

dx

NATIONAL SECURITY COUNCIL  
WASHINGTON, D.C. 20506

~~CONFIDENTIAL~~

National Security Council Meeting  
March 26, 1986, 11:00 a.m.-12:00 noon, Cabinet Room

SUBJECT: Briefing on the Machine Tools, Section 232 Case  
(U)

PARTICIPANTS:

The President

The Vice President

The Vice President's Office:  
Lieutenant Colonel Terry Mattke

CEA:  
Mr. Thomas G. Moore  
Mr. Lincoln Anderson

State:  
Acting Secretary John C. Whitehead  
Mr. Allen Wallis

JCS:  
Admiral William J. Crowe  
LTG John W. Moellering

Treasury:  
Secretary James A. Baker III

White House:  
Mr. Donald T. Regan  
Mr. John Svahn  
Mr. Donald R. Fortier  
Mr. Alfred Kingon  
Mr. David Chew  
Mr. Thomas Dawson

Defense:  
Secretary Caspar W. Weinberger

Justice:  
Deputy Attorney General Lowell Jensen

NSC:  
Mr. Richard Levine

Commerce:  
Secretary Malcolm Baldrige  
Mr. Bruce Smart  
Mr. John Richards

CIA:  
Mr. Robert M. Gates

Labor:  
Secretary William E. Brock

25X1

OMB:  
Mr. James C. Miller  
Mr. Kenneth G. Glozer  
Mr. William Epstein

USTR:  
Ambassador Clayton Yeutter

~~CONFIDENTIAL~~

Declassify on: OADR

ON-FILE NSC RELEASE INSTRUCTIONS APPLY

DECLASSIFIED IN PART  
NLR crest  
BY CW DATE 9/22/17



5

~~CONFIDENTIAL~~

Minutes

Mr. Fortier opened the meeting by noting that in February 1984, the Department of Commerce submitted an investigation concerning the impact of machine tool imports on the national security. Mr. Fortier then stated that the President had requested that the Department of Commerce update its 232 machine tools study using new mobilization guidance adopted by this Administration, covering such issues as wartime DOD demands and U.S. economic requirements. These planning factors replaced mobilization planning guidance dating from 1979. He related that in order to redo the 232 study on machine tools, an interagency group was formed, including representatives from Commerce, Defense, CEA, OMB and the NSC staff. (U)

Fortier noted that there exist significant differences, among the Agencies participating in the machine tools study, as to its results and what should be done. He stated that the meeting's purpose was to support the President in making a determination as to whether imports threaten the national security. (U)

Fortier concluded his remarks by asking that the Secretary of Commerce proceed with his briefing. (U)

Secretary Baldrige introduced Undersecretary Smart who presented the Commerce Department's case (text and charts at Tab A). (U)

After Undersecretary Smart's presentation, Mr. Fortier requested that Richard Levine of the NSC staff (Director, International Economic Affairs) brief on other Agencies' views concerning the machine tools case (text and charts at Tab B). (U)

After Mr. Levine's presentation, Secretary Baldrige made the following points:

He noted that he strongly disagreed with Mr. Levine's briefing. Secretary Baldrige stated that the CEA/NSC staff estimate of machine tool supply (which Mr. Levine discussed) included use of the DOD machine tools stockpile which Commerce and DOD consider to be out of date. Secretary Baldrige also contended that the CEA estimate counted the potential for

~~CONFIDENTIAL~~

DECLASSIFIED IN PART  
NLRR CREST  
BY CW NARA DATE 9/22/17



6

~~CONFIDENTIAL~~

2

machine tool substitution twice. He noted that after WWII, the President of GM related that only 12½% of GM's machine tools (used to produce cars), could be utilized in the war effort. He also related that President Eisenhower had noted the shortage of machine tools during the Korean conflict. Secretary Baldrige added that if present trends continue, the Nation will be short of skilled machinists. He also stated that in a war, 25% of the machine tools in the U.S. economy could not be used for different war-related purposes. Secretary Baldrige went on to note that GM is worried about dependence on high quality Japanese and German machine tools. This is because foreign auto producers may have more timely access to newly designed machine tools. (C)

Secretary Baldrige noted that the Soviets plan to spend \$270 billion on machine tools in the coming years. The Secretary noted that NATO only possesses a limited stock of ammunition and that we do not want to be in a similar position concerning machine tools. Secretary Baldrige returned to the issue of labor and said that it takes four to six years to train a skilled machinist. (C)

In his conclusion, the Secretary noted that machine tools are needed as part of America's conventional deterrent and that the U.S. industry needs direct help. A center for manufacturing technology will help and so will an antitrust exemption, but these measures take time. Secretary Baldrige urged positive action after Commerce has had an opportunity to confer with the Japanese about VRAs. The Secretary of Commerce stated that the Japanese will be amenable to a VRA. (U)

Council of Economic Advisers' Member Thomas Moore countered Secretary Baldrige's remarks by noting that the supply estimates for machine tools contained no use of the DOD stockpile and a rate of 7%, rather than 25%, substitution of existing machine tools from nonessential industries to essential ones in wartime. Mr. Moore, citing the U.S. shoe industry, stated that almost any industry can make a superficial case for trade relief based on national security grounds. Mr. Moore stated that the record shows that industries regress rather than progress when trade restraints are put into place. (U)

Mr. Moore went on to emphasize the point made in Mr. Levine's presentation; under Commerce's proposed VRA, for every \$1 given to a U.S. firm, Japanese firms will reap \$2. Mr. Moore stated that the sick industry claim was a gross exaggeration and that in the last two years, employment in the U.S. industry has increased by 22%. The 33% increase in the

~~CONFIDENTIAL~~



4

~~CONFIDENTIAL~~

3

value of the yen against the dollar should help the U.S. industry recover further. Mr. Moore noted that in WWII, we increased our aircraft production fifty-fold and that the U.S. economy now has ten times the number of machine tools as in WWII. (U)

Mr. Moore concluded by stating that the facts of the case strongly argue against trade relief or a finding that imports threaten to harm the national security. (U)

Secretary Weinberger said that it was difficult to forecast mobilization needs. The Secretary stated that a domestic machine tools production base is important and that different types of machine tools could not be substituted for each other. He noted that while the decline of the U.S. machine tool industry is a matter of concern, the costs of VRAs are also disturbing. Secretary Weinberger said that in a war, we must be able to expand machine tool production rapidly. (C)

Secretary Weinberger then offered his compromise position:

The USG should inform foreign governments of our concern over the U.S. machine tool industry and ask that they restrain their exports to the U.S. The USG should also enact non-trade measures to help the domestic industry as well as review the antitrust laws. A finding that imports threaten the national security should be delayed until the outcome of the enacted measures and the negotiations for restraint can be assessed. (U)

Mr. Robert Gates of the CIA stated that his agency views machine tools as part of a larger problem of U.S. reliance on foreign suppliers for components (electronics, optics, etc.) that makeup U.S. weapons systems. (U)

Mr. Gates stated that the U.S. machine tool industry does not manufacture all types of machine tools and is not developing a great variety of next generation tools. Mr. Gates noted that DOD now buys specialized machines from a variety of sources including: flow-forming machines from West Germany, composite weaving machines from France, rotary forges from Austria and electrical discharge machines from Japan. (C)

Mr. Gates noted that MITI has asked all Japanese machine tool companies to report their export plans and that the CIA believes that Japan might be willing to discuss export controls (VRAs) on a few categories of machine tools. He stated that,

25X1

25X1

~~CONFIDENTIAL~~



~~CONFIDENTIAL~~

4

25X1  
25X1

Director Miller began his remarks by noting that the CEA/NSC staff estimate of requirements was derived from DOD planning factors. Director Miller stated that Wall Street supports the domestic industry over the long term and that the industry's output lags the business cycle; it will pickup with continued growth in the U.S. economy. Director Miller reflected that Soviet five-year plans never meet objectives and that the U.S. industry needs more rather than less competition to be internationally competitive over the long term. (C)

Ambassador Yeutter said that there were two major questions:

Is there a national security threat; and, if there is, what is the optimal trade remedy? To this latter point, Ambassador Yeutter pointed out that tariffs are more efficient than VRAs or quotas. On defense requirement questions, Ambassador Yeutter deferred to the judgment of DOD; he noted that the U.S. industry's performance has not been impressive. Ambassador Yeutter expressed his hope that optimistic assumptions were not being employed in the calculations, since there is no margin of error regarding a national security threat. (U)

Deputy Secretary Whitehead expressed his wish that the issue could be more clearly explained. Mr. Whitehead noted that the U.S. economy and DOD need access to the best machine tools made and that many come from foreign firms. It is in the U.S. interest to maintain this access. Mr. Whitehead doubted that the Japanese would be receptive to a VRA. (C)

Secretary Baker said that the fundamental issue is whether or not a national security threat exists and that this question could only be assessed by the national security agencies. Secretary Baker voiced his support for the Secretary of Defense's proposed course of action. (U)

Deputy Attorney General Jensen noted that there are difficulties in the proposed antitrust course of action. (U)

Admiral Crowe noted the uncertainty of the wartime environment and asked what Japan's status would be in a war. The Admiral also noted that sea lane losses could be high. (C)

~~CONFIDENTIAL~~



~~CONFIDENTIAL~~

5

Secretary Brock spoke out against trade restraint and noted that VRAs only put money into the hands of foreign nations; tariffs are more efficient. (U)

The President made the point that in WWII many people (women) were put to work for the first time in support of the war effort, but now many people are in the labor force. (U)

The President asked, regarding reliance on imports, can we protect the sea lanes? The President noted that in WWII we did not produce as much new technology as we may in some future war. (C)

The Chief of Staff asked the NSC to prepare a decision memorandum to address the question of the national security threat posed by machine tool imports, and to prepare an Options Paper. (U)

Mr. Fortier adjourned the meeting.

#### Attachments

Tab A Commerce Briefing and Text (Written - not actual)  
(U)  
Tab B NSC Staff Briefing and Text (U)

~~CONFIDENTIAL~~



# WITHDRAWAL SHEET

Ronald Reagan Library

**Collection Name** EXECUTIVE SECRETARIAT, NSC: MEETING FILE

**Withdrawer**

**File Folder** NSC 000130 <sup>3/76</sup> 2/12/1986 (4)

CAS 9/22/2017

**Box Number** 7

**FOIA**

F03-003/2

SKINNER

25

ID Doc Type	Document Description	No of Pages	Doc Date	Restrictions
212600 LIST	OF NSC MEETING ATTENDEES <b>PAR 9/22/2017 NLR-750-7-13-1-6</b>	1	3/26/1986	B1
212601 MINUTES	OF NSC MEETING <b>PAR 9/22/2017 NLR-750-7-13-2-5</b>	5	ND	B1
212602 BRIEFING	RE MACHINE TOOLS	37	ND	B1

The above documents were not referred for declassification review at time of processing

Freedom of Information Act - [5 U.S.C. 552(b)]

B-1 National security classified information [(b)(1) of the FOIA]

B-2 Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]

B-3 Release would violate a Federal statute [(b)(3) of the FOIA]

B-4 Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]

B-6 Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]

B-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]

B-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]

B-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

C. Closed in accordance with restrictions contained in donor's deed of gift.