UNITED STATES TARIFF COMMISSION

WATCHES, WATCH MOVEMENTS, AND WATCH PARTS

Report to the President on Investigation No. 337-19
Under the Provisions of Section 337 of
the Tariff Act of 1930, as Amended

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UNITED STATES TARIFF COMMISSION

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UNITED STATES TARIFF COMMISSION
Washington

In the matter of an investigation with regard to the importation or sale of certain watches, watch movements, and watch parts.

Docket No. 19
Section 337
Tariff Act of 1930, as amended

INTRODUCTION

On December 30, 1964 the Tariff Commission received an amended complaint [1/] under section 337 of the Tariff Act of 1930, as amended (19 U.S.C. 1337), filed by the Elgin National Watch Company of Elgin, Illinois and the Hamilton Watch Company of Lancaster, Pennsylvania. The Elgin-Hamilton complaint alleged a combination and conspiracy, furthered by a variety of acts and practices, to restrain and monopolize United States trade and commerce in jeweled-lever watches, watch movements, and watch parts.

The Commission issued notice of receipt of the complaint in the Federal Register for January 6, 1965 (30 F.R. 112) and in the Treasury Decisions for January 7, 1965. The complaint alleged that the following persons, firms, partnerships, corporations or associations (arranged below under three general headings) were engaged in activities in violation of section 337.

1/ The Commission had tentatively concluded on October 26, 1964 that complainants' first submission received April 17, 1964 did not state good and sufficient reason for a full investigation and leave to amend had been granted.

1. Importers, all of whom have headquarters or principal offices in New York:

Benrus Watch Co., Inc.
Concord Watch Co., Inc.
Cyma Watch Co., Inc.
Diethelm and Keller, U.S.A., Ltd.
Eterna Watch Co., of America, Inc.
Jean R. Graef, Inc.
Gruen Watch Co.
Longines-Wittnauer Watch Co., Inc.
Norman M. Morris Corp.
Movado Watch Agency, Inc.
Rodana Watch Co., Inc.
Rolex American Watch Corp.
The Henri Stern Watch Agency, Inc.
American Watch Association, Inc.

2. Swiss watchmaking industry organizations:

Federation Suisse des Associations de Fabricants D'Horlogerie, Bienne Switzerland (hereinafter FH)
Ebauches S.A., Neuchatel, Switzerland (hereinafter Ebauche S.A.)
L'Union des Branches Annexes de L'Horlogerie, La Chaux de Fonds, Switzerland (hereinafter UBAH)
Societe Generale de L'Horlogerie, La Chaux de Fonds, Switzerland (hereinafter the Watch Chamber)
The Watchmakers of Switzerland Information Center, Inc., New York (hereinafter WOSIC)

3. Certain FH members not having watchmaking facilities in the continental United States:

Benrus Watch Co., Inc.
Concord Watch Company, S.A.
Eterna, S.A.
Gruen Watch Manufacturing Co., S.A.
Fabrique Movado, S.A.
Girard Perregaux and Co., S.A.
Omega Watch Company
Cyma Watch Co.
Montres Rolex, S.A.
Wittnauer et Cie., S.A.

Complainants asserted, among other alleged violations of section 337, that the above-named persons, partnerships, corporations and associations individually and in concert:

had been and were conspiring to restrain unreasonably and monopolize United States trade and commerce in watches, watch movements, and watch parts;

had combined and conspired to discourage, restrict, and eliminate the manufacture of watches, watch movements, and watch parts in the United States, and to restrain United States imports of watches, watch movements, and watch parts for both manufacture and repair purposes;

had agreed to regulate the terms of sale and methods of distribution of watches, watch movements, and watch parts imported into and manufactured in the United States;

had restrained and prohibited United States manufacturers with affiliates in Switzerland, or otherwise dealing with the alleged combination, from purchasing watches, watch movements, and watch parts from sources outside the alleged combination, imposed limitations on the volume of United States production of watches, watch movements, and watch parts on the kinds of watch components produced, and prohibited the rendering of technical aid or assistance to United States manufacturers by members of the alleged combination;

had agreed to manipulate and fix prices on watches and watch movements imported into the United States;

had discriminated in prices charged for watches, watch movements, and watch parts between areas with domestic watch industries and those without such industries; and

had conducted a continuing surveillance over Swiss affiliates of United States watch manufacturers, threatened reprisals, and invoked sanctions and penalties against these affiliates as a means of enforcing the restrictions imposed.

On April 27, 1965, the Commission, in accordance with section 203.4 of its Rules of Practice and Procedure (19 CFR 203.4) instituted a full investigation into the allegations of the Hamilton-Elgin complaint and scheduled a public hearing for July 19, 1965. Notice of this action was published in the Federal Register for April 30, 1965 (30 F.R. 6131) and in Treasury Decisions for May 6, 1965. In the period prior to the hearing several questionnaires were dispatched by the Commission regarding issues raised by the complaint and by an initial evidential submission received from the complainants. Some of these questionnaires were sent to U.S. importers of watches and others to Swiss respondents. As the Swiss Ambassador to the United States had evidenced an interest in the investigation, an informal liaison was established between the Commission and the Swiss government through the Department of State. Members of the Commission staff also maintained an informal contact with the Department of Justice during the investigation.

At the hearing, testimony was given on behalf of complainants by Mr. Arthur Sinkler, President of the Hamilton Watch Company. There was testimony from but one other witness, Mr. Sol Flick, Executive Vice President of the Bulova Watch Company, who appeared in response to a subpoena from the Commission. Reply to the testimony and documentary evidence introduced by complainants which, insofar as it pertained to activities and agreements initiated in Switzerland, related

to matters particularly within the knowledge of the Swiss respondents, was made on the basis of documentary evidence alone.

When, after two days of hearings, all parties had completed their presentation of evidence and argument, the Commission decided that additional information was needed--particularly from the Swiss respondents--as the record appeared insufficient to enable the Commission satisfactorily to make its determination of the issues. The hearing, therefore, was recessed.

The presence of competent witnesses from Switzerland would have facilitated the Commission's investigative task and contributed materially to the understanding of the Swiss watchmaking industry and its activites affecting U.S. trade and commerce. However, Swiss respondents repeatedly refused to furnish witnesses from Switzerland competent to testify with respect to the points involved in the investigation, and the Commission was unable, due to their being outside the United States, to compel such persons to appear before it. Confronted with this difficulty, the Commission resorted to a detailed questionnaire, which was dispatched to Switzerland, to be answered by appropriate industry persons, in an attempt to obtain some of the additional information desired. Answers to this questionnaire having been received, the hearing was reconvened on the 23rd of November 1965. At that time the answers to the questionnaires and certain economic data were offered and admitted into the record. The hearing was then closed.

The remainder of this report presents the conclusions of the Commission, an analysis of the application of section 337 to the facts found, and the Commission's detailed findings of fact.

CONCLUSIONS OF THE COMMISSION [1/]

As the result of this investigation instituted, upon complaint, under section 337 of the Tariff Act of 1930, the Tariff Commission does not find unfair methods of competition or unfair acts in the importation of watches, watch movements, or watch parts into the United States, or in their sale by an owner, importer, consignee, or agent of either, the effect or tendency of which is to restrain or monopolize trade and commerce in the United States.

The complaint alleged a combination and conspiracy, furthered by various acts and practices, to restrain unreasonably and monopolize trade and commerce in watches, watch movements, and watch parts in the United States. The numerous respondents included certain U.S. importers of Swiss watches, several Swiss producers of watches and watch parts, and other companies and associations comprising a significant sector of the Swiss watchmaking industry. Complainants (two U.S. manufacturers of jeweled-lever watches) asserted that the object of the alleged combination and conspiracy, and of specified actions allegedly pursued in furtherance thereof, was to discourage domestic manufacture of jeweled-lever watches and to eliminate them as a significant competitive factor in the United States market.

1/ Chairman Kaplowitz and Commissioner Thunberg abstained from voting on the findings in this investigation; the former because the Commission investigation had been concluded by the time he entered into office, and the latter because the processing of the case was well advanced at the time she entered into office.

Many of the acts and practices alleged in the Elgin-Hamilton complaint had, in October 1954, been alleged by the Department of Justice in a civil action involving substantially the same parties (United States v. Watchmakers of Switzerland Information Center, et al., Civil Action No. 96-170, S.D.N.Y., Dec. 20, 1962) under section 1 of the Sherman Act and section 73 of the Wilson Tariff Act. In 1962, the U.S. District Court for the Southern District of New York had determined, on the basis of evidence of practices predating the filing of the Department's complaint, that several of the defendants concerned (others had been dismissed or had entered into consent decrees) had been party to a combination and conspiracy in contravention of the Sherman and Wilson acts. As a consequence of this finding, the court had issued an order--to which the defendants concerned acceded--enjoining them from further acting in pursuit of this combination and conspiracy, and requiring them to renounce certain undertakings which restrained unreasonably U.S. manufacture, imports, exports, or sale of watches, watch parts, or watchmaking machinery.

In view of the rather special circumstances outlined in the preceding paragraph, and the fact that the remedy provided by section 337 does not operate in retrospect, it was manifest that, once section 337 proceedings had been initiated, the task of the Commission was to conduct an investigation which would fully develop the facts, and, on the basis of the record thereby established, to determine whether the alleged combination and conspiracy was viable and in violation of the

provisions of section 337. Had the order of the U.S. District Court not intervened in the period before the institution of the Commission's investigation and after the acts and practices on the basis of which the court found violation of the Sherman and Wilson acts, the issues before the Commission might have been different. Section 337, however, does not provide for refusal from entry in perpetuity, but only until the President finds that the conditions which led to such refusal from entry no longer exist. Therefore, and because the intervening order of the court was followed by corrective measures taken in compliance therewith, the Commission has confined its conclusions generally to the circumstances extant after the court's final order.

As the detailed findings of fact which follow[1/] disclose, the conditions found by the Commission currently to exist differ materially from those determined by the court to have prevailed in the past. In the more than eleven years which have elapsed since the institution of the civil action under the Sherman and Wilson acts, there have been numerous changes in the structure of agreements between the firms and organizations comprising the Swiss watchmaking industry, in the provisions of Swiss law relating to this structure and watch production generally in Switzerland, and in the competitive structure of United States trade and commerce in watches and watch parts. Many of these changes, however, had little or no effect on the violations of U.S. law found by

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1/ Pp. 15-100, infra.

the court to exist. Of far greater consequence are the steps certain of the respondents in this investigation have taken at the instance of the court to remove restraints on U.S. trade and commerce from their agreements, and the inhibitions placed upon them by the court's final order.

It has been established that in Switzerland the various enterprises which can be said to comprise the Swiss watchmaking industry (or the so-called Swiss watch cartel) are bound together, both horizontally and vertically, by a complicated arrangement of ownership (including holding and super-holding arrangements), association, and private agreements (both intra- and inter-national), the whole cemented by self-interest and private and public sanctions. This "cartel" did not confine itself to regulating trade within the Swiss industry, but extended its restraints to trade and commerce elsewhere, including the United States. The New York District Court found in 1962 that, since at least 1931 and continuing to the date of the finding, members of the industry and certain U.S. importers and producers (most of whom are respondents in this investigation) had been and were engaged in a combination and conspiracy to restrain unreasonably the foreign and interstate trade and commerce of the United States in the manufacture, import, export and sale of watches, watch parts and watchmaking machines in violation of the Sherman and Wilson acts. The record before the Commission, however, does not contain substantial evidence that these persons, associations, firms, and corporations, respondents in this investigation,

among themselves or in concert with the United States importers or sellers, are currently party to a contract, combination, or conspiracy in restraint of, or tending to restrain unreasonably, trade and commerce in the United States, or that they have monopolized or are engaged in a combination or conspiracy to monopolize trade and commerce in jeweled-lever watches, watch movements, or watch parts in the United States.

The Commission's investigation, however, as did the findings of the New York District Court, discloses that several of the respondents have demonstrated in the past both the ability and the inclination to impose unreasonable restraints on trade and commerce in the United States in the manufacture, importation and sale of watches, watch parts, and watchmaking machines. Moreover, these same respondents have demonstrated in the intricacy and constant propagation of their commercial arrangements a remarkable degree of adaptability and inventiveness, and a propensity for using their joint power not only to secure a competitive advantage but also unreasonably to inhibit competition. 1/

Nevertheless, the Commission does not find that the respondents are currently engaged in unfair methods of competition or unfair acts in the importation of watches, watch movements, or watch parts into the United States, or in their sale, of sufficient viability to bring them within the proscriptions of section 337 and the application of its sanction.

1/ Commissioner Sutton does not join in the expressions of this paragraph.

APPLICATION OF SECTION 337 OF THE TARIFF ACT OF 1930 TO THE ACTS AND PRACTICES IN EVIDENCE

Of the acts and practices evidenced in the record of this investigation, by far the greater number predate the institution of the Department of Justice's antitrust complaint against several of the respondents, and these respondents are currently enjoined from continuing them. Ebauches S.A. and FH have taken steps to renounce many of their contracts and agreements which placed unreasonable restraints upon United States importations, sales and domestic manufacture of watches, watch movements, watch parts, and watchmaking machinery. In addition, these same respondents have specifically modified several of the agreements to which they are party, in order to render their restraints inapplicable to United States trade and commerce in watch parts.

Other practices of respondents (FH minimum price regulations, Ebauches S.A. standard caliber movement production, and the use by FH of its 50 centimes levy) do not appear to be: applications of unreasonable restraints on United States importations, sales or domestic manufacture of watches, watch movements, or watch parts; acts or practices which demonstrate the persistence of a combination or conspiracy in restraint of trade and commerce in the United States;[1/] or evidence that respondents are monopolizing or attempting to monopolize trade and commerce in watches, watch movements or watch parts in the United States.

1/ The use of a part of the 50 centimes levy in attempts to influence public officials of the U.S. Government, while not illegal, either standing alone or as a part of a broader scheme, may be considered "to the extent that it tends reasonably to show the purpose and character of the particular transactions under scrutiny". United Mine Workers v. Pennington, 381 U.S. 657, 670 (1965) (dictum).

The demand by FH that Hamilton limit its production of watch movements in the U.S. Virgin Islands, which, if obeyed, might well have directly affected U.S. importations of watches and watch movements (as it was doubtless intended to do) was not met by Hamilton and no restraint thereby of trade and commerce in the United States was effected.[1/] Other action by one or more of the respondent organizations or firms within the Swiss watchmaking industry (openly or in the guise of Expanshor) with respect to importations of watches and watch movements into the United States from the Virgin Islands is as yet conjectural.

Still other matters in evidence relate to events which occurred before issuance of the New York District Court's enjoinder against respondents. Most of these matters would appear, to the extent that they might otherwise represent applications of restraints to U.S. trade and commerce, to be forbidden by the court's final order. Among them are Hamilton's problems in securing unassembled shock resistors from non-Swiss European firms. Either as a result of the court's order, or possibly because of the Commission's investigation, Bulova has been permitted admittance to CEH.

The Swiss watchmaking organizations and the complex system of contracts, ownership, and agreements which binds them together and

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1/ It may, however, be some evidence of a continued conspiracy to restrain trade and commerce in the United States in watches and watch movements.

generally limits competition between them, remain little changed as a consequence of the court's action or the Commission's investigation. With the exception of the changes worked in them in order that they might be rendered inapplicable to United States trade and commerce, the agreements with respect to reserved areas of production, prices, and exclusive dealing remain substantially as they have been. The "cartel" continues to supply a substantial share of the watches, watch movements and watch parts sold in the United States, but does not appear to have attained monopoly power in such markets.

The existence of such an arrangement of foreign producers, the products of which enter and are sold in substantial amount in the United States, does not per se establish a violation of the provisions of section 337. The provisions of section 337 do not inhibit the freedom of foreign concerns to organize themselves or conduct their commercial operations in foreign countries (not affecting trade and commerce in the United States) as they please and as the applicable law permits. Nor does section 337 penalize mere success in the United States domestic market. If, however, in the importation or sale of articles such an organization imposes unreasonable restraints upon trade and commerce in the United States, or monopolizes such trade and commerce, or engages in unfair methods of competition tending to so restrain or monopolize trade and commerce in the United States, section 337 may be applicable.

The record before the Commission does not disclose that the respondents are engaged in a combination or conspiracy to restrain or monopolize trade and commerce in the United States. There is no evidence of current application of the "cartel's" restraints to importations into, or sales in, the United States. Nor is there evidence that the Swiss watchmaking industry, or any of its elements, have monopolized or are presently conspiring or otherwise attempting to monopolize United States trade and commerce in watches, watch movements or watch parts.

As a consequence, no basis exists for a recommendation by the Commission that the President, pursuant to section 337, order the exclusion of articles from entry into the United States.

FINDINGS OF FACT

Evolution and Activities of the Swiss Watchmaking "Cartel" Prior to October 1954

Antitrust Civil Action

On October 19, 1954, the Department of Justice filed suit in the U.S. District Court for the Southern District of New York charging an unlawful combination and conspiracy in unreasonable restraint of interstate and foreign trade and commerce of the United States in jeweled watches, component parts and repair parts thereof, in violation of section 1 of the Sherman Act, 15 U.S.C. Sec. 1, and section 73 of the Wilson Tariff Act, 15 U.S.C. Sec. 8.

Among the defendants named in the Department's complaint were: the Federation Suisse des Associations de Fabricants d'Horlogerie (FH); Ebauches S.A.; the Watchmakers of Switzerland Information Center, Inc. (a wholly owned subsidiary of FH and Ebauches S.A.); the American Watch Association, Inc. (an association of importers of Swiss watches); the Bulova Watch Company; the Benrus Watch Company; the Gruen Watch Company, Ohio; Longines-Wittnauer Watch Company, New York; Eterna, A.G., Unrenfabrik; Montres Rolex, S.A.; Eterna Watch Company of America; The American Rolex Corporation; Jean R. Graef, Inc., N.Y.; and many others. Cited as "co-conspirators" were: Union des Branches Annex de l'Horlogerie (UBAH); Societe Generale de l'Horlogerie de Suisse (ASUAG or Superholding); numerous Swiss manufacturers of brand name watches imported by the American defendants; and several importers of repair parts.

Stated briefly, the Government's case alleged that these parties had engaged in a broad combination and conspiracy since 1931 in order to cause:

(a) the manufacture of watches[1/] and component parts within the U.S. to be prevented, discontinued, or curtailed;

(b) the importation of component parts from Switzerland into the U.S. to be eliminated except under special circumstances;

(c) the importation of watches and component parts into the U.S. from all countries other than Switzerland to be eliminated;

(d) the exportation of American-produced component parts from the U.S. to Switzerland and re-exportation of Swiss-produced watches or component parts from the U.S. to the rest of the world to be eliminated or strictly limited;

(e) minimum prices for watches and maximum prices for repair parts to be established and enforced for such products imported into and sold within the United States; and

(f) methods of distribution in the United States of watches, component parts and repair parts imported from Switzerland to be regulated.

The Government contended that the Collective Convention, an agreement for the comprehensive regulation of the production, sale and export

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1/ "Watches" was, for the purpose of the antitrust action, defined to include only those with a jewel-lever escapement and with a minimum of seven jewels.

of watches, component parts and repair parts of the Swiss watch industry, was an unreasonable restraint on trade. It also alleged that certain of the defendants had entered into agreements to cease manufacturing in the United States, to refrain from establishing facilities in the United States, and/or to refrain from assisting existing watch manufacturers. Boycotting, "blacklisting", and fines were alleged to have been employed to enforce the terms of the conspiracy.

In its prayer for relief, the Government sought to invalidate those agreements between the defendants which unreasonably restrained the import, export or domestic trade and commerce of the United States in violation of the Sherman Act and the Wilson Tariff Act. In addition, the Government sought perpetually to enjoin the defendants from participating in, maintaining, or carrying out the alleged combination, conspiracy and agreements. The Government included a prayer for the court to have the parties "perpetually enjoined from importing into the United States any brand-named Swiss watches subject in their manufacture, sale or distribution to any or all of the unlawful restrictions herein described".

A consent decree was signed on March 9, 1960 by the AWA, Eterna Watch Co. of America, Inc., Diethelm and Keller (USA) Ltd., Concord Watch Co., Inc., Movado Watch Agency, Inc., Jean R. Graef, Inc., The Henri Stern Watch Agency, Inc., the American Rolex Watch Corporation,

Rodana Watch Company, Inc., Cyma Watch Co., Inc., and Norman M. Morris Corporation, among others. The parties to the consent decree yielded to substantially all of the Government's demands.

Trial as to the remaining defendants (F.H., Ebauches S.A., Watchmakers of Switzerland Information Center, Inc., Wittnauer et Cie., Longines-Wittnauer Co., Eterna, A.G., Gruen Watch Manufacturing Co., S.A., Gruen Watch Company, Bulova Watch Company, Inc., and Benrus Watch Company) commenced on November 14, 1960. The court later dismissed the action as to the Watchmakers of Switzerland Information Center.

Development of Swiss Watchmaking Organizations, the Collective Convention, and Measures in Restraint of U.S. Trade and Commerce

Testimony before the district court disclosed a long-standing combination and conspiracy to restrain unreasonably the foreign and interstate trade and commerce of the United States in the manufacture, import, export and sale of watches, watch parts and watchmaking machines. The findings of the court provide an authoritative account of the history and development of the allegedly persisting conspiracy and were not contested by respondents in this investigation. The court's findings revealed that the combination and conspiracy had been pursued by several organizations within the Swiss watchmaking industry and certain individual firms since about 1931. The development of the principal organizations of the Swiss watchmaking industry and the waxing of their strength and the number of restrictive agreements between

them, and with others, was a gradual process, carried out with increasingly complex results over a number of years. By briefly reviewing it, current circumstances can be placed in context and accurately assessed.

Early development of the Swiss watchmaking organizations and related government measures

The present structure of organizations within the Swiss watch industry had its genesis in the early 1920s. In 1921 and 1922 the industry suffered a depression which severely reduced production and employment to levels substantially below those attained during and immediately following the First World War. The Swiss Confederation responded to the distress of the watchmaking industry with financial assistance in the amount of 9.5 million francs. The industry gradually recovered from its depression and by 1929 Swiss watch exports were approximately at the 1919 level. In the interim, however, producers representing major elements of the Swiss watchmaking industry had taken significant steps toward organization of the industry.

Direction was supplied to these first steps by the Swiss Watch Chamber, an unincorporated private association organized in 1876 for the purpose of defending the general interests of the Swiss watch industry by, among other things, obtaining and disseminating information on foreign competition, and acting as the link between the industry and Swiss government authorities. In 1923, the Watch Chamber brought together representatives of regional employer organizations

to explore the possibility of organizing national manufacturing so that measures could be taken to secure the "common interests" of the watch industry.[1/]

Initial action in pursuit of the suggested objectives consisted of the establishment of major groupings of producers on each of the three main levels of watch production, that is, in the manufacture of watches, ebauches[2/], and separate parts. In 1924, there was formed a federation of associations whose members were Swiss manufacturers and assemblers of jeweled-lever and cylinder watches. This organization was named the Federation Suisse des Fabricants d'Horlogerie, and is commonly referred to as FH. In 1926, a holding company, Ebauches S.A., was established to secure ownership of the stock of firms specializing in the manufacture of ebauches, thus gaining control of their operations. Producers of watch component parts, including regulating parts (hairsprings, balance wheels, and escapements), were bound together in L'Union des Branches Annexes de l'Horlogerie (UBAH) in 1927.

On December 1, 1928, these three organizations (FH, UBAH and Ebauches S.A.) were linked by agreements designed to enforce minimum prices for their respective products and to prevent the export of

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1/ At the time, the Swiss watchmaking industry was predominated by small, highly specialized enterprises, many of which pursued independent policies. This prompted the adoption of ground rules to prevent mutually disadvantageous competition.

2/ The complete frame of the movement--the plates and bridges.

ebauches and unassembled movements[1]. This initial arrangement did not, however, prove effective in eradicating "chablonnage", for some "dissident" firms remained outside the scope of the agreements and the conventions were ignored by some ebauches manufacturers. Thus, foreign buyers were able without great difficulty, in spite of the conventions, to obtain regulating parts (escapements,[2] balance wheels and hairsprings) not only for repair but also for assembly of new movements.

In 1931, steps were taken to strengthen control over this sector of the industry by the formation of a super-holding company, Societe Generale de l'Horlogerie de Suisse, S.A., variously known as Superholding and ASUAG, to control the operations of companies which administered the key plants in the production of lever watches, that is, those manufacturing ebauches, escapements, balance wheels, and hairsprings.[3] From the time of its inception ASUAG controlled most of the production of ebauches and regulating parts for Swiss jeweled-lever watch movements and established guide lines with respect to the production and sales policies of its subsidiary companies.

1/ The export of ebauches and unassembled movements (termed "chablons") was called "chablonnage", and believed by the watch manufacturers and assemblers in particular to be detrimental to their interests.

2/ Escape wheels and levers.

3/ The Swiss firms manufacturing these three components were organized within ASUAG as four functional holding companies: Ebauches S.A., Les Fabriques d'Assortiments Reunies, S.A., Les Fabriques d'Balanciers Reunies, S.A.,and La Societe des Fabriques des Spiraux Reunies, S.A., respectively.

With the formation of ASUAG the Swiss government again became active in the organization of the watch industry. By virtue of a federal decree of September 26, 1931, it owned capital stock in ASUAG giving it control over six-sixteenths of the votes for directors of ASUAG. Five-sixteenths of the votes were controlled by a syndicate of banks from the horological cantons and the remaining five-sixteenths by Ebauches S.A., FH, and UBAH. The Swiss government also advanced ASUAG a large interest-free loan shortly after the super-holding company's formation.

Although ASUAG held a majority of the stock of the firms specializing in the manufacture of ebauches, escapements, balance wheels and hairsprings, it was unable to eradicate the practice of exporting ebauches and unassembled movements. ASUAG failed to achieve its objective of eliminating chablonnage because it still did not control through Ebauches S.A. every one of the firms specializing in the production of ebauches and regulating parts and because new firms could be freely established.

As a result, the Swiss government again took action. By a statute 1/ adopted October 14, 1933, entitled "Measures of Economic Defense against Foreign Countries", the Swiss Federal Assembly (the legislative branch of the Swiss government) authorized the Swiss Federal Council (an executive body, which also exercises delegated legislative powers) to issue

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1/ Termed by the Swiss a "decree".

decrees for the protection of various Swiss industries. In 1934 the Federal Council decreed that the export of chablons, ebauches and separate parts was prohibited without a permit issued by either the Swiss Watch Chamber or Fidhor.[1/] Moreover, unless otherwise directed by the Department of Public Economy (the DEP), such export permits would be granted solely for deliveries conforming to the conventions entered into by the watchmakers' organizations. As a corollary measure, this same decree established the requirement that the creation, expansion, or conversion of any watch-making enterprise, including but not limited to factories for producing ebauches and regulating parts, could be accomplished only if a permit were granted by the DEP. It was specified that no such permit could be issued if such a change in production in any way would prejudice the interests of the watch industry. These steps went far toward placing the expansion of the watchmaking industry under control by imposing on firms permitted to enter the watchmaking field the trade policy of the established organizations of the industry.

In the meantime, the agreements of 1928 had been replaced by an agreement entered into by FH, Ebauches S.A., and UBAH in 1931. This compact was replaced in turn by a more detailed joint agreement, known

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1/ "Fidhor" (La Fiduciare Horlogere Suisse) is an independent public accounting and auditing corporation organized for the purpose of investigating the compliance by firms in the watch industry with obligations imposed upon them by the conventions and rulings of the various watch industry organizations.

as the "Collective Convention of the Swiss Watch Industry", on April 1, 1936. The pre-1936 industry agreements, as well as the 1936 and later Collective Conventions, are sometimes referred to as "The Collective Convention" or "the Convention". The 1936 Collective Convention was executed by UBAH, Ebauches S.A., FH and each of its members. It was binding on the sections 1/ of FH as well as their individual members, on the subsidiaries of Ebauches S.A. and on certain groups of UBAH and their individual members. The provisions of the Convention will be discussed at greater length subsequently.

In that same year, 1936, the Swiss Federal Council authorized the Department of Public Economy to declare minimum price lists negotiated by FH, Ebauches S.A. and UBAH binding on all watchmaking enterprises. It also prohibited nonsignatories to the Convention from selling their products on conditions more favorable than those established by the signatories. Moreover, "in order to assure effective control of adherence to the rates", this decree added watches and watch movements to those articles the export of which was subject to authorization. As noted above, the export of ebauches, chablons, and separate parts had been subject to permit since 1934.

1/ FH is composed of six (formerly eight) regional groups of Swiss watch and watch-movement producers. These groups are called Sections, each of which is itself an association whose membership is composed principally of individual Swiss firms engaged in the manufacture or assembly of jeweled-lever watches and movements in Switzerland.

With a decree of December 29, 1937, all of the measures taken by the Swiss government with respect to the watchmaking industry were combined in a unified enactment. By the same decree, repair parts were added to the list of products whose export was prohibited without a permit. On December 29, 1939, the Federal Council renewed, in substantially the same form, the provisions of its 1937 decree, adding to the products for which export permits were required dies, tools and other special equipment used in the manufacture of watches. The resulting system of manufacturing and export permits, although called an emergency measure, remained in force, in concert with other measures, throughout the Second World War and well into the post-war period. By the end of 1940, the "dissenting" firms apparently had lost interest in independence, since by regulating exports under public law and enforcing Convention minimum prices the Federal authorities had succeeded in subjecting non-Convention firms to the same price and export restrictions as those adhering to the Convention. With further financial assistance from the Government, ASUAG at this time was able to purchase all jeweled-lever ebauches and regulating parts factories which it did not already control.

The Collective Convention of 1936 was renewed in 1941, 1946, and 1949. During the same period, the provisions of the 1939 decree of the Federal Council were extended by decrees in 1942, 1945, and 1948, and remained continuously in effect until December 31, 1951. These decrees were issued by the Federal Council under the authority of a

provision of the Swiss Federal Constitution relating to measures taken in defense of foreign trade. In 1951, new economic clauses of the Swiss constitution became effective, requiring a new enactment of a watchmaking statute. Thus, the Swiss Federal Assembly issued, on June 22, 1951, a comprehensive statute on "measures designed to safeguard the existence of the Swiss watchmaking industry", which became effective on January 1, 1952.

The 1951 statute continued, in general, the system which had been in force, but with two significant changes. First, export permits were no longer to be required for the export from Switzerland of watches and movements; and, second, price controls were not retained as restrictions directly enforced by the Government. Apparently, it was felt that by that time the controls established by the watchmakers' associations were adequate without explicit Government sanction, as there no longer was a substantial number of "dissident" watch manufacturers or assemblers.

Although watches and watch movements were removed from the list of watch industry products the export of which was conditional upon the issuance of a permit, the status of the other articles on the list was essentially unchanged. The ordinance of execution issued by the Swiss Federal Council pursuant to the 1951 decree contained detailed regulations for the acquisition of permits for the opening, enlargement, or transformation of watchmaking enterprises, and the export of ebauches and other watch parts, chablons, repair parts, tools, dies,

equipment and blueprints. With respect to "specifically watchmaking machines"[1/], the Federal Council was authorized to subject their export to the requirement of a permit, after having consulted with the associations representing the watchmaking industry and the machine industry. Violators of any of the terms of the 1951 decree or of the ordinance of execution were made subject to prosecution and fine.

Provisions of the Collective Convention and specific acts and practices in restraint of U.S. trade and commerce

The Collective Convention.--It was noted earlier that the Commission's primary source of evidence with respect to former restrictive practices by the respondents in this case is evidence which was before the district court hearing the antitrust action. The court's findings related to events and circumstances existing at the time of, or occurring prior to, the filing of the Government's complaint in October 1954, for it had limited the evidence which it would accept to that period. As a result, the Collective Convention to which the court's findings relate is that which was executed on April 1, 1949. With respect to this agreement, the district court concluded that:

> The Collective Convention was intended by defendants to and did affect and relate to the activities of United States companies and to the manufacture of watches and watch parts in the United States, the United States import and

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1/ See footnote 2, p. 34 infra.

> export of watches, watch parts and watchmaking machines, and the sale, use and distribution of watches, watch parts and watchmaking machines in the United States. 1/

As the Collective Convention was of considerable significance in the evolution of the inter-organizational agreements obtaining within the Swiss watchmaking industry until 1961, as well as fundamental to the findings of the district court, its provisions, as well as those of related agreements and contracts, are examined below.

The Collective Convention was a broad, formal agreement respecting prices, sales terms, restrictions and conditions with respect to exports of watch movements and parts from Switzerland, restrictions on the establishment of manufacturing facilities outside of Switzerland, prohibitions against aiding foreign watchmaking enterprises, measures to enforce the provisions of the Convention, and other matters. Its purpose was to protect, develop and stabilize the Swiss watch industry and to impede the growth of competitive watch industries outside of Switzerland. 2/

A body, the Delegations Reunies (the DR), was established to govern the Collective Convention. It was composed of 13 members, 3 appointed by Ebauches S.A., 3 by UBAH, 6 by FH, and a President not otherwise associated with the watch industry, who was chosen jointly by the three organizations. The Delegation Reunies was given the power

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1/ United States v. Watchmakers of Switzerland Information Center, Civil Action No. 96-170, S.D.N.Y., Dec. 20, 1962, Conclusion of Law XV.

2/ United States v. Watchmakers of Switzerland Information Center, supra, Finding of Fact No. 77.

to interpret, to grant exceptions to and to modify the Collective Convention, unless FH, Ebauches S.A., or UBAH objected. Breaches of the Collective Convention could be penalized by the DR by withdrawing the Convention's benefits from the violator, canceling existing contracts violating the Convention, and imposing fines. Article 23 of the Convention provided that the Delegation Reunis could expel a firm from membership for acts of its foreign affiliates.

Decisions of the Delegation Reunis, except those modifying the Collective Convention, could be appealed to the Arbitral Tribunal. This was a judicial organ created by the Collective Convention. Composed of three professional judges and three judges selected from the watchmaking industry, the Arbitral Tribunal issued decisions which had the same effect, and which were enforceable in the same manner, as judgments of the Swiss cantonal courts.

A summary of significant provisions of the Collective Convention appears in the finding of the New York District Court.

In Finding of Fact Number 82 the court stated that:

> The signatories of the Collective Convention, in order to carry out its purposes, agreed to accept certain restrictions relating to sales, purchases and prices of watch products. They agreed that:
>
> > (a) they would not themselves engage, either directly or indirectly, in the manufacture of horological products outside Switzerland, nor develop existing manufacturing facilities established by them since 1936 outside Switzerland and that they would not furnish any assistance of any kind to any company engaged in the manufacture of horological products outside Switzerland;

(b) they would not sell or export or procure for export from Switzerland watchmaking machines or tools for the manufacture of watches or watch parts;

(c) they would not permit any person of foreign nationality to acquire any direct or indirect interest in their enterprise;

(d) strict limitations would be imposed on the sale and export of watch parts for manufacturing purposes as follows:

(1) FH members agreed that the watch parts which they purchased or manufactured would be used solely for their own manufacturing purposes and would not be sold by them except for the repair of their own finished products;

(2) Ebauches and UBAH agreed not to sell watch parts to any person who was not a signatory of the Convention, and to export only certain parts solely to certain specially designated watch manufacturers located outside Switzerland who agreed not to resell such parts and to adhere to other provisions of the Collective Convention. Certain American firms had purchased manufacturing parts from Swiss suppliers prior to 1931, and these firms were entitled to purchase freely any type of watch part from members of UBAH groups;

(3) Watch parts which could never be offered for sale or export included watch parts which were not in a specified state of manufacture, chablons, parts making up escapements, and unfinished escapements.

(e) they would sell or export to anyone in Switzerland or abroad watch parts for repair purposes, provided such parts were by their designation, quantity, etc. intended for repair. The agreement provided further as follows:

(1) Members of FH would sell watch parts only for the repair of watches sold by them;

(2) Members of UBAH would sell watch parts only for the repair or replacement of watch parts manufactured by them;

(3) Ebauches would sell watch parts for the repair of all watches containing ebauches produced by any of its affiliated companies.

(f) they would not deal with any company outside Switzerland which dealt in any watches or watch parts produced by persons who were not parties to the Convention;

(g) they would not give any aid of any kind to any company outside Switzerland which dealt in watches or watch parts produced by persons not parties to the Convention or which dealt in watches or watch parts produced by parties to the Convention in a manner contrary to the Collective Convention;

(h) they would not purchase from or use any watch parts produced or sold by persons who were not parties to the Convention;

(i) they would not export or sell for export uncased movements, other than chronographs, novelties or movements with second sweep hands, to any country except France, Great Britain, United States, Canada, Germany, and Australia;

(j) they would not export or sell for export any movement containing only a temporary dial not intended to be used on the ultimate resale of the watch;

(k) the sales prices of the watch and the movement would be fixed in accordance with FH regulations for stabilization of prices;

(l) deliveries of watches and watch parts would be suspended to purchasers who violated the Convention.

Of major importance to all provisions of the Collective Convention was its application of the principle of "trade reciprocity". FH members were obliged to purchase all parts and ebauches which they did not produce themselves from UBAH and from Ebauches S.A. Ebauches S.A., in turn, could sell ebauches only to FH members, and agreed to buy all parts not manufactured by its members in their own shops from UBAH. Parts producers belonging to UBAH were constrained to purchase only from each other and could sell their products only to FH members, Ebauches S.A., and, in certain limited circumstances, to other UBAH members. In addition to the U.S. firms referred to in the passage from the court's finding quoted above, certain French and German watch producers, because they were also "traditional" customers of Swiss ebauches plants and of firms making other parts, were permitted to continue to purchase watch parts from Swiss firms for assembly in their own plants.

As each of the parties to the Collective Convention (FH, Ebauches S.A., and UBAH) established price and sales condition regulations for its member firms, in this area the Convention enforced existing regulations.

Through the combined implementation of the Collective Convention and the manufacturing permit system provided by Swiss law, every firm desirous of engaging in operations in one of the main branches of the Swiss watchmaking industry was effectively compelled to join one or more of the industry's organizations, thus submitting to the provisions of

the Collective Convention. FH, in turn, would admit only firms created before January 1, 1929, or firms which had taken over the assets and liabilities of companies founded before that date.[1/] As noted earlier, the ordinance of execution issued by the Department of Public Economy under the 1951 watchmaking statute expressly provided that export permits should be granted only for deliveries of ebauches, chablons and supplies in accord with the provisions of the Convention. Although the DEP could, in the event of appeal, waive this requirement, the result was a strengthening of the export and price regulations of the Convention.

Agreements and regulations restricting U.S. imports of watchmaking machinery from Switzerland.-- The Swiss manufacturers of watchmaking machinery were not signatories to the Collective Convention. While imports of watchmaking machinery are the subject of a still pending antitrust action, they were considered by the New York District Court in the Watchmakers of Switzerland case as an element to be taken into account in assessing the total alleged conspiracy, and are so considered by the Commission. In 1939, the Swiss Federal Council made it illegal to export "specifically watchmaking machinery" without a special permit. The regulations issued under this decree provided that a permit for the export of watchmaking machinery would be granted

1/ The DEP, however, could require FH to accept other members whose establishment the Department had authorized.

only if Swiss Customs certified that such machinery did not appear on a list designated as "List VII". Thus, the export of machinery appearing on List VII was prohibited, as no permit would be granted therefor. Although this was in the nature of a wartime measure, it continued without major change until 1950. An administrative change was made in 1945, when the task of maintaining the list of watchmaking machinery whose export was prohibited was transferred to a group known as the "Mixed Commission", established within the Swiss Customs Department.

In 1946, FH, Ebauches S.A., UBAH, and the Roskopf Association 1/ agreed to limit their manufacture of watchmaking machinery in return for the agreement of the watchmaking machine manufacturers not to sell or export certain types of watchmaking machines called "specifically watchmaking machines". 2/ Also in that year an agreement was negotiated with Great Britain permitting the export, for lease, of some list VII machinery to that country. In 1947, list VII was redrawn and designated list VIII. Later that year, the Department of Public Economy issued ordinances permitting, under certain conditions, the export of list VIII machinery to countries other than Great Britain, but only for lease. These conditions were maintained by new Government decrees adopted by the Federal Council in 1950 and 1951, and the ordinances issued pursuant to them. For the first time, however, the DEP

1/ Association d'Industriels Suisse de la Montre Roskopf. This Association holds the controlling stock of concerns producing parts for and/or assembling Roskopf movements.

2/ The watchmaking machines designated as "specifically watchmaking machines" included high speed precision machines of the latest design and most desirable for the efficient low cost production of watches and watch parts.

ordinances and the customs directives, while maintaining the requirement that export permits be issued only to Machor S.A. [1/] for lease of list VIII machinery for horological purposes, authorized the issuance of permits for the export of list VIII machinery pursuant to sale rather than lease. The authorization was limited to cases where the Mixed Commission determined that the machines would not be used "for purposes detrimental to the Swiss watchmaking industry". Pursuant to these ordinances and directives, permits for the export of list VIII machinery were granted in connection with sales transactions, but the sales agreements restricted the use of the machinery sold to non-horological purposes.

The New York District Court noted that the lease for watchmaking machines drawn up by Machor S.A. contained the following provisions:

> (a) foreign watch manufacturer lessees could not engage in the sale of any watch parts whether manufactured with the leased machines or on other machines;
>
> (b) foreign watch manufacturer lessees had to purchase all of their watch parts requirements, except those purchased locally, from Swiss manufacturers who were signatories of the Collective Convention;
>
> (c) foreign watch manufacturer lessees had to abstain from "unfair competition" with the Swiss watch industry and to refrain from engaging in any commercial practices tending to prejudice the interests of the Swiss watch industry;

1/ A commercial corporation established in 1946 by the Swiss watch and watchmaking industries, to act as sole agent for the export of "specifically watchmaking machines".

(d) in the event that the foreign watch manufacturer lessees breached any of the lease provisions, the lease could be canceled and all deliveries of watch parts to such lessee by the Swiss watch industry could be suspended. 1/

Application of restraints on trade and commerce in the U.S.--There were evidenced before the New York District Court several specific instances of application of restraints and conditions embodied in the Collective Convention, and other Swiss watchmaking industry agreements and regulations, with respect to the sale and use of watches, watch movements, watch parts and watchmaking machinery, to the manufacture of watches and watch parts in the United States, and to sales of watches and watch parts for importation into the United States. Among such instances were applications of Collective Convention restrictions on the export of Swiss watchmaking machines to U.S. watch manufacturers, and application of Collective Convention conditions and limitations on the importation of watch parts from Switzerland by U.S. watch manufacturers.

"Gentlemen's agreements" had been made between the Bulova Watch Company and ASUAG, acting for FH, Ebauches S.A., and UBAH, in 1933, 1936 and 1948, in which Bulova undertook to limit its U.S. production and to limit its markets, in return for a continued supply of certain watch parts. In 1945, an agreement was made with the Benrus Watch Company which provided that, in return for an increase in the number

1/ Finding of fact No. 133, United States v. Watchmakers of Switzerland Information Center et al., supra.

of Swiss watches Benrus was permitted to import into the United States, Benrus agreed to renounce forever the license it had acquired in 1936 to import into the United States watch parts from Switzerland for assembly into completed movements and agreed to terminate its manufacture of watches in the United States. In another agreement, the Gruen Watch Company (of Ohio) and its affiliate, the Gruen Watch Manufacturing Company, S.A., had contracted with FH, Ebauches S.A., and UBAH to limit Gruen's U.S. manufacture and imports of watches and watch parts.

Evidence before the New York District Court appeared to demonstrate that although FH had attempted to fix the conditions of sale of Swiss watches sold in the United States it had not succeeded in doing so. There was, in addition, no evidence that the Swiss watch industry organizations at any time had fixed resale prices of Swiss watches in the United States. Exclusive distribution agreements, however, had been executed between the Longines-Wittnauer Watch Company and its Swiss suppliers and between the Eterna Watch Company of America and Eterna, A.G. Uhrenfabrik in which the Swiss suppliers agreed to prevent the resale and importation of watches made by them into the United States from third countries, in order to protect the U.S. importers concerned from price competition in the United States.

In addition to provisions of the Collective Convention relating to enforcement of its restrictions, which applied to all members of FH, UBAH, and Ebauches S.A., member firms of FH agreed, as a condition

of their continued membership in FH, not to deal with any person who was blacklisted by FH in accordance with its blacklist regulation. This regulation provided that dealers in Swiss watches who violated FH regulations would be blacklisted and prohibited from purchasing watches of certain types or any watch parts for such watches. While U.S. firms, importers and manufacturers knew of the blacklist and sometimes observed it, the list was generally ineffective in the United States.

Agreements between Swiss watchmaking organizations and watch producers of other countries embodying restraints on U.S. trade.-- Although not directly relating to the agreements and restraints of the Collective Convention or their enforcement, the agreements made by the principal Swiss watchmaking industry organizations with representatives of watchmaking industries of other nations exemplify the bargaining power given them by the Convention and Swiss government regulations. Through their control of the major world sources of watch parts and watchmaking machinery, FH, Ebauches, UBAH, the Roskopf Association and the Swiss Watch Chamber were able to exact agreements from certain British watch manufacturers, French watch trade organizations, and German purchasers of Swiss watch parts, which prevented the purchase and sale of watch parts by U.S. watch manufacturers so far as these suppliers and customers were concerned. The agreements tended to close these sources of trade to United States watch producers, thus increasing their dependency on the Swiss.

Antitrust Action, Final Judgment and Enforcement Provisions

Entry and modification of the final judgment.

The New York District Court entered its final judgment in the Watchmakers of Switzerland case in January 1964. The court found that in 1931 defendants FH, Ebauches S.A., Benrus, Bulova, Wittnauer Geneva, Longines-Wittnauer, Gruen S.A., Gruen Ohio, and Eterna A.G. entered into a combination and conspiracy to eliminate competition in the United States manufacture, import, export, and sale of watches, watch parts and watchmaking machinery. The conspiracy was bound by the Collective Convention, which agreement the court held was designed to thwart the development and growth of competitive watch industries in countries other than Switzerland, and especially in the United States.

The court found that Longines-Wittnauer and Gruen Ohio, knowing of and approving the execution of the Collective Convention by their respective Swiss subsidiaries, adhered to its provisions. The court ascribed to the Convention the following specific unreasonable restraints: On the export of watch parts from Switzerland for manufacturing purposes; on the manufacture of watches and watch parts outside Switzerland; on the furnishing of watchmaking machinery, tools, dies, and models and other types of financial, technical, and managerial assistance to watch manufacturers; on the sellers of watch products manufactured by persons other than signatories of the Convention; and on the export from Switzerland of various types of uncased movements and movements with temporary dials.

The court determined that one of the major purposes of the organization of FH by Swiss manufacturers of watches had been to enable these manufacturers to regulate the manner and conditions under which Swiss watches were to be sold throughout the world. Moreover, it held that Benrus, Bulova, Eterna A.G., Wittnauer Geneva, and Gruen S.A. voluntarily joined FH with knowledge of its purposes, and participated in carrying out these purposes; and that Longines-Wittnauer and Gruen Ohio adhered to FH regulations applicable to the sale of Swiss watches in the United States.

The court concluded that Machor S.A., through its provisions for leasing watchmaking machinery, imposed unreasonable restrictions on the manufacture of watches and watch parts in the United States, the importation of watch parts and watchmaking machinery into the United States, and the sale in the United States of watch parts.

The cartel agreements concluded between members of the British, French, and German watch industries on the one hand, and F.H., Ebauches S.A. and UBAH on the other, which prohibited the British, French, and German industry members from purchasing watch parts from any person other than Convention signatories and from selling watch parts which they purchased or which they produced themselves, were found to have been intended by the parties to impose, and to have imposed, unreasonable restrictions on the growth and development of the manufacture of watches in the United States and on the United States import and export of watch parts to and from these countries.

The court found that each of the various agreements noted earlier between Swiss firms and organizations and Bulova, Benrus, Gruen, Longines-Wittnauer and Eterna unreasonably restrained United States commerce. In addition, the court concluded that United States companies engaged in the sale of Swiss watches in the United States who failed to comply with FH regulations had been boycotted and blacklisted.

Charges that the antitrust defendants had agreed to establish and did establish minimum sales prices or sales price levels below which Swiss watches were not to be sold in the United States, the court held, had not been proved. Also unproven were the Government's allegations that the defendants had agreed to establish or did establish uniform guarantees to be offered on the sale of Swiss watches and that the defendants adhered to an agreement in fixing their guarantees or in the regulation of watch advertising in the United States. Nor was the court satisfied that Ebauche's repair parts program was other than normal and lawful competition.

The New York District Court provided that its judgment in the Watchmakers of Switzerland case would not become effective until all appeals had been finally determined. Several of the defendants filed notice of appeal, but the parties jointly agreed to modify the judgment, with the condition that the notices of appeal would be withdrawn and the judgment, as modified, would at once become effective. On February 3, 1965, the modified final judgment was entered.

Terms of the modified final judgment

The modified final judgment did not contain provisions quite so sweeping as those which marked the consent judgments; among the provisions absent from the modified judgment is that which listed an embargo on importation as a possible enforcement tool in case of noncompliance. Moreover, the final judgment, as modified, while it applies to FH, defines that organization in such a way as not specifically to include its sections and members individually. The Department of Justice concluded that the changes worked in the judgment were of a more technical than substantive nature, and that the modified final order would achieve the economic and antitrust objectives of the suit.

Bulova, Gruen S.A., Gruen Ohio, Benrus, Eterna A.G., Longines-Wittnauer, and Wittnauer-Geneva were ordered to withdraw from contracts containing unlawful provisions or to cancel or terminate such provisions and were enjoined from further enforcement, performance, or renewal, in whole or in part, directly or indirectly, of any of them. FH and Ebauches S.A. were "each enjoined from enforcing, performing or renewing" certain provisions of the Collective Convention and of contracts made with foreign watch or watch part producers, insofar as they applied to United States domestic or foreign commerce. Included among these provisions were those which restricted the importation into, exportation from, or the production, sale or distribution within the

United States of watches, movements, parts and machinery, or which restricted United States companies from engaging in the production or sale of watches, movements, parts or machinery outside Switzerland.

The defendants were enjoined from entering into, performing, adhering to, maintaining, furthering, or claiming any rights under any combination, conspiracy, contract, plan or program, with any other person to:

> (a) Prohibit, limit, restrict or otherwise restrain: production, importation, or exportation of watches, movements, parts or machinery; or the rendering of financial, managerial, technical or industrial assistance to any person in the United States engaged in the watch trade.
>
> (b) Condition, or require, or coerce any other person to condition, the sale or other disposition of any watch, movement, part or machinery.
>
> (c) Boycott or blacklist any person or class of persons engaged in the importation into, purchase, sale or production within or export from the United States of watches, movements, parts or machinery.

FH and Ebauches S.A. were both ordered to amend and implement the Collective Convention, or any other contract relating to the general sale of parts to FH members, so as to provide for equal treatment for U.S. purchasers of Swiss parts. Furthermore, FH and Ebauches S.A. were enjoined from discriminating or retaliating in any way whatsoever against any person for actions taken in compliance with the final judgment, and were forbidden to take any steps to circumvent the final judgment.

The court specifically noted that acts of the Swiss government were not to be considered within the scope of its orders and injunctions.

Finally, the judgment outlined certain steps to be taken by defendants, among which was a requirement that FH and Ebauches file statements with the Department of Justice with respect to action taken by them to comply with the court's order.

Activities of the Swiss Watchmaking "Cartel" Subsequent to October 1954

The 1961 Swiss Watchmaking Statute[1/]

An earlier part of this report outlined the complex of private agreements, organizational structuring, and Government regulations which obtained in connection with the Swiss watchmaking industry at the time of the institution of the Watchmakers of Switzerland antitrust action and, in part, on the basis of which the New York District Court made its finding. The situation with which the Commission's investigation is primarily concerned, however, is that which prevails--what has gone before serves in the main as background. Nevertheless, it is a background of great significance.

Since the filing of the Department of Justice's antitrust complaint in October 1954, there have been numerous developments affecting the circumstances found by the court, not the least of which was the coming into effect of the court's order, in February 1965.

1/ This statute is entitled "Federal Decree Concerning the Swiss Watch Industry".

Following the revision of the Swiss watchmaking statute in 1951, the Collective Convention was renewed in 1954, 1957 and 1959. Although on each occasion some modifications were made, there was no significant change in the primary principles or methods embodied in the Convention. In 1961, however, the Swiss Federal Assembly enacted a new watchmaking statute, and in 1962 the Collective Convention, which in 1959 had been renewed for a period of three years, was replaced by a document called the "Master Agreement" and a number of "Supplemental Agreements".

Evaluation and criticism which preceded enactment of the 1961 Swiss watchmaking statute

On December 16, 1960 the Swiss Federal Council submitted for the approval of the Federal Assembly, a watch industry statute proposed to replace the 1951 statute. The Council submitted with the proposed statute a message giving an account of past Government acts and decrees with respect to the watchmaking industry and an explanation of the novel provisions of the proposed statute. The Council assumed the task of at once explaining numerous departures from the prevailing system of regulation and the need for continuing regulation.

The message noted that marked criticism of the private regulations of the Collective Convention was being heard within the Swiss watchmaking industry, and that numerous difficulties which had been encountered in the practical application of the industry agreements. Since 1951, two groups, Cadhor and the Triebolt Group (representing watch manufacturers who were critical of the Convention system) had mounted

an attack from within the industry. In December 1957, a report had appeared, drawn up for the Department of Public Economy by a joint FH-Cadhor study committee, suggesting the need for some changes in the watchmaking statute. Moreover, apparently a substantial number of watchmaking firms had ceased keeping their commitments with regard to price fixing under the Collective Convention.

Primary emphasis, however, was placed on the growth in foreign countries of watchmaking industries over which the Swiss exercised no control, direct or indirect, and with which the Swiss watchmaking industry, because the Collective Convention and existing statutes emphasized protection of small and medium-sized enterprises (the traditional structure of Swiss watch production), in many cases was not competing effectively.[1/] For this reason, a report published in 1959 by the Price Investigation Committee of the Department of Public Economy[2/] found the system of manufacturing permits unsatisfactory both in its direct and indirect consequences. While not challenging the goals of the prevailing system, e.g., prevention of "over-expansion of the production apparatus and, therefore, price decline", the Committee objected to the system's tendency to "discourage incentive for the rationalizing and improvement of production quality". The Price Investigation Committee found that the manufacturing permit system, by according in Switzerland a virtual monopoly to key plants concentrated

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1/ Swiss industry concern was not caused by a significant decline in sales of watch movements but by an apparent desire to maintain, even increase, its share of world production, thus protecting its preeminent position. See p. 100, infra, for a discussion of economic trends in the watch industry.

2/ "Critical Study of Competitive Conditions in the Swiss Watchmaking Industry".

in trusts, had impeded the development by manufacturers of more rational and technically advanced mass production, to the point where the Swiss capacity to compete in some world markets was diminished. Moreover, the Committee found that the export permit system and private import regulations had achieved for certain factories manufacturing watch parts an almost complete isolation from foreign competition, resulting in "insufficient rationalization" of their production. The Price Investigation Committee excepted the manufacture of ebauches from this evaluation.

While noting these criticisms of the system existing under the Collective Convention and the 1951 watchmaking statute, the Federal Council's message expressly approved the major objective of that system: to maintain watch production facilities (including assembly operations) to the greatest practicable extent in Switzerland, by preventing chablonnage.

Major provisions of the 1961 statute

Although there were some elements of the Swiss watchmaking industry which favored elimination of Government sanctioned controls, the conclusion reached by the Federal Council, after discussion with various groups interested in the watchmaking statute, was that it was still in the interests of Switzerland to take public measures in favor of the watchmaking industry. The Federal Council noted, however, that the statute which it proposed represented a marked shift in objectives

as compared to preceding statutes. No longer was a major emphasis to be placed on maintenance of the existing structure of production.

Three specific objectives were set for the new statute. The first was to aid the watchmaking industry in securing and improving its position in international markets, by abandoning measures which did not effectively contribute to strengthening its competitive capacity. The second was to combat chablonnage. The third objective of the new statute was to encourage adaptations of the industry structure which seemed required in order, as a minimum, to maintain current levels of production and to develop further the competitive capacity of the industry.

Abolition of the manufacturing permit.--The major break with tradition accomplished by the 1961 watchmaking statute was the abolition of the manufacturing permit system. Under the 1961 statute, the Swiss government no longer would require that a permit be secured before a new firm might be established in the industry, or the nature of the production of an existing firm altered. Although there had been some industry support for retention of the system as to the production of ebauches and regulating parts (then limited to factories subject to the control of ASUAG), the statute provided for eventual total abolition of the manufacturing permit requirement.

Abolition of the existing system was not, however, accomplished immediately upon the statute becoming effective. The statute provided for a staged dissolution carried out over a period of four years, beginning January 1, 1962. On January 1, 1963, conversion from finishing

operations to assembly operations ceased to be subject to permit. After January 1, 1966, the requirement for a manufacturing permit was to be completely removed from all phases of the watchmaking industry. During the transitional period, the requirement was retained in most branches of the industry, notably as to the establishment of new firms. Conversion of firms, however, became increasingly free of regulation in order to permit concentration within the Swiss industry.

Export permits.--The 1961 watchmaking statute maintained the system of export permits substantially as it prevailed under prior statutes. Article 7 of the 1961 statute provided:

> 1) To the extent required to support the traditional policy governing the export of watch products and to achieve the aims of technical control of these products, the Federal Council may make subject to a permit the sale for export, the export, and the sale to a customer residing abroad of the following articles:
>
> 1. Watches, watch movements, ebauches, ebauches sub-products, as well as regulating watch parts (escapements, balance wheels and hairsprings) or other watch parts (including cases and sub-products) whether they are individual or assembled parts.
> 2. a) Dies and tools of all kind, whether new or used, which are required in the manufacture of ebauches and parts (including cases and sub-products);
>
> b) Blueprints for calibers, drawings of dies and tools used in watch manufacture;
>
> c) All apparatus used in assembling and finishing movements, ebauches and parts (including cases and sub-products).
>
> 3. Machinery specifically designed for watchmaking.

The Federal Council's message noted the danger that the export controls authorized might be applied in too restrictive a manner. Yet it concluded that regulation was necessary in order to prevent the

export of Swiss ebauches and separate parts for the manufacture of watches abroad. Under the new statute, however, the administration of the export controls was substantially altered. The Federal Council suggested that the export system might be applied in such a way as would permit foreign watch manufacturers to obtain high-quality Swiss ebauches and separate parts in instances where to do so appeared to be in the interests of the industry, while at the same time preventing "undesirable developments".[1/]

The 1961 statute delegated to the Federal Council authority to establish suitable export regulations. The Federal Council, however, was specifically charged with administration of the statute, excepting only those functions given the Department of Public Economy. The requirement that the Council itself set the standards for export regulation represented a significant departure from the former system. Previously the Council had, by the simple expedient of incorporating the private regulations and agreements of the watchmaking industry organizations into its enforcement ordinance, effectively delegated the power to regulate exports of watches, watch movements, and watch parts to the private industry organizations.

1/ The Federal Council took note of the fact that Swiss ebauches and separate parts had traditionally been supplied to customers in France and the Federal Republic of Germany, and that separate parts had been supplied to Great Britain and, to a lesser extent, the United States.

which would be contrary to the general interests of the Swiss watch industry"[1]. Instructions respecting the application of this caveat are to be issued to the Watch Chamber by the Department of Public Economy after consulting with representatives of watch industry organizations concerned.

On October 7, 1964,[2] the Department of Public Economy issued to the Watch Chamber the following order with respect to the interpretation of the ordinance:

> 1. * * * it shall be contrary, inter alia, to the general interests of the Swiss horological industry, including the maintenance of the quality, integrity and reputation of its products, for [the horological products listed above] * * * obtained in Switzerland to be exported, except to bona fide manufacturers of horological products.
>
> 2. We instruct you not to issue an export permit unless, at least, you have proof that the receiver of the horological products to be exported is a bona fide manufacturer of horological products. Cases of doubt shall be referred, if necessary, to the competent federal authority.

This instruction was cited by the Department of Justice in its request for modification of the final judgment in the Watchmakers of Switzerland case, with the comment that the Department had been advised that the instruction represented a "partial solution to the problems allegedly presented by this Court's Final Judgment to the Swiss Confederation."[3]

1/ Ordinance of Execution No. II under the Federal Decree Concerning the Swiss Watch Industry, Art. 5 (1961).

2/ Final judgment in the Watchmakers of Switzerland case was entered in January 1964.

3/ Plaintiff's Memorandum in Support of Motion to modify the Final Judgment in Civil Action No. 96-170 (Dec. 4, 1964). One of the "problems allegedly presented" was the claim that the court's order infringed the sovereignty of the Swiss Government by requiring that defendants refrain from certain actions permitted by Swiss law.

In December 1961, the Federal Council issued six Ordinances of Execution under the new statute. The Council established in Ordinance of Execution No. II, issued December 26th, its regulations with respect to allowance of export permits. The ordinance includes provisions with respect to all products listed in the watchmaking statute as being subject to export permit requirements.[1/] The Swiss Watch Chamber is delegated authority to issue the permits, within the limits of standards established by the ordinance.

The export of watch jewels, steel wire for watch springs, certain mainsprings, and other individual parts is to be permitted without restriction by the Watch Chamber. Permits for the export of chablons, complete ebauches, unfinished platform escapements, bridges, plates, pinions, wheels and the regulating parts of a watch (escapements, balance wheels and hairsprings), as well as pallets and roller pins, are to be issued by the Watch Chamber only "if such shipments conform with traditional policy in regard to the matter of export of horological products, in particular if the Chamber is convinced that the consignee will not use the horological products thus obtained in Switzerland in a manner

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1/ It should be noted that watches, watch movements and cases were added by the 1961 statute to the list of products subject to the requirement of an export permit. As stated earlier in this report, they had several years before been removed from this list. It was said that it was necessary to reintroduce the export permit requirement as to these articles in order to subject them to technical control. The quality control system, however, appears to be administered by tests conducted at the manufacturing stage.

Because of the underlying importance of the Collective Convention's restraints on United States imports of Swiss watch parts in the total system of restraints found by the New York District Court to be imposed on U.S. trade and commerce, and because of the significance attributed to the DEP's instruction by all parties to the antitrust action, the Tariff Commission made efforts in this investigation to determine the effect of Ordinance of Execution No. II and its related instruction on the export of watch parts to the United States. It is apparent that the instruction of the Department of Public Economy does not state under which conditions permits will be granted for the export of watch parts from Switzerland, but states instead some conditions under which such permits shall not be granted. Moreover, nowhere is there to be found a definition of "bona fide manufacturers of horological products", to whom such parts may be exported. The Commission was informed that such a definition does not exist and that the Watch Chamber determines whether a consignee is "a bona fide manufacturer of horological products" each time a

request for an export permit is tendered.[1/] There is, however, little doubt that insofar as the power directly to establish the conditions under which permits for the export of watch parts was removed from the watchmaking industry organizations and given to governmental bodies or quasi-governmental bodies acting in a governmental capacity, their exercise of this power (and the acts of all others in conformity to

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1/ In answer to the Commission's request for a statement of the Watch Chamber's policy under the provisions of the Ordinance, with respect to exports of horological products to the United States, the Director of the Watch Chamber stated that export permits were granted for the subject watch parts "in conformity with the instructions given to the Chamber by the Swiss Government. These instructions are based on the concept that such permits will be granted to bona fide manufacturers". The Director stated, in addition, that the definition or interpretation of the phrases "traditional policy in regard to the matter of export of horological products" and "contrary to the general interests of the Swiss watch industry", requested by the Commission, was "solely within the purview of the Swiss government and is expressed in instructions given to the Swiss Watch Chamber." He continued: "Since in these matters, the Chamber acts in a governmental capacity, I am prohibited by Swiss public law relating to official secrecy from furnishing these instructions or copies of any decision enforcing or otherwise interpreting Article 5 of Ordinance of Execution No. II."

The Feb. 11, 1965 issue of La Suisse Horlogerie, commenting on a recent Swiss Federal Court decision rejecting an appeal from a Watch Chamber decision denying an export permit, stated that:

> Not having to decide about the future policy of the watch industry, the Federal Tribunal is limiting its activity to the determination of what this policy has been traditionally in the past. It is defined since many years by one objective: favor the sale of the watch entirely manufactured in Switzerland. This aim did not vary since the first decree of the Federal Council in 1933, even "if the means to reach it underwent an evolution".

their dictates) lies without the prohibitions of the New York District Court's final judgment.[1/]

With respect to dies, tools, blueprints and apparatus, the Ordinance of Execution provides that the Watch Chamber shall authorize exports to the extent that they "conform to the general interests of the Swiss watch industry, in particular, when these articles are addressed to consignees with respect to whom there is no reason to believe that they will use the products contrary to said interest".[2/] The Department of Public Economy is assigned the task of determining the circumstances under which these criteria will be said to have been met.

Article 8 of Ordinance of Execution No. II provides that the Department of Public Economy shall guarantee performance of an agreement entered into at its request between the machinery manufacturers and the watch organizations. Recourse to this stratagem was apparently inspired by the Federal Council's opinion that the agreement thus sanctioned, which was to provide in a text approved by the DEP for the regulation of the export of machinery "specifically designed for watch-

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1/ Section X(D)(3) of the Modified Final Judgment, a section added when the judgment was modified, provides that:

> * * * nothing contained in this Final Judgment shall be deemed to prohibit any defendant, FH member or any other person in Switzerland from * * * taking any joint or individual action, consistent with the applicable law of the nation where the party taking such action is domiciled, to comply with conditions for the export of watch parts from Switzerland established by valid ordinances, or rules and regulations promulgated thereunder, of the Swiss Government * * *.

2/ Ordinance of Execution No. II, as amended, July 9, 1963.

making", would be cloaked with the authority of the Swiss Government.[1] In addition, this article of the Ordinance of Execution provides that the Department of Public Economy[2] shall issue permits for the export of machinery specifically designed for watchmaking only when such action is "in conformity with the preponderant interests of the Swiss economy * * *." The ordinance adds that in determining whether the issuance of an export permit for watchmaking machinery is in conformity with the stated interests the DEP need not necessarily rely on the terms of the watchmaking machinery agreement.

The Commission asked to be informed of the terms of the watchmaking machinery agreement, but was told by the vice-director of FH that: "The agreement referred to * * * is confidential and I am prohibited by article 273 of the Swiss Penal Code from submitting a copy".

With respect to general policy concerning export regulations, the message of the Federal Council suggested that future changes were a possibility under the broad terms of the 1961 statute. In particular,

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1/ "We have inserted in the legislative bill a legal provision making the export of specifically watchmaking machinery subject to permit because study of the problem shows that regulations based exclusively on a private agreement would run the risk of not being recognized by the courts of some foreign countries." Message of the Swiss Federal Council to the Federal Assembly Concerning the Swiss Watchmaking Industry, p. 82 (Dec. 16, 1960).

2/ In this provision alone the body responsible for the issuance of export permits is the Department of Public Economy, an arm of the Swiss Government. In other cases the responsible body is the Swiss Watch Chamber, a private body exercising some governmental functions.

the Council stated its opinion that, in instances where the industry concerned could manufacture a given watch part on an assembly line basis, with considerable cost savings on long production runs, and where foreign manufacturers could be found who would purchase the product and furnish certain guarantees (as an example, that the manufacturer would use the part in a carefully finished, high quality product), the regulations issued under the statute could be changed to permit the export of such parts to such manufacturers. In these circumstances, the Council added, it would encourage the watchmaking industry to strike a balance between the interests of the parts producers and the manufacturers, with its guiding principal being to increase the competitive capacity of the Swiss watchmaking industry. As yet, however, no such modifications of the export regulations have appeared.

Technical control.--In addition to numerous alterations of policy and procedure, some of them noted above, the Swiss watchmaking statute of 1961 introduced an important innovation: the institution of a system of "technical control" sanctioned by public law.

The Federal Council, in its message to the Federal Assembly, stated that a need to maintain the image of the Swiss watchmaking industry as a producer of high quality watches required the institution of a Government sanctioned technical control system. Because important standards of quality of a watch, regularity and durability, were not ascertainable by buyers at the time of purchase and because watches

without trade names (in the sale of which some importance may be attached to the origin of the watch) represented a considerable share of the overall production of the Swiss watchmaking industry, the Council felt that the competitive position of the Swiss watch relative to the products of other nations could be maintained only if its reputation was retained.

The technical control system authorized under the 1961 statute is the means adopted for "ensuring the reputation of the Swiss watch".[1/] Enforcement regulations for the technical control system were established by the Federal Council and the Department of Public Economy. Technical control is applied presently only to watches and watch movements made in Switzerland.[2/] Different standards apply to different categories of watches and movements, but all standards and minimum requirements are based on measurable technical values. Thirteen regional centers

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1/ The technical control system was established in order to accomplish a number of purposes. The Federal Council asserted that it would help maintain "goodwill" established by the Swiss watch and, by so doing, it would eliminate the need for price regulations. In addition, technical control would take the place of the manufacturing permit system, by regulating the product (thus, indirectly, regulating the producer) rather than the producer. Finally, the message of the Federal Council suggested that technical control would also make it "possible to see to it that high-quality separate parts from Switzerland do not come into the hands of foreign manufacturers offering no guarantee of careful finishing of watches".

2/ Technical control may, under the provisions of the watchmaking statute, be extended by the Federal Council to "other watch products imported or Swiss made". Federal Decree in the Swiss Watch Industry, Art. 2,p. 1 (June 23, 1961).

were established to check production lot samples based on watch and watch movement categories according to intended quality. Production lot samples of watch movements were checked for accuracy on four factors: isochronism, positional error, thermal coefficient and daytime operation. The standards established by Ordinance of Execution No. I generally provided wider tolerances than those of specific firms in the watch industry.

If sampling shows that the products of a particular company fail to meet the minimum requirements, the company is sent a warning. If the firm concerned persists after two such warnings, a stricter control will be exercised on the company, and it will be prohbited from selling any watch product subject to control which does not meet the minimum requirements. Moreover, watches and watch movements made by firms under this stricter technical control can be exported only when their application for an export permit is accompanied by a certificate issued by the Central Management of Technical Control certifying that the goods comply with the requirements of said control.

The Master Agreement of 1962 and its Supplemental Agreements

The Collective Convention, as renewed in 1959, expired in 1962. In view of the innovations of the 1961 Swiss watchmaking decree, some consequential changes were to be expected in the agreements between the Swiss watchmaking industry organizations. In fact, the agreements which replaced the Collective Convention, although differing from the former undertakings in a number of ways, are in their scope and purpose basically similar.

Perhaps the most noticeable change is that which was made in the format of the agreements. The Collective Convention, a single document of some length, containing a large number of undertakings between varying parties, is now replaced by an accord denominated the "Master Agreement", an agreement with respect to certain policies to be pursued in concert by the organizations concerned and with respect to the administration of these policies, entered into by FH,[1/] UBAH,[2/] and Ebauches S.A.,[3/] and a number of separate "Supplementary Agreements" between various parties, each covering a particular phase of production and sale within the Swiss watchmaking industry.[4/] The change in format does not, however, represent a break with the system of agreements which obtained under the Collective Convention. While numerous changes are made, the agreements are in many ways similar, if not identical to those of the past. On the whole, the fabric remains much the same, although there is a change in the organization of the agreements and some shift in their emphasis.

Provisions of the Master Agreement

The Master Agreement applies to watches, watch movements, ebauches, mechanisms, platform escapements, and parts and cases for such articles. Its terms pertain to every firm or group of firms appearing on the

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1/ On its own behalf and on behalf of its sections and associations.
2/ On its own behalf and on behalf of its signatory groups.
3/ On its own behalf, on behalf of its controlled and affiliated firms, and on behalf of any other firm or association concerned with jeweled-lever ebauche production.
4/ It was intended that the Roskopf Association and other producers of Roskopf ebauches not members of the Roskopf Association would also be parties to the Master Agreement. However, they never formally signed the agreement.

membership lists of the signatory organizations, but after July 1, 1962 the concurrence of the three major organizations was required to admit as signatories of the agreement any section, association, body, group or individual firm.[1/] The agreement was to be effective from July 1, 1962 until June 30, 1966.[2/]

The chapter of the Master Agreement concerned with "trade in ebauches and parts" provides that members of the signatory organizations may not deal in ebauches, parts or finished products manufactured by nonsignatories. This is one of the elements of the trade reciprocity principle, retained from the Collective Convention. This chapter also specifies that purchases and sales between members of the customer and supplier organizations concerned may be made subject to an exclusive dealing agreement, another element of trade reciprocity. In the absence of such an agreement, customer and supplier organizations may subject the trade in ebauches, parts and cases between their members to a supplementary agreement in which they agree to pursue "the traditional policy of the Swiss watch industry". Where such exclusive dealing or

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1/ Nevertheless, this provision does not appear to be so restrictive as that which was in effect under the terms of the Collective Convention, which had provided that:

> Art. 61 * * * 1. Ebauches S.A., section members of F.H. and associations of UBAH undertake to admit only such firms as were created prior to 1 January 1929, or which have taken over the assets and liabilities of manufacturing enterprises created prior to said date.
> 2. The D.R. may grant, after consultation with the interested section or association, exceptions to the above provision.

This change may be attributed to the more permissive stand taken by 1961 watchmaking statute with respect to the formation of new firms and the reformation of old ones.

2/ Following June 30, 1966, the Master Agreement is automatically renewed from year to year, unless six months prior to its scheduled expiration the agreement is terminated by a major organization.

supplementary agreements have been made, the Master Agreement provides that, subject to expressly authorized exceptions, customers shall agree not to use any ebauches, parts or cases purchased by them except for their own manufacture or repair service.

Also, under the heading "trade in ebauches and parts" the Master Agreement outlines certain terms and conditions of sale. Included in this area is an undertaking by the watch manufacturers to have finishing work done in Switzerland only and to do such work solely for other manufacturers who are members of a signatory organization. In another provision, one that may be termed punitive, the major organizations agreed to "take joint measures to prevent, in the general interest, any abuses with respect to the granting or refusal of credit or commercial dealings".[1/]

A chapter of the Master Agreement concerned with "manufacturing and acquisition of interests abroad" requires that acquisition of any interest by aliens in a Swiss watchmaking enterprise or acquisition of any interest in a foreign watchmaking enterprise by a Swiss watchmaking enterprise be reported by the Swiss organization or group involved to the General Commission established under the agreement. The General Commission, in turn, may authorize Swiss enterprises to establish enterprises abroad "if the economic market conditions and the interests of the Swiss watch industry warrant it".

1/ Swiss Watch Agreement of July 1, 1962, Art. 7, P. 7.

With respect to prices and conditions of sale, the Master Agreement includes an undertaking by the signatory organizations to fix , on one of several listed bases, price schedules for ebauches, parts and cases. Detailed terms of sale, payment and discount are also established, which terms the Agreement provides shall constitute an integral part of all individual sales contracts entered into between suppliers and customers who are members of signatory organizations, even without express reference.

Finally, the Master Agreement establishes a General Commission composed of delegates of the major organizations, charged with authority to administer the agreement (including enforcement and interpretation) and to establish the terms for the approval of combinations of enterprises, to approve such combinations and to conduct a continuous review of their status. In addition, the signatory organizations agree to cause firms affiliated with them to be bound by the rules of the Master Agreement and the Supplementary Agreements, to check periodically on compliance by their members and, in cases of violation, to take action against them. Violations by a signatory of any obligation under the agreements may be submitted to an arbitral tribunal, and a Mediation Commission is established to mediate disputes with respect to interpretation or enforcement of the agreements.

Provisions of the Supplementary Agreements

The Supplementary Agreements generally follow the outline established by the Master Agreement. All provide a "Mixed Commission" or

"Executive Committee" to administer the agreement concerned, and some, in addition, make provision for arbitrational, consultative, or other administrative bodies. The major part of each agreement is concerned with the terms and conditions (including prices and sales terms) upon which trade in the watch part or parts subject of the particular agreement will be carried out, the acquisition of enterprises abroad, other relations between the organizations concerned, and relationships between the signatories and outsiders. A few of the more significant provisions of each of the supplemental agreements, in particular, with respect to the import trade of the United States, are noted below.

Ebauches and regulating parts.--The parties to this agreement are FH (and its sections and members) and the producers of ebauches, regulating parts, balance wheels and hairsprings controlled by ASUAG. They agree with respect to their lever and cylinder watch products that they will deal exclusively with each other and, specifically, that they will not deal with nonsignatory enterprises, excepting only those transactions authorized by the Mixed Commission established by the agreement. This rule also applies to their electric and electronic products. In addition, and even more explicitly, the members of FH sections undertake to purchase ebauches, escapements, balance wheels and hairsprings not of their own manufacture exclusively from the signatory companies controlled by ASUAG, which, in turn, undertake to sell those same products exclusively to members of the FH sections which are signatories of the agreement. Thus, this agreement is the archetype of the

exclusive dealing agreements envisioned by the principle of "trade reciprocity".

This supplemental agreement also contains an undertaking by the parts producers that they will not export or sell for export ebauches, escapements, balance wheels or hairsprings except to foreign customers appearing on a list to be kept current by the Mixed Commission. Those commercial relations in existence as of June 30, 1962, between signatories and watchmaking enterprises abroad are specifically authorized. With respect to manufacturing activities or acquisition of interests abroad, the signatories agree to mutual notification and that the associations "shall consult with each other with respect thereto".

The remainder of the agreement is composed, for the most part, of administrative provisions. The jeweling of certain calibers is reserved exclusively to Ebauches S.A., except in the case of manufacturers who obtain special permission from Ebauches S.A. and FH. Provision is made for later agreement on prices and sales terms. Finally, it is agreed that violations of the agreement shall be punishable by fine.

Dials.--This supplemental agreement was entered into by FH and the Association Suisse des Fabricants de Cadrans (the A.S.F.C., an association of producers of watch dials). Among its stated purposes are the development of even closer cooperation between the organizations concerned and the encouragement of the sale of complete watches which incorporate a maximum of Swiss labor.

In this agreement, the FH watch manufacturers agree to sell movements fitted with a dial, and to make every effort to prevent the replacement abroad of dials on such movements. The agreement establishes a quota on the number of dials which the dial manufacturers may sell for export and includes a list of the countries and customers to whom these dials may be exported. The United States is listed. A quota is also established on the number of dials which the manufacturers might purchase from foreign suppliers. Here, also, such purchases may be made only from countries and foreign suppliers listed. The United States is absent from this list. In addition, quotas are established on dials which might be purchased by FH members and those which might be sold by the dial manufacturers to non-Conventional (i.e., outside of the agreements) Swiss and foreign suppliers or customers.

This agreement also contains the usual statement with respect to exclusive dealing between the organizations concerned, an agreement to continue price schedules unilaterally established by the A.S.F.C., and provision to the effect that sales to "non-Conventional" customers shall not be made under terms more favorable than those applicable to "Conventional" customers.

Ebauches S.A.--"manufacturers".--The parties to this agreement are Ebauches S.A. and the Association Suisse des Manufacturers d' Horlogerie, an association of Swiss manufacturers (as contrasted with assemblers and finishers) of watches. These "manufacturers" are members of FH as well.

The subject of the agreement is, for the most part, the production of ebauches, and the terms and conditions under which they may be produced and sold by members of each organization party to the agreement. The "manufacturers" agree to continue to be producers of finished watches and movements, that is, not to produce ebauches and other watch parts for sale, except under certain specified conditions. Among these conditions is a percentage of output limitation on the number of ebauches of its own manufacture a "manufacturer" may sell to other "manufacturers" and on the number of ebauches it may buy from other "manufacturers". Those ebauches which they do not make themselves, except those which they may buy within the percentage allowance from other "manufacturers", the "manufacturers" agree to purchase from Ebauches S.A.

Ebauches S.A. agrees, in turn, not to use parts which it purchases from the "manufacturers" except for the production of its member firms, repair, and export to recognized foreign customers.

Significant limitations are found in this agreement's provisions with respect to chablonnage. Both parties agree to deal only in "complete" [1/] ebauches and specifically renounce the right to deal in frames (the plates and bridges), either buying or selling, with any person in Switzerland or abroad. The parties also agree that they would be willing "to negotiate" with every producer of subproducts who would agree to sell his output exclusively to the "manufacturers", to Ebauches S.A., or to recognized foreign watch factories.

1/ The requisite state of completion is specified in the agreement.

Pivotings[1].--In the supplemental agreement with pivotings as its subject matter, FH and Ebauches S.A., on the one hand, and Association Suisse des Pivotages (the Swiss association of manufacturers of pivoted parts), on the other hand, agree: to a relationship of trade reciprocity, with reserved areas of interest to be established; to observe a price list formulated by the parts manufacturers; that the customer organizations shall contract their pivoting work with the suppliers appearing on a list established by agreement; and that pivoted parts might be exported for repair purposes.

Watch jewels.--This agreement, between FH and the Association des Fabricants de Pierres d'Horlogerie (the association of manufacturers of watch jewels), provides, among other things: an agreed upon state of manufacture of jewels delivered to ebauches and watch movement manufacturing customers; that members of the sections of FH will procure their watch jewels from members of the association of watch jewel manufacturers, or those other suppliers approved by agreement between the parties; that the jewel manufacturers will supply jewels to members of the sections of FH, and to other customers approved by agreement; and that the purchase or sale of jewels would not be conducted by the parties except among themselves and those others mutually agreed upon.

Watch crystals.--FH and the two associations of manufacturers of watch cases, on the one hand, and the Association Suisse des Fabricants

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1/ Pivoted parts, arbors.

de Verres de Montres (Swiss association of manufacturers of watch crystals), on the other, agree in the supplemental agreement concerned with watch crystals, among other things, that the purchase and sale of watch crystals in Switzerland and abroad would be limited to approved customers and suppliers, except for the export of repair crystals which was to remain unconfined.

Profile turned parts and pinions.--These two supplemental agreements are, except for the watch part concerned, basically similar. They were entered into by FH and Ebauches S.A. on one hand, and, in the first instance, l'Association des Fabricants de DeColletages et Taillages d'Horlogerie (the Association of Manufacturers of Profile Turned and Cut Watch Parts), and, in the second, a group of individual manufacturers of pinions, on the other. Both agreements establish pricing arrangements, a quota limitation on exports of the parts concerned, and an agreement by FH and Ebauches S.A. to purchase parts from the producers in amounts prescribed by quotas.

Gold, silver, and nickel plating.--Among the provisions of this agreement between FH and le Groupment des Doreurs, Argenteurs et Nickeleurs de Meuvements et Roues d'Horlogerie (The Group of Gilders, Silverers and Nickelers of Watch Movements and Wheels) are undertakings to the effect that: the platers will adopt a unilateral price schedule; conditions of sale, payment and discount between the parties will be those of the Master Agreement; and that, as a rule, members of sections of FH will have their gilding, silvering and nickeling done by members of the platers organization and the members of that organization will

do work only for Ebauches S.A., members of sections of FH and of the Roskopf Association.

Watch springs.--FH and the Groupement Suisse des Fabricants de Ressorts d'Horlogerie (the group of Swiss manufacturers of watch springs) undertake jointly in the supplemental agreement with respect to watch springs to buy and sell watch springs to each other. The members of FH may purchase watch springs, not to exceed an annual quota, from "recognized foreign supplier countries" or from Swiss suppliers not members of the watch spring group. An appended list of "recognized foreign supplier countries" does not include the United States. The watch spring manufacturers, in turn, may sell, within a quota, their watch springs in the foreign countries included in a second list (which does contain the United States) and to Swiss manufacturers not members of FH.

Watch cases.--This proposed agreement[1/] between FH and the Swiss watch case manufacturers provides, in part, that: the signatories would seek to advance the sale of complete Swiss watches abroad instead of separable movements and cases; that the sale to and purchase of movements and cases from third parties would be authorized within

1/ This agreement was never formally entered into by the parties. The members of Federation Suisse des Associations de Boites de Montres and its two groups operate on a free basis in their relations with members of the sections of FH. FH, however, at the time the proposed agreement was formulated, instructed the members of its sections to observe the terms of the agreement until further notice. Subsequently, that instruction was modified to make it inapplicable to the United States.

certain limits; that the export of movements and cases to specified countries (including the United States) would be authorized; and that the purchase of watch cases abroad would be permitted within the framework of international watch conventions entered into pursuant to public or private law.

Swiss Watch Industry Agreements with Members of the British, French and German Watchmaking Industries Restricting the Purchase and Importation of Watch Parts into the United States

It is noted earlier in this report that the New York District Court found that by means of agreement and sales terms and conditions, FH, Ebauches S.A., and UBAH had imposed restrictions on the purchase and sale of non-Swiss watch parts by members of the British, French and German watch industries, which restrictions were designed to prevent or control the development of competitive watch manufacturing industries in these countries.

Anglo-Swiss Clock and Watch Industry Agreements

The 1946 Anglo-Swiss Clock and Watch Industry Agreement was amplified and applied by Anglo-Swiss Clock and Watch Industry Executive Committees meeting in 1947, 1949, 1957 and 1959. In October 1961, new agreements were negotiated between the Swiss Watch Chamber, FH, UBAH, the Roskopf Association, and Ebauches S.A., on one hand, and certain British producers of watches or watch parts (Westclox Ltd., the Anglo Celtic Watch Co., Ltd., and David Shackman and Sons, Watch Case Manufacturers), on the other. The terms of these three agreements are

substantially the same in each case and in substance provide that--

(a) the British watch or watch part producers agree, as a condition to their right to purchase or lease Swiss watchmaking machines or to purchase Swiss watch parts, not to export watch parts known as chablons;

(b) the British manufacturers of watches agree not to sell any watch parts which they manufactured themselves and not to resell any watch parts which they purchased from others, and the British watch case producer entered into this same undertaking with respect to the sets of watch case components manufactured by it or purchased by it in Switzerland;

(c) the British manufacturers of watches agree to seek "an understanding" with the Swiss watch industry organizations respecting a list of countries to which these British manufacturers may sell movements for export, and the British watch case manufacturer made the same agreement with respect to its watch cases;

(d) the British manufacturers of watches agree not to purchase watch parts not made by specialized British producers from any country other than Switzerland, subject to satisfactory design, quality, price and delivery, and the watch case producers entered into the same undertaking with respect to components for nonwaterproof watch cases; and

(e) the British manufacturers agree to purchase their supplies of specifically watchmaking machinery through Machor S.A., on the basis of a specimen contract[1/] and that they will not sell, or otherwise make available, such machinery to third parties without the prior consent of Machor.

This agreement contains no specific limitation on the export of watches from Great Britain to the United States.

1/ This contract provided, in part, that the purchaser would not resell any tools subsequently provided for the machinery by Machor; that it would resell the machinery only subject to the same contract; that it would not sell chablons; that, when called upon, it would furnish full information and documentary evidence of the machinery's use to Machor verifiers; and that it agreed to binding arbitration with respect to the contract's terms.

Terms applied to sales of Swiss watch parts to German watch producers

The sales terms under which Ebauches S.A. has, since 1946, sold ebauches watch parts to purchasers in Germany, namely, on condition that the German purchasers of Swiss watch parts agree not to purchase watch parts from any countries other than Switzerland or France and that such purchasers agree, in addition, not to sell watch parts which they produce and not to resell watch parts which they purchase from others, generally continue to be applied.[1/]

French-Swiss Watchmaking Protocol

In June 1962, the French and Swiss delegations to the French-Swiss Watchmaking Executive Committee negotiated a French-Swiss Watchmaking Protocol, which modified the former agreements between the watchmaking industries of the two countries.[2/] The following terms and conditions are contained within the Protocol:

(a) the French manufacturers of watch parts agree to adhere to the policy of "nonchablonnage", as established by the June 1951 agreement, that is, that they will not sell or transfer watch parts which they produce or purchase, except that they may sell ebauches to customers who agree to observe the restrictions contained in the former agreements respecting purchase and sale of watch parts and aid to watch manufacturers;

1/ Watch parts from Germany are, however, more available than these terms suggest, for watch part manufacturers independent of these agreements supply watch parts to the U.S. Virgin Islands, among other watch producing areas.

2/ In September 1946, FH, Ebauches S.A., UBAH and the Roskopf Association had negotiated with the French watch trade organizations an agreement with respect to the terms and conditions under which Swiss watch parts would be sold to French watch and watch parts manufacturers. This agreement had been renewed in June 1951.

(b) the French signatories of the French-Swiss Watch Industry Agreement of 1951 and French watch parts manufacturers benefiting from the Protocol may obtain specifically watchmaking machinery from Switzerland on the condition that they may not resell such machinery, except in instances authorized by the Swiss-French Watchmaking Committee; and

(c) later agreements with respect to the terms and conditions upon which trade in watches and watch parts may be conducted between the two national industries concerned are to be worked out in the course of subsequent discussions between industry representatives.

Current negotiations

The 1960 message of the Swiss Federal Council which accompanied the draft 1961 watchmaking statute noted that talks were "in progress between Swiss manufacturers and those of other countries of Western Europe with a view to the conclusion of a European watchmaking agreement". A suggestion of the nature of these talks is offered by a statement, attributed to the Director of the Swiss Watch Chamber, that:

> It seems unquestionable that the French, German and Swiss industries should make a common attempt to avoid the expatriation of watchmaking. Such collaboration would enable them to develop their mutual trade in the markets of the world and, perhaps, also to gain the adherence of the watch industries of other nations to principles forming the basis of the proposed agreement. 1/

1/ Revue Internationale De l'Horlogerie, Jan. 1960, pp. 33-34 (Tr. 49).

The present status of these negotiations, or the terms of the agreement which they appear to envisage, was not disclosed by the Commission's investigation. In reply to a Commission questionnaire, a vice-director of FH suggested that there are outstanding no private international horological agreements to which the Swiss were party, other than those already noted in this report. With respect to current negotiations, he answered only that "representatives of the Swiss Government are carrying on negotiations with representatives of the E.E.C. (Common Market) within the framework of the Kennedy round, which negotiations will include horological matters". 1/

Actions by Elements of the Swiss Watchmaking Industry Following 1954 With Respect to United States Importation, Sale or Domestic Manufacture of Watches, Watch Movements and Watch Parts

The New York District Court's findings of specific applications of the Collective Convention's restraints to the trade and commerce of the United States, previously noted in this report, necessarily referred to occurrences prior to the filing in October 1954 of the Justice Department's antitrust complaint. Such applications (or, after 1962, applications of similar restrictive provisions of the Master Agreement and the Supplemental Agreements) within the ambit of section 337 of the tariff act, are substantially less evident in the period following October 1954. There is no indication in the record before the Tariff Commission, however, that the restraints were relaxed in this period.

1/ T.C. Exhibit 8.

This period, evidence with respect to which was not before the New York District Court, was not one of stagnation of Swiss efforts in the U.S. market or of rigidity of the organizations, agreements, and activities of the Swiss watchmaking industry. The revisions of Swiss law relating to the watchmaking industry and of the structure of agreements between the principal Swiss watchmaking industry organizations which occurred in this period are of some significance. In addition, significant new organizations have come into being within the Swiss watchmaking industry, and others have been reorganized. Moreover, after January 1965 the principal organizations within the Swiss watchmaking industry were enjoined by the New York District Court from engaging in numerous restrictive practices. Thereafter, FH and Ebauches S.A. initiated action to qualify their undertakings under the Master and Supplemental Agreements. These qualifications are significant factors to be considered in assessing the current status of these agreements. During the same period several practices were initiated or continued by organizations or firms within the Swiss watchmaking industry which were claimed to be elements of continued activity in furtherance of an illegal combination and conspiracy in restraint of U.S. imports, sales and manufacture.

FH Price Regulations

In 1954, FH announced new minimum sales or "barrage" prices for Swiss watches and watch movements sold in Switzerland for domestic use or for export. There is no evidence that these so-called barrage prices

were directly related to prices in the United States or that FH fixed or attempted to fix resale prices of Swiss watches in the United State Complainants asserted, however, that the 1955 prices were almost uniformly lower than the prices which they supplanted, and that this was evidence of an unfair scheme to avoid the effect of the "escape clause" action taken in 1954 by the United States, which increased the rates of duty on certain watch movements. The evidence before the Commissio is not conclusive that the changes in the FH minimum prices were made for this reason.[1/]

No determination has been made respecting the effect of the fixin of minimum price levels for the sale in Switzerland of Swiss watches and watch movements on trade and commerce in the United States. Minim prices fixed by FH regulation ceased to exist in 1960, and were replac by an FH regulation requiring that each member firm price its products so that its total revenues derived from export and domestic trade are excess of costs plus overhead. The answers of a vice director of FH t a Commission questionnaire regarding current FH pricing policies with respect to watches and watch movements contained the following stateme

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1/ There is substantial evidence that the changes in the minimum selling prices resulted, at least in part, from negotiated adjustments in the Swiss prices of components, some of which increased and some of which decreased, as well as from the normal adjustments which followed expiration of a Collective Convention, as was the case in 1954.

> Export sales of watches and movements are not subject to minimum price requirements. The only pricing regulation now in effect is a requirement that all manufacturers sell their products, whether in export or domestic trade, at a total price in excess of costs plus overhead. Such regulation applies to total sales of each producer and not to any individual sale. 1/

It was also alleged that Swiss watch producers were acting in concert through FH or otherwise to manipulate export sales prices for watches and watch movements in such a way as purposefully to charge high prices in areas where no domestic competition was encountered and lower prices in areas, notably the United States, where there was a domestic watchmaking industry which competed with the Swiss-made products. It was not claimed, nor is there evidence, that Swiss watches or watch movements are sold in the United States at less than fair value. Nor are the statistics available persuasive that any of the respondents are engaged in concert in another species of price discrimination in order to subsidize sales to the United States. The reply of the Vice-Director of FH to a Commission question on this point was that:

> So far as I am aware, it is the general practice in the watch industry for watch manufacturers to charge the same price for like watches or like watch movements whether sold in export trade or for domestic consumption in Switzerland, and whether exported to the same foreign market or to different foreign markets. Naturally, this does not exclude differences in price resulting from quantity or cash discounts, sales to different levels of distribution and minor deviations in construction or style. Any variation in this practice would result from an independent decision of an individual manufacturer. 1/

1/ Tariff Commission Exhibit No. 8.

Upjeweling

In September 1954, FH rescinded its regulation against Swiss concerns' preparing watch movements in Switzerland in such a way as to facilitate subsequent upjeweling (increasing the number of jewels in a watch movement after the completion of manufacture). It was asserted before the Tariff Commission by Elgin and Hamilton that this action was a part of a calculated attempt to frustrate the "escape clause" action taken by the United States in 1954 increasing the rates of duty on certain watch movements containing not over 17 jewels. Despite the increase in duty, the disparity between the rate for such movements and the rate for movements containing over 17 jewels still offered a strong incentive for importers to upjewel movements in the United States. Therefore, when following the escape-clause action FH removed the regulation against upjeweling, it was more widely practiced in the United States.

Ebauches S.A. Standard Caliber Movements

In 1958 or 1959 Ebauches S.A. developed a new movement design, or "caliber", which was to be mass produced on a scale sufficient to compete successfully against less expensive movements being produced by the United States Time Corporation and the Japanese. These movements are termed by the Swiss,"Battle Caliber" movements. Ebauches S.A. designed the program to achieve the economies of mass production by standardizing the caliber of the movement, and by reducing the number of calibers produced. A small portion (15 percent) of these

unassembled movements are sold to a cooperative assembly plant, which assembles them into completed standard caliber movements. The remaining portions are sold to any willing assembler-manufacturer. They are presently exported to the United States in substantial volume.

Fifty Centimes Levy

A tax of 50 centimes, officially called "action in favor of the Swiss watch" is levied by FH on each watch or movement sold or exported by FH members, including the subsidiaries of Elgin and Hamilton. The resulting fund, averaging approximately $3,600,000 yearly in 1963-1964, is used for marketing research, information centers in foreign countries, watchmaking schools, seminars in operating techniques, and for promotional activities in favor of the Swiss watch. In 1963 and 1964, 8 and 11 percent, respectively, of the fund was used for promotional activities in the United States. Proceeds from this fund have apparently been used to compensate witnesses appearing before the Commission and other agencies of the U.S. Government and in an advertising campaign against the U.S. duty increase proclaimed pursuant to the "escape clause".

Application of Restraints on United States Importation of Watch Parts

Evidence was introduced to the effect that Hamilton and Elgin experienced, in 1955, some difficulty in arranging importations into the United States of certain Swiss-made unassembled shock-resisting units. Although the Watch Chamber was said to be responsible for the problem, the most that was shown was a few months' delay before the parts were made available.

In July 1963, Hamilton apparently attempted to negotiate for the purchase of certain unassembled watch parts with firms in the French and German watchmaking industries. It appears that the firms refused to negotiate, one of them suggesting that its reason for doing so was existing agreements with the Swiss industry which did not permit such sales.

These are the most recent instances of the application of restraints to, or interference with, attempts by United States jeweled-lever watch producers to obtain foreign watch parts for other than repair purposes (U.S. importations of repair parts have, apparently, never been restricted) in the record of the Tariff Commission's investigation. The record discloses that, with the exception of these instances, Elgin and Hamilton have in recent years experienced no difficulty in, and encountered no application of restraints upon, the importation of foreign-made watch parts into the United States.[1/] The companies, of course, had always been able to obtain watch parts from Switzerland under the terms of the Collective Convention, for, as purchasers of Swiss parts in the pre-Convention period, the companies fell within an exception to some of the Convention restrictions.

It is apparently still contrary to "the traditional policy in regard to the matter of export of horological products" to export from Switzerland parts of watch movements for assembly in the U.S. Virgin Islands. Since 1960, requests by Benrus and two Swiss firms to do so have been denied.[2/]

1/ Tr. pp. 102-103.

2/ Tariff Commission Exhibit No. 8. Watch dials and hands, however, which are not considered by the Swiss to be parts of watch movements and to which, therefore, the strictures against chablonnage do not strictly apply, were exported in small quantities from Switzerland to the U.S. Virgin Islands in 1965.

Application of Restraints to U.S. Domestic Production of Jeweled-Lever Watches

The 1948 "Gentlemen's Agreement" between FH, Ebauches S.A., UBAH, and the Bulova Watch Company establishing a limit on the number of jeweled-lever movements which Bulova might produce in the United States, apparently continued in effect in the period following 1954. The agreement expired by its terms on June 30, 1962 and appears not to have been renewed.

Application of Restraints to Importation of Watchmaking Machinery into the United States

The record of the Tariff Commission's investigation fails to disclose application of restraints on the exportation of watchmaking machinery from Switzerland to the United States "in the last few years".[1/]

Restraints on the Furnishing of Assistance and Technical Aid to United States Domestic Watch Manufacturers

Article 20 of the Collective Convention prohibited the furnishing of assistance by signatories to foreign watch manufacturers. The New York District Court found that this article had been invoked to prohibit Swiss subsidiaries from furnishing technical aid to their U.S. parent watchmaking companies. No such provision is found in the Master Agreement, but the Supplemental Agreement between ASUAG (on behalf of Ebauches S.A. and the other producers of watch parts controlled by ASUAG) and FH contains an undertaking to the effect that: "The signatories agree not to * * * assist in any manner any non-signatory enterprise".[2/]

1/ Tr. p. 102.
2/ Supplemental Agreement respecting Ebauches and Regulating Parts, Art. 2.

Following early American success in the development of electric and electronic watches, a research organization was chartered in 1962 under Swiss law to conduct research and development work with respect to electric and electronic watches. This organization, the Centre Electronique Horloger (CEH) is a joint stock company organized by, and its shares were originally owned by, the Swiss Watch Chamber, FH, Ebauches S.A., and ASUAG. In June 1962, FH offered its member firms an opportunity to purchase some of the shares which it held in CEH. By so doing, the firms would secure the right to share in whatever technical advancements CEH might achieve.

Some time prior to May 1963, Bulova (Bienne), a member of FH, subscribed for five shares, and sent a check for 5,000 francs in payment. The subscription order was not directly acknowledged, although the check was cashed. Later, Bulova was told that a by-law of CEH forbade any Swiss subsidiary of a foreign corporation from owning stock in the organization. No action was taken on its subscription.

Following the New York District Court's final order in the Watchmakers of Switzerland case and the Tariff Commission's initiation of this investigation, CEH dispatched a letter to Bulova advising the company, on July 9, 1965 (nearly two years after its attempt to subscribe for shares), that a change had been proposed in the membership provisions of the by-laws of CEH. The proposed change permitted Swiss subsidiaries of foreign corporations to purchase CEH shares. On August 11, 1965, the by-law change was approved, and on September 13, 1965 CEH informed Bulova that the transfer of five stock certificates to the company had been authorized.

Evidence of Application of Restraints on the Importation of Watches and Watch Movements Into the United States

Electric watch negotiations

In 1960, the President of Hamilton discussed with Sidney de Coulon, executive head of Ebauches S.A., the prospects of manufacturing ebauches in Switzerland for Hamilton's 505 electric watches. Ebauches S.A. appeared interested in the proposed project. Although the decision to produce ebauches abroad would involve time-consuming planning, Hamilton was interested in developing a Swiss source because it would afford the company savings in production costs and an access to the untapped European market for electric watches. It was not intended by Hamilton that these ebauches be produced for export to the United States.

On December 7, 1961, Ebauches S.A. offered to produce a minimum order of 50,000 ebauches, and assigned the production to the Le Landeron plant, a firm which had been engaged in the development of a Swiss electric watch.

On March 2, 1962, Mr. Sinkler communicated with M. de Coulon and advised that a minimum order of 50,000 was not practicable and it "would be much less of a burden to us if this requirement could be reduced to 20,000 sets of parts during the first eighteen months after delivery starts". No agreement was reached, but negotiations continued during the next few months. At one point, Hamilton requested that calendar mechanisms for its electric watch be made in Switzerland.

Subsequently a contract for 10,000 calendar mechanisms was consummated with the Valjoux plant of Ebauches S.A., with deliveries to be made in May 1963. About the same time as this contract was entered into, Hamilton's Swiss subsidiary placed an order on October 1, 1962, with the Le Landeron plant of Ebauches, S.A. for 15,000 ebauches for Hamilton's model 505 electric watches. Ebauches S.A. replied by special delivery letter on October 3, 1962, rejecting the offer and restating its original terms contained in its offer of December 7, 1961.

While negotiations continued between the parties Ebauches S.A. changed the assignment of the Le Landeron plant and replaced it with Venus S.A., claiming a shortage of toolmakers necessitated the change. Hamilton placed an order for 20,000 ebauches in January 1963 with Venus, but on June 18, 1963 Mr. Sinkler wrote his subsidiary that, "We must now cancel our orders because Ebauches S.A. is unable to give us a firm delivery commitment." Hamilton believed that its inability to complete satisfactory arrangements with Ebauches S.A. respecting production of the electric watch ebauches was due to the influence of elements in the Swiss company who were adverse to doing that sort of work for the U.S. company, and who consciously found ways to delay the matter. The evidence is not clear on this point, although no one from Ebauches S.A. appeared at the hearing in this investigation to testify in contradiction of Mr. Sinkler's testimony. However, as noted earlier, it does not appear that these ebauches, if produced, were ever intended by Hamilton to be imported into the United States.

Efforts to restrict importation of watches and watch movements from the U.S. Virgin Islands into the United States

In 1960, Standard Time Corporation, a Virgin Islands corporation, was purchased by the Hamilton Watch Company. Standard Time imports parts of watch movements from non-Swiss (principally Japanese) suppliers, assembles them, and sells the completed movements in the United States. This operation takes advantage of a provision of U.S. law under which watch movements assembled in U.S. insular possessions enter the U.S. customs territory free of duty, providing such movements do not contain foreign materials having a landed cost of more than 50 percent of the appraised value when they enter the United States.[1/] Beginning in 1959, the production of watches and watch movements in the Virgin Islands from imported parts for exportation to the United States[2/] has grown steadily. The amount of watches and watch movements from the Virgin Islands imported into the United States is now quite significant, as demonstrated by the following table.

1/ Duty-free U.S. customs treatment is provided for by general headnote 3(a) of the Tariff Schedules of the United States.

2/ With but minor exceptions, the watches and movements produced in the U.S. Virgin Islands are imported into and sold in the United States.

Watch movements: Shipments from the U.S. Virgin Islands into the U.S. customs territory, by jewel count, 1959-64 and January-September 1964 and 1965

Period	Watch movements containing 1/--				All watch movements 2/
	0-1 jewel	2-7 jewels	17 jewels	More than 17 jewels	
	Quantity (1,000 units)				
1959	-	3/	5	3/	5
1960	2	-	38	5	44
1961	1	3/	128	44	173
1962	1	1	278	140	420
1963	2	14	657	384	1,057
1964	8	38	1,901	423	2,369
Jan.-Sept.--					
1964	5	31	1,273	290	1,599
1965 4/	-	47	1,988	419	2,454
	Value (1,000 dollars)				
1959	-	1	31	2	34
1960	11	-	242	34	287
1961	7	1	779	299	1,087
1962	2	3	1,638	907	2,551
1963	9	93	3,733	2,484	6,319
1964	40	187	10,988	2,954	14,169
Jan.-Sept.--					
1964	22	151	7,424	1,962	9,559
1965 4/	-	232	11,572	2,772	14,576

1/ All of the movements containing 0-1 jewel are pin-lever movements; virtually all of those reported as containing 2 or more jewels contain 7 or more jewels and are jeweled-lever movements. Shipments of movements containing 8-16 jewels, if any, have been combined with those containing 17 jewels.

2/ Because of rounding, figures do not add to the totals shown.

3/ Less than 500 units.

4/ Preliminary.

Source: Tariff Commission Exhibit No. 9. Compiled from official statistics of the U.S. Department of Commerce.

In October 1961, Hamilton's president was ordered by the president of FH to a meeting with FH officers in Switzerland, in order to discuss "problems concerning the Virgin Islands". At the meeting, which took place in November 1961, FH representatives demanded that Hamilton agree to: close its Virgin Islands plant; limit its production of watches in its Virgin Islands plant to a specified quota; and/or purchase Swiss instead of other foreign parts for its Virgin Islands assembly operations. The FH officers suggested that if Hamilton failed to accede to these demands, Swiss interests might open an assembly plant in the Virgin Islands, even if it were unprofitable, to operate on a scale large enough to cause the tariff advantages given by the United States to Virgin Islands watchmaking operations to be rescinded. Hamilton rejected these demands.

In the succeeding years imports of watches into the United States from the Virgin Islands increased steadily. In September 1963, FH called Swiss managers of Bulova's, Elgin's, and Hamilton's Swiss subsidiary firms to a meeting. At this meeting FH representatives again expressed concern over the Virgin Islands operations, and added that Swiss watch interests were displeased with the resistance put up by the United States watch producers to Swiss attempts to effect a withdrawal by the United States of the escape-clause tariff rates on watches. The FH representatives suggested once more that Swiss interests might launch a large-scale assembly operation in the Virgin Islands. Moreover, they stated that continued recalcitrance by the United States watch

manufacturers might well cause segments of the Swiss Labor press to report that dislocation of Swiss workers would ensue if the Virgin Islands operations of the American companies continued, thereby possibly harming labor-management relations in the Swiss plants and subsidiaries of Bulova, Elgin, and Hamilton. The FH representatives suggested that this message be transmitted to the parent U.S. companies.

No agreement was entered into on either of these occasions, however, and neither of the meetings appear to have affected imports into the United States from the Virgin Islands.

Evidence of restraints currently applied to U.S. importations of watches and watch movements

The record discloses no evidence of U.S. watch producers, or others, having encountered restraints or difficulties (other than what may be evidenced in the transactions described above) in the importation of watches or watch movements into the United States from Switzerland "in the last few years".[1/]

Formation of a Group to Study the Expansion of the Swiss Watchmaking Industry

On November 13, 1963, representatives of certain Swiss watchmaking firms met with a representative of FH in the Swiss Watch Chamber offices at La Chaux-de-Fonds. This group, calling itself the "Virgin Islands Study Group", was of the opinion that "eventual Swiss action in the Virgin Islands can be envisaged only in the form of collective effort",[2/]

1/ Tr. pp. 102-103.

2/ Tariff Commission Exhibit No. 8, Minutes of the Meeting of the Study Group--"The Virgin Islands", Nov. 13, 1963 (Tariff Commission translation).

and, apparently, was assembled to consider such action. The meeting, therefore, seems a manifestation of the suggestion made, only a month before, to Bulova, Elgin, and Hamilton representatives, that Swiss interests might launch a large-scale assembly operation in the Virgin Islands.

The meeting began with a report on the Virgin Islands prepared by FH. Some of the meeting's participants appeared not so much interested in planning a competitive commercial enterprise in the Islands as in destroying the Virgin Islands watch trade with the United States, which they believed threatened their sales in the U.S. market. One stated that:

> They must not go to the Virgin Islands for the purpose of making profits, but that the objective is rather to blow up the Virgin Islands industry, the disruptor of the American market. 1/

Whatever action was to be taken, however, would not include FH as an active participant, for, as the FH representative stated: "the anti-trust case in which FH is involved obliges FH to be very prudent with respect to an intervention in the Virgin Islands". 1/

The group decided to give FH the assignment of drafting a letter to the Swiss government requesting a limited change in the traditional policy against chablonnage, so as to permit an assembly operation in the Virgin Islands. The evidence before the Commission discloses no further trace of this group, which may have later merged with the Virgin Islands Commission of Expanshor, noted below.

1/ Ibid.

Earlier, on January 21, 1963, FH had announced to the members of its sections that there was being formed a research syndicate concerned with watch industries in developing countries. A planning meeting for those interested was called for January 31, and was attended by thirty-seven firms. By-laws for this new organization were drafted and the name "Societe d'Etude pour l'Expansion Mondiale l'Industrie Horlogeres Suisses" (Association for the Study of World Expansion of Swiss Watch Industry) was proposed.

On May 17, 1963, at the offices of FH, the by-laws and, after changing "Industry" to "Enterprises", the name (usually shortened to "Expanshor") proposed were adopted. The by-laws provide that membership is restricted to members of FH and that loss of membership in FH will result in loss of membership in Expanshor. Originally two "study groups" were formed under the aegis of Expanshor, one concerned with Latin America and the other with Asia.

FH has not, apparently, disguised its role in Expanshor. In fact, FH sent invitations on its letterhead to all its members, of which there are more than 500, inviting interest in Expanshor and it has provided the services of a permanent secretary for the organization. Henry Favre, President of Expanshor, describes the Association's relationship with FH in these terms: "Expanshor is not dependent upon FH for its continued existence, although it has received and hopes to continue to receive guidance and assistance from the personnel of FH."

Expanshor appears to have been formed in order that Swiss firms desiring limited changes in the Swiss government regulations with respect to the export of Swiss watch parts (so that Swiss assembly operations might be established within the customs territories of other countries) might present a united and well-prepared front in approaching the Swiss government. FH, of course, had been a principal advocate of the need for such regulations in the first place. The reason for Expanshor's formation apart from FH is said to be that interest in the new program was not widespread and only a comparatively few firms would be willing and able to assume the financial burden which foreign operations would entail.

Although the original invitations went to all FH members, no more public disclosure appears to have been made of the existence or activities of Expanshor. Major U.S. importers of Swiss watches and watch movements knew nothing of it when first questioned about the organization by the Tariff Commission.

In August and September 1964, FH solicited indications of interest in a "Virgin Islands" Commission under Expanshor. An organizational meeting of firms interested (there were twenty-five) was held on December 18, 1964. Two meetings are known to have since been held, on January 15 and February 17, 1965. The "Virgin Islands" Commission has published for its members a preliminary report on Virgin Islands watch operations.

There is no evidence that the "Virgin Islands" Commission, or Expanshor itself, has acted in any way to restrain U.S. importations, sales, or domestic manufacture of watches, watch movements, or watch parts.

Modifications of Agreements and Contracts by Swiss Watchmaking Industry Organizations As a Result of the Final Judgment of the New York District Court

Pursuant to the terms of the New York District Court's final judgment in the Watchmakers of Switzerland case, counsel for FH and Ebauches S.A. reported, on April 5, 1965, steps their clients had taken to comply with the judgment. Both this report and the Commission's investigation disclose that significant steps have been taken to alter agreements and contracts which by their terms unreasonably restrained United States import, export, sale and domestic manufacture of watches, watch parts, and watchmaking machinery.

The Collective Convention and "Gentlemen's Agreements"

While asserting that the agreement has by its terms expired with the termination of the 1959 Collective Convention on June 30, 1962, and has not been renewed, FH and Ebauches S.A. have each confirmed in writing to UBAH and the Bulova Watch Company that the 1948 "Gentlemen's Agreement" [1/] with Bulova is no longer operative. The two organizations have also confirmed the expiration, in 1951, of the 1943 contract between themselves, UBAH, Gruen S.A., and the Gruen Watch Company (Ohio).

1/ See supra p. 36.

FH and Ebauches S.A. have noted in their report that the Collective Convention "was terminated by mutual consent of the parties, effective June 30, 1962, and that there are no annexes, supplements, renewals or amendments to said Collective Convention which are currently in effect". While apparently of the opinion that they do not constitute "renewals or amendments" of the Collective Convention, FH and Ebauches S.A. have also taken steps to limit their undertakings, insofar as they apply to United States trade and commerce, in the Master Agreement of 1962 and the agreements supplemental to it, and to modify the agreements themselves.

Modification of the Master Agreement

In April 1965, FH and Ebauches S.A. sent letters to each other and to UBAH stating that they would no longer be able to enter into, perform or enforce exclusive dealing agreements or unreasonably restrictive terms and conditions of sale of the sort agreed to in the Master Agreement. 1/ The addressees of this letter were also released from their obligations to enter into and perform such agreements, insofar as such obligation under the Master Agreement applied to "enterprises engaged in the jeweled-lever watch business in the United States".

Modification of the Supplemental Agreements

FH and Ebauches S.A. have also taken steps to withdraw from their commitments under the various agreements supplemental to the Master Agreement, to the extent that these agreements restrain United States trade and commerce, and to release the other parties to these agreements

1/ See p.60 , supra.

from their corresponding undertakings. As the first of these steps, letters were sent to the other parties to each of the Supplemental Agreements to which FH or Ebauches S.A. was a party:

> * * * releasing the addressees from the obligations of the provisions thereof specified * * *, insofar as such provisions applied to purchases from or sales to any person in the United States of parts for jeweled-lever watches or, where appropriate, to activities with respect to jeweled-lever watches in the United States or for any person in the United States, and informing the addressees that the senders would no longer be able to perform their undertakings contained in the provisions referred to below insofar as such provisions applied to such purchases, sales, or activities.

The provisions specified in each instance are those, described earlier in this report, which establish arrangements of exclusive dealing between the signatory organizations and firms which restrict the signatories' rights to buy from or sell to others, or which in other ways unreasonably restrain trade in the watch parts concerned.

Following this initial step, the agreements themselves were each to be modified. With the exception of the Supplemental Agreement with the Group of Gilders, Silverers and Nickelers of watch movements and wheels, which does not relate to the general sale of parts, FH and/or Ebauches S.A. have proposed that the agreements be modified by adding a new provision:

> Any sales of [the particular part] for jeweled-lever watches to any person in the United States shall be made without discrimination on the same terms and conditions (including the right to inspect such [the particular part] in Switzerland) as those on which [the particular part] are sold at the time to any person in Switzerland.

At the time when the Commission, perforce by questionnaire, endeavored to ascertain the progress of this modification procedure, in order to discover the status of the agreements, the procedure had not yet been completed. Mr. Georges-Adrien Matthey, identified as the Swiss industry official given the responsibility by FH of supervising compliance with the New York District Court's order, reported that responses to the initial letters had varied considerably.

The signatories, other than FH and Ebauches S.A., to the Supplemental Agreement respecting ebauches and regulating parts have agreed to the proposed modification. In reply to FH's proposal to modify the agreement with respect to trade in watch dials, however, the association of producers of watch dials has suggested that proposed modifications be referred to the arbitration panel for which the agreement makes provision. The modification proposed by Ebauches S.A. to the Association of Swiss Watch Manufacturers (the "manufacturers", all of whom are members of FH), with respect to their agreement concerning exclusive dealing in ebauches, has been accepted. The modification proposed by FH and Ebauches S.A. to the Supplemental Agreement respecting pivotings, entered into with the Swiss Association of Manufacturers of Pivoted Parts, has also been accepted.

Some difficulty has been experienced with the agreement on watch jewels, however. At the end of September 1965, when the Commission's questionnaire was answered, no reply had been received by FH from the

association of manufacturers of watch jewels, in spite of the fact that a second letter was sent on July 15, 1965. Mr. Matthey stated that: "FH is continuing its efforts to obtain the acquiescence of the Association des fabricants de pierres d'horlogerie to the modifications of the agreement or to fix a date for a meeting to discuss the same." By the terms of the agreement, FH can unilaterally terminate the agreement. The earliest effective date of cancellation, however, would be June 30, 1966, providing notice was given on December 31, 1965. If notice was not given by that date, then the earliest termination date would be December 31, 1966.

The modification proposed by FH to its Supplemental Agreement with the Swiss Association of Manufacturers of Watch Crystals was agreed upon. However, the Association of Manufacturers of Profile Turned and Cut Watch Parts merely agreed to meet and discuss the modification of the Supplemental Agreement with respect to profile turned parts proposed by FH and Ebauches S.A. The latter have informed the association that they regard themselves free to purchase profile turned parts from the United States without regard to quotas specified in the agreements.

The Swiss manufacturers of pinions also appear to have agreed to the modification proposed to their agreement with FH and Ebauches S.A. respecting trade in pinions. Again, FH and Ebauches S.A. have declared that they regard themselves free to buy pinions from the United States without regard to the quotas specified in the agreement.

The Group of Gilders, Silverers and Nickelers of Watch Movements and Wheels, however, merely agreed to meet with FH to discuss the proposed modifications. The Swiss watch spring manufacturers also agreed to meet and discuss the modification proposed to their agreement with FH. Finally, FH, as noted previously, modified its previous instruction to the members of its sections that they observe the terms of the unsigned agreement with respect to watch cases, by stating that the instruction was inapplicable to the United States.

Modification of the Swiss watchmaking industry's agreements with members of the British, French and German watchmaking industries

FH and Ebauches have sent letters to each of the English and French manufacturers with whom they had agreements (as well as to the President of a delegation representing the French watch industry) concerning jeweled-lever watches, movements, parts or machinery, releasing the other parties thereto from undertakings in restraint of U.S. trade and commerce. Specifically, the letters released the party from:

> * * * any obligation which they may have had under the agreements restricting purchases from or sales to the United States or United States companies of jeweled-lever watches, movements, parts or machinery and restricting aid or encouragement to United States companies.

In his affidavit in response to the Tariff Commission questionnaire, Mr. Matthey reported that the FH and Ebauches letter to these parties went unanswered. He stated, however, that it is the intention of FH and Ebauches S.A. to cancel these agreements if they do not receive within a reasonable time a positive response to their proposals of

modification. By the protocol of these agreements it is possible unilaterally to cancel them, providing the necessary notice is given.

Ebauches S.A. has sent a letter to each of its German customers for ebauches for jeweled-lever watches, in which Ebauches S.A. released each such customer from any obligation which it may have had or conditions which may have been imposed upon it with respect to the sale of ebauches and other watch parts for jeweled-lever watches to the United States or to United States companies.

The letter was self-operating to rescind the unreasonably restrictive conditions of sale insofar as they were applicable to purchase or sales to or from the United States. No further action, therefore, is necessary.

Modification of the watchmaking machinery agreement

In April 1965, FH and Ebauches S.A. both sent letters to each watchmaking machinery manufacturer signatory to the watchmaking machinery agreement entered into on July 6, 1962. These letters stated that the watch machinery manufacturers were released from any of the agreement's restrictions with respect to the purchase from or sale to any person in the United States of jeweled-lever watches, movements, parts or machinery and with respect to the production and sale thereof in the United States. FH and Ebauches S.A. also stated in this letter that they would not be able to perform their undertakings contained in the agreement insofar as such matters were concerned. As noted earlier, the Commission was refused a copy of this agreement and, as a consequence, is not informed of its terms.

Comparative Economic Data on World, Swiss and United States Production and Consumption of Watch Movements

The three tables in the statistical appendix to this report reveal the changing relationship of world, Swiss and United States production and consumption of watch movements which have occurred in the last two decades. The economic data aid in understanding the Swiss watch industry reactions and activities during this period.

As shown in Table 1 of the Statistical Appendix, World Production of Watch Movements, the Swiss watch production has increased in absolute terms, but has decreased relative to world production due to the greater increase in production by the Russian, Japanese, and West German watch industries. This decline in the Swiss share of the world market occurred notwithstanding the Swiss industry's expressed intent to maintain it. Although it cannot be supported that recent changes in the Swiss industry would not have been made had it not been for the increasing importance of Russian, Japanese, and West German industries, certainly their growth made those changes urgent.

Data of United States production of watch movements contained in Table 2 show the increased United States production, which can be attributed in large part to low-cost pin-lever movements. Both Table 2 and Table 3 indicate the growing importance of United States imports from the U.S. Virgin Islands. This is probably the single most important factor that caused the decline in the share of United States consumption supplied by Switzerland.

STATISTICAL APPENDIX

Table 1.--Statistical Appendix

Watch Movements: World Production 1946, 1954, and 1964

Country 1/	1946 2/		1954		1964	
	Quantity	Ratio to Total	Quantity	Ratio to Total	Quantity	Ratio to Total
	Millions	Percent	Millions	Percent	Millions	Percent
Switzerland	21	67.5	31	53.4	48	41.5
U.S.S.R. 3/	0.5	1.6	6	10.3	26	22.4
Japan	0.5	1.6	2	3.5	13	11.2
United States	7	22.5	7	12.1	12	10.3
West Germany	1	3.2	6	10.3	7	6.0
France	0.5	1.6	3	5.2	6	5.2
United Kingdom	0.6	2.0	3	5.2	4	3.4
Total	41.1	100.0	58	100.0	116	100.0

1/ Movements assembled in the U.S. Virgin Islands or elsewhere principally from chablons are credited to the country in which the chablon was produced.

2/ All data are for 1946; except data for the U.S.S.R. are for 1936-40 average, West Germany are for 1947, and United Kingdom are for 1948.

3/ Includes any production in other Communist-dominated countries.

Sources: Data for 1946 and 1954 were obtained from the Findings of Fact, United States v. The Watchmakers of Switzerland Information Center, Inc., Civil Action No. 96-170; data for 1964 were obtained from Tariff Commission Exhibit No. 9.

Table 2.--Statistical Appendix

Watch movements: Apparent U.S. consumption, 1952-64

Year	U.S. production 1/	U.S. imports from 2/--		Total apparent consumption	Ratio of imports from Switzerland to total consumption
		Switzerland	All other 3/		
	1,000 units	1,000 units	1,000 units	1,000 units	Percent
1952	8,361	11,337	320	20,018	56.6
1953	8,337	12,376	991	21,704	57.0
1954	7,183	9,380	1,105	17,668	53.1
1955	8,358	9,459	1,394	19,211	43.5
1956	9,286	11,856	1,653	22,795	52.0
1957	7,782	11,680	1,566	21,028	55.5
1958	9,448	9,970	1,345	20,763	48.0
1959	11,282	12,534	1,995	25,811	48.6
1960	9,475	12,019	2,307	23,801	50.5
1961	9,668	11,590	2,449	23,707	48.9
1962	11,919	12,584	3,068	27,571	45.6
1963	12,135	4/ 11,705	4/ 3,804	4/ 27,644	4/ 42.3
1964 4/	11,970	12,123	4,437	28,530	42.5

1/ Net production entering consumption; exports have been deducted.

2/ Includes an insignificant quantity of imports exported with benefit of drawback and includes a relatively small quantity of movements measuring less than 1.77 inches in width which entered commercial channels in small clocks, because separate import statistics by country of origin are not available for years prior to 1964.

3/ Includes shipments entered from the U.S. Virgin Islands.

4/ Preliminary.

Source: Compiled from data submitted to the U.S. Tariff Commission by U.S. producers and from the official statistics of the U.S. Department of Commerce.

(Tariff Commission Exhibit #9)

Table 3 .--Statistical Appendix

Watch movements: U.S. imports for consumption, by principal sources, 1952-64 1/

Year	Total	Switzerland	U.S. Virgin Islands 2/	West Germany	Japan	France	United Kingdom	Other
	Quantity (1,000 units)							
1952	11,657	11,337	-	303	-	12	4	3/
1953	13,367	12,376	-	884	3/	11	93	2
1954	10,485	9,380	-	1,062	-	23	18	3
1955	10,853	9,459	-	1,262	-	108	24	3/
1956	13,509	11,856	-	1,571	-	78	2	-
1957	13,246	11,680	-	1,344	4	157	61	-
1958	11,315	9,970	-	1,168	1	156	20	3/
1959	14,529	12,534	5	1,546	9	433	1	1
1960	14,326	12,019	44	1,740	110	409	2	4
1961	14,039	11,590	173	1,644	354	271	4	2
1962	15,652	12,584	420	1,704	504	428	8	4
1963 4/	5/ 15,509	11,705	1,057	1,921	475	328	12	13
1964 4/	16,560	12,123	2,369	1,160	485	260	90	81
	Percent of total quantity							
1952	100.0	97.2	-	2.6	-	0.1	6/	6/
1953	100.0	92.6	-	6.6	6/	.1	0.7	6/
1954	100.0	89.5	-	10.1	-	.2	.2	6/
1955	100.0	87.1	-	11.6	6/	.1	.2	-
1956	100.0	87.8	-	11.6	6/	.6	6/	-
1957	100.0	88.2	-	10.1	6/	1.2	.5	-
1958	100.0	88.1	-	10.3	6/	1.4	.2	-
1959	100.0	86.3	6/	10.6	0.1	3.0	6/	6/
1960	100.0	83.9	0.3	12.1	.8	2.9	6/	6/
1961	100.0	82.6	1.2	11.7	2.5	1.9	6/	6/
1962	100.0	80.4	2.7	10.9	3.2	2.7	.1	6/
1963 4/	100.0	75.5	6.8	12.4	3.1	2.1	.1	0.1
1964 4/	100.0	73.2	14.3	7.0	2.9	1.6	.5	.5

1/ Data include watch movements measuring less than 1.77 inches in width which entered commercial channels in small clocks, because separate data by country of origin are not available for years prior to 1964.

2/ The movements entered from the U.S. Virgin Islands were assembled in the islands from parts and subassemblies obtained mostly from Japan; some parts and subassemblies were obtained from West Germany, France, and the U.S.S.R.

3/ Less than 500 units.

4/ Preliminary.

5/ Does not include 21,785 movements not accounted for by country.

6/ Less than 0.05 percent.

Source: Compiled from the official statistics of the U.S. Department of Commerce.
(Tariff Commission Exhibit #9)