

COMMITTEE ON
HOUSE ADMINISTRATION

DEMOCRATIC STEERING
AND POLICY
COMMITTEE

DEPUTY WHIP

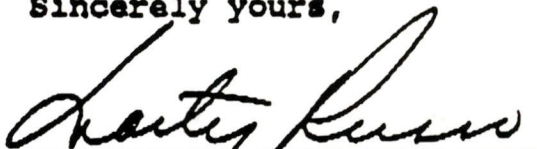
OFFICES:
2233 RAYBURN BUILDING
WASHINGTON, D.C. 20515
202-225-5736

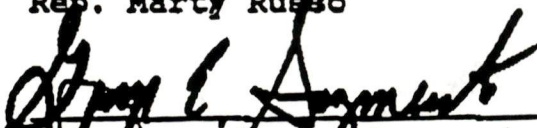
10634 SOUTH CICERO
OAK LAWN, IL 60453-5295
708-636-4171

President George Bush
May 23 1991
Page Two

The United States machine tool industry needs additional time to heal and to strengthen. We urge you to extend the machine tool VRAs.

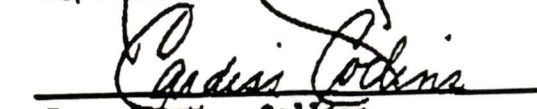
Sincerely yours,

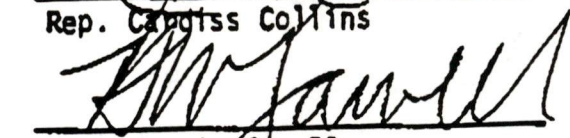

Rep. Marty Russo


Rep. George Sangmeister

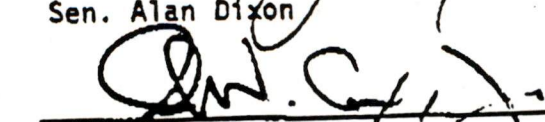

Rep. Charles Hayes

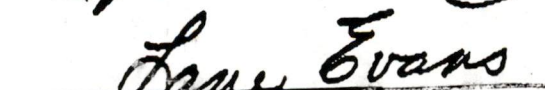

Rep. Dennis Hastert

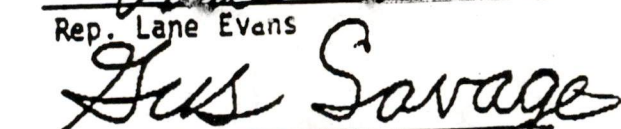

Rep. Candiss Collins

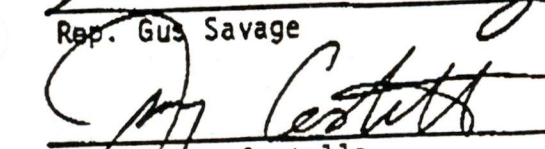

Rep. Harris Fawell

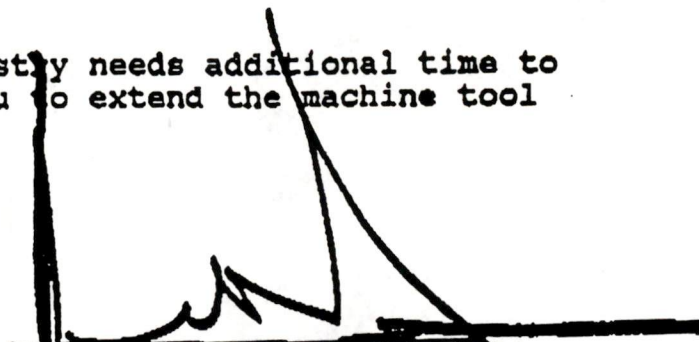

Sen. Alan Dixon


Rep. John Cox

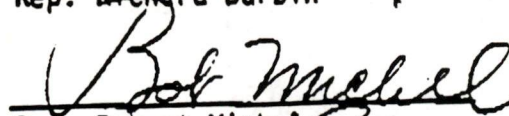

Rep. Lane Evans

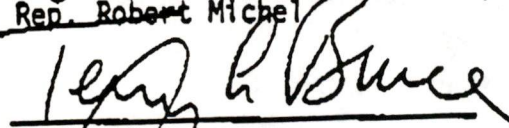

Rep. Gus Savage

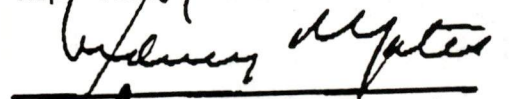

Rep. Jerry Costello


Rep. John Porter

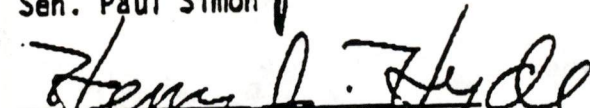

Rep. Richard Durbin

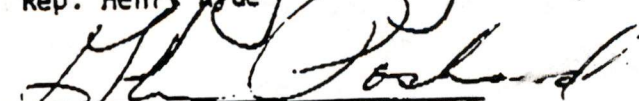

Rep. Robert Michel


Rep. Terry Bruce

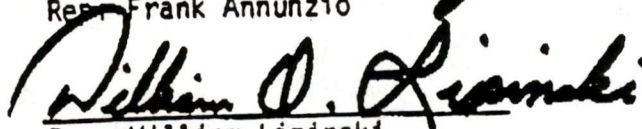

Rep. Sidney Yates


Sen. Paul Simon


Rep. Henry Hyde


Rep. Glenn Poshard


Rep. Frank Annunzio


Rep. William Lipinski

Congress of the United States
House of Representatives
Washington, DC 20515

May 14, 1991

President George Bush
The White House
1600 Pennsylvania Avenue, NW
Washington, DC 20500

Dear Mr. President:

I am writing to reinforce the message already sent by my Connecticut colleagues regarding the Voluntary Restraint Agreement with Japan and Taiwan.

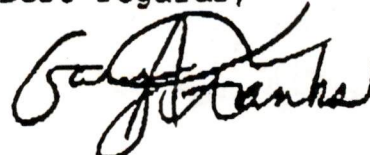
Strong defense weaponry is an essential part of America's strength as a nation. In order to provide our country with this forceful defense, we desperately need the machine tool industry. It is important that this industry is preserved and reinforced.

VRA has aided the machine tool industry by allowing them the freedom to build up their business. Allowing the VRA agreement to elapse in December 1991, would eradicate all the recent progress made by this essential industry.

For the best interests of our machine tool manufacturers, defense contractors, and ultimately our nation, I am asking you to extend the VRA contract.

If you have any questions or comments regarding this issue, please do not hesitate to contact my office at (202) 225-3822. Thank you.

Best regards,



Gary A. Franks
Member of Congress

GAF:khp

Congress of the United States

Washington, DC 20515

May 14, 1991

President George Bush
The White House
1600 Pennsylvania Avenue
Washington D.C. 20500

Dear President Bush:

As members of the Massachusetts Congressional Delegation, we are writing to express our unequivocal support for the continuation of the machine tool industry Voluntary Restraint Agreements. These agreements, negotiated by the Reagan Administration in 1987, are due to expire on December 31, 1991.

As you know, a strong and viable domestic machine tool industry is essential for national security. During the 1980s, our dependence on imported machine tools increased dramatically, crippling our domestic industry and severely decreasing our ability to produce the tools that America needs to produce ships, planes, heavy vehicles and numerous other elements of our defense system. Currently, imports account for a full 50 percent of domestic machine tool consumption.

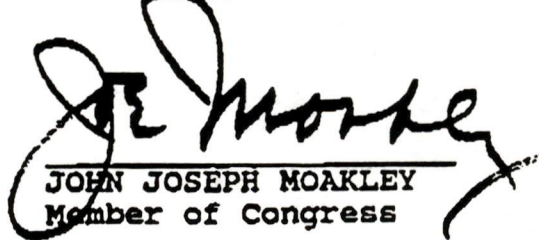
We are sensitive to the impact the import restraints can have on the precarious balances that form the international economy. We feel, however, that considering the relatively small size of the industry (approximately .08% of the GNP), its extreme importance to our national security, and the benefits the foreign competition derives from direct government subsidies, that the Voluntary Restraint Agreements should be renewed.

Having studied this matter, we urge you to consider the consequences of allowing this vital industry to wither. Under the initial VRAs, the American machine tool industry recuperated some of its vitality. With the aid of this renewal it can gain prominence in the world marketplace and ensure our ability to domestically determine the structure of America's industrial base.

It is our sincere hope that the Administration will again invoke the authority accorded it under U.S.C. 1862 and renew the Voluntary Restraint Agreements.

President George Bush
May 14, 1991
Page Two

Sincerely,

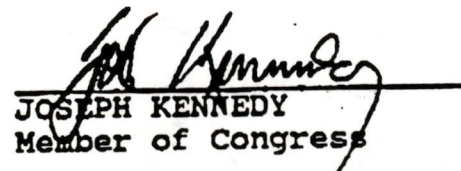

JOHN JOSEPH MOAKLEY
Member of Congress


CHESTER ATKINS
Member of Congress

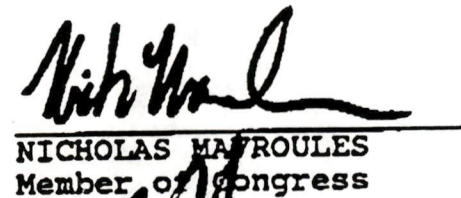

BRIAN DONNELLY
Member of Congress

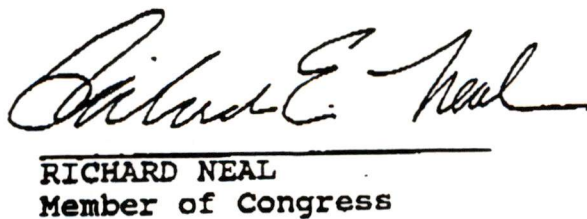

JOSEPH EARLY
Member of Congress

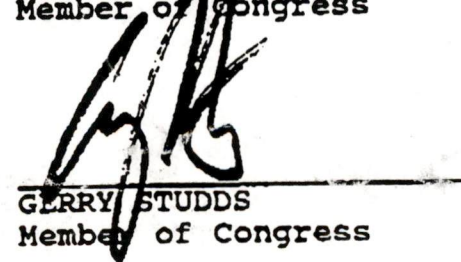

BARNEY FRANK
Member of Congress


JOSEPH KENNEDY
Member of Congress


EDWARD MARKEY
Member of Congress


NICHOLAS MAVROULES
Member of Congress


RICHARD NEAL
Member of Congress


GERRY STUDDS
Member of Congress

Congress of the United States

Washington, DC 20515

May 13, 1991

The Honorable George Bush
President of the United States
The White House
1600 Pennsylvania Avenue
Washington, D.C. 20050

Dear Mr. President:

We write today to call your attention to the fact that the Voluntary Restraint Agreement with Japan and Taiwan regarding machine tools is due to expire at the end of the year.

As recent events in the Persian Gulf have amply demonstrated, a healthy defense industrial base is absolutely critical to America's capacity to defend its friends as well as its vital interests around the world. We would note, Mr. President, that the machine tool industry is at the heart of that defense industrial base. Without machine tools we could not produce the ships, planes, tanks and guns that are so necessary for our military.

Mr. President, the machine tool VRA has succeeded in stemming the erosion of this vital industrial sector during the past four years. In the process, the VRA has allowed U.S. companies the breathing space to reinvest profits and increase new investment in the machine tool industry in this country. All the more remarkable, this has been accomplished without raising the price of machine tools to U.S. industrial customers.

Yet, while the VRA has been a success to date, it would be dangerous to allow it to lapse at the end of 1991. The low prices and high investment levels that have increased quality while keeping costs to U.S. industry at a minimum have also meant low profit margins. This, in turn, has meant that while the industry has held its own and indeed reversed past erosion, it has not yet built up the competitive edge it would need to meet foreign (often subsidized) competition and satisfy defense mobilization requirements should the VRA be lifted.

We therefore ask you to extend the machine tool VRA beyond December 1991. Such an extension would provide the additional breathing space necessary to complete the rebuilding of this vital segment of our defense industrial base while guaranteeing that our

nation will have the capacity to respond to any mobilization contingency. Thank you.

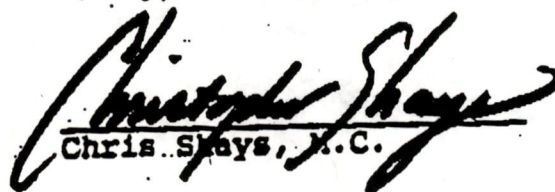
Sincerely,


Barbara B. Kennelly, M.C.


Sam Gejdenson, M.C.


Rosa L. DeLauro, M.C.


Nancy L. Johnson, M.C.


Chris Shays, M.C.

BARBARA B. KENNELLY
1st DISTRICT, CONNECTICUT

WAYS AND MEANS

SUBCOMMITTEES:
SELECT REVENUE MEASURES
HUMAN RESOURCES

PERMANENT SELECT COMMITTEE
ON INTELLIGENCE

SUBCOMMITTEES:
CHAWWOMAN, LEGISLATION
OVERSIGHT AND EVALUATION



204 CANNON BUILDING
WASHINGTON, DC 20543
(202) 225-2265

ONE CORPORATE CENTER
HARTFORD, CT 06103
(203) 278-8888

Congress of the United States
House of Representatives
Washington, DC 20515

April 11, 1991

The Honorable George Bush
President of the United States
The White House
1600 Pennsylvania Avenue
Washington, D.C. 20050

Dear Mr. President:

We write today to call your attention to the fact that the Voluntary Restraint Agreement with Japan and Taiwan regarding machine tools is due to expire at the end of the year.

As recent events in the Persian Gulf have amply demonstrated, a healthy defense industrial base is absolutely critical to America's capacity to defend its friends as well as its vital interests around the world. We would note, Mr. President, that the machine tool industry is at the heart of that defense industrial base. Without machine tools we could not produce the ships, planes, tanks and guns that are so necessary for our military.

Mr. President, the machine tool VRA has succeeded in stemming the erosion of this vital industrial sector during the past four years. In the process, the VRA has allowed U.S. companies the breathing space to reinvest profits and increase new investment in the machine tool industry in this country. All the more remarkable; this has been accomplished without raising the price of machine tools to U.S. industrial customers.

Yet, while the VRA has been a success to date, it would be dangerous to allow it to lapse at the end of 1991. The low prices and high investment levels that have increased quality while keeping costs to U.S. industry at a minimum have also meant low profit margins. This, in turn, has meant that while the industry has held its own and indeed reversed past erosion, it has not yet built up the competitive edge it would need to meet foreign (often subsidized) competition and satisfy defense mobilization requirements should the VRA be lifted.

We therefore ask you to extend the machine tool VRA beyond December 1991. Such an extension would provide the additional breathing space necessary to complete the rebuilding of this vital segment of our defense industrial base while guaranteeing that our

nation will have the capacity to respond to any mobilization contingency. Thank you.

Sincerely,

Barbara B. Kennelly
Barbara B. Kennelly, M.C.

Nancy A. Johnson
Nancy A. Johnson, M.C.

Harold E. Ford
Harold E. Ford, M.C.

Ed Jenkins
Ed Jenkins, M.C.

Frank J. Guarini
Frank J. Guarini, M.C.

Brian J. Donnelly
Brian J. Donnelly, M.C.

William J. Coyne
William J. Coyne, M.C.

Sander M. Levin
Sander M. Levin, M.C.

Guy Vander Jagt
Guy Vander Jagt, M.C.

Raymond J. McGrath
Raymond J. McGrath, M.C.

Rod Chandler
Rod Chandler, M.C.

Richard T. Schulze
Richard T. Schulze, M.C.

Don Sundquist
Don Sundquist, M.C.

Jim Bunning
Jim Bunning, M.C.

United States Senate

WASHINGTON, DC 20510

April 8, 1991

The Honorable George Bush
President of the United States
The White House
Washington, D.C. 20500

Dear Mr. President:

We are writing to call your attention to the fact that the Voluntary Restraint Arrangement with Japan and Taiwan regarding machine tools is due to expire at the end of this year.

As recent events in the Persian Gulf have amply demonstrated, a healthy defense industrial base is absolutely critical to America's capacity to defend its friends as well as its vital interests around the world. We would note, Mr. President, that the machine tool industry is at the heart of that defense industrial base. Without machine tools, we could not produce the ships, planes, tanks and guns that are the core of our ability to project force to meet aggression.

Mr. President, the machine tool VRA has succeeded in stemming the erosion of this vital industrial sector during the past four years. In the process, the VRA has allowed U.S. companies the breathing space to reinvest profits and increase new investment in the machine tool industry in this country. All the more remarkable, this has been accomplished without raising the price of machine tools to U.S. industrial customers.

Yet, while the VRA has been a success to date, it would be dangerous to allow it to lapse at the end of 1991. The low prices and high investment levels that have increased quality, while keeping the cost to U.S. industry at a minimum, have also meant low profit margins. This, in turn, has meant that while the industry has held its own and reversed past erosion, it has not yet built up the competitive edge it would need to meet foreign (often subsidized) competition and satisfy defense mobilization requirements when the VRA is lifted.

We are asking you, therefore, to consider an extension of the machine tool VRA beyond December, 1991. Such an extension would provide the additional breathing space necessary to complete the rebuilding of this vital segment of our defense industrial base while guaranteeing that our nation will have the capacity to respond to any mobilization contingency it may face during the coming years.

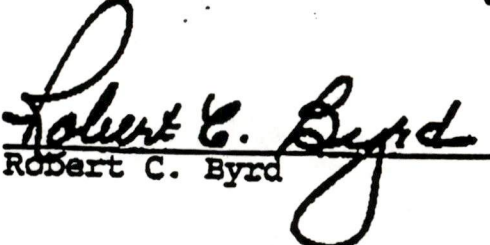
Page 2

We would be interested in your views on this vital issue and look forward to your reply.

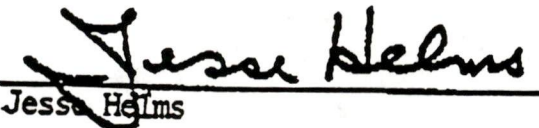
Sincerely,


Charles E. Grassley

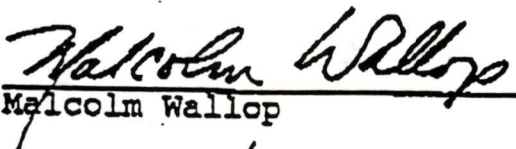

Donald W. Riegle, Jr.

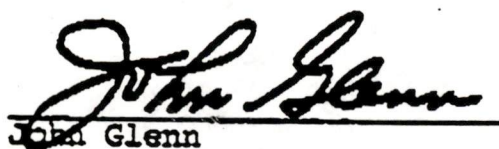

Robert C. Byrd

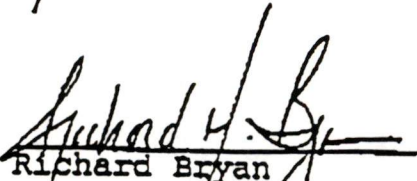

John C. Danforth

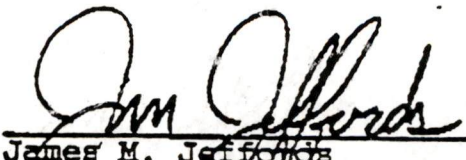

Jesse Helms

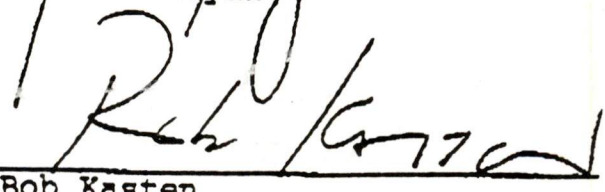

Alan J. Dixon

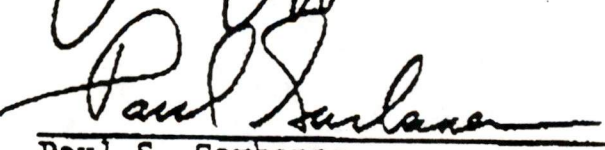

Malcolm Wallop


John Glenn

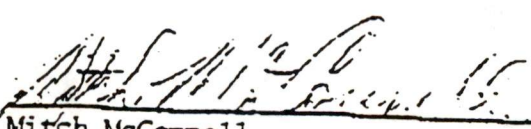

Richard Bryan

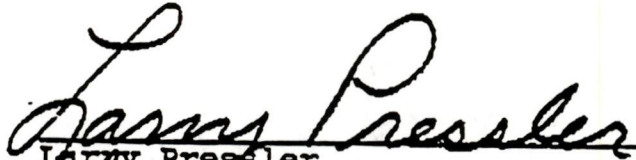

James M. Jeffords

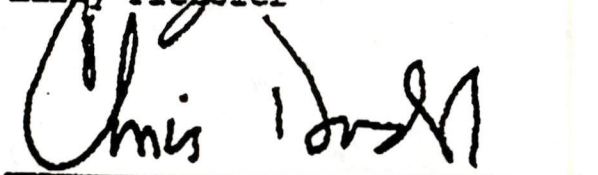

Bob Kasten

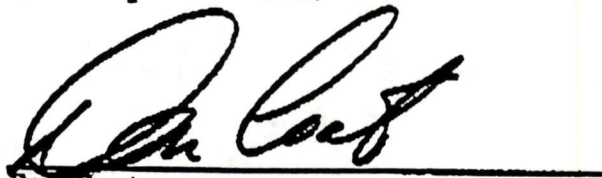

Paul S. Sarbanes


Terry Sanford

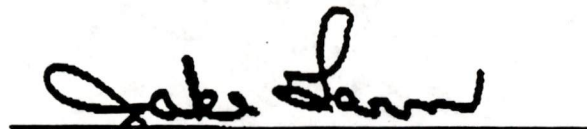

Mitch McConnell

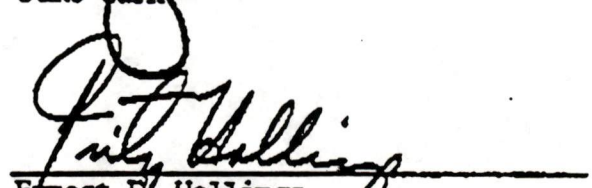

Larry Pressler


Christopher J. Dodd


Dan Coats


Alfonse M. D'Amato


Jake Garn


Ernest B. Hollings

US machine-tool makers seek to keep import curb

By Nancy Dunne in Washington

THE Bush administration has begun considering a request by American machine-tool makers for continuation of controls on imports from Japan and Taiwan on grounds of national security.

The US industry will have had five years of "temporary" protection by the end of 1991 under "Voluntary Restraint Agreements" (VRAs) reached with Japan and Taiwan. The industry is still contending that it needs limits on imports and that its protection is vital to the US national security.

The Association for Manufacturing Technology (NMTBA) has taken its case to both Capitol Hill and the Bush administration. About 100 congressmen - including 14 members of the key ways and means committee - and more than 20 senators have responded by urging President Bush to extend the VRAs for three to five years.

The lobbying effort can be seen as a test case of the administration's view on the need to protect companies which once could claim their survival was vital to US defence.

In the past decade few industries have won that argument, and that was before the end of

the Cold War. In Congress, however, sentiment has been building for the need to broaden the definition of "national security" to "national economic security". This would lay the foundation for protection of industries deemed vital to American manufacturing capacity.

The Bush administration has rejected this view; but next year is a presidential election, and industry groups could find they have increased clout.

The machine-tool industry has been having a slow year, but much of that could be attributed to the recession. Orders for the first seven months were \$1.4bn (£820m), down 18 per cent from last year.

However, they rose 8.8 per cent in July, giving some indication of a pick-up in the economy. Imports have climbed 7 per cent this year, after falling slightly to \$2.3bn for 1990.

The current VRAs limit the Japanese and Taiwanese shares of the US market in machining centres, lathes, milling machines and punching and shearing machines. These products represent more than 40 per cent of the US market. The controls have allowed US producers to recapture some of the market.

WORLD TRADE NEWS

MILITARY-RELATED TECHNOLOGY

Japan reviews its feedback to US

By Robert Thomson in Tokyo

THE Japanese government is reviewing the flow of information back to the US on developments in military-related US technology.

The technology is improved by Japanese corporations, working under licence. Japan is sensitive to US Congress criticism that the US military has become over-reliant on foreign suppliers for high technology, and that some of these suppliers were slow to respond to US needs during the Gulf war.

Senior Japanese Defence Agency officials indicated yesterday that they would use a regular bilateral meeting later this month to emphasise that Japanese companies are willing to transfer information on refinements made to US technology.

The two countries have an agreement for joint develop-

ment in five military-related areas, including ceramic engines and rocket technology, while Japanese companies have various other research projects designed to upgrade US aircraft and missile technology.

Defence Agency officials expect the US will raise the unauthorised exports to Iran of missile parts and aircraft electronics by one Japanese company. These exports were used to upgrade US-made technology used by the Iranian military.

"We realise that the US has some concerns about technology development and we will do our best to make sure they have access to the latest technology. We are aware they want more information about advancements by Japanese companies," a Defence Agency official said.

HILLS, KATZ STRESS TRADE FACTORS IN EVALUATING MACHINE TOOL VRA EXTENSION

High-level U.S. trade officials earlier this month told Sen. Richard Lugar (R-IN) that their review of a request for extending the machine tool export restraint agreements with Japan and Taiwan will focus on the current VRAs' impact on industry imports, exports, profits and investment. In addition, the Office of the U.S. Trade Representative (USTR) will consider how the voluntary export restraint program has affected the competitiveness of the machine tool industry, according to letters from U.S. Trade Representative Carla Hills and Deputy USTR Jules Katz.

Neither letter mentions that the USTR review will consider the ability of the machine tool industry to supply the needs of the defense industrial base. In contrast, the Commerce Dept. has pushed, at industry's behest, to have its request for an extension treated as a national security matter. That may make it easier to get Administration approval for the extension than if the extension request is treated solely as a trade issue, according to informed sources (*Inside U.S. Trade*, Aug. 16, p 18). A decision on how to handle the VRA request is expected in early September.

Hills and Katz were responding to requests made by Lugar that the Administration's review consider the opposition of Hurco Companies Inc., an Indiana machine tool producer that has argued the VRAs hurt the competitiveness of the domestic industry (*Inside U.S. Trade*, May 31, p 10). Lugar initially raised the issue in a letter to President Bush (*Inside U.S. Trade*, July 5, p 3). The Katz and Hills letters were sent separately, but are almost identical in wording.

Hills Letter on Machine Tool Restraints

August 16, 1991

The Honorable Richard G. Lugar
United States Senate
Washington, D.C. 20510

Dear Senator Lugar:

Thank you for your letter of August 1, concerning the Voluntary Restraint Agreements (VRAs) on machine tools.

I appreciate your sending me a copy of your letter to the President and the additional comments on the international competitiveness of Hurco Companies, Inc., and your readiness to arrange any meeting with executives from Hurco.

Since the VRA program, which was established in 1986 to facilitate the revitalization of the U.S. machine tool industry, is

scheduled to expire at the end of the year, we are now in the process of reviewing the results of the program. We will be examining the trends in imports and exports, the impact on profits and investment, and the resultant competitiveness of the domestic industry. In that context, I as well as member of my staff have had several meetings with Hurco executives. We very much appreciate their efforts to provide us with information on this important matter.

Throughout our deliberations, we will consult with you, other members of the Senate and the House, as well as representatives of the U.S. industry.

Sincerely,

Carla A. Hills

U.S. MOVES TOWARD GATT PANEL ON AIRBUS . . . begins page one

complaint because it was decided that EC hints of increased flexibility in resolving the issue through negotiation -- made at a meeting in Brussels in early August -- were not sufficiently credible (*Inside U.S. Trade*, Aug. 3 p 5).

It remains unclear how the EC will respond to the U.S. decision to move ahead. It has argued strenuously at the GATT that any movement to arbitrate the dispute would more appropriately come under the GATT aircraft code, which it proposed to renegotiate regarding subsidies, rather than under the subsidies code (*Inside U.S. Trade*, June 7 p 2).

At issue are billions of dollars of subsidies provided by the governments of Germany, France, Great Britain and Spain to their Airbus affiliates. Lengthy negotiations aimed at trimming those subsidies broke down earlier this year, leading the U.S. to request a dispute settlement panel in March on a specific program of German government exchange-rate subsidies extended to the private company that bought the parent company of German Airbus from the government. The U.S. subsequently filed the broader complaint under the subsidies code.

Economic & Social Policy Council (CONPES), the decision derives from an "unprecedented accumulation of international reserves" caused by expanded non-traditional exports and a "massive" repatriation of capital. Firms appear to be postponing import decisions until the announced tariff reductions were to take place, and their reticence to import threatens to choke off the country's economic opening, the announcement said.

The new tariff reductions will reduce Colombia's average tariff level from 24.7% to 14.8%, and its effective protection level from 44% to 24.8%. Only four tariff levels remain under the new regime: inputs, raw materials, intermediate and capital goods not produced domestically, and goods vulnerable to top contraband can enter duty-free. The second and third tariff level of 5% or 10% duties are for domestically produced inputs, raw materials and intermediate and capital goods; and 15% duties on consumer goods, according to CONPES.

In addition, the CIF surcharge on imports was lowered from 10% to 8%, but the old tariff levels remain in effect for agricultural products subject to a "tariff band," the statement said.

OFFICIALS STRESS THAT CHINESE CUTS IN BARRIERS BRING IT CLOSE TO GATT RULES

Administration officials have signaled to the People's Republic of China (PRC) that any efforts to cut its market access barriers in response to U.S. demands made in bilateral negotiations will move the country closer to having trade rules that are compatible with the General Agreement on Tariffs & Trade (GATT), which it wants to enter quickly. However, the Administration is pursuing the market access talks as a "primary interest" and does not link them to the PRC's proposed entry into GATT, according to informed sources.

The bilateral market access talks bear on the "nature and scope" of the commitments that would be required of the PRC in a multilateral setting as it sought to make its trade regime compatible with GATT, a senior trade official told reporters on Aug. 23. The PRC is aware that the compatibility of its trade rules with the GATT is "profoundly affected" by the degree that imported products can enter that market under fair and transparent rules, he said. Another Administration official emphasized that it will be easier for the PRC to move into GATT once that issue is being actively discussed if the country is "cooperative and forthcoming" in the current market access talks. Those talks ended without specific commitments on Aug. 23 after a four-day session, and the Administration has set a Sept. 30 deadline for a substantive PRC response to its demands (see related story).

Following the Aug. 20-23 talks on market access and intellectual property protection, the PRC delegation led by the vice minister for foreign economic affairs discussed the PRC's entry into the GATT with Assistant U.S. Trade Representative for GATT Affairs Douglas Newkirk. The Chinese officials made it clear that the PRC wants its GATT application to move ahead as quickly as possible, and reiterated the position that Taiwan should only become a member under the sponsorship of the PRC as its customs territory, according to U.S. government sources. The U.S. acknowledged that this is the PRC's interpretation of GATT rules, but pointed out that other contracting parties read them to allow the entry of Taiwan under different conditions, they said.

The U.S. also made it clear that the PRC could contribute to speeding up the process by formally answering a series of questions the Administration has posed to it through the GATT working party considering China's application, one Administration official said. The PRC verbally answered these questions about its economic reforms, but has yet to do so in writing, he said.

The U.S. will begin exploring the prospects for setting up a GATT working party on the accession of Taiwan by determining if other members consider such a move "appropriate," the official said. The issue, which will be handled "very carefully," has not yet been discussed with trading partners, so the Administration must gather information to find out where things stand, he said.

GATT rules hold open two ways for Taiwan to enter the GATT -- either under Article 26 or under Article 33, sources said. The PRC insists that it must take place under Article 26, section 5(c), which stipulates that a customs territory that possesses or acquires "full autonomy in the conduct of its external commercial relations" can enter the GATT upon sponsorship of a contracting party that already applied the international rules to that territory. That case applied to Hong Kong, which entered GATT under the sponsorship of Great Britain, which had applied international trading rules to Hong Kong before it gained full autonomy over its commercial affairs. Insisting that Taiwan apply to the GATT under Article 26 is consistent with the United Nations definition of its legal status, according to an informed international source. However, there is a likely alternative under Article 33, which allows a non-member government or the government of an autonomous customs territory to apply on its own behalf on terms that are negotiated between itself and other GATT members. Under that article, decisions on applications must have a two-thirds majority to be successful.

Financial Times, August 9, 1991

US machine tool companies warn on foreign competition

By Nancy Dunne in Washington

FOREIGN machine tool makers are likely to reassert their domination of the US market, if the Bush Administration fails to renew the five-year "voluntary restraint agreements" (VRAs) limiting imports from Japan and Taiwan.

This is the conclusion of both the domestic industry, which is seeking a three-year renewal of the VRA's - due to expire on December 31 - as well as a new in-depth research paper issued by the Council on Competitiveness.

The Council, a private organisation which is based in Washington, says the US industry could use the domestic market as a basis for regaining leadership in critical technologies but it continues to be plagued by anti-competitive government policies and by structural problems.

Machine tool makers were granted protection by the Reagan Administration on grounds that their survival was vital for US national security. With the end of the Cold War, that argument has lost some of its potency.

Furthermore, according to the Council paper, domestic machine tool users must have the latest equipment or they, too, will fall badly behind their foreign competitors.

The Association for Manufacturing Technology, which represents the machine tool makers, argues that the five years of restraints have allowed for new investment, increased competitiveness and record exports last year.

The Council paper, however, suggests that industry still suffers from the weaknesses hurt-

The US industry has had help from the federal government from contracts and "Buy America" procurement requirements but this pales in comparison with assistance given to their European and Japanese competitors - US Council on Competitiveness report.

ing other US sectors: US export control policy, tax laws and the product liability system.

The industry is composed of about 600 small companies (sales average about \$7m and median employment is about 60 per firm), which have difficulty keeping up with the technical needs of the large manufacturing companies they serve.

The market fluctuations they encounter discourage investment in R&D and the

rapid diffusion of new technology, the report says.

"During the past two decades, investment in R&D has averaged less than 2% of sales."

Machine tool development is growing ever more expensive and complex. The scope and expense of the efforts precludes "all but the top few machine tool builders from undertaking the necessary effort," the report says.

"For the typical machine tool builder with annual sales of about \$7m, mounting even a small research and development effort is prohibitive."

The US industry has had assistance from the federal government in the form of contracts and "Buy America" procurement requirements for the Pentagon.

There are also some small programmes to boost R&D but these pale in comparison to the assistance provided their European and Japanese competitors, says the report.

For example, Tokyo, after providing between \$500m and \$1bn in direct domestic industry supports, has now taken a the role in the development of intelligent manufacturing systems.

It is committed to underwriting \$400m of the \$1bn 10 year R&D effort.

US Administration Weighs Extension Of Machine Tool Import Restraints

By RICHARD LAWRENCE

Journal of Commerce Staff

WASHINGTON — The Bush administration is considering an extension of controls on Japanese and Taiwanese machine tool exports to the United States.

Pressing for the extension is NMTBA-The Association for Manufacturing Technology, which represents the domestic machine tool industry.

The group has mustered increasing congressional support for an extension. About 75 House members, including 14 members of the House Ways and Means Committee, and two dozen senators have urged President Bush to maintain the controls.

The industry seeks a three-year extension, with an option of two additional years of controls.

Due to expire Dec. 31, the controls limit Japanese and Taiwanese shares of the U.S. market in machining centers, lathes, milling machines and punching and shearing machines. Combined, these products represent over 40% of the \$4.6 bil-

lion-a-year U.S. machine tool market.

Since the controls took force in 1987, domestic producers have recaptured some of the market. Last year, for example, they accounted for 49% of machining center sales, compared with 35% in 1986.

The controls were put in place at the behest of the Reagan administration, which sought to prop up domestic producers for national security reasons.

NMTBA is suggesting no changes to the existing controls except for a new provision to encourage foreign-owned machine tool makers in the United States to use more American design and engineering talent.

Since 1988, foreign companies — especially Japanese — have stepped up their U.S. machine tool plant investment, which, said James Mack, an NMTBA vice president, is welcome. It helps build the nation's machine tool base and thereby bolsters the nation's security, he said.

Arguing for the extension of controls, NMTBA said U.S. machine tool producers "have responded admir-

bly to the five-year breathing space" provided by the controls.

Machine tool productivity, it reports, has risen in recent years at a rate much higher than the U.S. industrial average, thanks largely to new investment. U.S. machine tool makers, it said, have "bet the farm" — invested far more than traditional caution would dictate."

But, the association warns, U.S. producers remain "vulnerable" to "a new wave of Asian imports" if the export restraints expire. It cites still-precarious balance sheets of U.S. producers of the machine tools under control.

An association report shows that last year their median pretax income was 2.2% — less than half of the U.S. manufacturing average but still better than 0.1% return four years earlier.

Meanwhile, the U.S. industry appears to be becoming more world competitive. Its total exports last year hit a record \$1.06 billion, up 12% from a year earlier, though the industry's trade deficit still topped \$1 billion.

So far this year, total industry orders are sharply lower than a year ago. However, NMTBA points to rising U.S. industrial output and "lean inventories," which, it said, "should lead to increased investment in capital goods."

Still, the association warns, if machine tool imports rise much beyond current levels, American industry will be forced to depend on foreign technology.

In its study, the Bush administration is expected to weigh, among other things, how the apparent end of the Cold War affects national security requirements.

The machine tool question, noted J. Michael Farren, undersecretary of commerce for international trade, is no ordinary trade policy case. It's a national security matter.

If the administration opts for continued controls, it is likely to find resistance from Japanese and Taiwanese machine tool makers. Taiwan producers resent other countries' alleged exploitation of the controls to increase their U.S. sales. Japan's exports to the United States last year fell by 20%.

BUSINESS

...R TUESDAY, MAY 7, 1991 C3

Bentsen: Japanese May Withhold Key Technology

By Evelyn Richards
Washington Post Staff Writer

Sen. Lloyd Bentsen (D-Tex.) charged yesterday that some Japanese companies may be withholding their latest technology for making computer chips from U.S. customers in order to favor Japanese buyers.

Bentsen, who made the claim during a news conference at the industry-government research consortium Sematech in Austin, Tex., said he has asked the General Accounting Office to investigate. He chairs the Senate Finance Committee and a key subcommittee of the Joint Economic Committee.

Sematech named seven Japanese firms that it claims are delaying—or denying—sales to U.S. customers of the most advanced models of semiconductor manufacturing equipment. The firms include Nikon Corp., Canon Inc. and Tokyo Electron Ltd.

U.S. makers of semiconductors, the tiny circuits at the heart of all electronic equipment, are almost completely dependent on

Japanese firms for certain types of sophisticated equipment.

Neither Bentsen nor Sematech would disclose the names of any U.S. firms allegedly slighted by the Japanese suppliers. David Huchital, senior vice president of Nikon Precision Inc., the Japanese firm's U.S. semiconductor equipment arm, denied that Nikon favors Japanese buyers of its \$1.5 million "steppers," which are used to imprint circuit patterns onto silicon wafers.

Sematech officials allege that Nikon had refused to sell one particular stepper model in the United States. Huchital said the machine was offered to at least eight U.S. firms in 1986, but few expressed any interest. Most models are available in America within months after being introduced in Japan, he said.

U.S. allegations of unfair sales practices have surfaced in other businesses that have become increasingly dependent on Japanese suppliers. In 1988, when certain semiconductor chips were in short supply, industry sources said that U.S. firms were being forced to buy a wide array of products from Japanese suppliers to get the ones they really wanted. No such cases were publicly confirmed.

More recently, a struggling Silicon Valley portable computer maker, Dynabook Technologies Corp., alleged in a lawsuit that Seiko Epson refused to sell Dynabook its most advanced display screen.

The Washington Post, Monday March 25, 1991
p. 1.

U.S. Relied on Foreign-Made Parts for Weapons

By Stuart Auerbach
Washington Post Staff Writer

When allied officers urgently needed special battery packs to power their command and control computers during the Persian Gulf conflict, the U.S. government had to send to Paris and Tokyo to get them.

Similarly, when Teledyne Corp. needed transistors to meet a rush order for one of the most critical items in Operation Desert Storm—

the transponder that beams electronic signals so allied aircraft could tell friend from foe—French diplomats cooperated to get speedy delivery.

And when American manufacturers ran short of critical parts for video display terminals needed to analyze real-time intelligence data from reconnaissance planes, the U.S. government went to the Japanese Embassy here for help.

With the globalization of high-technology industries, U.S. troops in

combat in the Persian Gulf found themselves dependent for the first time on foreign countries for the tiny semiconductor chips, transistors and other electronic parts essential to their advanced weapons.

The weapons are manufactured in the United States, but frequently they rely on foreign-made parts. Deep stockpiles of foreign components, such as the semiconductors in the computer that aims and fires the main gun of the Army's Abrams tank, are not maintained in the U.S.

arsenal. There are simply too many parts to do that. Increasing inventories would add to the defense budget at a time of heavy pressure to reduce spending.

While the issue of the Pentagon's dependence on foreign suppliers was debated before the Gulf war, it came into sharp focus during the conflict when the Bush administration had to seek help from foreign governments in several cases to get parts needed by American manufacturers.

See SUPPLIES, A17, Col. 1

Foreign manufacturers often were reluctant to put the Pentagon's purchase orders ahead of their regular customers' without prompting from their governments, according to officials at embassies here and at the Commerce Department. But there was no case of a foreign manufacturer refusing to supply parts for political reasons, officials said.

On nearly 30 occasions, the Bush administration needed help from foreign governments to get delivery of crucial parts for the war effort.

Despite full cooperation from foreign governments, administration officials said the degree of foreign reliance complicated the smooth flow of supplies and renewed fears that U.S. military readiness may be compromised by shortages in this area.

These fears were expressed most vividly in a 1988 report by the Defense Science Board, a top Pentagon advisory panel, which found the U.S. military "dangerously dependent" on foreign supplies. The conclusion was echoed last May by Congress's Office of Technology Assessment and in January by the General Accounting Office, the watchdog agency of Congress.

"If the foreign governments were neutral or were not disposed to help us out, we could have run into some real problems," a senior administration official said. "We were sweating bullets over it and the military was sweating bullets, too."

His view was repeated by former Commerce Department trade official Clyde Prestowitz, who was a member of the Defense Science Board and now runs a Washington think tank, the Economic Strategy Institute.

"I think we are much more vulnerable than we understand," Prestowitz said. "In this case the allies were supportive. But you can see the potential for damage when they are not supportive."

Former deputy undersecretary of defense Stephen D. Bryen said when the federal government seeks the help of foreign governments to get rush orders of electronic supplies, the United States reveals weaknesses in its defense production "to outsiders who may not share our security concerns."

An official of the Japanese Embassy here noted that the cooperation his government provided the U.S. military in weapons procurement runs contrary to the strong strain of pacifism in Japanese society.

Despite what the Japanese diplomat described as a gray area regarding Japanese laws against exporting weapons, he said his country's help "verified that we are a very reliable source" for the U.S. defense industry.

Foreign Ministry spokesman Taizo Watanabe said there remains "a strong abhorrence" in Japanese public opinion against exporting arms.

But he added during an interview here with reporters and editors of The Washington Post that opposition lessens when Japanese are told the parts are for general civilian use as well and it is Americans, not Japanese, who put them in weapons systems. Even with that explanation, Watanabe acknowledged, the sale of Japanese parts for U.S. weapons

"still meets some psychological resistance."

The Defense Science Board report listed four tactical missiles that were used in Operation Desert Storm as the "most visible examples" of sophisticated weapons that depend on foreign-made parts. These include air-to-air Sparrow and Sidewinder missiles used in aerial dogfights, ground-based TOW anti-tank missiles and air-to-ground Maverick missiles.

"It is these 'consumables' which would be in greatest demand in a conventional war, and are most at risk, because of the dependence on foreign sources," the Defense Science Board report said, although there were no indications that any of the special orders involved those missiles.

The guidance system of the Sparrow, for instance, contains circuits from Japan, a critical semiconductor from Thailand and other parts from Germany.

Commerce Undersecretary Dennis Kloske, who was in charge of making sure American industry was

mobilized to supply the fighting forces in the Persian Gulf, said "one area of U.S. vulnerability" comes from the U.S. electronics industry, which has trouble gearing up to meet the increased needs of a military at war because so many of the vital components for computers and other products come from overseas suppliers.

For example, he said, for the Persian Gulf War, defense contractors required semiconductors, video display terminals and other computer equipment from Japan; electronic components from Japan and France for measuring and calibrating equipment made here; and radio gear and avionics from Britain.

"What this points out is the U.S. defense mobilization base has become global," said Kloske, who as a Defense Department aide from 1987 to 1989 drew up the defense mobilization plan.

He said this requires greater stockpiling, especially of critical electronic components that only are available from foreign suppliers.

But former commerce underse-

cretary Lionel Olmer, who was a member of the Defense Science Board, said its studies showed Defense Department procurement officials often had little idea what parts in U.S. weapons came from overseas. Such parts most often were small but critical components that were bought by the contractors and subcontractors. The GAO study seconded that view.

Further, Olmer said, it would be too expensive to begin stockpiling all the foreign-made parts used in weapons systems.

Drawing on his Pentagon experience, Kloske added the military generally opposes stockpiling parts and ammunition, preferring to use its money to buy weapons systems.

But Jerry Sullivan, a former deputy undersecretary of defense who now acts as a consultant and teaches at the University of Maryland, said a Pentagon study showed the value of foreign-made components in U.S. missile systems is small enough that the Pentagon could stockpile the parts if it were deemed worthwhile.

Last Copy
For Duplication Only
Do Not Remove

28 page
EMBASSY OF JAPAN
WASHINGTON

VRA

December 16, 1986

Excellency,

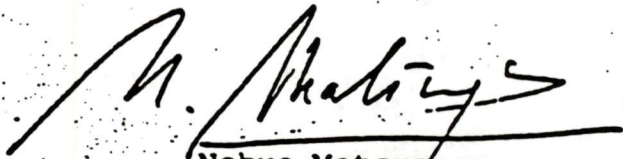
I have the honor to refer to the recent discussions held between the representatives of the Government of Japan and the Government of the United States of America concerning trade in certain machine tools between Japan and the United States of America and to confirm, on behalf of the Government of Japan, the understanding reached between the two Governments that, with a view to revitalizing the machine tool industry in the United States of America, the Government of Japan will implement the measures provided for in the Arrangement attached hereto (hereinafter called "the Arrangement") in accordance with its laws and regulations.

I have further the honor to request you to confirm on behalf of the Government of the United States of America that it will implement its measures provided for in the Arrangement in accordance with its laws and regulations and

The Honorable Malcolm Baldrige
Secretary of Commerce
Washington, D.C. 20230

to confirm that the present Note and your reply shall be regarded as constituting an agreement between the two Governments.

I avail myself of this opportunity to renew to you, Excellency, the assurances of my highest consideration.

A handwritten signature in dark ink, appearing to read 'N. Matsunaga', with a long horizontal stroke extending to the right.

Nobuo Matsunaga
Ambassador Extraordinary and
Plenipotentiary of Japan to
the United States of America

ARRANGEMENT

Between the Government of Japan
and the Government of the United States of America
Concerning Trade in Certain Machine Tools

Recognizing the unique difficulties faced by the
machine tool industry in the United States of America;

Recognizing the efforts of the Government of the United
States of America to revitalize the machine tool industry in
the United States of America based on the Action Plan;

Recognizing that the Government of Japan, upon request
by the Government of the United States of America, responded
in good faith to cooperate with the Government of the United
States of America in this regard;

And recognizing, therefore, the importance of stability
in trade for a certain period of time in certain machine
tool products between Japan and the United States of
America;

The Government of Japan and the Government of the
United States of America have reached the following
agreement regarding restraints by the Government of Japan of
exports of certain machine tools.

1. Objective

The objective of this Arrangement is to create a period
of stability of trade in certain categories of machine tools

between Japan and the United States of America in order to revitalize the U.S. machine tool industry to maintain sufficient capacity in the United States of America for the production of certain machine tools required for the vital interests of the United States of America. To this effect the Government of Japan will voluntarily restrain the total number of certain machine tools exported to or destined for consumption in the USA for the period of January 1, 1987 through December 31, 1991.

2. Definitions

The following definitions apply to this Arrangement:

(a) ARRANGEMENT PRODUCTS - means the products (assembled or unassembled) listed below, including kits.

- (1) Numerically Controlled Lathes
- (2) Non-Numerically Controlled Lathes
- (3) Milling Machines
- (4) Machining Centers
- (5) Numerically Controlled Punching and Shearing Machines
- (6) Non-Numerically Controlled Punching and Shearing Machines

(b) DESTINED FOR CONSUMPTION IN THE USA - means exported directly or indirectly to the USA through one or more third countries.

(c) TRANSITION PERIOD - means June 1, 1986 through December 31, 1986.

(d) U.S. APPARENT CONSUMPTION - means shipments (deliveries) minus exports plus imports.

(e) USA - means the customs territory of the United States of America and foreign trade zones located in the territory of the United States of America.

3. Export Limits

(a) From January 1, 1987 through December 31, 1991, the Government of Japan shall limit exports for each category of the arrangement products to quantities no greater than the agreed quantities for each product category ("export limit") for the relevant period.

The limits on exports of numerically controlled lathes, machining centers, and numerically controlled punching and shearing machines shall be administered through the issuance of export licenses. The limits on the remaining categories of arrangement products shall be accomplished through administrative guidance as provided in paragraph 6 of this Arrangement.

(b) For calendar years 1987, 1988, 1989, 1990, and 1991, the Government of Japan shall require an export license to cover the exportation from Japan of each unit of each arrangement product destined for consumption in the USA, not to exceed the export limit for each calendar year.

(c) During the period referred to in sub-paragraph (b), the Government of Japan will ensure that the arrangement products for which an export license is required shall be issued an export certificate endorsed in relation

to an export license. To the extent provided under U.S. law, the Government of the United States of America shall require presentation of such original certificates as a condition for entry into the USA of the arrangement products for which export licenses are required. To the extent provided under U.S. law, the Government of the United States of America shall prohibit entry of such products not accompanied by such an original export certificate.

(d) During the Transition Period, arrangement products may be exported from Japan destined for consumption in the USA without export licenses, but the number of units of each arrangement product exported during this period will be counted toward the agreed set level for that arrangement product.

If the number of arrangement products in any category or the number of units of specified types and sizes within any category that are exported from Japan destined for consumption in the USA in the Transition Period exceeds the set level or the level for appropriate product mix for the Transition Period, the excess shall be subtracted from the export limit for that category or the level for appropriate product mix in the 1987 period of this Arrangement.

(e) Until the U.S. Customs Service has the authority described in paragraph 3(c), the Government of the United States of America shall report to the Government of Japan promptly any importation into the USA of an arrangement product without an export certificate for which an export

license is required, including the date of export of that product from Japan. The quantity so reported will be counted toward the export limit for that arrangement product for the period in which the product was exported from Japan.

(f) If any arrangement product that has been imported into the USA is subsequently exported from the USA during the period covered by this Arrangement and without having been used for its intended purpose, the export limits for the period of exportation shall be increased by the number of units exported.

4. Determination of Export Limits

(a) The Government of the United States of America, with advice from the Government of Japan, will select an independent forecaster which will provide the projections of U.S. apparent consumption for the purposes of this Arrangement.

(b) The first projection of U.S. apparent consumption for 1987, to be provided by the Government of the United States of America, will be an amount equal to two times U.S. apparent consumption for the first six months of 1986. The Government of the United States of America will issue a revised projection of U.S. apparent consumption for 1987, as provided in paragraph 4(a), not later than the last day of February, May, August and October 1987.

(c) For subsequent annual periods, the Government of the United States of America will issue the first projection of U.S. apparent consumption for each category of .

arrangement product for each year not later than October 31 of the preceding year and revise the first projection for each year not later than the last day of December of the preceding year and the last day of February, May, August and October of the year covered by the projection.

(d) By May 31 of each year beginning in 1988, the Government of the United States of America will adjust the export limits for each category of arrangement product to reflect differences between forecasted U.S. apparent consumption and actual U.S. apparent consumption in the previous year.

5. Carry-over and Advance Use of Licenses

The Government of Japan may adjust the export limits provided for in paragraph 3 for each category by no more than five (5) percent of the relevant category of arrangement product to permit either the carry-over or advance use of licenses. This percentage can be increased with the prior agreement of the Government of the United States of America.

6. Administrative Guidance for Certain Arrangement Products

(a) Notwithstanding the licensing requirements of this Arrangement, the Government of Japan will not require an export license for any milling machine, non-numerically controlled lathe or non-numerically controlled punching and shearing machine, provided that the total number of exports of each such category of arrangement product destined for consumption in the USA does not exceed the allowable export limit for the period.

(b) If, in any period of this Arrangement, the total exports of products in any one of these categories exceeds the allowable export limit for that period, including allowable adjustments under paragraph 5, promptly upon request, the Government of Japan will require export licenses for the relevant category of arrangement product. The number of such arrangement products exported from Japan destined for consumption in the USA during the period in excess of the allowable export limit for that period shall be subtracted from the export limit for that arrangement product in the next period of this Arrangement.

7. Sub-categories of Arrangement Products

The Government of Japan shall give appropriate administrative guidance so that the number of units of various types and sizes within each category reflects the appropriate product mix of units exported from Japan destined for consumption in the USA.

8. Special Licenses

Whenever the Government of the United States of America, in consultation with or in response to a request by the Government of Japan, determines that there is a need for the importation into the USA of arrangement products in excess of the export limit for any period of this Arrangement, the Government of the United States of America shall request the Government of Japan that special licenses be issued for that period and that arrangement product in excess of the export limit in such quantity as the

Government of the United States of America deems appropriate. The Government of Japan may agree that special licenses be issued upon request by the Government of the United States of America.

9. Exchange of Information

The Government of Japan and the Government of the United States of America shall exchange non-confidential information necessary for the implementation and enforcement of this Arrangement. Each Government will report to the other Government any actions it takes to implement and enforce this Arrangement.

10. Implementation of this Arrangement

(a) The provisions of this Arrangement will be implemented by the two Governments in accordance with the laws and regulations in force in their respective countries.

(b) Additional details for this Arrangement are set forth in the Agreed Minutes to this Arrangement.

11. Imports from Third Countries

The Government of the United States of America will monitor the market share and product mix of each arrangement product from third countries and will take appropriate measures to ensure that imports of arrangement products from third countries do not impair or threaten to impair the attainment of the objectives of this Arrangement.

12. Fair and Equitable Treatment

The Government of the United States of America shall endeavor to ensure fair and equitable treatment for Japan

vis-a-vis other countries that export arrangement products to the USA. If the Government of Japan considers that, as a result of the application of the provisions of this Arrangement, Japan is placed in an inequitable position vis-a-vis third countries that export arrangement products to the USA, the Government of Japan may request consultations with the Government of the United States of America in order to rectify the situation.

13. Three Year Review

At the end of the third year of this Arrangement, the Government of Japan and the Government of the United States of America will thoroughly review the effectiveness of this Arrangement in meeting its objectives, and, if both Governments agree, consider whether the duration and product coverage of this Arrangement should be modified.

14. Consultations

The Government of Japan and the Government of the United States of America shall consult annually, and at any other time at the request of either Government, regarding any matter concerning this Arrangement or its implementation, operation, or enforcement.

15. Relations with the GATT

The two Governments recognize that their rights and obligations under the General Agreement on Tariffs and Trade (GATT) are not affected by this Arrangement.

16. Others

Provided that it is determined that the Government of

" Japan is effectively implementing this Arrangement and continues to effectively implement and enforce this Arrangement during the period of this Arrangement, the Government of the United States of America will take no action under section 232 of the Trade Expansion Act of 1962 to adjust imports of arrangement products from Japan.



THE SECRETARY OF DEFENSE
Washington, D.C. 20330

December 16, 1986

Excellency,

I have the honor to acknowledge the receipt of your Note of today's date, enclosing the Arrangement attached thereto (hereinafter called "the Arrangement") concerning trade in certain machine tools between Japan and the United States of America, which reads as follows:

"I have the honor to refer to the recent discussions held between the representatives of the Government of Japan and the Government of the United States of America concerning trade in certain machine tools between Japan and the United States of America and to confirm, on behalf of the Government of Japan, the understanding reached between the two Governments that, with a view to revitalizing the machine tool industry in the United States of America, the Government of Japan will implement the measures provided for in the Arrangement attached hereto (hereinafter called "the Arrangement") in accordance with its laws and regulations.

His Excellency Nobuo Matsunaga
Ambassador Extraordinary and
Plenipotentiary of Japan to
the United States of America

I have further the honor to request you to confirm on behalf of the Government of the United States of America that it will implement its measures provided for in the Arrangement in accordance with its laws and regulations and to confirm that the present Note and your reply shall be regarded as constituting an agreement between the two Governments.

ARRANGEMENT

Between the Government of Japan
and the Government of the United States of America
Concerning Trade in Certain Machine Tools

Recognizing the unique difficulties faced by the machine tool industry in the United States of America;

Recognizing the efforts of the Government of the United States of America to revitalize the machine tool industry in the United States of America based on the Action Plan;

Recognizing that the Government of Japan, upon request by the Government of the United States of America, responded in good faith to cooperate with the Government of the United States of America in this regard;

And recognizing, therefore, the importance of stability in trade for a certain period of time in certain machine tool products between Japan and the United States of America;

The Government of Japan and the Government of the United States of America have reached the following agreement regarding restraints by the Government of Japan of exports of certain machine tools.

1. Objective

The objective of this Arrangement is to create a period of stability of trade in certain categories of machine tools between Japan and the United States of America in order to revitalize the U.S. machine tool industry to maintain sufficient capacity in the United States of America for the production of certain machine tools required for the vital interests of the United States of America. To this effect the Government of Japan will voluntarily restrain the total number of certain machine tools exported to or destined for consumption in the USA for the period of January 1, 1987 through December 31, 1991.

2. Definitions

The following definitions apply to this Arrangement:

(a) ARRANGEMENT PRODUCTS - means the products (assembled or unassembled) listed below, including kits.

- (1) Numerically Controlled Lathes
- (2) Non-Numerically Controlled Lathes
- (3) Milling Machines
- (4) Machining Centers
- (5) Numerically Controlled Punching and Shearing Machines
- (6) Non-Numerically Controlled Punching and Shearing Machines

(b) DESTINED FOR CONSUMPTION IN THE USA - means exported directly or indirectly to the USA through one

or more third countries.

(c) TRANSITION PERIOD - means June 1, 1986 through December 31, 1986.

(d) U.S. APPARENT CONSUMPTION - means shipments (deliveries) minus exports plus imports.

(e) USA - means the customs territory of the United States of America and foreign trade zones located in the territory of the United States of America.

3. Export Limits

(a) From January 1, 1987 through December 31, 1991, the Government of Japan shall limit exports for each category of the arrangement products to quantities no greater than the agreed quantities for each product category ("export limit") for the relevant period.

The limits on exports of numerically controlled lathes, machining centers, and numerically controlled punching and shearing machines shall be administered through the issuance of export licenses. The limits on the remaining categories of arrangement products shall be accomplished through administrative guidance as provided in paragraph 6 of this Arrangement.

(b) For calendar years 1987, 1988, 1989, 1990, and 1991, the Government of Japan shall require an export license to cover the exportation from Japan of each unit of each arrangement product destined for consumption in the USA, not to exceed the export limit for each calendar year.

(c) During the period referred to in sub-paragraph

(b), the Government of Japan will ensure that the arrangement products for which an export license is required shall be issued an export certificate endorsed in relation to an export license. To the extent provided under U.S. law, the Government of the United States of America shall require presentation of such original certificates as a condition for entry into the USA of the arrangement products for which export licenses are required. To the extent provided under U.S. law, the Government of the United States of America shall prohibit entry of such products not accompanied by such an original export certificate.

(d) During the Transition Period, arrangement products may be exported from Japan destined for consumption in the USA without export licenses, but the number of units of each arrangement product exported during this period will be counted toward the agreed set level for that arrangement product.

If the number of arrangement products in any category or the number of units of specified types and sizes within any category that are exported from Japan destined for consumption in the USA in the Transition Period exceeds the set level or the level for appropriate product mix for the Transition Period, the excess shall be subtracted from the export limit for that category or the level for appropriate product mix in the 1987 period of this Arrangement.

(e) Until the U.S. Customs Service has the authority described in paragraph 3(c), the Government of the United

States of America shall report to the Government of Japan promptly any importation into the USA of an arrangement product without an export certificate for which an export license is required, including the date of export of that product from Japan. The quantity so reported will be counted toward the export limit for that arrangement product for the period in which the product was exported from Japan.

(f) If any arrangement product that has been imported into the USA is subsequently exported from the USA during the period covered by this Arrangement and without having been used for its intended purpose, the export limits for the period of exportation shall be increased by the number of units exported.

4. Determination of Export Limits

(a) The Government of the United States of America, with advice from the Government of Japan, will select an independent forecaster which will provide the projections of U.S. apparent consumption for the purposes of this Arrangement.

(b) The first projection of U.S. apparent consumption for 1987, to be provided by the Government of the United States of America, will be an amount equal to two times U.S. apparent consumption for the first six months of 1986. The Government of the United States of America will issue a revised projection of U.S. apparent consumption for 1987, as provided in paragraph 4(a), not later than the last day of February, May, August and October 1987.

(c) For subsequent annual periods, the Government of the United States of America will issue the first projection of U.S. apparent consumption for each category of arrangement product for each year not later than October 31 of the preceding year and revise the first projection for each year not later than the last day of December of the preceding year and the last day of February, May, August and October of the year covered by the projection.

(d) By May 31 of each year beginning in 1988, the Government of the United States of America will adjust the export limits for each category of arrangement product to reflect differences between forecasted U.S. apparent consumption and actual U.S. apparent consumption in the previous year.

5. Carry-over and Advance Use of Licenses

The Government of Japan may adjust the export limits provided for in paragraph 3 for each category by no more than five (5) percent of the relevant category of arrangement product to permit either the carry-over or advance use of licenses. This percentage can be increased with the prior agreement of the Government of the United States of America.

6. Administrative Guidance for Certain Arrangement Products

(a) Notwithstanding the licensing requirements of this Arrangement, the Government of Japan will not require an export license for any milling machine, non-numerically controlled lathe or non-numerically controlled punching and

shearing machine, provided that the total number of exports of each such category of arrangement product destined for consumption in the USA does not exceed the allowable export limit for the period.

(b) If, in any period of this Arrangement, the total exports of products in any one of these categories exceeds the allowable export limit for that period, including allowable adjustments under paragraph 5, promptly upon request, the Government of Japan will require export licenses for the relevant category of arrangement product. The number of such arrangement products exported from Japan destined for consumption in the USA during the period in excess of the allowable export limit for that period shall be subtracted from the export limit for that arrangement product in the next period of this Arrangement.

7. Sub-categories of Arrangement Products

The Government of Japan shall give appropriate administrative guidance so that the number of units of various types and sizes within each category reflects the appropriate product mix of units exported from Japan destined for consumption in the USA.

8. Special Licenses

Whenever the Government of the United States of America, in consultation with or in response to a request by the Government of Japan, determines that there is a need for the importation into the USA of arrangement products in excess of the export limit for any period of this

Arrangement, the Government of the United States of America shall request the Government of Japan that special licenses be issued for that period and that arrangement product in excess of the export limit in such quantity as the Government of the United States of America deems appropriate. The Government of Japan may agree that special licenses be issued upon request by the Government of the United States of America.

9. Exchange of Information

The Government of Japan and the Government of the United States of America shall exchange non-confidential information necessary for the implementation and enforcement of this Arrangement. Each Government will report to the other Government any actions it takes to implement and enforce this Arrangement.

10. Implementation of this Arrangement

(a) The provisions of this Arrangement will be implemented by the two Governments in accordance with the laws and regulations in force in their respective countries.

(b) Additional details for this Arrangement are set forth in the Agreed Minutes to this Arrangement.

11. Imports from Third Countries

The Government of the United States of America will monitor the market share and product mix of each arrangement product from third countries and will take appropriate measures to ensure that imports of arrangement products from third countries do not impair or threaten to impair the

attainment of the objectives of this Arrangement.

12. Fair and Equitable Treatment

The Government of the United States of America shall endeavor to ensure fair and equitable treatment for Japan vis-a-vis other countries that export arrangement products to the USA. If the Government of Japan considers that, as a result of the application of the provisions of this Arrangement, Japan is placed in an inequitable position vis-a-vis third countries that export arrangement products to the USA, the Government of Japan may request consultations with the Government of the United States of America in order to rectify the situation.

13. Three Year Review

At the end of the third year of this Arrangement, the Government of Japan and the Government of the United States of America will thoroughly review the effectiveness of this Arrangement in meeting its objectives, and, if both Governments agree, consider whether the duration and product coverage of this Arrangement should be modified.

14. Consultations

The Government of Japan and the Government of the United States of America shall consult annually, and at any other time at the request of either Government, regarding any matter concerning this Arrangement or its implementation, operation, or enforcement.

15. Relations with the GATT

The two Governments recognize that their rights and

obligations under the General Agreement on Tariffs and Trade (GATT) are not affected by this Arrangement.

16. Others

Provided that it is determined that the Government of Japan is effectively implementing this Arrangement and continues to effectively implement and enforce this Arrangement during the period of this Arrangement, the Government of the United States of America will take no action under section 232 of the Trade Expansion Act of 1962 to adjust imports of arrangement products from Japan."

I have further the honor to confirm on behalf of the Government of the United States of America that it will implement its measures provided for in the Arrangement in accordance with its laws and regulations and to agree that your Note and this reply shall be regarded as constituting an agreement between the two Governments.

I avail myself of this opportunity to renew to you, Excellency, the assurances of my highest consideration.



Malcolm Baldrige
Secretary of Commerce
Washington, D.C. 20230

APPENDIX A
(Concordance)

<u>Category</u>	<u>Japanese No.</u>	<u>TSUSA</u>
NC Lathes	84.45.121 <u>1/</u>	674.3476 674.3504 674.3505 674.3506 674.3508 674.3510 674.3519
Non-NC Lathes	84.45.122 <u>1/</u> 84.45.124 <u>1/</u> 84.45.125 <u>1/</u> 84.45.129 <u>1/</u>	674.3477 674.3512 674.3513 674.3514 674.3515 674.3516 674.3518 674.3522
Machining Centers	84.45.155	674.3404 674.3406 674.3409 674.3411
Milling Machines	84.45.132 <u>1/</u> 84.45.133 <u>1/</u> 84.45.134 <u>1/</u> 84.45.139 <u>1/</u>	674.3464 674.3466 674.3467 674.3468 674.3469
NC Punching and Shearing Machines	84.45.247 <u>1/2/</u>	674.3584
Non-NC Punching and Shearing Machines	84.45.247 <u>1/3/</u>	674.3586 674.3587

- 1/ Exclude if used or rebuilt or if valued under \$2,500.
- 2/ Covered if with numerical controls or facings for numerical controls.
- 3/ Excluded if with numerical controls or facings for numerical controls.

APPENDIX B

CONCORDANCE OF U.S. SHIPMENTS, IMPORTS, AND EXPORTS

<u>Product</u>	<u>Shipments**</u> (SIC Nos.)	<u>Exports**</u> (Schedule B)	<u>Imports**</u> (TSUSA's)
NC LATHES	35415 11	674.3276	674.3476
	35415 12	674.3503	674.3504
	35415 13	674.3505	674.3505
	35415 21	674.3507	674.3506
	35415 24	674.3509	674.3508
	35415 26	674.3521	674.3510
		674.3523	674.3519
NON-NC LATHES	35415 14	674.3277	674.3477
	35415 22	674.3510	674.3512
	35415 23	674.3511	674.3513
	35415 25	674.3512	674.3514
	35415 29	674.3515	674.3515
	35415 37	674.3516	674.3516
	35415 54	674.3518	674.3518
	35415 56	674.3525	674.3522
	35415 63		
	35415 66		
	35415 67		
	35415 72		
	35415 81		
	35415 85		
	35415 88		
MACHINING CENTERS	3541A 01	674.3204	674.3404
	3541A 03	674.3206	674.3406
	3541A 05	674.3209	674.3409
	3541A 07	674.3211	674.3411
	3541A 09		
	3541A 11		
	3541A 13		
	3541A 15		
	3541A 17		
	3541A 19		

** These numbers are subject to revision when the United States of America adopts modifications to the applicable SIC, import or export nomenclatures. Technical adjustments will be made as necessary.

<u>Product</u>	<u>Shipments**</u> (SIC Nos.)	<u>Exports**</u> (Schedule B)	<u>Imports**</u> (TSUSA's)
MILLING MACHINES	35416 22	674.3264	674.3464
	35416 25	674.3266	674.3466
	35416 27	674.3267	674.3467
	35416 29	674.3268	674.3468
	35416 31	674.3269	674.3469
	35416 35		
	35416 53		
	35416 63		
	35416 97		
NC PUNCHING & SHEARING MACHINES	35421 11 <u>1/3/</u>	674.3571	674.3584
	35421 12 <u>1/3/</u>		
	35421 14 <u>1/3/</u>		
	35421 15 <u>1/3/</u>		
	35421 16 <u>1/3/</u>		
	35421 19 <u>1/3/</u>		
NON-NC PUNCHING & SHEARING MACHINES	35421 11 <u>2/</u>	674.3573	674.3586
	35421 12 <u>2/</u>	674.3575	674.3587
	35421 14 <u>2/</u>		
	35421 15 <u>2/</u>		
	35421 16 <u>2/</u>		
	35421 19 <u>2/</u>		

- 1/ Covered if NC punching and/or shearing machines.
- 2/ Covered if non-NC punching and/or shearing machines.
- 3/ 70 percent of shipments of NC punching, shearing, bending and forming machines will be attributed to this category, unless both sides agree to modify this percentage.

APPENDIX C

CERTIFICATE FOR THE EXPORT OF MACHINE TOOL PRODUCTS FROM JAPAN TO THE UNITED STATES OF AMERICA

1. Export license No. Date of Issue
2. Producer (full name and address)
3. Exporter (full name and address)
4. Consignee (full name and address)
5. Purchaser (full name and address) (if different from consignee)
6. Category and detailed description of machine tool (including number and kind of packages and identifying marks)
7. Quantity (units)
8. Destination in USA (indicate countries of transshipment, if applicable)
9. ENDORSEMENT BY THE ISSUING AUTHORITY

The quantity of machine tool products shown above has been attributed to the export license shown in box no. 1

Issuing Authority:

Stamp:

number:

date of export:

NOTE:

This certificate must be typed in English. Use a separate certificate for each category of machine tool and each U.S. Customs entry.

This certificate, duly endorsed by the Issuing Authority shown in box no. 9, must be presented to the competent authorities in the United States of America at the time of importation.

The information of number and kind of packages and identifying marks in box no. 6 and destination in the USA in box no. 8 will be supplied by the exporter.

APPENDIX D

Subcategories of Arrangement Products

Machining Centers

TSUSA**

Small, Vertical	674.3404
Large, Vertical	674.3406
Horizontal	674.3409
Other	674.3411

NC Lathes

Small, Horizontal	674.3504
	674.3506
Medium, Horizontal	674.3508
Large, Horizontal	674.3510
Vertical	674.3476
	674.3505
	674.3519

Milling Machines

NC Milling Machines	674.3464
Non-NC Milling Machines	674.3466
	674.3467
	674.3468
	674.3469

** These numbers are subject to revision when the United States of America adopts modifications to the applicable import nomenclatures. Technical adjustments will be made as necessary.

VOLUNTARY RESTRAINT AGREEMENTS (VRA's)

STEEL

- AUSTRALIA
- AUSTRIA
- BRAZIL
- PEOPLE'S REPUBLIC OF CHINA (PRC)
- CZECHOSLOVAKIA
- EUROPEAN COMMUNITY
- FINLAND
- GERMAN DEMOCRATIC REPUBLIC
- HUNGARY
- JAPAN
- KOREA
- MEXICO
- POLAND
- PORTUGAL
- ROMANIA
- SOUTH AFRICA
- SPAIN
- TRINIDAD AND TOBAGO
- VENEZUELA
- YUGOSLAVIA

MACHINE TOOLS

- JAPAN
- TAIWAN

work in getting a tax ed in your committee by a That's got to be almost a long time. You've truly ica's business and you've liantly. And as far as I'm e now the "A-Team."

spirit, I think, will be a in creating a binding he only special interest that's the American who pay the bills in this articular, I want to thank g needless brackets and to 15 and 27 percent, al and dependents' ex-) for middle- and low- and providing a mini- individuals and corpora- fair share.

group at the Council of tell me that the added iciencies could increase rate nearly 10 percent cade. And that means e to keep more of what eby encouraging the en- building a stronger and onomy. And that kind of it is estimated, provide lion new jobs over that

airman, Bob Packwood, ith us today, are to be a yeoman effort—to to something that had on more than one occa- t had begun. And now sure the lifeline stays measure is considered hen you get back from end.

American people bene- tforward, hard-hitting mplicity and fairness to he bipartisan coalition major victory for the hat makes this nation

l is Chairman of the Advisers.

great. And I think the American people join me in thanking you for your statesmanship at this.

And now, is Jim Baker here?

Secretary of the Treasury Baker. I can't get to my seat, Mr. President. [Laughter]

The President. Well, take off from there. That's a pretty good podium.

Q. Mr. President, what do you think about using the surplus for the deficit? First

The President. Well, Helen [Helen Thomas, United Press International], I'm—

Q. Have you made up your mind on it?

The President. —I'm going to wait until we have the discussion here that will follow. Unfortunately, you all will have business elsewhere. [Laughter]

Q. You've been avoiding answers all day today.

Q. Do you want to answer the Saudi stinger question now, Mr. President?

The President. No. No, I don't.

Q. Are you going to take the sting out of the Saudi package?

The President. This is the news subject now here. Thank you.

Q. Can't help trying.

Note: The President spoke at 11:40 a.m. in the Cabinet Room at the White House.

Machine Tool Imports

Statement by the President. May 20, 1986

I have decided to seek voluntary restraint agreements (VRA's) on machine tool imports. In March 1983 the National Machine Tool Builders Association submitted a petition to the Secretary of Commerce recommending import quotas based on the view that imports of machine tools threaten the national security. Pursuant to statute, Secretary Baldrige submitted a report to me in February 1984. In March 1984 I decided that this report should incorporate new mobilization, defense, and economic planning factors then being developed by an inter-agency group. I then directed the Secretary of Commerce to update the machine tools

investigation. In March 1986 Secretary Baldrige submitted his report to reflect this guidance. The National Security Council subsequently discussed the report, and on this basis, I have directed that import levels be reviewed during the next 6 months.

The Secretary of Commerce, in consultation with the Secretary of Defense and other relevant administration officials, indicated that the machine tool industry is a small yet vital component of the U.S. defense base. The Secretary of Commerce further indicated that high levels of imports can potentially erode U.S. capabilities to manufacture critical machine tool product lines.

Based on this information, I have decided on the following course of action:

—Voluntary restraint agreements will be sought with Taiwan, West Germany, Japan, and Switzerland on machining centers, computer controlled and noncomputer controlled lathes, computer controlled and noncomputer controlled punching and shearing machines, and milling machines.

—The Departments of Defense and Commerce, in cooperation with the other agencies, will implement an action plan that will:

- Integrate more fully U.S. machine tool manufacturers into the defense procurement process. In particular, companies will receive more timely information on U.S. defense programs and future DOD manufacturing requirements so that they may be able to participate at an earlier stage in the procurement process.
- Modernize machine tool capabilities that support our national defense. DOD programs that improve manufacturing productivity as well as those that advance technology will be applied to the machine tool industry.
- Provide up to \$5 million per year over the next 3 years in Federal Government matching funds to support a private sector technology center to help the machine tool industry make advances in manufacturing and design.
- The Attorney General and other agencies will investigate the potential for cooperative research and development efforts on the part of industry.

- The Secretary of Commerce will monitor the U.S. machine tool industry's performance on an annual basis, with emphasis on the steps it has taken to improve its production capabilities and competitive position.

This action plan, combined with the administration's growth-oriented economic policies and dedicated efforts on the part of the U.S. machine tool industry, will ensure a world class U.S. industry.

Andrei Sakharov Day

Proclamation 5484. May 20, 1986

By the President of the United States of America

A Proclamation

May 21, 1986, is the 65th birthday of Andrei Sakharov. At this time, let us recall and acclaim the courage and dedication of this giant of the twentieth century. Let us rededicate ourselves to the values of peace and justice and human dignity he has come to symbolize for all who love freedom throughout the world.

Since we last honored this brave man, we are pleased that Dr. Sakharov's wife, Yelena Bonner, has been allowed to travel here to see her family and to obtain needed medical care. We welcome the fact that several separated husbands and wives were at last given permission to join their spouses in the United States. We welcome the release of Anatoly Shcharansky.

Unfortunately, these positive developments only serve to underscore the overall grim human rights situation that continues to prevail in the Soviet Union. For his efforts on behalf of human rights and world peace, Dr. Sakharov himself remains isolated in Gorky, deprived of contact with friends and family, and barred from carrying out scientific research. The Soviet authorities have succeeded in eliminating the main vehicle for human rights activism, the Helsinki Monitors. Yuri Orlov and many other monitors are now serving long terms

of imprisonment or exile. Religious groups continue to be major targets of persecution. Orthodox believers, Baptists, Roman Catholics, Ukrainian rite Catholics, Uniates, Protestants, and other groups have been subjected to arrest and harassment. The crackdown on Hebrew teachers and cultural activists continues. Emigration remains at low levels. Many more families remain separated. The basic freedoms of speech, assembly, and press are systematically denied, yet, as Sakharov has recognized, these are the essential means by which people can ensure that their own governments act peacefully and in the people's interests.

In October 1977, in an appeal to the Parliaments of all Helsinki-signatory states, Dr. Sakharov wrote:

"We are living through a period of history in which decisive support of the principles of freedom of conscience, an open society and the rights of man is an absolute necessity. The alternative is surrender to totalitarianism, the loss of all precious freedom and political, economic and moral degradation. The West, its political and moral leaders, its free and decent peoples, must not allow this."

I believe we can best honor Dr. Sakharov on his 65th birthday by taking his message to heart and by continuing our own vigorous efforts in pursuit of a just peace, including respect for human rights. We must act on his behalf to ensure that his message of hope, freedom, justice, and the inviolability of the human conscience will not be silenced.

The Congress, by Senate Joint Resolution 323, has designated May 21, 1986, as "Andrei Sakharov Day" and authorized and requested the President to issue a proclamation in observance of this event.

Now, Therefore, I, Ronald Reagan, President of the United States of America, do hereby proclaim May 21, 1986, as Andrei Sakharov Day. I call upon the people of the United States and Federal, State, and local government officials to observe this day with appropriate programs, ceremonies, and activities designed to honor this hero of humanity.

versy. I want to get this information out. We must get on with the business at hand and put this issue behind us.

It is my desire to have the full story about Iran come out now—the alleged transfer of funds, the Swiss bank accounts, who was involved—everything. The law provides a process for Congress to obtain this information from Vice Adm. John M. Poindexter, Lt. Col. Oliver North, and any other witnesses without depriving them of their constitutional rights.

Congress passed legislation 16 years ago authorizing the Senate and the House of Representatives or any committee or subcommittee to grant special limited immunity to any witness, so that the witness must give testimony that is pertinent to a congressional inquiry. This limited immunity also protects the witness by providing that such testimony cannot be used against him in any criminal proceedings. At the same time, the law still permits prosecution based on all evidence other than the testimony given before Congress.

Such "use immunity" is not amnesty or clemency. This legal process obtains the facts before Congress, but does not prevent those responsible for any wrongdoing from being brought to justice. Thus it does not interfere with the duties and responsibilities of the independent counsel.

Therefore, I am asking the Senate Select Committee on Intelligence to immediately seek "use immunity" for Admiral Poindexter and Lieutenant Colonel North in order that the whole truth—all of the facts on Iran—may be told. This is essential because of the controversy surrounding the Iranian matter. There is an absolute need to get on with the business of government.

United States Machine Tool Industry

*Statement by the President.
December 16, 1986*

I am pleased to announce today a number of actions we are taking to facilitate the revitalization of the United States machine tool industry.

On May 20 I announced that the Secretary of Commerce, in consultation with the Secretary of Defense and other administration officials, had determined that high levels of imports could potentially erode U.S. capabilities to manufacture critical machine tool product lines. At that time, I directed that discussions be held with Japan, Switzerland, Taiwan, and West Germany leading to voluntary import limitations in critical product lines. I further directed that a domestic action plan be developed to supplement the industry's own modernization efforts.

Japan and Taiwan have agreed to voluntarily restrain the level of their machine tool exports to this country for a period of 5 years beginning in January 1987. I appreciate the willingness of Japan and Taiwan to discuss these questions of common importance in a cooperative and constructive manner. Japan has agreed to limit its exports of machining centers, computer-controlled and noncomputer-controlled lathes, computer-controlled and noncomputer-controlled punching and shearing machines, and milling machines. Taiwan has agreed to limit its exports of machining centers, computer-controlled and noncomputer-controlled lathes, and milling machines. These agreements will allow the U.S. industry to increase its share of the domestic market and preserve critical production capabilities.

Secretary Baldrige and Ambassador Yeutter have informed West Germany and Switzerland that their machine tool exports to the United States should not exceed specified limits. In this regard, I have directed the Department of Commerce and the U.S. Customs Service to monitor machine tool imports to determine whether these limits are being exceeded. If we determine that exports of these machine tools exceed these limits and undermine the integrity of the machine tool revitalization program, I am prepared to take unilateral action under U.S. law.

The combined effect of the actions announced today will create new market opportunities for U.S. machine tool manufacturers of about 3,300 units provided that demand remains constant. In 1985 these machines were imported at a value of \$155

that the Secretariat with the her administration that high potentially erode critical machine tool industry at that time, I dealt with Japan, West Germany and limitations in the industry. I directed that the industry be developed to support modernization

agreed to voluntarily limit their machine tool exports for a period of 5 years in 1987. I appreciated the efforts of Japan and Taiwan to common import and constructive to limit its export of computer-controlled lathes, computer-controlled machining machines, and has agreed to limit its export of computer-controlled machining machines. These U.S. machine tool industry to domestic market production capabilities

Ambassador Yeutmany and Switzerland machine tool exports to not exceed specified limits. I have directed the industry and the U.S. machine tool industry to determine that the industry does not exceed these limits of the program, I am taking action under

the actions announced in the new market open for machine tool manufacturers provided that in 1985 these actions had a value of \$155

million. Over the 5 years of the VRA [voluntary restraint agreement], U.S. machine tool manufacturers could increase domestic sales by about 16,500 machines. The imported value of these machines would be \$775 million. These additional sales would represent an overall increase from 35 percent to 44 percent in market share for this portion of the U.S. machine tool industry. In the critical computer-controlled product lines (NC lathes, machining centers, and NC punching and shearing machines), capacity utilization is expected to rise by more than 40 percent.

These boosts in capacity utilization and additional revenues should allow the industry to funnel more investment into research, development, and facilities, thereby regaining its former vitality. According to industry experts, new investment in plant and equipment could total \$115 million over the 5-year period.

We do not anticipate that domestic machine tool prices will rise significantly as a result of the actions announced today because of continuing strenuous competition among U.S. and foreign firms and because of the existence of significant excess production capacity in the United States and abroad. Further, these initiatives will continue to allow a significant foreign presence in the U.S. machine tool market. As a result, U.S. purchasers will continue to be able to purchase competitively priced tools from foreign and domestic sources.

Due to the industry's vital importance to the national security, we have developed a domestic action plan to facilitate the industry's recovery effort. By integrating the industry more closely into the defense procurement process, U.S.-based companies will have a better idea of prospective DOD requirements and be better able to make efficient production and investment decisions. By designating the machine tool industry as a major focus for DOD concentration, the industry will have a better opportunity to obtain funding from MANTECH and other Defense Department programs for advances in critical technologies. Federal support for the National Center for Manufacturing Sciences should leverage private contributions, lead to advances in process technology, and widely disseminate state-of-the-art technology.

The revitalization of the domestic machine tool industry is primarily the industry's own responsibility. Throughout the course of the voluntary import restraint program, we will closely monitor the industry's performance to ensure that it is taking the required initiatives to improve its competitive position.

Resignation of Ambassador Arthur Adair Hartman

*Statement by the President.
December 18, 1986*

Ambassador Arthur Hartman will relinquish his post in our Moscow Embassy early next year. I will miss his wise counsel, most recently exemplified by his presence with me in Reykjavik, and his expertise on East-West relations. He has had a distinguished Foreign Service career and was a major player in the important arena of United States-Soviet relations. He is regarded with great respect and admiration by all of us who know him. I wish him the very best, expressing my personal gratitude for his outstanding service for over 5 years in this most challenging assignment.

White House Office

*Appointment of Lt. Gen. Colin L. Powell as
Deputy Assistant to the President for
National Security Affairs.
December 18, 1986*

The President today announced his intention to name Lt. Gen. Colin L. Powell, U.S. Army, currently Commanding General, Headquarters Fifth Corps, Frankfurt, Federal Republic of Germany, to serve as the Deputy Assistant to the President for National Security Affairs.

Prior to his current duties, General Powell was the senior military assistant to the Secretary of Defense, 1983-1986; and he was Deputy Commander, U.S. Army Combined Arms Combat Development Ac-