

NATIONAL SECURITY DECISION
DIRECTIVE NUMBER 226

May 21, 1986

MACHINE TOOLS AND NATIONAL SECURITY (U)

Statement of Policy

It is the policy of the United States to maintain a broadly based deterrent against different types of conflict. In this regard, the U.S. defense industrial base is a critical component of conventional and strategic deterrence. (U)

Section 232 Study

On March 17, 1986, the Secretary of Commerce forwarded a report on the effect of machine tool imports on the national security that was prepared under Section 232 of the Trade Expansion Act of 1962, as amended. This study was based on current Administration national security policy and included analysis developed by an interagency task force. (U)

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 erode U.S. capabilities to manufacture critical machine tool product lines. (U)

I have reviewed the Secretary of Commerce's report on the impact of imports of machine tools on the national security and considered the information on this issue presented at the National Security Council Meeting. (U)

Based on this information I have decided that the following course of action shall be implemented:

- A specific 232 finding will be delayed for six months.
- In six months time, based on how the U.S. domestic industry is performing and the nature of imports, a finding will be made. (U)
- Voluntary Restraint Agreements will be sought with Taiwan, West Germany, Japan and Switzerland on machining centers, numerically controlled (NC) lathes, non-NC lathes, non-NC punching and shearing, NC punching and shearing, and milling machines. A breakdown of the levels to be sought through discussion and consultation with the exporting countries are as follows (VRA levels are based on the percent of units shipped vis-a-vis the total U.S. market):

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-- Milling Machines - Seek reduction in supplies from Taiwan to 1981 levels; Japan to maintain 1985 level.

-- NC Lathes - Seek reduction in supplies from Japan to 1981 level; W. Germany and Taiwan to maintain 1985 levels.

-- Machining Centers - Seek reduction in supplies from Japan to 1981 level; Taiwan and W. Germany to maintain 1985 levels.

-- Non-NC Lathes - Seek reduction in supplies from Taiwan to 1981 level; Japan and W. Germany to maintain 1985 levels.

-- Non-NC Punching and Shearing - Seek reduction in supplies from W. Germany and Japan to 1981 levels.

-- NC Punching and Shearing - Seek reduction in supplies from Japan to 1981 levels; Switzerland and W. Germany to maintain 1985 levels. (C)

It is understood that the above guidance is subject to new information that may become available through discussions with exporters on the changing nature of imports or specific U.S. requirements for certain foreign machines that U.S. companies do not produce. (U)

The VRAs are to be sought for a three year period. The USG will retain the option to extend this period for two additional years based on U.S. industry performance and the nature of imports. (U)

Noting that a domestic machine tool industry has been and is of national importance to the United States defense capabilities and general economic well-being, the following steps will also be taken:

I. The Departments of Defense and Commerce in cooperation with other concerned Agencies will, in 90 days, forward an Action Plan to ensure a modern U.S. machine tool industry in support of national defense. The Action Plan is to include the following components:

1. A plan to integrate more fully U.S. machine tool manufacturers into the defense procurement process. This will require that companies receive more timely information on U.S. defense programs and future DOD manufacturing requirements. (U)

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2. A program to modernize machine tool capabilities that support our national defense by:

A. Enabling U.S. machine tool companies to participate more effectively in manufacturing productivity programs (i.e., The Industrial Modernization Incentive Program). (U)

B. Developing the means whereby U.S. machine tool manufacturers can benefit through technology improvements via the MANTECH Program. (U)

C. Increasing participation by U.S. machine tool manufacturers in defense programs involving a high degree of advanced material processing. Technology transfer issues are to be assessed. (C)

3. The provision of up to \$5 million in Federal Government matching funds per year over the next three years for a private sector technology center, to help the machine tool industry make advances in manufacturing and design. (U)

4. Measures to enhance domestic and foreign investment in the modernization of U.S. industry. (U)

It is understood that the Action Plan and its components will be funded within currently approved budget levels (FY 87 Budget). (U)

II. The Attorney General, in consultation with the Departments of Defense and Commerce, will report in 90 days on the potential for cooperative research and development efforts on the part of industry. The negotiation of voluntary agreements and the utility of antitrust exemptions as provided under Section 708 of the Defense Production Act are to be explored. (U)

III. Actions I and II are designed to provide incentives for the domestic machine tool industry to make needed investments to improve its production base. The Secretary of Commerce, in coordination with other concerned Agencies, 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. (U)

IV. The Secretary of Commerce, in consultation with concerned Agencies, will monitor machine tool trade and immediately report any unfair or predatory trade practices. (U)

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V. The United States Trade Representative, in close coordination with the Departments of State and Commerce, the Office of Management and Budget, and the National Security Council staff, will take the necessary steps to implement the VRAs. (U)

Ronald Reagan

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