



**MANAGEMENT PROBLEMS OF
FOREIGN-BASED U.S. PLANTS**

Mr. William Blackie

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Reviewed by Col E. J. Ingmire, USA on 4 February 1964.

**INDUSTRIAL COLLEGE OF THE ARMED FORCES
WASHINGTON, D. C.**

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Management Problems
of
Foreign-Based U.S. Plants

23 January 1964

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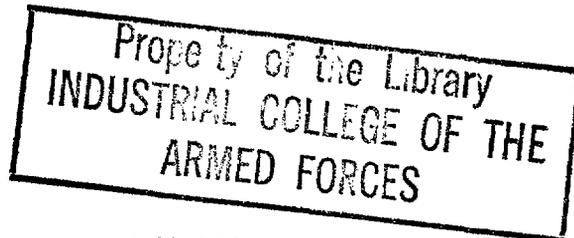
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Reviewed by: Col E. J. Ingmire, USA Date 4 February 1964

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Washington 25, D. C.

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ADMIRAL ROSE: One thing that we all read a great deal about, and certainly an important factor in our balance of trade and all the rest of the things we have to do in connection with exports, is the business of operating American-owned plants overseas. Our speaker this morning has had a great deal to do with that from a practical standpoint; he owns a lot of them. Some of you will see one of his plants in Grenoble, France, this spring. He's going to talk to us on the subject of "Management Problems of Foreign-based U.S. Plants."

Mr. Blackie is one of America's leading industrialists and he can talk about today's subject, as I say, because he owns some of these plants. He has spoken to us before and it's a great privilege to welcome Mr. Blackie back to this platform and to present him to this class. Mr. Blackie.

MR. BLACKIE: Admiral Rose; Gentlemen:

First let me apologize for not showing up when I should have. The snow interfered with travel arrangements and I was advised that I would not be able to get out of Chicago, or into Washington. It seemed, therefore, the better part of discretion to stay home and work out another arrangement. I'm grateful to those who gave me a second chance.

I am told that most of you have probably done the pre-reading of the little pamphlet which I supplied, and if so that will furnish you with some of the basic thinking behind the actions which have been taken by Caterpillar in its foreign enterprise. I can now, however, up-date the figures

because in that pamphlet I used the 1962 figures. For 1963 the sales figure would be \$996 million, and the foreign portion of that, the sales outside the United States were \$415 million or 43%. The great portion of that continues to be, as it will, exports from the United States, and the balance is supplemented by our foreign subsidiaries. These are located in Australia, Brazil, Great Britain and France. We are currently expanding small operations in Canada, Mexico and South Africa. We've entered into a small joint venture for parts supplies in India, and into a very substantial 50-50 joint venture with the Mitsubishi organization in Japan.

Our products, as I'm sure most of you know, are mainly heavy earth-moving equipment used in construction. But I'll go back a little bit, just to create a little history and lead from it into my story.

The caterpillar crawler had its origin in the delta lands of the Sacramento Valley in the early part of the century and were beginning to attain some stature at the beginning of World War I. By that time the old Holt Company had been producing machines in Peoria, Illinois, and these were used by the British to haul guns. In the latter part of World War I the idea of the tank came into fruition - and we are not the originators of the tank; but those who were designing it in a hotel room - the White Hearth at Lincoln, a delightful place, if you ever have an opportunity to visit there - and there's a plaque on the door which tells of that date - they sent representatives over to Peoria to study some features of the track which were later incorporated into the tank,

Following the war we gradually made a transition, or it was made for us, from agriculture to construction. And by the time Caterpillar was formed through the merger of the Holt Company and the Best Company in 1925

the transition was moving along in a very definite direction. This was accentuated when, in 1931, in the depths of the depression, Caterpillar undertook for the first time anywhere, to put a standard diesel engine in a vehicle. There had been diesel engines, of course, as custom-types for ships and that had stationary applications, but no one ever before had made them in mass-production as they were turned out at that time. In retrospect, it was a very courageous experiment. I can say that with complete objectivity; I was not there. But it worked. And gradually the diesel completely supplanted the gasoline engine in these machines.

Let me now jump toward the approach to World War II. When the Royal Engineers in mufti came into our plant to get about as many machines as they could get, they had realized earlier than any other military force the significance of crawler tractors with bulldozers. And when we eventually got into the war they broke out their uniforms and came out into the open to the extent to which the Royal Engineers were important in this area.

When we got into it the allocation of our machines was then assigned to the War Production Board. 85% of it went to the services and we were left with 15% to serve the trade such as it was. During the war our main customers, as you would imagine, apart from the War Production Board, would be the Corps of Engineers. We were assigned to the joint jurisdiction of Ordnance and the Corps of Engineers, but by consent between these two parties, apparently Ordnance went into more exotic things and the Corps of Engineers was left with Caterpillar, whose tractors with only a change from yellow to olive-drab, are standard War Department vehicles.

In 1946 when the war was over I felt it was time to get over to Britain

to take a look at how things were going. And with a manufacturing man I arrived there in '46. I had only been there a few days when I got the word that General Risberg, in charge of materiel for the British Army, and Sir Eustis DeCale, Chief of the Royal Engineers, wanted to see us. I don't know how they knew we were there, but anyway we wanted to see them. General Risberg wanted us to undertake the manufacture of crawler tractors. He said they had been so important to the Allied Armies in World War II that he could not contemplate the idea of Britain's going forth without having them, inasmuch as they had great industrial significance also. Here was a happy combination of something that was good in war or peace. He would provide an arsenal if we would do the job.

I said if he would provide the orders also, we'd take a good look at it. The orders were not forthcoming. So, Eustis DeCale said, "If you'll just make the engine here we'll get some British manufacturer to undertake the tank;" whereupon we told him he was making a rather common mistake in assuming that the heart of our machine was the engine - it's the transmission. And I relate this because it leads into my story.

In '46 we said we would not undertake the manufacture of machines there; that conditions were not right; that we were not satisfied in our own minds that we should; that we were selling all we could make all over the world; that every machine we had was an allocation; and we were stretched about as far as we could be stretched at that time. We did set up a license to make the scraper and the dozer, the one being pulled by and the other being pushed by the tractor. These were heavy welded fabrications that could be made equally well there, and they're bulky to ship.

Beyond that we did nothing until 1950. Britain, in the meantime, was

getting along without any worthwhile crawler tractor. The Fowler challenger was in existence but it was known as the single cylinder tractor in which the piston stood still and the tractor went up and down. David Brown at Huntersfield had been induced during the war to make a few hundred copies of our D-4 tractor, but they were so costly that while they could be sold to the military in time of war they couldn't be sold to civilians in time of peace. So, that washed out. The British Government still would have liked at that time to have a commitment from us that we would undertake the manufacture of crawler tractors.

I told them we'd be willing to make a start on something that is basic to any machinery job and that's to go into the parts business. Because, if a customer cannot be assured of parts and service he should never buy a machine. And that's particularly true when a machine comes from a foreign country. Thus, if we are going to do business in Britain as a manufacturer, the best way to start is in the parts business. We'll get some parts made to our design; we'll gradually move into some limited manufacture; and if over a period of time we find we can get the quality we want at the price that the customer will pay, we'll take a good look at what it would then require to assemble them into complete machines.

At about that time the Korean War broke out. And whereas, where everybody just prior to that had been dashing in to help us, it was amazing how the books got filled up, the factories became congested, and we had to scramble around to find a place to do business at all. With the help of the British Ministry of Supply we did get a 70-year old wagon works that had been used for de-greasing ballbearings. After we got rid of the grease it wasn't too bad. But it was all over the place.

And we did go ahead with our parts business and pursued it successfully for about 2 or 2½ years. When the Korean War was over I returned there and recommended that we go into the whole job of making the tractors with, however, one main reservation; that the transmission be imported from the United States; that everything else be made in Britain. Now, these were the days when, to enter into business in Britain, you had to become an approved project in order to make the capital investment to be assured of repatriation of profits and dividends, and if you were good enough, a repatriation of capital if you had to clear out.

I'm moving now into the story of our development in Britain as a case study in American adventure into foreign investment; during the course of which I think you will discern the points of decision. In telling my story I take complete freedom, as I have on past occasions here, to be almost a little bit gossipy. Because, I'm going to name names - names you'll recognize - with the assurance that this will never be used against me. And I don't use the names in any derogatory way; merely to enhance what I think is an interesting story associated with the names of the personalities involved.

To get ourselves approved for this thing we had, of course, not only to clear the Treasury and the Bank of England; we had to clear one other hurdle - the Ministry of Supply. Before even getting to it, if we wanted, as we did at that time, to get another piece of land to do the job, we had to clear the Town and Country Planning Board. We were sure if we could clear the one the other would be no difficulty, and we worked on that basis. The important one, obviously, was the Ministry of Supply, into which our type of product had been thrown in the allocation of duties during the war.

That meant that we were still to a considerable extent in the hands of the military. And the military, it turned out, I think had been, if not sore, at least disappointed that in 1950 Caterpillar had not elected to go in and make the crawler tractors. They, therefore, had induced Vickers, the biggest armaments producer in Britain, to undertake the manufacture of the crawler tractor. Just having gotten into it, just having begun to spot their machines throughout the world here Caterpillar comes along saying it wanted to get in. Undoubtedly it was an embarrassing position created by poor organization. If the military hadn't been in supply we wouldn't have had this conflict of interest.

It was denied that there was any such conflict of interest at the time. But human nature being what it is I took it for granted that it existed somewhere. I became convinced of that as our whole progress was slowed down. Whereas we'd been told that the application would be cleared in ten days, it took 2½ years. And I had great difficulty in getting to authority. The Assistant Secretary who had been handling our case was completely on our side, and he disappeared. He eventually showed up as the Director of our English distributorship which had been bought by Vickers.

The Secretary, Sir Archibald Roland, an excellent man, retired. And his successor came in and got so absorbed in organization that he never got around to operations. In desperation I appealed to our Ambassador in Governor Square, and had difficulty getting hold of him. But I did get hold of Mr. Lincoln Gordon who was the Economics Minister at the time, parceling out or at least keeping an eye on the distribution of Marshall Plan funds. And he very effectively arranged that I meet the Minister of Supply, Mr. Duncan Sands.

The first meeting with Mr. Sands was very interesting. He couldn't understand and couldn't believe what I told him when I explained why we would have to bring in the transmission from the United States. I told him that the types of forging steel required for a Caterpillar machine were not made in Britain, and he was indignant. Britain was one of the oldest steel-makers in the world and had made Spitfires; invented radar; and made tanks that were every bit as good as American tanks. I did not dispute that. I said, "Mr. Sands, if we couldn't make a better tractor than all of the service in the world-made tanks, we wouldn't be in business." I said, "Furthermore, the transmission in our machine is far more important than it is in a tank. And our machines are not expendable."

We knew a little bit about tanks because we got the job of dieselizing the Wright Cyclone Engine for the medium tank. And at that time 400 hours was considered to be a fairly good life for a tank. If you don't get 10,000 hours out of a tractor and have a breakdown, you're really not getting your money's worth. Furthermore, a tank merely hauls itself. A tractor has to push or pull more than its own weight; it has to pack into its transmission all it takes to give it draw-bar pull or push; to give it the traction that a tank never had. And those of you in the service must have seen the many occasions when our tractor pulled a tank out of a hole or mudpond. That doesn't mean to say that there is anything wrong with tanks as such; they were expendable, obviously. And they've never had the attention required to develop them for commercial usage; especially not at commercial prices.

Well, in spite of my impassioned speech on the subject Mr. Sands was not impressed. After awhile the meeting was adjourned. In the course of it I said, "Look; if you'd like to find out about it we'll pay the transporta-

tion for anybody whom you'd like to send over there to find out about it. And provided they're well-enough informed, we'll accept their judgment." Well, he said, "Won't you first go and talk to some of the best gear manufacturers in Britain?" We said, "We know who they are; one is David Brown at Haversfield and he's still trying to be a competitor, so we won't talk to him. The other is Leland." We said, "We know they're a good outfit and we know they made tanks; we know they're a good shop."

So, we laid out our transmission for them. We broke it up completely and laid it on the floor up in their plant at Lancashire. They examined the whole thing. Henry Spurrier, the Managing Director, said he would go to Peoria and look into the thing, and he did. He returned and reported that Leland could machine and heat-treat the caterpillar transmission, but he would want the gear blanks brought in from the United States, after inspection by Caterpillar. That closed that subject.

And you would have thought it might have led to a discussion or decision. Because, if that was the whole guts of the problem, we had an answer. But after a year-and-a-half Mr. Sands did not reach a decision. And in my second visit with him it was obvious that he didn't want to reach a decision. He spoke of other ways of doing this thing and why wouldn't we get this thing done with the steel companies. I said, "Well, one reason is that you own them. Maybe if they weren't nationalized and there was a little more enterprise, we'd get the job done."

Well, Mr. Sandys? moved on then, I think, to defense, and he was succeeded by Mr. Selwyn Lloyd. Mr. Selwyn Lloyd must have been embarrassed to find that here was a case that had been laying around the shop for a year-and-a-half. Being a man of action he said no he didn't know anything

about the case. Well, that kind of threw us; having been sought for so many years and now being told after we'd gone through all the drill, the answer is no. About then, two good things happened; steel was denationalized and our affairs were taken out of the Ministry of Supply and transferred to the Board of Trade. And the Minister there was Mr. Peter Thorneycroft. We talked to him and he was much more receptive because he knew about the balance of payments; the position of Caterpillar as an exporter; the arts and skills that we would bring in; and that we'd even be able to pay taxes. Not everybody is able to do that.

He encouraged us - "Go ahead and see what you can do." So, we went to some of the steel mills and talked to them. And we found one, perhaps not surprisingly, in Scotland, where we had the unusual circumstance of the Managing Director being a metallurgist - Sir Andrew MacCaffs. When he heard this story he was challenged by it. He said, "If a company like Caterpillar says a thing like that about steel, and Britain doesn't have it, it ought to have it." So, he sent four men over to Peoria and we gave them all we had in the way of our metallurgy and experience. We took them through our steel mills and showed them how to do this. They said, "We'll do it." They said they'd revamp the mill in Motherwell, Scotland. We said, "In that case we'll take over a site which we have an option on about four miles away in Glasgow." It's entirely coincidental that that's where I was born.

The problems were not entirely over - and I'm skipping some of the bits so that there may be a question period. In the process of reaching this we had selected a site in England which we thought was a very good site. And we were sure we could get in there because it was in the Birmingham, Lester,

Coventry orbit, but not too close to any of them, and yet near enough to get our supplies. We were denied that on the grounds that that area was being reserved for a concentration of the automotive industry, exactly the opposite of what we'd been told was happening. We were told that no longer did Britain want a concentration of that kind; that it wanted a dispersal. Their policies are very flexible at times and we've learned to roll with the punch. We ended up in Glasgow. We decided then that if we were going to make a go there, that we'd do as much as we possibly could ourselves, and the only condition we made about going in was that we bring in one gear in the final drive of the D-8, and the D-8 crankshaft. The reason for doing that was that the equipment to make that crankshaft, for example, costs about \$½ million, and we could turn out a year's supply in about ten days. So, we could not justify the investment. And no one else making crankshafts in Britain was able or willing to undertake the investment in the tooling that was required.

We are still importing that gear and that crankshaft. Beyond that, we're making everything else in Britain. Furthermore, we are fulfilling the commitment we made that not less than 75% of all we make in Britain would be exported. And Britain knows better than we the necessity of exports. We've become there a very valuable earner of exchange for Britain, and we have been profitable enough to be a worthwhile taxpayer. We now employ 3,000 people in Britain, and we are in the fair-haired class, which is good.

Now, we had a variety of options in the matter of this kind, and one of them was not to be so insistent upon making an exact replica of the American product. That was one of the first things Mr. Sandys asked me to consider. I said frankly I would not consider it. I said, "We might sell

within the United Kingdom 25% of our output because it would not be in competition with the American product. But in the rest of the world where 75% was going it would be in direct competition with American machines. And if you offer two machines that are not the same, one is first-class and the other second-class." I said, "We're not going to offer anything less than the best we know how to make, and we're not going to ask our dealers to take a British machine if they want an American machine." I said, "This British machine has got to be as good as the American machine, and we might as well face the fact that the British machine no longer has the reputation and prestige it once did, whereas, American machinery now has that prestige and we've helped get it; and we're not going to dilute it."

Beyond all that, if we could not have complete inter-changeability of parts, then we would not be able to serve our dealers or their customers, the users, from whatever source might best serve their purpose. And a source might be related to delivery, convenience, exchange, duties; a variety or combination of factors which would all permit a dealer to make his own choice as to source. And that would be equally true of the international contractor to adjust a merger into the consortiums of the world, undertaking the tremendous jobs now going on - the Peter Kiewits, the Bestals, the Morrison-Knudsens - and you know them.

They have to be assured that if they take a caterpillar, no matter what the source may be, that they can get parts, and that no matter where the parts are made they will do the job just as well. Even more important was that logistical fact of the military. We offered an advantage - and I'm not selling to you; I'm just stating a fact - we offered an advantage

that no other manufacturer in our industry is in a position to offer. We can provide machines from several sources and parts from even more sources. And every single part is completely interchangeable and we don't care what the nationality is. As far as machines are concerned the brand of Caterpillar is greater than the flag under which it was built. And that's the way we want it to be. And that's the way it should be. We believe that is what the customer is entitled to.

And we've stayed with it. Others who have yielded to the expediency of doing the best you can in a foreign country, have run into trouble whenever they got out of that country. Now, the same conditions were not quite as strong there as in Brazil, for example; the idea that Brazil could export a finished machine has been somewhat remote, and it's not looking too bright at the moment. There we could make some departures. But we did not make them in the matter of interchangeability of parts. We dealt with items that were not integrally functioning parts.

We found out that even if the appearance, the color of yellow paint wasn't exactly the same it raised a suspicion in the minds of our customers. So, I assure you, gentlemen, that if you have to buy a caterpillar machine anywhere in the world, if it has the name "Caterpillar" on it it is caterpillar and you can forget where it is made. That has given us trouble because our demands on quality are severe. In this country we've spent 30, 40 or 50 years of developing sources of supply. Our vendors know our ways. They know we're tough. They've learned to live with us. Through years of war and shortage of product abroad led perhaps inevitably to sloppiness; to poor quality and promises that were not kept on delivery. And we established early, as a matter of sound discipline, that if we were going to establish

a long-term relationship with the suppliers - and that's the only kind of relationship we want - we'd start right off being tough. If they promise it, we want it. If the quality is not to specifications, don't say we're going to keep the assembly lines going and accept it the way others have; send it back, even if they have to shut the assembly line down.

Some of the vendors wouldn't take it. The others who did, came around and said, "You have no idea how good that has been for us. We were losing our sense of industrial discipline; you've brought it back to us. We now know the supplier must keep his promises; that he must meet the quality demands of the customer." That has permeated our organization to the point where others are benefiting from it. That also is true in our steel. The steel being made at Motherwell in Scotland is now being used by a number of others. This is one of the best ways that American industry can multiply its good things abroad and it's the way we'd rather do it.

Other decisions, of course, involved in a matter of this kind are related to, shall we start in a green field; shall we try to establish a partnership with a going concern; or, shall we attempt to take over a factory that already has employees? These are all individual matters which I think vary with the circumstances of each particular case. There's a tendency in some circles, particularly academic circles, to believe there are some general principles involved in that, and that some things are good and some are bad. In my opinion, the circumstances must govern, in each particular case, and there is no general or universal rule suitable for application.

In seeking places for foreign investment, of course we naturally prefer those that have a reasonably stable government, where the tax laws are not much worse than our own; we prefer to have a minimum of language diffi-

culties, but we've learned that we've just got to accept these. We'd prefer, if we could have it, a good base from which to export, and we'd like laws that are not wholly incompatible with the ethics of American business. On the whole we have found these in the places we have been. Perhaps that was to be expected. The industrialized nations all tend to move toward a common denominator of practice, and that is going to be accentuated.

Two post-scripts before I stop talking, so that you may ask questions. One is that after ten years of very, very heavy losses, Vickers quit. It was not until then that I was told officially that their existence had been a brake on our efforts. In a sense it has been rather salutary because nobody else of real consequence has attempted to make a crawler tractor of more than about 65 or 70 horsepower. And I'm surprised to find how well the case of Vickers was known in Japan and Italy. It's the only comfort I've had out of that situation.

The decision has to be faced, of course, of what shall we make. In Britain we decided to make the D-8 because it would meet the needs of the contractor; and the D-4 because it would meet the needs of heavy agriculture and light industry. We're now expanding and filling in there with front-end motors and a few other machines. With the advent of the Common Market, however, and the prospect which we thought was very imminent at the time, that Britain would be in the Common Market, we decided that we should have a place in Europe and that we should integrate its functions with those of the British company. There would then be no duties on the channel and we could integrate operations in such a way that we could minimize investment.

But just as we got our plans all nice and tidied up, Mr. De Galle messed them up. And we haven't been able to carry them out just as we plan-

ned. But, we were reasonably flexible about it. We are going ahead with production of the D-4 engine in France, at Grenoble, where a group from this college visited last spring, and they're going to return this year. In Europe we picked the D-4 because, mainly, it's a tractor in big demand; it's not the most profitable; and because when you're going to invade a foreign market one of the things you must do is attack the strength of your competitor. The major competitor in Europe is Fiat. But Fiat itself is very well protected by very high tariffs in Italy. If these were to be reduced within the Common Market as is the plan, then the Fiat could move around in the Common Market fairly freely.

At the same time it is the Common Market plan to average the duties that were imposed on imports from the United States and the United Kingdom. And that's a piece of mathematical trickery that I call despicable because the duty on our machine going into Italy was about 48%. The result was that none of that particular type of machines were going in there. It was a mathematical figure. So, we averaged that with about 6% to 8% in the BENELUX countries, and even there there was a little bit of trickery because they were taken as a group. Had they been taken as three countries, at least we'd have divided by six. They were taken as one and we divided by four.

Nevertheless, the Italians were so strong on that point that we so far have been unable to whip it. Although, I am hopeful that if any of you are going to be at Geneva in May for the GATT negotiations you will go to work on that particular piece of deceit, because it's very harmful. But we did recognize that we must compete effectively against the strongest, and that has been the determining factor in what we do. Beyond that we seek to es-

tablish a good base from which we might expand. We never contemplate anything purley as a defensive measure. And yet it has to be recognized, as Toynbee said, that business is so often a process of Ying and Yang where we move from aggression to defense; back to aggression; back to defense.

We do things at times because here is opportunity and we rush in and grab it. And here at other times are compulsions that we must recognize because if we don't we'll lose out. That is the sort of policy we've been trying to pursue. To date it appears to have been successful. We have our rough spots and we have not yet brought our own operations to full fruition. We are getting volume; we are holding our place against the competition; we believe we have a restraining effect on new competition coming into business; and we think that all of our new enterprises offer considerable opportunity for the future.

If you'll permit me now I'll close my remarks at this time recognizing that I've left many gaps which I invite you to fill with your questions.

QUESTION: Mr. Blackie, I'm interested in why you changed the cat somewhat in Brazil - what your reason for that was?

MR. BLACKIE: We're not making the crawler in Brazil, we're just making the motor trailer. And conditions being as they are in Brazil, it was almost impossible to contemplate export from Brazil. So, a direct comparison between the Brazilian and the American product would not be available. The changes, however, are in things like the circle and some of the features that are not integral to the working of the machine. In that motor vehicle in Brazil we're still importing the engine and the transmission. We are, however, under an obligation under a JMAR program, to get the Bra-

zilian content up to about 90% within two or three years. We are expanding our factory in Brazil right now; something that is considered kind of crazy, but we're doing it anyway.

QUESTION: Mr. Blackie, how do you cope with the rather large fluctuations in the currencies in countries, say like Brazil?

MR. BLACKIE: I knew that one was coming. But it's a good question. Because, everyone knows the degree to which inflation has been rampant in Brazil. When we in in 1954-55 the cruzeiro was 60 to the dollar. The other day it was quoted at 1,350. And that's pretty fast. But we have learned how to do business in that kind of economy by strictly observing several practices and being fortunate enough to be able to carry them out. One is, always stay in debt; let the creditor hold the bag. That's a way of life in Latin America. Always pay him back with the deteriorated money. And it's a race as to who is paying whom now because everybody is waiting on the side.

Secondly, when you get in debt, do it for cruzeiros - never dollars. Because, if you were in debt for dollars you'd have to get more and more cruzeiros all the time with which to pay it back. Now, that was not easy to borrow cruzeiros in Brazil, and there is no future market which would permit you to hedge, as you might in some of the markets of Europe. But there was a very fortunate device developed in Brazil and we were able to take advantage of it. It's known as a "SWAPS" transaction, whereby our subsidiary in Brazil bought us Cruzeiros from the Banco do Brazil and our parent company here lends the Government of Brazil dollars deposited to its credit in a New York bank. And at the end of the period - two or three years - the transaction is reversed, and thereby we hold a fixed rate of

exchange. And we thereby avoid fluctuations in the rate.

So far we've been able to cover all our current transactions with that type of SWAPS protection. Beyond that you have to watch your exchange level so that you're always protected in your pricing of your imported product; making sure that you price on a replacement basis; not on a first-in-first-out, but more on a last-in-first-out basis of pricing. On your Brazilian content you mark your prices up almost weekly. And we've had prices go up 40 to 50 percent in a year; sometimes 25% in a month. So, what you've got to do is be very fluid; very fleet of foot and live on a lot of faith.

There is one other part of the question that I think is of interest. If you can cover your current liabilities with protection you're still left with land, buildings, machinery and equipment. That is a good solid asset wherever it may be. And to me there is never any exchange loss/^{involved}in the possession of assets of that kind. And if the cruzeiro were to be wiped out tomorrow and instead we got a new piece of money, as was done in Germany, I believe we could swing over to the new system with very little loss.

I say that and I elaborate a little bit, because, while I think some of the fears about Brazil may be justified, I think the fears about doing business in Brazil have been a little exaggerated.

QUESTION: Mr. Blackie, do you have any problems in the worldwide operation, with the metric and English in trying to make the same product worldwide?

MR. BLACKIE: No. We do our engineering in fractions of inches. And we've developed conversion tables that we use in France and now use in Japan. We've developed ways of superimposing on the blueprints the metric measurement whereby it's required, or showing both. We have expected that

it would cause some trouble, but it hasn't; we've had no real trouble at all.

QUESTION: Mr. Blackie, how do your production costs abroad compare with those in Peoria? Or is it too difficult to generalize, say in Scotland, for example?

MR. BLACKIE: In machining and assembly operations we have not yet had experience that permits me to give a valid answer to that question. We do believe that when the work is performed under like conditions we can attain something close to the performance that we have at home. And if so, then, of course, we'd get the benefit of the lower wage-rate. We get that very quickly, however, in fabrication where laying a weld is the same anywhere in the world. And you can get the direct benefit there of the lower wage-rate very quickly. But we have not yet attained the proficiency in any of our foreign plants, that we have in the United States, and I have to recognize that it took us a long time to get where we are in the United States.

We are still hopeful, but even if we did not attain the same level of proficiency, the wage-rate differential should be adequate to compensate. By and large our products made abroad are sold at approximately the same price as our f.o.b. United States' price. Where we have to go lower to meet competition we, of course, always do so.

QUESTION: Mr. Blackie; you indicated that in going into Japan you were going in on a partnership arrangement with another industry already there. What facts do you weigh in going into a country to determine whether you'll go it alone, take in a partner, or the method that ^{you} organize it with?

MR. BLACKIE: Our operations in Brazil, Australia, Canada, Mexico,

South Africa, Britain and France, are all wholly-owned. In India and Japan they're 50-50 deals. The reasons are that other things being equal we prefer to do it ourselves - to be wholly owned. The reasons are that we've greater freedom; we don't have a partner who is insistent upon dividends, for example, when we like to plow the earnings back for expansion. We don't have the problems that sometimes arise through an over-nationalistic spirit and we do not believe that in our particular industry local ownership provides any answer to those who decry American enterprise in their own country.

That may be true in consumer goods to some extent; I don't profess to know. In our case I'm sure it's of little significance and would not add particularly to the prestige of the product. Beyond that there has been a feeling among some of the writers that it is always good to allow foreign nationals to participate in a subsidiary of an American company. And that may be true if that subsidiary is a well-rounded one representative of the company as a whole. That is not true with us. We regard each foreign unit as part of a global structure. We determine what it shall do and what it shall not do as part of a composite picture.

Within that scheme we have some machines that are quite profitable; others that are unprofitable, or not very. Some take a long time to develop profitability; others, like spare parts, you can move in fairly quickly. None of our foreign subsidiaries is a completely rounded company. The best illustration of that would be the French one. Where it will make a very competent machine it will buy its engine from a British company. It's one reason why Ford bought out the British ownership in its U.K. company; because it was approaching the matter of worldwide production on a basis which

was not related to one particular country, but as to what might best be done in Britain; what best in Germany; what best in France; what best in the United States; approaching it there from a viewpoint that did not place profits equally one place or another; and with a degree of profitability or suitability that did not lend itself to outside participation in the subsidiary.

In the case of Japan, however, we felt that we could not go it alone; the language, the customs, the ways of doing business; the distance; the difficulty of getting many Americans to go and live there, all suggested that we'd better get ourselves a good, strong partner. And for that purpose we selected the Mitsubishi organization. It was broken up into three main parts by General Mac Arthur following the war, under the Anti-Monopoly Act or something like that, and it is now being put together, we having changed our mind about the status of Japan, no longer assigning it an agricultural role when they have no agriculture, recognizing they might as well be an industrialized ally. And we're very happy to be joining with Mitsubishi in this new enterprise.

In India, frankly we didn't want to go into India. We don't like the pushing around you get from Indian civil servants. But we did recognize an obligation to service the machines that were in there, and for certain parts, if we didn't provide them somebody else would. And if they weren't as good as ours are the machine might not operate as well and the user would probably blame us instead of the spurious parts. So, we decided that we would make some parts there and for that we were fortunate in having in Bombay a Danish organization well-experienced in some other aspects of manufacturing. We formed a little company with them; we provide the track parts

and we'll let success lead where it may.

QUESTION: Mr. Blackie, in view of your comments on global enterprise and provision of labor, do I see an attempt that possibly the assembly line in Peoria one of these days will be taking fabricated parts from England?

MR. BLACKIE: I don't think it's in sight. If anything like that were to happen it would be more likely to be a little specialized machine such as General Motors is contemplating with the "Capitan," is it? The Opal. Or Ford is supposed to be with the Cardinal? If we were to make a very small machine suitable for European operations, let us say, we might take a look at bringing that in. But we would not make ourselves dependent on a foreign source because of the magnitude of our operations in this country, and we believe that for the most part transportation and the duty into the United States would preclude doing that. As of this time it's not in sight.

The only things that are coming into our North American markets from our foreign subsidiaries are direct purchases by our Canadian dealers from our Newcastle plant making bulldozers and scrapers. That is a fabricated job with a heavy shipping cost, but no heavier for transatlantic shipping than it would be by rail from here to Montreal or Halifax, let us say. And then, there's a preferential duty into Canada.

So, we have not found it yet, and as I say, it's not in sight that we will substitute foreign content for American content.

QUESTION: Mr. Blackie, who runs your wholly-owned overseas plants? Would you touch on the nationality of the manager, how he is trained, and then go down one or two levels to the supervisor and touch on his nationality and such things?

MR. BLACKIE: We had no foreign subsidiaries prior to 1950, when we

started there, as I mentioned, in England. The Australian and Brazilian subsidiaries were formed in 1955 and the rest are all more recent. To date we have manned all of the top offices, with only one or two exceptions, with Americans. And we do that because it's the only way we know how to convey our experience. Blueprints, letters, books of instruction will not do the job. We tried it in part, but even there we meet resistance unless we have people on the spot who can explain not what to do, but why do we do it. And that even goes into the details of metallurgy.

The foreign metallurgist is bound to challenge us and should, until we explain why we do it that way. And we found that that's true in almost everything else if we want to get cooperation and spread the benefit of our knowhow into our foreign enterprise.

In England we have at Lester a parts establishment of about four or five hundred people. There are no Americans there. At Glasgow, our biggest foreign enterprise - with 1,500 people - we have a dozen Americans occupying all of the top posts; for the simple reason that we have not yet been able to bring up the Britishers to the point where we're ready to leave them in charge. But that is our aspiration.

In Australia we have brought Australians into the sales end of the business and they're doing very well.

In Brazil we have two out of ten department heads who are Brazilians.

In France our Americans operate more as staff and advisers than they do as direct operating heads. And that method is carried to its ultimate, or will be, in our Japanese operation. We are encouraging our people to learn how to speak a little Japanese and how to hear a little Japanese, but we never expect them to be able to read or write it.

They are not, therefore, in positions of authority, to command or ask for, or whatever you do these days to get work done. So, our organization there is somewhat like the military one here; we have an American chairman who is Chief of Staff and he will have 12 or 15 American specialists - one for finance, manufacturing, metallurgy, purchasing, accounting, parts, service, selling; and whatever other functions are involved. And the American's job is to train the Japanese; to show them how they develop their practice and to guide them in the development of Caterpillar-Mitsubishi. They will have no direct operating authority, all of which is invested in the Japanese president, and all operating department heads will report to that president.

I don't know of anybody else who quite operates in that manner, but I've been unable to conceive of any better for that particular purpose. Now, we're just getting into operations there. We've broken ground and we're going to build a plant. And it will take a little time before we cut iron, but we'll feel our way a little bit. At the moment I cannot conceive of any other form of organization than the one we're using here. And as I say, I don't know that it works completely, or not, in military circles, but it's somewhat akin to the concept of a Chief of Staff and General Staff as an operating, fighting group.

QUESTION: You mentioned that the sale of your British-made products would help the British balance of payments. I'm wondering if the competition of the British-made products with the American-made products would have an adverse effect on our U. S. balance of payments.

MR. BLACKIE: To the extent that it would supplant American supply it could have that effect. But in general it has been our purpose in going

abroad, to cover those areas where we might lose the business. And where we get business abroad where we would not get it at all in the United States, of course it's entirely a plus. It's our experience, however, and here you must look at the picture on the broad spectrum, not machine by machine; in every country where we have established a manufacturing enterprise we have increased our imports into that country, of those items not made in that country. We have become identified with the country; we get to know the dealers and the customers better; we establish a relationship with the government that would not otherwise be possible; we show them that we're good corporate citizens of their country.

We are in the channels of communication and trade in a way that would not otherwise be possible. We advertise to a degree that we would not otherwise. And we hope to continue selling into every country where we're established, those American products that we do not make in that country. That is something that has been overlooked in some of the attacks upon foreign investment, and it has been entirely overlooked and ignored by those who made the change in our tax laws in 1962, which said that when you make earnings abroad through a sales subsidiary, whether you bring it back or not, you're going to be taxed on it.

Had the spurt of enterprise been more prevalent in certain government circles, some of which may be represented here, they would have said, "Take your foreign earnings and expand them." Because, no American businessman invests anything abroad other than for the purpose of ultimately bringing back much more than he invests. Those of you who are familiar with the balance of payments details know that the returns from foreign investment even today are greater than the outlay for foreign investment. That will

be expanded and this country will get into the position where Britain was when it virtually sustained itself through some of its most troublesome periods through the return from its foreign investments.

Fortunately, American enterprise is going ahead courageously in spite of a bad mistake in our tax laws. And let me touch on this point because it's very interesting. I just signed off on our annual report before I came down here, and it's now in the hands of the printer. We released our figures, as I mentioned to you; the report takes a little more time. In the letter which the chairman and I used to preface the report we deliberately picked the things that we think are important to the United States today, the problems - growth, employment and balance of payments. And we touch upon the experience of one company - ours - and its contribution to these three elements over the past ten years.

In the balance of payments the figure surprised all of us. Our net contribution, in excess of the income we derived from investments, license fees and exports, over our outlays for foreign investments over the past ten years, has been \$2½ billion. And had it not been for Caterpillar in 1963, the national deficit would have been 10% greater. We have no apologies to make for our position in the balance of payments.

QUESTION: Mr. Blackie, have you encountered any unusual problems in dealing with organized labor in your foreign-based operations?

MR. BLACKIE: Yes. Let me pick two illustrations. One was in Glasgow where we were attempting to run a rather big plant without a union. We had observed that a number of other American companies that had moved in there - IBM, Burroughs, National Cash Register, Goodyear and a few others, were getting along without unions. We thought we could too. And perhaps it

was just a lull. Perhaps the union organized because we were too busy. But, in any case there developed about three years ago an idea among the union people in Scotland that the American company shouldn't be allowed to get away with it. And among others they picked us for attack.

In retrospect we made a mistake. We thought we could have an open door policy which said to the employee, "If you have anything that worries or concerns you - any grievances - tell it to the boss and he'll give you a sympathetic ear." The average workman doesn't want to do his complaining direct to the boss; he wants an intermediary. And, I suppose he's no different from what we have here in the ranks of most organized unions. The steward was more important to him than the union, in essence. And we had not quite appreciated that fact. Well, we got whipped. We were out for about 11 or 12 weeks. The matter had reached the Cabinet and had it gone further it would have reached a Parliamentary Inquiry.

But, we learned a lesson; we have unions and we get along very well with them. There was no dispute at all about working conditions, which are as good or better than anything else in Britain. And we were paying the same rates or more than those negotiated with the engineering union and the Employers' Federation. But there was still not this element of representation through a steward. We now have that, and while we may have lost some of our freedom we have more peace; we've had no strikes at that plant since.

In France we have totally different kinds of strikes. I'm not sure that I understand them. Sometimes they have something to do with us and sometimes they are totally unrelated. They may be showing that they are either pleased or displeased with DeGaulle. They'll go out and sit in the

grass for 15 minutes or they'll stike for an hour - at 5:00 o'clock in the evening. That kind of strike we know nothing about. We don't know how to handle it. As long as they check out in an orderly way and come back we get along with it. They, of course, have the usual type of grievances; that we don't raise wages fast enough, and we talk to them about that.

Political influence seems to be much stronger in the French unions than it is among our industrial unions here, and perhaps we'll learn how to handle them better. But I'm not sure that we'll be able to prevent the type of strike that we have in France. The most, perhaps, that we can hope for, is that we'll learn how to negotiate it to an earlier settlement. In the meantime we haven't had too much trouble, but you asked if we have unusual experiences, and we do.

In Brazil there have been, as you know, strikes, and sometimes violence. Everybody there is in the union, even the bosses. So, I'm not sure it's a union when the bosses are in it. And we've had no trouble at all. Even when strikes were called and there is violence in other places, our employees came to work. If there was any danger to their safety we advised them to stay away; that we don't want them hurt and we don't want any trouble. But they were perfectly willing to come to work.

Undoubtedly we have more to learn as we get into some of the other countries, but these just have to be taken in stride. The worst strike problem that we have right now is Peoria and it's with us today.

QUESTION: Mr. Blackie, France seems to want to do business with Red China, and according to the newspapers, with Mitsubishi in Japan. They also seem to be casting their eyes in this direction. This would seem to place you as an American company squarely in the middle. How do you plan to deal

with a situation like this?

MR. BLACKIE: I'm not sure that we plan to deal with it, but perhaps somebody here will tell us how we will be dealt with. It's a difficult situation, and we've had it to a degree. When Castro asked for tractors as the demand solidified and was defined it wasn't just any tractor he wanted, and it wasn't just a little wheel job; it was Caterpillar Tractors, and it was D-8s - 120 horsepower class. They have much more significance than mere agriculture, and yet, what should be recognized in fairness is that the handling of sugarcane does require heavy and substantial equipment.

When we were confronted with this, and when the hat was about to be passed to make it possible, we were asked what our position would be. And we said we had no position; that if it were the will of the United States that it be done, we would take orders. I don't mean just purchase orders; we'll take commands; but that the government should know that these machines have much broader application than agriculture, and that we were informed they were all being ordered with bulldozers which are not used in agriculture, but could be used for making roads, airports and all types of defense work. A lot of them, I believe, are going to the Isle of Pines.

The question then arose, "Could Castro get them, then, from our British subsidiary?" Well, we answered on our behalf that they should not go at all to Castro; that we would wish no part of them going from our British subsidiary. Fortunately, that never became a public issue. Because, the British Government would have had a right to say, "This is a British company; that ownership is not the factor in the decision." And as you know, our own anti-trust people are very reluctant to see the American parent

make decisions for a foreign subsidiary.

As I said, the British Government would have had a perfect right to say "You've got to operate as a British company." And had they chosen to do so, that question would have been very imminent. It evaporated. Whether it will arise in Japan or not, I don't know. We discussed it in Japan. The present mood there has been not to do business with Red China. But if we're going to sell wheat to Russia and if France is going to deal with Red China, and if we are going to restrict the sale of Japanese goods into this country, and if the Common Market takes like measures, Japan is going to say, "We have to exist." And Japan must export to exist.

So, I think that Japan may be driven to a situation where either the Common Market and the United States open up more liberally to imports from Japan, or Japan will be forced to look to Red China. When that time comes we will have the question before us, "What does a 50-50 company do when the Japanese Government says, 'We want to sell to Red China,' and the United States takes the position that it won't, provided they don't run out of wheat?"

Some of these matters can be embarrassing, and if I were to venture an opinion it would be that we have to be very discreet in some of our earlier ideological pronouncements, so that a Suez will not be transferred to Panama.

COLONEL MARTHENS: Well, Mr. Blackie, I know I speak for all of us here and I want to thank you very much for coming here and making this talk available to us about Caterpillar and its far-flung foreign-based operations.