Collection: Driggs, Michael: Files
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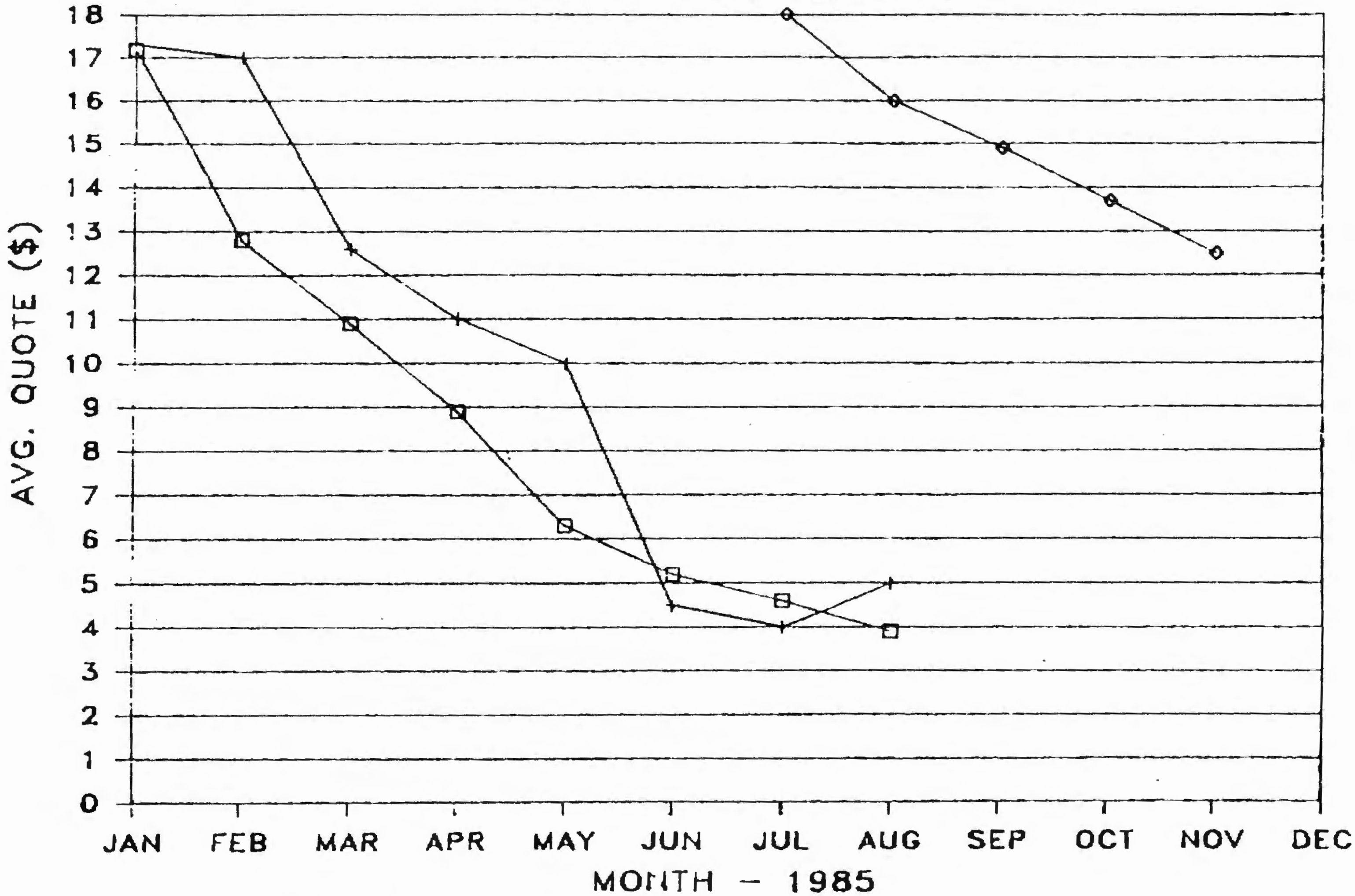
Box: OA 12246

QUOTES IN U.S. MARKET FOR 256K EPROM

U.S. VS JAPANESE COMPETITORS



□ JAPANESE INDUSTRY

+ U.S. INDUSTRY

◇ EXPECTED PRICING BASED ON NORMAL INDUSTRY LEARNING CURVE

FROM:
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FOR IMMEDIATE RELEASE

SANTA CLARA, CA -- September 30, 1985 -- Advanced Micro Devices, Inc. (AMD), Intel Corporation anc National Semiconductor Corporation today charged Japanese semiconductor companies with dumping EPROMs into the U.S. market. EPROMs are a type of computer memory.

In a joint petition filed with the Department of Commerce and the U.S. International Trade Commission, the three companies charged Japanese companies with selling EPROMs below manufacturing cost in the U.S. market, a violation of U.S. trade law. The petition asks the U.S. government to impose antidumping duties or EPROMs from Japan.

"U.S. manufacturers have been and continue to be both the technology and market leaders in EPROMs," said Tom Dunlap, general counsel for Intel. "We have invested heavily in new plants and equipment, and have proved ourselves vigorous competitors in the $1.1 billion worldwide EPROM market.

"This record is irrelevant, however, when we face Japanese competitors committed to gaining market share at any cost," Mr. Dunlap added. "They can afford to engage in predatory pricing because they are part of giant Japanese conglomerates prepared to subsidize their semiconductor operations for as long as it takes to gain control of the market."

EPROMs (Erasable Programmable Read-Only Memories) are a type of semiconductor memory device used for program storage. Today the dominant market products are 64K, 128K and 256K devices. (K represents 1024 bits of information.)

The petition describes the pricing histories of each of these products. In each case, following introduction of the new product generation by U.S. producers, pricing declined along a traditional industry "learning curve" related to the rate that costs decrease with production experience. When Japanese producers entered the market, prices dropped dramatically as Japanese

(more)

producers undercut U.S. manufacturers' prices as much as necessary to gain market share. The petitioners estimated that due to Japanese pricing policies, U.S. producers' revenues from 128K and 256K EPROMs alone will be reduced by approximately $203 million between July 1985 and July 1986.

Cited in the petition were 256K EPROM price quotations at $17.00 per unit in January 1985, when the Japanese entered the U.S. market aggressively. Price quotations for 256K EPROMs fell to less than $4.00 by August. The estimated Japanese cost of a 256K EPROM sold in August was $6.34.

Similarly, the petition described the decline in 128K EPROM price quotations, which fell from over $7.50 to under $2.50 between January and August of 1985. Although the unit volume of the U.S. market for 128K EPROMs increased by over 1,730 percent between the first quarter of 1983 and the second quarter of 1985, the domestic producers' share dropped by 60 percent. Japanese producers now hold approximately 60 percent shares of the U.S. markets for both 64K and 128K EPROMs.

The petition included further evidence of price undercutting without regard to cost considerations in the form of a memo in which Japanese manufacturer Hitachi instructed its distributors to "Win with the 10% rule." In reference to 128K and 256K EPROMs, the memo said, "Find AMD and Intel sockets. Quote 10% below their price. If they requote, go 10% again. Don't quit till you win!"

"It's evident that Japanese manufacturers have targeted EPROMs just as they did dynamic RAMs," said Mr. Dunlap. Japan now controls the dynamic RAM market, he noted. "We can sit back and let this happen in EPROMs, or we can use every means at our disposal to prevent it. This petition is evidence we intend to take the latter course. There is a violation of U.S. law here and we want it to stop," he concluded.

Background Information

The action

AMD, Intel, and National Semiconductor's Antidumping petition is based on EPROMs imported from Japan, which are being sold in the United States at less than "fair value," i.e., manufacturing cost, R&D, and general and administrative costs plus a reasonable profit. The petition is being filed on behalf of the entire EPROM industry in the United States against all Japanese manufacturers of EPROMs.

Elements of an antidumping petition

An antidumping petition is filed with the U.S. Department of Commerce and the U.S. International Trade Commission pursuant to the antidumping law, i.e. 19 U.S.C. Section 1673 et seq. The petitioner must show 1) injury to the U.S. industry due to dumping <u>and</u> 2) Dumping (either sales below fair value <u>or</u> prices in the U.S. lower than prices in Japan. In this petition, AMD, Intel and National are focusing on EPROM sales below fair value.

The Department of Commerce investigates prices and costs in an antidumping petition. The International Trade Commission investigates injury.

The remedy sought

The remedy that the petitioners seek is the imposition of antidumping duties on EPROMs imported to the U.S. from Japan. Antidumping duties are equal to the difference between the "fair value" and the actual price being charged by the Japanese. Antidumping duties would be paid to the U.S. government, not the companies involved.

In this case, the petitioners estimate antidumping duties based on the following data:

	64K EPROMs	128K EPROMs	256K EPROMs
End customer price	$1.73	$2.25	$3.88
Fair Value	$3.95	$5.53	$6.85
Antidumping duty	$2.22	$3.28	$2.97

Note: Dumping margin will be even larger for product sold through distribution.

Typical filing schedule

9/30/85	AMD, Intel, National file their petition with the U.S. International Trade Administration of the U.S. Department of Commerce and the U.S. International Trade Commission
10/21/85	U.S. International Trade Commission holds hearing on injury (21 days from filing)
11/14/85	U.S. International Trade Commission delivers preliminary injury determination. (45 days from filing)
3/10/86	U.S. Department of Commerce delivers preliminary determination of dumping. (160 days from filing)
5/24/86	U.S. Department of Commerce delivers final determination of dumping (75 days from preliminary determination)
7/9/86	U.S. International Trade Commission delivers final determination of dumping (45 days from Commerce final)
Note:	Final determination of dumping could take until 10/27/86 if the case is very complicated.

Differences between this action and other recent trade actions

On June 14, 1985 the Semiconductor Industry Association (SIA) filed a petition with the U.S. Trade Representative under Section 301 of the Trade Act of 1984. Although the petition describes the "dumping" and the Hitachi 10% memo, the main thrust of the petition is to open up the Japanese semiconductor market to U.S. manufacturers. Up until 1975 there were formal barriers in Japan restricting the imports of semiconductors and, we believe to a large extent, barriers still exist informally. Consequently, penetration of the Japanese market by non-Japanese semiconductor makers is minimal. For example, American manufacturers have approximately 55% of the European market, but only 11% of the Japanese market. The 301 petition is based upon Japanese government action which sets up these barriers. The U.S. Trade Representative and Japanese Ministry of International Trade and Industry (MITI) are currently negotiating possible solutions to this actions.

The recent "shoe cases" were brought under Section 201, which is part of the so-called "Fair Trade" laws. Under these laws, the petitioner only has to allege that he is being injured by imports. He does not have to show that the importers are doing anything illegal. This is the Section that U.S. auto makers used in the early 1980's. The 201 petition is filed with the U.S. ITC. In the shoe cases, the ITC recommended that quotas be imposed on shoe imports. However, the recommendation is subject to presidential discretion and, in this case, the President decided not to impose any quotas.

In June, 1985, Micron Technology, Inc. filed an Antidumping petition under the same law as the petition filed today by AMD, Intel, and National. Micron's petition claims that the Japanese are dumping dynamic RAMs (DRAMs), another form of semiconductor memory. On August 8, 1985, the ITC made a preliminary finding of injury and an investigation is proceeding.

On September 6, 1985, Micron also filed a private Antitrust Claim in the Federal District Court against six Japanese DRAM manufacturers. All of the other actions were filed with government agencies against all manufacturers in a particular country. The Antitrust Action, filed in a Federal District Court, is a private action of Micron against the specific companies named. The complaint alleges that the six manufacturers conspired among themselves to fix prices and dominate the DRAM market.

Recent quotes from Tomohiro Matsumura, Senior Vice President of NEC (Nippon Electric Corporation)

"'The industry has been changing fundamentally to vertical integration,' said Tomohiro Matsumura, Senior Vice President of NEC. 'More and more, semiconductors are becoming a high-technology-commodity industry, which makes it more and more difficult for the independent merchant to survive. I think we cannot help it if, in a commodity-oriented business, it falls in the hands of large enterprises.'" -- Washington Post, September 22, 1985

"Getting a slice of the microprocessor business is alluring to any big-time semiconductor company. Micros aren't the largest market segment; that distinction belongs to the $7-billion annual trade in computer memory chips. But, Matsumura explains, 'Micros are used in so many different products and are sold so often with a bundle of associated chips that you can link 15% to 18% of the $28-billion demand for all semiconductors to the microprocessor.' Besides, he adds, 'Many chips that are separate today...memories for example...will be fabricated tomorrow within the microprocessor itself. If we succeed in micros, we can absorb, and lead, much of the semiconductor industry.'"

Antidumping Petition

QUESTIONS AND ANSWERS

1. Isn't this the same as Micron's 64K and antitrust suits?

This is not a lawsuit. Micron's antitrust suit is something entirely different from this petition. The AMD/Intel/National petition is filed under the same law as Micron's 64K DRAM antidumping petition.

2. How is this different from the SIA 301 petition?

This petition seeks to stop the illegal dumping of EPROMs into the U.S. from Japan. Dumping is a violation of U.S. trade law. The SIA petition asks our federal government to take action as necessary to achieve greater access to Japanese markets for American manufacturers.

3. Why didn't you file a 201?

One would file a 201 if there was no dumping taking place, but imports were injuring the industry. This is what happened in the recent shoe case. The AMD/Intel/National petition says unfair trade practices, i.e. dumping, were taking place. Therefore, filing under different law is called for.

4. Who is your prime target?

Japanese manufacturers who price EPROMs below fair value (manufacturing costs + R&D costs + G&A costs + a reasonable profit margin) in order to increase market share in the U.S.

5. National: Hitachi is one of those named in your suit. Are you suing your partner in National Advanced Systems?

This is not a lawsuit. It is a petition against certain business practices followed by the Japanese semiconductor industry. We do not single out any one manufacturer. Our relationship with Hitachi is a completely separate issue.

6. Intel: Aren't some of the Japanese manufacturers named in the petition your own strategic partners? (Fujitsu, Mitsubishi, Oki)

This is not a lawsuit. It is a petition against certain business practices followed by the Japanese semiconductor industry. We do not single out any one manufacturer. Our relationship with _______ is a completely separate issue.

7. What do you expect to achieve with this action?

We want Japanese EPROM manufacturers to stop dumping their products on the American market. If they don't, we want an antidumping duty imposed on their products entering this country, as called for by law.

8. What could you lose?

We could lose the EPROM market if we don't act now. The record is clear on that. Remember the 64K DRAM? The Japanese took that market by undercutting all others until the profits vanished. Their strategy on EPROMs appears to be similar.

9. Is this petition part of a larger scheme? Are you guys going to roll out another one every week?

We are taking action wherever we think it is clearly warranted. We believe the facts are indisputable; the Japanese are determined to dominate the EPROM market as they do DRAMs, by pricing everybody else out of the business, regardless of the cost.

10. What is the answer to the trade issue?

Everybody has their own answer to that question. What we're discussing here today is a violation of law. Nobody can dispute that.

11. How badly have you been hurt? How much have you lost?

The facts speak for themselves: the Japanese already have 60% of the 64K U.S. EPROM market, 60% of the U.S. 128K market and have surged from 3% to 20% of the U.S. 256K market in less than two years. They did this largely on predatory pricing, jumping in with ridiculously low-priced chips after American firms developed the technology and the markets for them. Further, we expect that U.S. manufacturers will lose approximately $203 million between July 1985 and July 1986 due to Japanese producers' predatory pricing of 128K and 256K EPROMs alone.

12. What do you mean by "dumping?" Can you prove that the Japanese are indeed dumping their products here?

The law defines "dumping" as selling at prices below fair value or selling at a lower price in the U.S. than in the country's home market. This petition focuses on selling at prices below fair value. This practice is clearly against the law and we aim to prove that is what the Japanese are doing in EPROMs. We expect to win our point and put a stop to it.

13. What solid proof do you have?

We have prices, costs and years of market practices documented. There is no question that EPROMs are the latest target market of the Japanese semiconductor industry.

14. Where did you get your proof?

Cost data: Developed by Dr. William Finan, an independent economist with the Washington D.C. firm, Quick, Finan, and Associates. His estimates are based on general industry studies done over the years and discussions with U.S. EPROM producers on their costs, with adjustments based on his knowledge of Japan.

Pricing data: The source is a regular Intel business record referred to as the quote log. In this log, Intel sales engineers record competitive quotation information on a regular basis in order to estimate market prices.

15. Can we see your proof?

It is in the petition, except for some sealed exhibits that contain proprietary information on the petitioners' individual businesses, that not even we as individual companies can see.

16. How important is the EPROM market?

We cannot let the EPROM market follow what happened to the DRAM market. It is critical for American manufacturers to maintain a high-volume product to help develop new technologies and continually drive down the manufacturing learning curve. Otherwise, we'll become nothing but design houses. We intend to continue to be major players in the EPROM market.

17. Aren't you really asking for a form of protectionism?

No. We are asking that an illegal action be stopped.

18. Where is the SIA on this?

I can't speak on behalf of the SIA. You'll have to contact their offices directly.

19. Whose jurisdiction is this case? Who can make it stick? Who levies the duty, if any?

We are petitioning the U.S. Department of Commerce and the U.S. International Trade Commission for a stop to illegal trade practices. The ITC will make the initial investigation to determine if a full scale investigation is warranted. Assuming that they find in our favor, the Department of

Commerce will conduct the investigation. If they determine that the Japanese are indeed dumping EPROMs in the U.S., the Department of Commerce would be the agency to impose the duty.

20. If duties are imposed, who gets them?

The U.S. government.

21. What's the timetable?

Refer to the backgrounder.

22. Are you doing this because you simply are unable to compete with the Japanese?

Absolutely not! Our quality is better. We have more experience. We are the technology leader. U.S. companies have been the first to introduce each new generation. The Japanese haven't even introduced 512K and 1 megabit EPROMs, but U.S. firms have. We are filing this petition because we want to put a stop to illegal trade activities.

23. Why did you three companies do this together? Why not just one company, and why haven't other U.S. manufacturers joined in the petition?

Three of the largest U.S. EPROM manufacturers filed on behalf of all U.S. EPROM manufacturers. It's an overall industry petition.

24. Who is paying the costs associated with this petition? (Legal fees, etc.)

Each individual company.

25. Intel: Don't you have lawsuits pending with other Japanese companies?

Yes. In a copyright infringement case, Intel has alleged that NEC has copied Intel computer programs in its V series of microprocessor products.

26. Aren't you ultimately going to hurt your EPROM customers with this?

In the short tern, they will not be able to buy at the illegally low Japanese prices. But in the long term, they will not be dependent on a monopolistic source of EPROMs, Japanese semiconductor companies who would have the ability to raise prices freely.

DEWEY, BALLANTINE, BUSHBY, PALMER & WOOD

~~CONFIDENTIAL~~

E.O. 13526 BY NARA dlr 11/16/2022

October 3, 1985

MEMORANDUM FOR JEANNE ARCHIBALD
JOSEPH MASSEY
CLYDE PRESTOWITZ

From: Alan Wm. Wolff AW

Subject: Semiconductor 301 Case -- Meeting With MITI Representative

MITI representatives say that the impression that they get from the lengthy questionnaire just received in the semiconductor case is that this is a signal from USTR for MITI to "go slow and take its time". It is said that USTR is not ready to meet with MITI on a technical level without the questions being answered, and that no meetings at a Wakasugi/Smith level can take place until the technical level discussions have taken place. Moreover, it is again said that USTR is swamped with its self-initiated cases and has no time to devote to the semiconductor case.

MITI says it is turning its attention solely to the factual discussions. I replied that this approach could lead to a long and harmful deadlock, similar to the situation on the Western front in World War I, where there was a war of attrition. More and more cases will be filed -- antidumping, antitrust, and more government investigations of anticompetitive activities begun. While SIA did not believe that this was the most productive way to approach this case, SIA was prepared to do whatever it takes to win.

My interlocutor suggested that SIA was becoming more divided as time goes on. In fact this is not the case. The MITI interpretation is that the various companies are pursuing individual solutions (such as through dumping cases). I said that this did not detract from the overall importance and attention given by the industry to the section 301 case, although over time it would become more and more difficult to try to restore peace to this sector.

I reported to MITI that if it became necessary to get increased attention to our case, I had told USTR that I would commit seppoku on the steps of USTR, and that I had been asked whether I would do so with a 256K EPROM. MITI's representative indicated that MITI would send flowers.

For the record, the chain of command is as follows: On the working level there is Mr. Sumi; who reports to Mr. Ueda, Deputy Director (a coordinator of general affairs for the Bureau); who reports to Mr. Hyodo, Director, Industrial Electronics (with jurisdiction over computers, semiconductors and computer peripherals); who reports to Mr. Tanahashi, Deputy Director General, Industrial Machinery and Information Industries; who reports to Mr. Shiyuzama (sp?), Director General, Machinery and Information Industries Bureau; who reports to Vice Minister Wakasugi.

DEWEY, BALLANTINE, BUSHBY, PALMER & WOOD

TO Mr. Michael Driggs

I thought you would be interested in the enclosed materials relating to the Semiconductor Industry Association Section 301 case.

Alan Wm. Wolff

Oct. 4, , 19 85

135 Hart Senate Office Building
Washington, DC 20510
(202) 224-3744

721 Federal Building
210 Walnut Street
Des Moines, IA 50309
(515) 284-4890

206 Federal Building
101 1st Street S.E.
Cedar Rapids, IA 52401
(319) 399-2555

United States Senate

CHARLES E. GRASSLEY

103 Federal Courthouse Building
320 6th Street
Sioux City, IA 51101
(712) 233-3331

210 Waterloo Building
531 Commercial Street
Waterloo, IA 50701
(319) 232-6657

116 Federal Building
131 E. 4th Street
Davenport, IA 52801
(319) 322-4331

September 30, 1985

The Honorable Clayton Yeutter
United States Trade Representative
Room 209
600 17th Street, N.W.
Washington, D.C. 20506

Dear ~~Ambassador Yeutter~~ Clayton:

The Semiconductor Industry Association (SIA) has filed a petition with your office under Section 301 of the Trade Act of 1974. The petition requests that the United States government take the steps necessary to eliminate unfair trade practices which have been put into place and condoned by the Japanese government. I believe that the industry's petition, in calling for access to the Japanese market but not limitations on semiconductor imports, offers a responsible solution to this problem. Access to the Japanese semiconductor market is essential if the U.S. semiconductor industry is to remain competitive.

As you know, this case is a market access case. The U.S. industry asks only that it be given the opportunity to participate fully in the Japanese semiconductor market and that steps be taken to deter unfair trade practices by Japanese semiconductor companies in the U.S. market.

The Japanese semiconductor market is the only one in which U.S. companies have been unable to obtain a market share that is justified by their competitiveness. If this continues, I believe U.S. semiconductor manufacturers will be permanently injured at the cost of many U.S. jobs. Also, it could ultimately result in the United States relying entirely on foreign sources for semiconductor products which are necessary for vital military systems.

The U.S. government must take a tougher trade stance including the vigorous enforcement of existing trade laws to end the unfair trade practices of our trading partners. In the Semiconductor Industry Association's Section 301 trade case, you have before you the opportunity to demonstrate your commitment to this principle in a completely free trade context.

I urge the Administration to pursue this case to a swift and positive conclusion.

Sincerely,

Chuck Grassley

Charles E. Grassley
United States Senator

CEG/clm

United States Senate

COMMITTEE ON ARMED SERVICES
WASHINGTON, DC 20510

September 25, 1985

The Honorable Clayton B. Yeutter
United States Trade Representative
Office of United States Trade
600 17th Street, Northwest
Washington, D. C. 20506

Dear Ambassador Yeutter:

First, I want to congratulate the Administration for its September 23 statement on international trade policy. I think the President, you and others involved have struck a good balance between sensitivity to the concept of free trade and what must be done to assure fair market access for American business. In particular, I want to focus on that part of the President's remarks in which he instructed you to take action in instances of unfair trade that will disadvantage American businesses and workers. The United States semiconductor industry has filed a petition with you under Section 301 of the Trade Act of 1974 that fits this description perfectly.

American semiconductor products are at the cutting edge of technology, yet even with the recent mutual elimination of semiconductor tariffs in Japan and the United States, our market share in Japan is still stuck at ten percent, where it has been for ten years or so. This just does not seem natural and, in line with the September 23 statement issued by your Office, it is my hope that the Administration will use this case to "step up the use of the authority given to it by Congress to address foreign unfair trade practices" and "be receptive to petitions from firms and individuals that present valid complaints about foreign unfair trade practices."

Consistent with these commitments and the Administration's pledge to "seek the removal of foreign barriers and distortions" to trade in high technology industries "in which we have a significant worldwide competitive advantage," I can think of no more suitable petition to move to the front burner than the 301 case filed by the Semiconductor Industry Association.

True, this subject is close to me because of the importance of the semiconductor industry in Arizona, but it also has a significant bearing on the credibility of the Administration's commitment to accelerate efforts to open up foreign markets for United States products.

Sincerely,

Barry Goldwater

Barry Goldwater

CANNON HOUSE OFFICE BUILDING
ROOM 131
WASHINGTON, DC 20515

ADMINISTRATIVE ASSISTANT
SUZANNE STOLL

LEGISLATIVE ASSISTANT
JAMES E. LAMBLE

DANIEL A. MICA
14TH DISTRICT, FLORIDA

FOREIGN AFFAIRS

VETERANS' AFFAIRS

SELECT COMMITTEE ON AGING

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

September 18, 1985

Honorable George Shultz
Secretary of State
The Department of State
Washington, D.C. 20520

Dear Mr. Secretary:

It was a pleasure joining you for breakfast this morning. I found our conversation regarding trade and the protectionist sentiment in Congress most thought provoking.

As I mentioned in our discussion this morning, I share your opposition to hurtful protectionist trade measures that are currently circulating within the Congress. However, I also believe the Administration must take a tougher trade stance by enforcing existing trade laws. We must address unfair trade practices by our trading partners in order to prevent excessive action in the Congress. The Semiconductor Industry Association's Section 301 trade case is among the unfair trade practices the Administration can resolve in order to curb growing protectionist sentiment.

In your meeting with Japanese Foreign Minister Abe on September 23, I urge you to make the resolution of the Semiconductor Industry Association's Section 301 trade case a top priority. As you know, this case is a market access case. The U.S. industry asks only that it be given the opportunity to participate fully in the Japanese semiconductor market and that steps be taken to deter unfair trade practices by Japanese semiconductor companies in the U.S. market.

Since the filing of the case on June 14 by the Semiconductor Industry Association (SIA), and its initiation on an expedited basis by the Office of the United States Trade Representative on July 11, a number of semiconductor trade actions against Japan have been commenced by the Department of Justice and by private litigants. More are expected. I fear that semiconductor trade issues will become a major problem between Japan and the U.S. unless the two governments move promptly to effect a resolution.

As you know, the basis of these actions is that the Government of Japan has deliberately created and continues to support and condone a semiconductor market structure which excludes foreign companies from any but residual supplier status, and which makes possible aggressive and unfairly priced waves of exports to the U.S. Both types of activity are causing serious injury to U.S. semiconductor companies in the form of layoffs, plant closings, and operating losses at a time when the U.S. industry is already suffering because of a major decline in worldwide semiconductor demand.

Additional details on collusive behavior in Japan and its effects in the Japanese and U.S. markets are now being sought by the interagency 301 Committee, and questions concerning the case will be raised in discussions with the Japanese Government later this month. The purpose of the SIA case, however, is not to lay the blame for this situation, but to end the harmful effects of the Japanese Government and industry actions.

I expect that Mr. Abe would also prefer to resolve the case in as rapid and non-controversial a manner as possible. I would encourage you to propose to him that appropriate officials of the two governments develop a formulation for the conclusion of the case by the end of October. The early and favorable resolution of the case would certainly be viewed very positively in the Congress.

Thank you very much for your consideration of this vitally important matter.

With best personal regards,

Sincerely yours,

DANIEL A. MICA, M.C.

DM:ns

ED ZSCHAU, CALIFORNIA
CHAIRMAN
DON RITTER, PENNSYLVANIA
VICE CHAIRMAN

429 CANNON BUILDING
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JIM LeMUNYON, DIRECTOR

TASK FORCE ON HIGH TECHNOLOGY INITIATIVES

HOUSE REPUBLICAN RESEARCH COMMITTEE
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515

FOR IMMEDIATE RELEASE
August 19, 1985

CONTACT: JIM LeMUNYON

TASK FORCE URGES GREATER ACCESS TO JAPAN'S SEMICONDUCTOR MARKET

Twenty-nine House Republicans have sent a letter to United States Trade Representative Clayton Yeutter in support of the U.S. semiconductor industry's trade petition to gain greater access for U.S. companies to the Japanese semiconductor market.

The petition was filed with the Trade Representative on June 14, 1985 by the Semiconductor Industry Association (SIA) under section 301 of the 1974 Trade Act.

"In contrast to some U.S. industries, the semiconductor industry is not asking for protection. Rather it is just seeking the same open access to the Japanese market that the Japanese have to ours," said Congressman Ed Zschau, who is a former Silicon Valley executive and Chairman of the Task Force on High Technology Initiatives.

"It's essential to the future of the U.S. semiconductor industry that the Japanese government eliminate the subtle but effective trade barriers that have prevented U.S. manufacturers from achieving their fair share of the Japanese semiconductor market," Zschau said.

(more)

ED ZSCHAU, CALIFORNIA
CHAIRMAN
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TASK FORCE ON HIGH TECHNOLOGY INITIATIVES

HOUSE REPUBLICAN RESEARCH COMMITTEE
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515

August 5, 1985

The Honorable Clayton Yeutter
U.S. Trade Representative
600 17th Street, N.W.
Washington, D.C. 20506

Dear Ambassador Yeutter:

Congratulations on your appointment as United States Trade Representative. We look forward to working with you in an effort to promote U.S. exports and industrial competitiveness.

Of primary concern to us is U.S. access to foreign markets. This is particularly critical in the semiconductor industry, which provides the components on which virtually all other high technology electronics products are based.

We are pleased that you have initiated the Semiconductor Industry Association's case to gain greater access to the Japanese semiconductor market, and hope you will vigorously pursue negotiations with the Government of Japan to achieve that goal. The actions of the Japanese Government in creating and maintaining a semiconductor market structure in which foreign companies are able to serve only as residual suppliers have prevented U.S. companies from obtaining fair and equitable market opportunities in Japan.

The Semiconductor Industry Association's case under Section 301 of the Trade Act of 1974 documents these restrictive actions. These include the creation of an anticompetitive market structure, providing subsidies and low interest loans to Japanese semiconductor companies, and encouraging Japanese companies to buy Japanese semiconductor products.

The effects of these Japanese Government actions have been profound. United States semiconductor companies hold 83 percent of the domestic semiconductor market, a 55 percent market share in Europe (where Japanese companies hold only 11 percent) and about 50 percent of the market in other areas of the world outside of Japan, most of which are in the Pacific Rim. Yet in Japan--the second largest and most rapidly growing market--the share obtained by U.S. manufacturers has been held to just 10 percent for over a decade.

The Japanese semiconductor market is the only one in which U.S. companies have been unable to obtain a market share that is justified by their competitiveness. If this continues, we believe U.S. semiconductor manufacturers will be permanently injured at the cost of many U.S. jobs. Also, it could ultimately result in the United States relying entirely on foreign sources for semiconductor products which are necessary for vital military and commercial applications.

We will be pleased to provide you with whatever support you may require in pursuing the Semiconductor Industry Association's Section 301 case to a successful conclusion. That conclusion, we believe, must mean greater access to the Japanese semiconductor market for U.S. companies as evidenced by an increase in their market share in Japan.

Sincerely,

Ed Zschau	Don Ritter
Joe Skeen	George C. Wortley
Robert J. Lagomarsino	Newt Gingrich
Hamilton Fish, Jr.	Bobbi Fiedler
Duncan Hunter	William F. Clinger, Jr.
Nancy Johnson	Raymond J. McGrath
Carroll A. Campbell, Jr.	Bill Lowery
Ron Packard	Robert E. Badham
Rod Chandler	John McCain

Lynn Martin

Lynn Martin

Charles Pashayan Jr

Charles Pashayan, Jr.

Doug Bereuter

Doug Bereuter

Toby Roth

Tom DeLay

Thomas D. DeLay

Bill Thomas

William M. Thomas

Bill Archer

Bill Archer

Bob Smith (OR)

Robert F. Smith

Denny Smith

Denny Smith

Jim Kolbe

Silvio O. Conte

Silvio O. Conte

ALAN CRANSTON
CALIFORNIA

United States Senate
WASHINGTON, DC 20510

July 9, 1985

His Excellency Nobuo Matsunaga
Ambassador Extraordinary and
  Plenipotentiary of Japan
Embassy of Japan
Washington, D.C. 20008

Dear Mr. Ambassador,

We are writing to convey to you our concerns regarding trade issues between the United States and Japan, specifically regarding the current problems with the semi-conductor industry.

First we want to reiterate our strong support for the efforts taken by Japan so far to open up its markets to international trade, and our support for strengthening and expanding trade relations with Japan. We must, however, also underscore our very deep concern that progress in opening Japanese markets must be more rapid and effective. Failure to make greater progress has led to a sense of deep frustration in the United States and has led to growing ill-will against Japan, especially among those in the trading and high technology communities where there have been thousands of layoffs in California, alone, in recent weeks.

Responsibility for the lack of progress lies with both Japan and the United States. In the United States, our main failure lies in our not reducing the federal deficit which has resulted in high interest rates and imbalance in the value of the dollar and the yen that makes our exports less competitive. Japan has been too slow in dismantling the structure of quotas and trade barriers that have closed out our competitive technology goods from the Japanese market. Japan has also been too slow in responding to U.S. proposals in government forums like the High Tech Working Group and MOSS (Market-Oriented Sector Selective) negotiations regarding greater market access for U.S. semiconductors in Japan. And Japan has been too tolerant of anti-trust and dumping violations perpetrated by Japan-based corporations, such as the Hitachi case.

The semiconductor industry is a clear example of an industry in which U.S. companies' access to the Japanese market has been severely limited while Japanese companies have had free access to the United States market. The relatively low sales of U.S. high technology goods in Japan is not a result of any greater competitiveness on the part of Japanese companies. U.S. semiconductor companies are clearly competitive with Japanese companies as evidenced by their relative levels of sales in markets outside of Japan.

The semiconductor industry in the United States and in Japan is facing a very difficult period. Demand has fallen in both countries. But it is unacceptable to the United States to have Japanese semiconductor products which are in excess "dumped" in the United States market. Such activities do further injury to the industry and to U.S.-Japanese trade relations at a time when it is vital to improve, not harm, our trade ties.

While the government of Japan has stated that it recognizes the need to make special efforts to overcome the barriers which have prevented U.S. semicondutor companies from participating fully in the Japanese market, the Japanese Government has failed to encourage increased purchases of foreign companies' semiconductors by Japanese firms. In fact, the U.S. share of the Japanese semiconductor market has actually declined during 1985 to levels of 10 years ago, when import quotas were in place.

We are strong advocates of an open international trading system. We must reiterate our concern that unless progress is achieved , the pressure in Congress to take protectionist action will continue to grow. We believe that the semiconductor case will be taken as a concrete example by Congress of Japan's determination to open its markets. A substantial increase in U.S.semiconductor companies' share of the Japanese market would demonstrate effectively that commitment. Failure to do so will force the Congress to question it.

We request that you convey our views on the matter of the semiconductor industry to the highest levels of your government. We look forward to working with you to resolve the trade dispute and enhance our close relationship with the people of Japan.

Sincerely,

Pete Wilson

Henry A Waxman

Mel Levine

Barbara Boxer

Tony Coelho

Matthew G. Martinez

Mervyn M. Dymally

Esteban E Torres

Carlos J Moorhead

Alan Cranston

Don Edwards

Howard Berman

George Miller

Richard H. Lehman

Edward R. Roybal

Sala Burton

Harry Reid

Robert T. Matsui

Tom Lantos

Pete Stark

Bob Lagomarsino

Daniel E. Lungren

Duncan Hunter

Ron Packard

David Dreier

Ed Zschau

Bill Lowery

Glenn M. Anderson

Bill Dannemeyer

[illegible]

[illegible]

Charles Pashayan Jr.

[illegible]

Vic Fazio

Gene Chappie

Ronald V. Dellums

Robert K. Dornan

Al McCandless

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Congress of the United States
House of Representatives
Washington, D.C. 20515

COMMITTEE:
WAYS AND MEANS

SUBCOMMITTEES:
CHAIRMAN, SOCIAL SECURITY
OVERSIGHT

July 10, 1985

Honorable Clayton B. Yeutter
U.S. Trade Representative
Office of U.S. Trade
600 17th Street, N.W.
Washington, D.C. 20506

Dear Ambassador Yeutter:

The Semiconductor Industry Association (SIA) has filed a petition with your office under Section 301 of the Trade Act of 1974. The petition requests that the United States government take the steps necessary to eliminate unfair trade practices which have been put into place and condoned by the Japanese government. I believe that the industry's petition, in calling for access to the Japanese market but not limitations on semiconductor imports, offers a responsible solution to this problem. Access to the Japanese semiconductor market is essential if the U.S. semiconductor industry is to remain competitive.

In recent testimony before the Joint Economic Committee, SIA indicated that Japanese market barriers in the semiconductor industry are costing the U.S. up to 27,000 jobs including up to 4,000 in our state of Texas. In the current recession in the semiconductor industry, Japanese barriers to trade are causing severe injury to U.S. semiconductor companies. U.S. jobs are lost because of the limited level of sales which is possible in Japan, and because the structure of the Japanese semiconductor market makes the dumping of semiconductors in the U.S. market more likely.

I am pleased that SIA is making use of the Section 301 provisions of the Trade and Tariff Act of 1984 which was passed by the Congress last year. Those provisions make it possible for U.S. companies to take action against foreign government actions which deny "fair and equitable market opportunities" to U.S. companies. This case offers a very good example of the sort of market barriers which the new law permits U.S. companies to address.

I strongly endorse your efforts to resolve these market access problems through negotiations with the Government of Japan, and encourage you to initiate the 301 case on an expedited timetable. I also urge you to continue to make the semiconductor trade issues raised by the SIA petition a priority of the U.S. Trade Representative's office.

Sincerely,

Lloyd Bentsen

Tom Loeffler

Tom DeLay

Solomon Ortiz

Charles Wilson

Albert Bustamante

Richard Armey

Larry Combest

Mac Sweeney

Jim Wright

Ralph Hall

J.J. PICKLE

Kika de la Garza

John Bryant

Steve Bartlett

Henry B. Gonzalez

Jack Brooks

Marvin Leath

Martin Frost

Mike Andrews

Bill Archer

Joe Barton

Beau Boulter

Ronald Coleman

Mickey Leland

Jack Fields

Congress of the United States
House of Representatives
Washington, D.C. 20515

June 20, 1985

The Honorable Michael B. Smith
Acting U.S. Trade Representative
Office of U.S. Trade
600 17th Street NW
Washington, DC 20506

Dear Ambassador Smith:

We wish to commend you for proceeding with your new round of talks with Japan to resolve disputes over trade in electronic products. We also strongly urge you, during these talks, to attach a very high priority to improving access to the Japanese market for our domestic manufacturers of semiconductors.

This country is very fortunate to have an industry which produces state-of-the-art semiconductors. America's products are of the highest quality, with our semiconductor industry consistently remaining on the cutting edge of new technological advances in the area. Evidence of the quality and reliability of the products, as well as of the industry's marketing success, is the consistent world-wide demand for American-made semiconductor chips.

It is, therefore, particularly distressing that our domestic manufacturers of semiconductor chips have been unable to acquire any appreciable share of the Japanese marketplace. Despite the persistent and long-standing efforts on the part of our semiconductor industry, there have been no substantial improvements in trade with Japan in this particular area.

In addition to being unable to penetrate the trade barriers that currently exist in Japan, the American semiconductor industry has been unable to halt the selective export policies engaged in by Japanese companies - policies which have the potential to destabilize the world-wide semiconductor marketplace.

Obviously, industry efforts alone will not resolve the impasse in this important market. We, therefore, are strongly urging you to play a vigorous role in improving international conditions for American semiconductor manufacturers.

Specifically, we ask that, in the context of your overall negotiations pertaining to electronic products, you attach a very high priority to achieving the liberalization of Japanese markets for our semiconductor products.

Moreover, we ask that you process, as quickly as possible, the Section 301 case filed recently by the Semiconductor Industry Association so that appropriate remedies can be rapidly implemented to mitigate the adverse trade position of our semiconductor industry vis-a-vis Japan.

We feel certain that you share our deep concern in this matter and that you agree every possible avenue must be explored to sustain one of the most successful and most competitive of all of America's industries. Thank you in advance for your kind consideration and your assistance regarding this critical issue.

Sincerely,

Don Edwards	Norman Mineta
DON EDWARDS	NORMAN Y. MINETA
Barbara Boxer	Sala Burton
BARBARA BOXER	SALA BURTON
Glenn M. Anderson	Panetta
GLENN ANDERSON	LEON PANETTA
Gus Hawkins	George Miller
GUS HAWKINS	GEORGE MILLER
Mervyn M. Dymally	George E. Brown Jr.
MERVYN DYMALLY	GEORGE BROWN, JR.
Henry A. Waxman	Harry Reid
HENRY WAXMAN	HARRY REID
	Howard L. Berman
JIM BATES	HOWARD BERMAN
Alan Cranston	Anthony Beilenson
ALAN CRANSTON	TONY BEILENSON

TONY COELHO

DOUG BOSCO

VIC FAZIO

JULIAN DIXON

RONALD DELLUMS

MATTHEW MARTINEZ

EDWARD ROYBAL

RICHARD LEHMAN

ROBERT MATSUI

PETE STARK

ESTEBAN TORRES

TOM LANTOS

MEL LEVINE

cc: Jeanne Archibald, Chair, Section 301 Committee

SIA SEMICONDUCTOR INDUSTRY ASSOCIATION
4320 Stevens Creek Blvd. • Suite 275 • San Jose, CA 95129 • (408) 246-1181

SELECTED STATEMENTS BY MEMBERS OF CONGRESS IN SUPPORT OF SIA 301 ACTION

June 14, 1985

A number of members of Congress have issued press releases and written letters in support of the SIA 301 petition. Others have commented with regard to the case. These include the following statements:

I. Statement of Sen. Richard Lugar (R-IN), Chairman of the Senate Foreign Relations Committee:

"The evidence that is raised in this complaint raises very serious questions about the entire US-Japan relationship. Toleration of anticompetitive practices in an area like semiconductors where the U.S. is clearly a world leader suggests an attitude of dominance out of keeping with our idea of an equal partnership in the Pacific".

II. Statement of Sen. Frank Murkowski (R-AK), Chairman, Senate Republican Conference, Task Force on International Trade Policy:

"The fact that U.S. manufacturers consistently out-perform the Japanese in neutral markets by better than four to one is strong circumstantial evidence that the allegations of trade barriers in Japan is true."

III. Statement of U.S. Senator Paula Hawkins (R-FL):

"A viable U.S. semiconductor industry is critical to the competitiveness of the entire U.S. electronics sector and is essential to providing performance advantages for U.S. defense systems. Equal access to the Japanese semiconductor market - which is the largest and most dynamic market outside of the United States - must be accomplished if the U.S. industry is to survive."

IV. Statement of Representative Thomas Downey (D-NY), Member, House Ways and Means Committe, Subcommittee on Trade:

"Last year, Congress modified the trade law to make clear that Section 301 applies when foreign interests deny U.S. firms fair and equitable access to the foreign market. This clarification was to address market barriers such as those outlined in the semiconductor 301 case. I hope that this case will be resolved quickly and in a fair manner for the U.S. industry under the newly revised statute."

OFFICE OF U.S. SENATOR ALAN CRANSTON
112 Hart Senate Office Building, Washington, D.C. 20510

Press Contact: Murray S. Flander
Office Phone: 202/224-5596
Home Phone: 703/573-4577

June 14, 1985
CHIPS

FOR IMMEDIATE RELEASE

Senator Alan Cranston (D., Calif.) said today that Commerce Secretary Malcolm Baldridge is "sympathetic" to complaints by the U.S. semiconductor industry of product "dumping" by Japanese competitors.

Cranston, who is the Senate deputy Democratic leader, said he presented the industry's case to Baldridge yesterday at a lunch in his Capitol office after meeting earlier this week with members of the Semiconductor Industry Assn.

The association, which represents the nation's leading independent manufacturers of silicon chips--many of them California firms--today filed a petition with acting U.S. Trade Representative Mike Smith charging Japan with blocking imports of U.S.semi-conductors.

Besides asking the Reagan administration to negotiate with Japan to open its $8 billion semiconductor market to U.S. manufacturers, the industry wants the government to persuade Japan to stop its "dumping" of chips on U.S. buyers at prices below cost.

Cranston said Baldridge "understands the situation and he told me he would try to help".

(more)

Cranston, who is a member of both the Senate Banking and Foreign Relations Committees, today formally requested that he be called to testify on behalf of the industry when Trade Representative Smith holds hearings on the industry's petition. Hearings are expected to begin sometime next month.

Cranston told Smith, in a letter sent today, that the semiconductor industry "which is at the vanguard of our future industrial growth is being undermined by outrageously unfair foreign practices".

"Inaction by the Reagan administration would amount to unilateral disarmament in internationals trade competition," Cranston said.

Cranston said the industry is not recommending restrictions on Japan's access to the U.S. market or suggesting retaliatory measures.

However Sec. 301 of the 1974 Trade Act requires the President to impose a tariff or an import quota if U.S. negotiators fail to reach an agreement with Japan within a year.

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STATEMENT OF SENATOR PACKWOOD

THIS SPRING, BOTH HOUSES OF CONGRESS, FOLLOWING THE FINANCE COMMITTEE'S LEAD, EXPRESSED THEIR FRUSTRATION WITH JAPAN'S FAILURE TO OPEN ITS MARKETS TO FOREIGN PRODUCTS AND SERVICES. THE FINANCE COMMITTEE HAS APPROVED A BILL WHICH WILL REQUIRE THE PRESIDENT TO RETALIATE AGAINST JAPAN UNLESS AND UNTIL UNITED STATES EXPORTERS OBTAIN MEANINGFUL ACCESS TO THE MARKETS OF JAPAN.

THE JAPANESE GOVERNMENT HAS RESPONDED WITH PROMISES OF MEANINGFUL MARKET OPENING MEASURES, TO BE ANNOUNCED IN JULY. YET, WITH THE DATE OF THAT ANNOUNCEMENT BARELY A MONTH AWAY, THERE IS LITTLE EVIDENCE THAT NEW POLICIES ARE EMERGING FROM TOKYO. A CASE IN POINT IS THAT OF TRADE IN [illegible] INDUSTRY.

THERE CAN BE NO DOUBT ABOUT THE COMPETITIVENESS OF THE U.S. SEMICONDUCTOR INDUSTRY. THE U.S. INDUSTRY HAS CAPTURED 55 PERCENT OF THE WORLD MARKET FOR SEMICONDUCTORS, WHEREAS THE JAPANESE HAVE ONLY BEEN ABLE TO CAPTURE ABOUT 11 PERCENT OF THAT MARKET. YET IN JAPAN, THE U.S. SHARE OF THE SEMICONDUCTOR MARKET HAS REMAINED AT ABOUT 10 PERCENT INSPITE OF NUMEROUS

EFFORTS OVER A DECADE BY THE U.S. INDUSTRY AND THE U.S. GOVERNMENT TO OBTAIN A LIBERALIZATION OF THAT MARKET. BUT NONE OF THESE LIBERALIZATION EFFORTS HAS CHANGED THE OLIGOPOLISTIC SITUATION OF THE JAPANESE SEMICONDUCTOR INDUSTRY. A SMALL NUMBER OF JAPANESE ELECTRONICS COMPANIES BOTH PRODUCE AND CONSUME JAPAN'S SEMICONDUCTORS. THESE SAME FIRMS DOMINATE MOST SEMICONDUCTOR END-PRODUCT MARKETS; PROCURE THE BULK OF THEIR SEMICONDUCTORS FROM EACH OTHER; ARE LINKED BY A LARGE NUMBER OF HORIZONTAL TIES WITH RESPECT TO RESEARCH, DEVELOPMENT AND, IN SOME CASES, PRODUCTION AND SALES; ARE CHARACTERIZED BY A STRONG "BUY NATIONAL" BIAS; AND HAVE A LONG HISTORY OF COLLUSIVE ACTIVITY, INTENDED IN PART TO EXCLUDE FOREIGN PRODUCTS.

THIS ANTICOMPETITIVE SITUATION COULD BE ENDED BY ENFORCEMENT OF JAPAN'S ANTITRUST LAWS. BUT, AS IN THE CASE OF OTHER INDUSTRIES, THE GOVERNMENT IS APPARENTLY RELUCTANT TO BREAK UP ARRANGEMENTS WHICH IT HELPED CREATE IN THE POST-WAR PERIOD. OVER THE YEARS, THE JAPANESE GOVERNMENT HAS PROTECTED THE SEMICONDUCTOR INDUSTRY AND SEMICONDUCTOR END-PRODUCT INDUSTRIES, HAS RESTRICTED ENTRY INTO THE SEMICONDUCTOR INDUSTRY TO LARGE ELECTRONICS PRODUCERS, HAS ENCOURAGED DIVISION OF PRODUCT MARKETS, AND PROMOTED COOPERATION IN RESEARCH,

DEVELOPMENT, PRODUCTION AND SALES OF SEMICONDUCTORS. IN SHORT, THE OLIGOPOLY THAT NOW DOMINATES JAPANESE SEMICONDUCTORS AND MAKES FOREIGN PENETRATION SO DIFFICULT, WAS NUTURED AND PROMOTED BY THE JAPANESE GOVERNMENT.

WHILE IT SHOULD NOT SURPRISE US THAT THE JAPANESE GOVERNMENT HAS BEEN RELUCTANT TO ENFORCE ITS ANTITRUST LAWS AGAINST AN OLIGOPOLY OF ITS OWN CREATION, WE MUST CONCLUDE THAT FAILURE TO REVERSE THIS POLICY RENDERS ANY OTHER MARKET OPENING MEASURES AFFECTING SEMICONDUCTORS MEANINGLESS. WE SHALL AWAIT THE JULY ANNOUNCEMENTS FROM TOKYO WITH INTEREST, BUT UNLESS THE JAPANESE GOVERNMENT ADDRESSES THE STRUCTURAL PROBLEMS ILLUSTRATED BY THE SEMICONDUCTOR CASE IN A FORTHRIGHT MANNER, THERE CAN BE NO PROSPECT OF ANY MEANINGFUL OPENING OF THE JAPANESE MARKET.

JAMES R. JONES
FIRST DISTRICT, OKLAHOMA
MEMBER:
COMMITTEE ON WAYS
AND MEANS
CHAIRMAN
SUBCOMMITTEE ON SOCIAL SECURITY
MEMBER:
SUBCOMMITTEE ON HEALTH
DEMOCRATIC STEERING
AND POLICY COMMITTEE

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

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STATEMENT OF THE HONORABLE JAMES R. JONES

Today the Semiconductor Industry Association has filed a petition under Section 301 of the Trade Act of 1974, alleging barriers to the sale of U.S. semiconductors in Japan.

As co-author of the reciprocity legislation which became law last year, and as a zealous proponent of free and fair trade, I laud this step. I am pleased that this industry, a leader in competitiveness and innovative technology, has chosen to seek not protection at home, but market access abroad.

Sadly, this Administration has not utilized the fair trade tools Congress has bestowed upon it. Our trade deficit, while caused largely by the Administration's macroeconomic policies, must also be laid to lackadaisical enforcement of our fair trade laws.

I urge the Administration to pursue this case vigorously and swiftly. The industry deserves nothing less.

I further expect the Administration to put to use its ability to self-initiate 301 cases in the future, so that competitive American companies are granted the market access they deserve.

June 14, 1985

Testimony of

W.J. Sanders, III

Chairman, President and Chief Executive Officer,

Advanced Micro Devices

on behalf of

The Semiconductor Industry Association

before the

Joint Economic Committee
United States Congress

October 10, 1985

Mr. Chairman, my name is Jerry Sanders. I am Chairman, President and Chief Executive Officer of Advanced Micro Devices, a leading United States manufacturer of semiconductor products. I am also a member of the Board of Directors of the Semiconductor Industry Association (SIA), and today am testifying on behalf of that association. I wish to thank you for this opportunity to discuss with you and your committee some ways in which America can remain first in information technologies and to review the current trade situation in the semiconductor industry.

The question to address is: what is needed in order for there to be a U.S. semiconductor industry in ten years? Today I will outline the elements of a U.S. trade policy to accomplish that goal. I do not come here to engage in country bashing. I am here to promote America.

I. INTRODUCTION - AMERICA FIRST IN INFORMATION TECHNOLOGY

The information technologies are quite simply the core industries of the next industrial era, just as the steel, chemical, and automobile industries have been the core industries of the 20th century. It is critically important that the United States continue to lead the world in technological development and in the production of computers, communications products, software, instruments, robotics and semiconductors. These industries are essential to our national security, to our current economic well-being, and to our continued economic growth. Our competitors overseas have recognized the importance of these industries, and have engaged in a wide variety of programs to make possible their rapid growth. Very often, these foreign government promotional efforts have come at the expense of the United States industry involved. The United States Government must recognize that unless it takes prompt, affirmative action to ensure that America remains first in information technologies, other nations will usurp that position.

My mission here today is to champion the cause of keeping America first in information technology.

If America is the reigning but beleaguered champion, the challenger is Japan. The Japanese have set their sights on our precarious crown. They know that in this "Information Age," leadership in information technology equates to leadership in commerce. They also know that it is impossible to be first in information technology without also being first in semiconductor technology. This is why the Japanese have expended enormous sums of money over the past several decades in an effort to gain parity in semiconductor technology: it holds the key to supremacy in information technology.

The necessary U.S. effort to counter this challenge must involve not only the particular trade policies on which I will focus today, but a commitment to building technological skills and creating the environment in which those technological skills can be translated into the development and production of state-of-the-art information technology products.

II. THE NEED FOR A NEW U.S. TRADE POLICY

A new U.S. trade policy is necessary to make it possible for our information technology industries to survive the current challenge brought about largely by the industrial and trade policies of foreign governments. At the same time, a new U.S. economic policy is necessary to enable U.S. industry to stay in the lead in these areas. Government support for technical education, government encouragement of R&D expenditures, and government creation of an environment which encourages the commercial exploitation of products developed through domestic R&D are all required if U.S. information technology industries are not only to survive but are to maintain their economy-leading growth over the long term. Our challenge as an industry is to develop and present to our government suggestions as to the type of programs which can ensure that America is always first in technology.

Before I turn to the specific problems faced by the United States semiconductor industry in its international trade, particularly with Japan, I would like to examine the crucial elements of the overall U.S. international trade program which is emerging this fall through the interaction between the President and the Congress. The U.S. semiconductor industry, as an industry which relies on international markets for 30% of its sales and which faces a rapidly increasing level of import competition in its domestic market, finds itself one of the industries most effected by any change in U.S. trade policy.

There are essentially six elements of U.S. trade policy currently being implemented or under review in the U.S. government. These are:

* Bringing the value of the U.S. dollar to an appropriate level;
* Vigorously enforcing U.S. unfair trade laws;
* Negotiating the elimination of foreign government barriers to imports;
* Revising U.S. trade laws to address a wider range of unfair foreign trade practices, to provide compensation to parties injured by foreign unfair trade practices, and to enhance the international competitiveness of U.S. industry;
* Developing U.S. tax law that will enhance the international competitiveness of U.S. industry; and
* Reexamining U.S. antitrust laws as they apply to foreign anticompetitive activities and U.S. competitiveness.

<u>Setting an Appropriate Value of the Dollar</u>

The Administration's recent initiative, in conjunction with our major trading partners, to bring the value of the dollar back to an appropriate level with respect to other major currencies utilized in international trade, represents a very important step toward increasing the competitiveness of many U.S. industries. When the value of the U.S. dollar is inflated, this represents a tax on U.S. exports and a subsidy for imports. There is no clear, fundamental economic reason for the fact that the dollar has remained for such a sustained period at a level so unrelated to U.S. trade performance.

In fact, absent very strong investment flows from overseas, the excess of U.S. imports over U.S. exports should itself act to return the dollar to a balanced level. Such investment flows into the United States are, however, occurring. Thus, the concerted government action to realign exchange rates at a more realistic level is essential to put a halt to the devastation to key American industries which has been caused by the overvaluation of the dollar over an extended period.

Of course, this concerted government action must involve more than just temporary intervention in the exchange markets. The value of the dollar will only adjust if the markets believe fundamental change has occurred in the way the major trading partners have structured their economies. For the U.S. this means reducing the Federal budget deficit and lowering interest rates. For Japan, this means encouraging a higher level of individual consumption.

In any case, in and of itself, a currency realignment at a more realistic level will not be sufficient to reestablish the United States as the preeminent world industrial center or maintain our status as the world's leading technological center. Manufacturing jobs which were moved to other nations in order to avoid the penalty associated with production in the United States will not return to this country. Furthermore, in high technology industries such as ours, which is a target of national development strategies, and in which prices are already falling at a rate of approximately 30% per year, the value of the dollar has not proven to be a significant determinant of relative competitiveness.

Vigorously Enforce U.S. Trade Laws

The President has also indicated his commitment to the vigorous enforcement of U.S. trade laws. This step too is essential if U.S. companies are to avoid the terminal injury which can result from foreign government subsidies, foreign dumping of products in the U.S. market, and foreign barriers to access to their markets.

Yet, this step alone is also insufficient. Foreign unfair trade practices already include elements which fall outside of the scope of existing U.S. trade law, but which are nonetheless injurious to U.S. industries. Moreover, the trade laws provide no compensation to the U.S. industry which has suffered as a result of the foreign unfair practice. Furthermore, the application of the trade laws frequently cannot occur rapidly enough to avoid serious injury to the U.S. industry involved.

Eliminate Foreign Barriers To Imports

The President has also committed his Administration to take steps to eliminate foreign barriers to imports from the United States. This is particularly important in the case of emerging information technology industries which foreign governments may wish to protect from import competition. In the newer technologies which involve very large up-front R&D and investment expenditures, volume production is often the key to commercial success. When foreign markets are closed to U.S. companies, the U.S. companies lose not only the sales they would otherwise make in the foreign market, but sales that they are unable to make in their domestic market because their per unit costs are maintained at an artificially high level. At the same time, they lose many of the other benefits of volume production, such as improved production and design technology.

Foreign market barriers can take a variety of forms from quotas, tariffs and investment restrictions to non-tariff barriers such as customs delays and quality inspections to the encouragement by foreign governments of market structures and buy-national attitudes which prevent significant foreign entry into the market. In all these cases, the effects can be equally devastating, and the U.S. Government must be willing to take action against all such foreign market barriers.

Revise U.S. Trade Laws

One area of trade policy reform which the President has said must be addressed (though the Administration has not yet submitted any proposals), and which is under active consideration in the Congress, is trade law reform.

As mentioned above, there are types of foreign unfair trade practice now being experienced which are not clearly addressed under current U.S. unfair trade practice laws.

For instance, it should be made absolutely clear in our trade laws that U.S. companies are entitled to obtain relief from the ill effects of past foreign government actions and policies which continue to have a detrimental effect on the current trade patterns of U.S. companies. It should also be made clear that foreign government tolerance of an industry cartel is actionable under Section 301 of the Trade Act of 1974.

Furthermore, the Congress should enact legislation to permit domestic firms injured by foreign unfair trade practices to receive damages from their competitors in much the same way that antitrust damages are paid by the antitrust law violator to the injured party. At present, dumping and countervailing duties are paid directly to the United States Government.

In the early 1970s the U.S. industry was successful in proving that Japanese companies were dumping color television sets in the United States, but by the time duties were imposed to counter this predatory practice, the U.S. industry had already suffered irreversible damage and was eventually driven from color television production in this country. This was despite the fact that the dumping duties in this case were among the largest ever assessed.

The television case is illustrative of the frequent ineffectiveness of the duties imposed under our trade laws. It also demonstrates the need to ensure that actions to counter foreign unfair trade practices are carried through rapidly enough to provide timely relief to the effected U.S. industry. In the semiconductor industry, for instance, products have life cycles of as little as four years. As a result, in the two years between the recognition that unfair trade practices are occurring and the time that counter-actions are taken, the market for the product may well have become inconsequential. Changes to this aspect of U.S. law may require not only U.S., but international attention -- possibly during the upcoming round of GATT negotiations.

Finally, the U.S. Government should consider the competitive disadvantage imposed on U.S. information technology industries by our current system for the administration and enforcement of our export control laws. The current situation creates significant trade problems for U.S. exporters' long-time customers in friendly western countries. They find it very difficult to understand why we request such thorough documentation and audits when their other western suppliers do not. Furthermore, our competitors from our COCOM allies point out that U.S. companies are put at a competitive disadvantage by extraterritorial application of U.S. export control laws. It is far easier to do business with our COCOM allies who are restricted only by multilateral agreements. It is a matter of utmost urgency that we develop regulations that will allow us to do business on the same basis as our western competitors.

Tax Law is Trade Law

A growing number of Members of Congress are now recognizing that because U.S. tax policy has a very significant impact on the global competitiveness of U.S. companies, it too must be considered a form of trade law. Our tax system is "de facto" industrial policy, and at present it is encouraging the wrong types of U.S. industrial development. Borrowing is encouraged at the expense of saving, thus maintaining a higher U.S. cost of capital. At the same time, the highest effective tax rate is applied to the sector of our economy most affected by competition from abroad -- manufacturing.

The U.S. Government recognizes that tax reform is necessary. What is critically needed to make that reform effective from a trade and competitiveness perspective is to make a fundamental shift from a consumption-based tax system toward a savings-based tax system. Savings and investment are the lifeblood of our economy, and in particular of the information technology industries. Research and development, capital formation, and the prudent use of capital determine productivity growth, and ultimately, the standard of living of our citizens.

Our tax laws should reflect this fundamental fact. Yet the Treasury II tax proposal contains some provisions which are absolutely antithetical to the key issue of enhancing U.S. industrial competitiveness in information technology. Most seriously, the proposal would force U.S. information technology firms to depreciate their capital equipment at a very slow rate which is totally unrelated to the actual useful life of the equipment involved. Semiconductor manufacturing equipment, for instance, has a useful life of about four years and yet is classified in the same depreciation category as capital goods which have useful lives of twice that duration.

But of even greater concern to our industry is the Ways and Means Committee tax proposal which would impose a 20% penalty tax for R&D while cutting the R&D credit. Under this proposal, a semiconductor company which incurs a $100 million financial loss, but which performed $250 million in R&D during the year in which it experienced the loss (a realistic ratio for many semiconductor companies this year) would end up <u>paying</u> U.S. taxes.

These international competitiveness issues cannot be ignored (as they apparently were in the case of the Treasury II and Ways and Means tax proposals) in the preparation of our revised tax laws. To do so would risk completely offsetting the efforts being made in other areas of U.S. trade policy to revitalize U.S. industry's competitive strength on world markets.

Reexamine U.S. Antitrust Law

Finally, it is becoming apparent that the U.S. antitrust laws enacted around the turn of the century are based on an economic model which takes no account of international trade. Last year, the Congress wisely amended the antitrust laws to promote the creation of joint R&D ventures between U.S. companies. This law has already been widely utilized. Forty-five groups have already established or are now forming such ventures, including ten joint ventures in the electronics industry. It can be expected that the benefits of joint R&D will soon begin to be reflected in the marketplace.

SIA believes, however, that it is time to review our antitrust laws to consider possible ways in which they can be modified to reflect the new reality of a global marketplace and to improve the international competitive position of U.S. companies. We believe this can be accomplished without sacrificing the protection from anticompetitive behavior provided by the antitrust laws.

There are two areas of U.S. antitrust law which are most in need of review. One is the application of U.S. law to anticompetitive actions which take place outside of the United States. Where injury is done to U.S. companies by foreign actions or a foreign industry structure which would violate U.S. antitrust law, there should be some recourse under U.S. law. The other area to which consideration should be given is the possibility of permitting some joint manufacturing programs in the United States.

SIA will be conducting such a review during the coming months, and will hope to have the opportunity to work with the Congress in this process.

A Comprehensive U.S. Trade Policy

Out of these basic elements, the United States must formulate a comprehensive and effective trade policy. Each of the elements is critically important, but only if they are seen as parts of a whole will the overall policy be able to achieve its full potential. Our industry supports the conclusion of the President's Council on Industrial Competitiveness that the formation of such a trade policy must become a national priority. We also endorse the recent decision by the Administration to create a strike force on international trade issues under the leadership of Secretary of Commerce, Baldrige.

Only by taking that action can we avoid irrevocable damage to U.S. information technology industries in the short term and move onward to develop and implement the programs necessary to accelerate the growth of the information technology industries in the United States. SIA is anxious to work with you to develop concrete policy proposals, along the lines of those I have presented here today, which can form the basis which will permit us to proceed with our long term economic growth.

III. THE SEMICONDUCTOR TRADE SITUATION

I would like to turn now from broad policy issues and spend a few minutes reviewing the current status of international trade in the semiconductor industry. The concerns I have expressed regarding the danger of severe damage to our industry from unfair foreign competition are not at all academic.

In DRAMs -- dynamic random-access memories -- Japanese companies now have 70 percent of the world market and it appears they will capture virtually the entire remainder by the end of the decade. In SRAMs -- static random-access memories -- they now have 80 percent of the world market. And in EPROMs -- erasable programmable read-only memories -- they have more than 50 percent and have their sights set on the remainder.

These three product lines are the technology drivers -- the high ground, so to speak, in an undeclared trade war. We cannot let our competitors capture all of the high ground or the war will be lost before the American people even know we were in it.

As you know from the testimony given before this committee on this subject on August 6, 1985 by Charles Sporck, President of National Semiconductor Corporation and George Scalise, Chief Administrative Officer of my company, the Semiconductor Industry Association is actively pursuing a trade case under Section 301 of the Trade Act of 1974. In that case, the U.S. semiconductor industry seeks to obtain full participation in the Japanese semiconductor market (which has been denied to them by the actions of the Japanese government) and an end to semiconductor dumping by Japanese companies in the U.S. market. In addition, active investigations of the Japanese semiconductor industry are underway on two dumping charges, one private antitrust case, and one Justice Department antitrust investigation. The most recent of these is an antidumping petition filed on September 30, 1985 by my company along with Intel Corporation and National Semiconductor Corporation against Japanese manufacturers of EPROMs.

Clearly, the semiconductor trade situation which you are examining today has exploded into confrontation on a wide number of fronts. I firmly believe that there must be a better way to address the issues which have led to this confrontation. In fact, SIA and its member companies have strongly supported the efforts of the U.S. Government over the past fifteen years to resolve the trade issues raised in the semiconductor industry by unfair Japanese practices. Unfortunately, these negotiated efforts have resulted in a number of agreements which have either been actively undermined or simply not carried out by the Government of Japan.

I hold here a volume in which we document these practices. They include evidence of:

* The implementation by the Government of Japan of "liberalization countermeasures" which offset the benefits to U.S. companies of the elimination of Japan's semiconduc-

tor quotas and investment restrictions;

* Government of Japan financial assistance to its semiconductor industry since 1974; and

* Government of Japan "elevation programs" for its semiconductor industry which include very detailed technical targets set by the government for the development of new semiconductor products.

As you can see, this documentation is quite thorough.

Because other approaches have not resulted in the elimination of the ill effects caused by these practices, SIA and individual U.S. semiconductor firms, including my own, have found it necessary to bring formal trade cases. Through this process, we hope to bring about the prompt resolution of the semiconductor trade issues which have remained unsolved for so many years.

What we do not wish is to have our trade petitions distract the U.S. Government from the fundamental requirement that it represent the overall interests of U.S. commerce in resolving trade problems. I saw a news item in the Washington Post on October 1, 1985 in which it was reported that Houdaille Industries will cease to manufacture machine tools. This article was particularly relevant to our subject today, because in 1982 Houdaille brought a trade case seeking relief from allegedly subsidized and cartelized imports from Japan. Houdaille raised many serious competition questions which were never satisfactorily resolved, but eventually the relief was denied by the U.S. Government.

The result is that U.S. users of machine tools are now largely reliant on Japanese suppliers. This raises serious questions concerning the possibility that Japanese machine tool users will receive first priority when new products are brought out or when shortages occur.

I do not wish to read in the newspapers in a few years that the last American manufacturer of semiconductor devices is going out of business. Nor do our customers wish to read that news. Certainly, the parallel is not absolute. U.S. semiconductor companies have a stronger case than did Houdaille. Moreover, what we seek is access to the Japanese semiconductor market and an end to Japanese semiconductor dumping in our market. But in both situations -- Houdaille's and ours -- a U.S. industry has found itself competing with a heavily concentrated Japanese industry targeted for growth by the Japanese government.

There is also no reason I should have to read such an article. The SIA 301 case and our dumping petition provide overwhelming evidence of the unfair trade practices in which the Japanese government and Japanese semiconductor manufacturers have engaged. With regard to the market access issue, the U.S. Government has already concluded, in a 1983 submission to the U.S.-Japan High Technology Working Group, that U.S. semiconductor companies were not being permitted to achieve full participation in the Japanese marketplace. What is necessary is that the U.S. Government continue to focus on the fundamental trade problems which cause a case to be brought even after a case is initiated and then work to resolve those problems. An excessively legalistic approach to trade problems is not in the best interest of either our nation or of any of this nation's trading partners.

The semiconductor trade cases embody virtually every element of the Administration's current trade policy. We seek market access which has been denied to us by the actions of a foreign government, and we seek the enforcement of U.S. unfair trade practice laws. It is the intention of SIA that these trade cases combined with a new U.S. trade policy will finally make possible the permanent solution to our international trade problems with Japan and enable us to concentrate on the future development of our industry including healthy, fair competition with Japanese semiconductor manufacturers.

By the end of this decade we can either have a Super Bowl between champions in information technology with the benefits going to all mankind . . . or we can have a contest between the Christians and the lions. The U.S. Government can ensure that it is the former.

Mr. Chairman, I would request that the SIA documentation of Japanese unfair trade practices in the semiconductor industry "Japanese Protection and Promotion of the Semiconductor Industry" be entered into the record of this hearing. In conclusion, Mr. Chairman, I would like to complement you and this Committee for your attention to these issues of great importance to the United States, and thank you for the opportunity to appear before you today.

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WASHINGTON, D. C. 20006

LEWIS M. HELM
PRESIDENT

(202) 466-4646

SUBJECT: U.S. Trade Policy

CLIENT: Semiconductor Industry Association

CONTACTS: Conrad Hausman (202) 466-4646 or Sheila Sandow (408) 246-1181

Thursday, Oct. 10 -- The head of a major U.S. semiconductor firm said, in testimony before the Joint Economic Committee today, that unless the U.S. government acts quickly to formulate a new trade policy, other nations will usurp the U.S. lead in the semiconductor and other information technology industries.

W.J. Sanders III, testifying on behalf of the Semiconductor Industry Association, presented the essential elements of a new U.S. trade policy designed to assure that the U.S. retains its world leadership role in the information technology industries, all of which rely heavily on the use of advanced semiconductor products.

Sanders is chairman, president, and chief executive officer of Advanced Micro Devices and also is a member of the board of directors of the Semiconductor Industry Association. He said the new trade policy should:

o revise existing U.S. trade laws to permit more timely and effective solutions and to provide for payment of damages to parties injured by unfair trade practices

o understand that domestic tax policy is also trade law, and it must be changed to encourage innovation, investment, and growth

o consider the impact of U.S. antitrust laws on international trade

o vigorously enforce existing trade laws

o end the overvaluation of the dollar

o eliminate foreign barriers to imports

The U.S. government must take immediate action "to ensure that America remains first in information technologies," Mr. Sanders told the JEC. "These industries are essential to our national security, to our current economic well-being, and to our continued economic growth...the information technologies are quite simply the core industries of the next industrial era."

Mr. Sanders told the committee that the SIA is seeking access to the Japanese semiconductor market and prevention of Japanese "dumping" of semiconductors in the U.S. market through its trade case brought June 14 under Section 301 of the Trade Act of 1974. In addition, however, a basic restructuring of U.S. trade law is required to provide a permanent solution to the problems, he said.

The semiconductor industry would be particularly affected by changes in trade policy because it relies on international markets for 30% of its sales and because import competition is increasing so rapidly.

Highlights of Mr. Sanders testimony:

Trade Law Reform

--U.S. trade laws should allow U.S. firms to get relief from past foreign government actions and policies which hurt their current trading positions.

--Congress should consider permitting domestic firms injured by foreign unfair trade practices to collect damages themselves, instead of having fines paid to the federal government.

--Unfair trade rulings should be swift enough to provide relief to the affected U.S. industry.

Tax Law Reform

The current tax system encourages the wrong types of industrial development, Mr. Sanders said. The U.S. must make a "fundamental shift from a consumption-based tax system to a savings-based tax system" to provide resources for research and development in the information technology industries.

Mr. Sanders criticized tax reform proposals involving depreciation schedules and research and development investments as "antithetical to the key issue of enhancing U.S. industrial competitiveness in information technology."

Antitrust Law

The U.S. government should consider modifying U.S. antitrust laws to reflect the "new reality of the global marketplace" by revising their application to anticompetitive actions outside the U.S. and to joint manufacturing programs inside the U.S.

Enforce Trade Laws

While existing laws fall short of what is needed, they should be vigorously enforced "if U.S. companies are to avoid the perhaps terminal injury which can result from foreign government subsidies, dumping of foreign products in the U.S. market, and foreign barriers to access to their markets," Mr. Sanders said.

Overvaluation of the Dollar

A "concerted government action to realign exchange rates at a more realistic level is essential to put a halt to the devastation of key American industries caused by overvaluation of the dollar," Sanders said. To accomplish this, the U.S. must reduce the federal budget deficit and lower interest rates, and Japan must encourage a higher level of individual consumption.

Eliminate Foreign Import Barriers

U.S. firms rely on exports for volume production of new products as the only way to recoup huge R & D costs. The U.S. government must address import barriers which take many forms: quotas, tarrifs, investment restrictions, customs delays, government encouragement of certain market structures, and a buy national attitude.

Sanders told the JEC that what is needed is a "permanent solution to our international trade problems with Japan (that will) enable us to concentrate on the future development of the industry, including healthy, fair competition with Japanese semiconductor manufacturers."

(The hearings begin at 10 a.m. in room 138 of the Dirksen Senate Office Bldg.)

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DEWEY, BALLANTINE, BUSHBY, PALMER & WOOD

TO Michael Driggs

For your information regarding the semiconductor trade case.

Alan Wm. Wolff

October 11, 1985

United States Senate
COMMITTEE ON APPROPRIATIONS
WASHINGTON, DC 20510

September 26, 1985

Honorable Clayton B. Yeutter
U.S. Trade Representative
Office of U.S. Trade
600 17th Street, N.W.
Washington, DC 20506

Dear Ambassador Yeutter:

We would like to call your attention to an important trade issue involving the American semiconductor industry. This issue not only affects our nation's trading position, but is also of particular concern to the people of Arizona.

American semiconductor products are highly competitive worldwide, as evidenced by the industry's 83 percent share of the domestic semiconductor market, 55 percent market share in Europe, and about 50 percent of the market in the rest of the world. Yet the market share obtained in Japan by U.S semiconductor manufacturers has been held to just 10 percent for over a decade, and it has been estimated that up to 27,000 American jobs in the semiconductor industry have been lost as a result.

The Semiconductor Industry Association (SIA) has filed a petition with your office under Section 301 of the Trade and Tariff Act of 1984. This petition requests the United States government to take steps necessary to eliminate the unfair trade practices which have been enacted and condoned by the Japanese government. We strongly believe that this petition, in calling for access to the Japanese market but not limits on semiconductor imports, offers a responsible solution to this problem. Fair access to the Japanese semiconductor market is essential if the U.S. semiconductor industry is to remain competitive.

We ask that you attach a high priority to achieving the liberalization of Japanese markets for America's semiconductor producers and that you process, as quickly as possible, the Section 301 case which has been filed by the Semiconductor Industry Association in order to rectify the current adverse semiconductor trade relationship between the United States and Japan. Working together, we are confident that our nations' trade differences can be settled equitably and amiably.

Sincerely,

Dennis DeConcini — Morris K Udall

Jim Kolbe — John McCain

Eldon Rudd

DDC/mho

Scripps Howard News Service
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editorial

THE JAPANESE-AMERICAN MICROCHIP WAR

If the White House is serious about demanding ``fair and free'' trade practices among nations, a good place to start would be the semiconductor market.

After having driven most American companies out of the consumer electronics business (radios, televisions and the like), Japan has moved strongly into the manufacture of semiconductors, the microchip memory banks used in computers.

This is a field in which the United States has been the world leader in research, development and production. U.S. firms still dominate the market in most countries, but fear that unfair Japanese trade policies could inflict severe injury on them within a few years.

The problem is two-fold: the inability of American manufacturers to penetrate the Japanese market to any significant extent; and ``predatory'' pricing practices by Japanese firms in the U.S. market.

The other day, three American semiconductor manufacturers filed a complaint with the U.S. International Trade Commission claiming that Japanese firms are selling one type of semiconductor here at $4 each when it costs them more than $6 to make the devices.

In another complaint filed last June, the Semiconductor Industry Association asked the Reagan administration to force Japan to dismantle barriers that keep American-made semiconductors largely out of the Japanese market.

Japan protests that it has removed quotas and other official restrictions on U.S. microchips. But it is obvious that the government and Japanese firms are still colluding behind the scenes to keep American-made chips out of that country.

American firms also assert that the Japanese government subsidizes Japanese companies in a variety of indirect ways, permitting them to sell semiconductors in the U.S. market at below cost.

In addition to the damage that Japan's unfair practices could inflict on the U.S. semiconductor industry (125,000 employees and $12 billion worth of sales annually), there could be national security implications. Without domestic suppliers, the United States could be forced to buy microchips from Japan for computers used in a wide range of military equipment.

When President Reagan meets later this month with Japanese Prime Minister Yasuhiro Nakasone, he will have a chance to press the case for ``fair and free'' trade in semiconductors as well as other products.

Let's hope he succeeds. If Reagan fails, Congress is waiting in the wings to bash Japan and other countries with ``protectionist'' measures the president opposes and which could be disruptive to world trade.

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Motorola Semicon To Lay Off 1,500 To 1,700 Workers

By STUART ZIPPER

PHOENIX — Motorola Semiconductor will slash 1,500 to 1,700 workers from its payroll over the next few weeks, and has cut the salaries of all workers for the next 6 months.

The cuts, which come on top of the 5,000-person reduction in staff that has taken place since last fall, will include 700 to 900 people from the 13,000-member workforce at headquarters here, 150 to 200 from staff in Austin, Tex., where total employment will now fall below 5,000 and about 500 to 600 from Europe and Asia. Worldwide employment will then stand at about 37,000.

Meanwhile, all U.S. employes were handed what was billed as a "temporary graduated salary reduction" in which most workers' pay will be cut between 5 and 10 per cent until March 31. In some cases the cuts will be much higher, in others lower, a spokesman said.

"The more you make the more you get reduced," the company spokesman said, declining to reveal the pay cut for the highest ranking executives, but indicating it is a higher percentage than most workers will face.

There was, though, some good news for those Motorola workers who have been on a short work-week program under the Arizona state "share the work" program. That program saw most workers lose anywhere from 1 day a month to 1 or 2 days a week of work, with the state paying them a relatively small unemployment benefit for the lost days.

Motorola had estimated that the program equalled as many as 2,000 layoffs, but now has decided that "the temporary salary reduction program would be more efficient" in reducing costs, spokesmen said. The share-the-work program, the company said, has resulted in some areas being chronically short-staffed, bringing down production efficiency and output. "We are getting our efficiency up" by switching from a short work week to a pay cut, the spokesman said.

The company said that although some workers will be laid off, it is attempting to find enough posts vacated by early retirement programs, attrition, and transfers to minimize the number of pink slips handed out.

Motorola said it has not yet tabulated exactly how many employes have elected to take early retirement, although requests were to have been in by last week. Preliminary estimates are that about 400 to 500 of the 700 to 900 workers to be cut in Phoenix can be eliminated through the early retirement program, the spokesman said. The rest of the jobs are to be cut through attrition and some transfers, plus voluntary furloughs with added benefits, and finally through layoffs.

In Europe a voluntary termination program, again with better benefits as an inducement, is being offered in hopes of minimizing the number of workers fired, Motorola said.

Unlike the earlier moves, which were attributed purely to the depressed semiconductor market, the latest decision to cut staff was also described as a streamlining and positioning maneuver in hopes of getting ready for an upturn in the in-

Semicon Firms Cut Back Despite Turnaround Forecasts

SANTA CLARA, Calif. — Signs of a turnaround in the fourth quarter are nowhere to be seen as a number of semiconductor companies here have instituted a new round of austerity measures to finish out the year.

National Semiconductor and Intel opened the final period by extending planned Christmas shutdowns, and Hyundai Electronics America laid off 100 of its workers, apparently halting volume production in the U.S.

In addition, Intel will cut pay up to 8 per cent for all U.S. workers, a move slated to last through the end of the fourth quarter. An Intel spokeswoman said, however, that the company "certainly hadn't ruled out similar actions in succeeding quarters if conditions don't improve." Pay cuts will range from 4 to 8 per cent, with higher-salaried employes taking the biggest cuts.

Intel and National both scheduled new shutdowns around the Christmas holidays amounting to 7 days at National and 6 at Intel.

National's closings, affecting all 8,000 Santa Clara employes and an indeterminate number of other U.S. employes, will be Dec. 23, 26, 27, 30, and 31, and Jan. 2 and 3, postponing the start of the 1986 business year to Jan. 6. Counting the two 1986 dates, total shutdown days since February will total 41. The company has also laid off 1,300 employes worldwide in response to the slump and another 1,000 in Malaysia after closing an assembly plant there.

National's employes will be offered the traditional choice of using the shutdowns as vacations, borrowing from future vacation days, or applying for California WorkShare.

A National spokeswoman said no additional layoffs were planned for the current quarter.

Intel unpaid shutdown days of Dec. 23, 24, 25, 26, and 27 will be combined with two days of forced but paid vacation Dec. 30 and 31. The closing will affect all U.S. employes except for some sales offices, an Intel spokeswoman said. Intel will also allow employes to withdraw money from the company retirement plan up to the amount they would have made during the shutdown.

Hyundai laid off the 100 employes at its 5-inch line here, leaving the company only a 5-inch fab and assembly line in Ichon, South Korea, where the company produces NMOS and CMOS RAM and EpROMs.