SIA SEMICONDUCTOR INDUSTRY ASSOCIATION
4320 Stevens Creek Blvd. • Suite 275 • San Jose, CA 95129 • (408) 246-1181
FAX (408) 246-3962

December 2, 1985

MEMORANDUM

Re: Semiconductor Industry Association Proposal for Structuring A Healthy World Semiconductor Trading System

The Semiconductor Industry Association (SIA) is strongly committed to promote public policies which will result in a healthy world semiconductor trading system. For that reason, since its formation in 1977, SIA has actively backed U.S. Government efforts to obtain increased access for U.S. companies to the Japanese semiconductor market and to prevent the dumping of semiconductors in the United States market. In 1983, SIA supported the U.S.-Japan High Technology Working Group's Semiconductor Recommendations which were endorsed by the U.S. and Japanese Cabinets and which were intended to create a system of fair and equitable semiconductor trade between the two nations.

By early in 1985, however, it became clear that the Semiconductor Recommendations were not going to result in any sustained increase in U.S. companies' share of the Japanese semiconductor market, nor prevent the dumping of semiconductors in the United States by Japanese firms. In response, after consulting with U.S. Government trade officials, SIA filed a petition under Section 301 of the Trade Act of 1974. The intent of the SIA filing was to create enhanced negotiating leverage for U.S. trade negotiators in seeking to end the unfair trade practices of the Japanese Government and of Japanese semiconductor companies. It has always been SIA's preference to resolve the semiconductor trade dispute through an agreement between the United States and Japan which will create a solid foundation on which future semiconductor industry growth can occur in both nations in a fair and equitable manner. This paper outlines SIA's proposal for the creation of a program which can lay that foundation.

Principles

SIA's program is based on five principles:

1. Vigorous international competition in the semiconductor industry is healthy and desirable. That competition, however, as with all competition, must be based on international rules which prevent predatory practices, market barriers, and other unfair government support for the semiconductor industry.

2. International cooperation between semiconductor companies in the development of new technologies should be encouraged so long as it is beneficial to both semiconductor users and semiconductor producers.

3. As called for as a U.S. negotiating objective for high technolgy products in Sec. 104A(c)(2) of the Trade Act of 1974 as amended, companies which have been injured by the unfair trading practices of their foreign competitors should be compensated for the injury they have suffered.

4. The United States and Japanese Governments must take an active role in ensuring that a system of fair international trade and competition is reestablished and maintained in the semiconductor industry.

5. The U.S. semiconductor customer base must have access to an adequate supply of high quality leading edge products at competitive costs.

The SIA Program

Based on these principles, the SIA Board of Directors has endorsed a comprehensive program to resolve the current semiconductor trade dispute and under which fair international trade in semiconductors can be carried out over the long term. The trade program consists of four sections: (1) access to the Japanese market, (2) promotion of cooperative research and development (R&D), (3) prevention of injury to key technology driving products, and (4) active government involvement in implementation of this program.

I. ACCESS TO THE JAPANESE MARKET

U.S. semiconductor companies have always been prevented from achieving full participation in the Japanese semiconductor market. This was first carried out by formal quotas, tariffs and investment restrictions, and later by a complex system of "liberalization counter-measures" as described in SIA's documentation for its 301 case. Since Japan is now the second largest semiconductor market in the world and is projected to become the world's largest market by the early 1990s, U.S. semiconductor companies cannot afford to be relegated to the role of residual suppliers in that market. Not only do restrictions on sales directly reduce revenues available to U.S. companies, but the foregone sales in Japan mean that U.S. companies have been deprived of the learning economies and economies of scale which accompany volume semiconductor production.

To remedy this situation, the Japanese Government should adopt an affirmative program aimed at ensuring that U.S. semiconductor companies' market share in Japan should reach a level in 1986 of 11% for all semiconductors and 14% for integrated circuits (as calculated by the WSTS statistics). This level represents the same market share U.S. companies held in Japan during 1984. Within five years, however, the share of the Japanese market held by U.S. companies should increase to the level which would have been obtained absent unfair Japanese market barriers -- 30-40%.

These goals are clearly justified by the relative competitiveness of U.S. as compared with Japanese semiconductor products, and are attainable by the Japanese Government and Japanese semiconductor manufacturers. U.S. semiconductor products are competitive across the product spectrum. SIA has demonstrated the competitiveness of U.S. products in a number of submissions in this case. The only product families which U.S. firms would have difficulty supplying are those (such as DRAMs) that are currently being sold at less than fair value in Japan. U.S. firms have repeatedly proven their ability to meet surges in demand. From 1983 to 1984, for instance, U.S. companies increased their worldwide semiconductor shipments by 44%.

In conjunction with an affirmative semiconductor import program, it would be important for the Government of Japan to eliminate other barriers which have contributed to the restricted U.S. access to the Japanese semiconductor market. SIA's section 301 petition requests, inter alia, an investigation by the Japan Fair Trade Commission into the question of whether the Japanese semiconductor producers have violated the Antimonopoly Law. EIAJ appears to endorse such an investigation in its 301 case reply brief of November 8, 1985 (pp. 17-18). It would, therefore, be appropriate for the President to direct the U.S. Department of Justice to request the JFTC to conduct an investigation as another to make possible long run access to the Japanese semiconductor market.

II. COOPERATIVE RESEARCH PROGRAM

One of the ways by which the United States semiconductor industry has sought to maintain its competitiveness is through the Semiconductor Research Corporation (SRC) which sponsors university research into semiconductor technology. The benefits of this research are available to all graduate students in participating programs without regard to nationality. The results of the SRC-supported research are eventually available to all companies worldwide. The SRC currently sponsors over 40 projects supervised by some 200 faculty members at contracting universities across the United States.

As a way of demonstrating their support for the principle of international cooperation in the semiconductor industry, Japanese manufacturers of semiconductors should make a voluntary contribution to the Semiconductor Research Corporation. The suggested amount of this contribution is $250 million. (This would cover lost U.S. research funds attributable to the lack of U.S. access to the Japanese market during 1984 and the first half of 1985.)

III. PREVENT INJURY IN KEY TECHNOLOGY DRIVING PRODUCT AREAS

One of the major elements of the Japanese Government's Very Large Scale Integration (VLSI) program which was central to the Japanese liberalization countermeasures, was the promotion of memory technology and the development of new memory products. Memory products -- particularly Dynamic Random Access Memories (DRAMs), Erasable Programable Read Only Memories (EPROMs), and Static Random Access Memories (SRAMs) -- are critically important to the semiconductor industry because they are the semiconductor products which are most useful in driving the development of new semiconductor technology.

There are several key elements necessary for a product to be categorized as a "technology driver":

* it must be a high volume product;

* it must employ state-of-the-art technology;

* it must be capable of generating high revenue per design;

* it must be diagnostically useful; and

* it must have a natural upward path in density.

The three product areas which meet these criteria are: DRAMs, EPROMs, and SRAMs.

As a result of the advantages given to Japanese semiconductor manufacturers by the VLSI program, these companies all came to the market with new memory products at about the same time. First in 16K DRAMs, then in 64K and 256K DRAMs, these Japanese companies used predatory pricing tactics which have driven virtually all U.S. manufacturers of competing products out of the field. The Japanese companies have gained 70 percent of the U.S. DRAM market while U.S. companies' penetration of the Japanese DRAM market is close to zero. DRAMs represent 17 percent of the total world integrated circuit market. Several American companies (as well as at least five Japanese companies) are capable of manufacturing the next generation DRAM -- the one megabit -- but it is not yet clear how the competition in that area will be resolved.

Japanese manufacturers have also captured 80 percent of the world market for SRAMs, which in turn account for another 6 percent of the world integrated circuit market. Thus by dominating these two key product lines, Japanese companies control 23 percent of the worldwide integrated circuit market.

The one remaining technology driver in which U.S. companies continue to lead the world is the EPROM. This product (as was the case with DRAMs and SRAMs) was invented in the United States, and U.S. companies have been the first to produce each new generation of EPROM. U.S. companies are now manufacturing 512K EPROMs and plan to introduce one megabit EPROMs in the near future. Japanese companies are up to one generation behind the U.S. companies in this technology.

But in this product area also, predatory Japanese practices have threatened U.S. leadership. The EPROM pricing practices of Japanese companies are currently being investigated by the Justice Department's antitrust division in a self-initiated investigation, and by the International Trade Commission and the Department of Commerce in an antidumping case brought by the three leading U.S. EPROM manufacturers -- Advanced Micro Devices, Intel, and National Semiconductor Corporation.

It is essential that the United States not permit unfair trading practices to push U.S. companies out of the technology drivers. Without a foothold in the technology driver area, U.S. companies will continue to lose market share in the semiconductor industry. The U.S. Government should implement a five year program to ensure that a domestic technology driver base is maintained. This program must immediately halt the injury caused to U.S. semiconductor manufacturers by sales at less than fair value in the technology driver area; it must then establish a system to ensure that future trade in semiconductors is carried out at fair prices, and finally it must make it possible for U.S. companies to obtain a private remedy against injurious dumping or anticompetitive activities.

Specifically, SIA endorses:

A. A minimum 12 month prohibition on imports[1] of EPROMs[2] during which time a model would be developed through which fair value levels for technology driver products will be established.

---

1. The term "imports" in this proposal refers to products whose dice are fabricated in countries outside the United States.

2. As utilized in this proposal, the term EPROMs includes EPROMs, Electrically Erasable Programable Read Only Memories (EEPROMs), and Microprocessor Units (MPUs) and Microcontroller Units (MCUs) incorporating EPROMs at all stages of manufacture from dice to EPROMs embedded in finished products.

B. After 12 months (or more if the fair value model is not yet complete) and upon an annual determination of fair value, a prohibition of imports below fair value for all EPROMs will be substituted for the absolute import prohibition outlined above (in A). This model could also form the basis for a worldwide agreement to prevent predatory pricing.

C. A prohibition on imports of one megabit DRAMs and other state-of-the-art technology driver products at less than fair value.

D. The development of a general semiconductor antidumping rule which would make it possible to speed the enforcement of U.S. antidumping law with regard to all types of semiconductors.

E. The enactment of legislation including the creation of a private remedy against injurious dumping and anticompetitive practices of foreign companies. The legislation would allow injured U.S. parties to be compensated out of fines collected from offending foreign companies. All products of companies found guilty of dumping in three separate cases would be subject to an exclusion order.

IV. IMPLEMENTATION

The United States and Japanese Governments must also play a central role in ensuring that this program is implemented effectively. This is particularly true with regard to the prevention of sales at less than fair value in all world markets. The United States Government should not only develop a model for determining fair value for technology driver product and a general semiconductor antidumping rule, but should vigorously pursue the existing antidumping actions on 64K DRAMs and EPROMs, and a self-initiated case against 256K DRAMs.

The Government of Japan should immediately put into place its semiconductor import action program. It should also monitor the prices at which Japanese semiconductor companies sell their products in all markets to prevent sales at less than fair value.

Unfair Trade Practices: Now High Tech Industries Seek Help

Talking Points

- Mr. President, last week you used your authority to retaliate against unfair foreign trade practices under section 301 of the 1974 Trade Act. You issued a proclamation raising tariffs on European pasta, to compensate U.S. citrus growers who have been harmed by discriminatory European tariffs.

- Just a few days before your proclamation, another 301 petition was filed with USTR, in a very different sector: semiconductors.

- Many of our troubles with the Europeans revolve around traditional industries like agriculture and steel. A few involve high tech areas. In the next few weeks USTR will be sending you its recommendation on still another 301 petition about allegedly unfair European price competition in satellite launch services.

- But most of our troubles in high technology are not with the Europeans, but rather with the Japanese. Japan is the only country with which we run a deficit in high technology trade.

- There are a number of reasons why we run a deficit with Japan in high tech, an area where U.S. firms are strongest and most competitive. One is the strong dollar, another the faster growth of the U.S. economy.

- But many Americans - in business and in the Congress - strongly believe that the most important reason is the fact that Japan's market for foreign products is highly restricted.

- Earlier this year, both houses of Congress passed resolutions aimed at Japanese trade barriers. And several bills were introduced dealing with telecommunications trade that were specifically intended to apply to Japan. The Danforth Bill was one of these.

- Telecommunications is an area in which the U.S. has a substantial lead. U.S. firms have more experience than any others, including Japanese, in building the most advanced digital telephone switches, both those for telephone network use and the private branch exchanges which are used by businesses. (The White House switchboard is as example of a private branch exchange, or "PBX".)

- The superiority of the U.S. in that area is vividly demonstrated by the problems the Japanese have had in getting their electronic phone switches to work properly. In 1980, a major district of the city of Kobe, Japan, was without phone service for over eight hours because of the the failure of a Japanese exchange. Earlier this year, another Japanese switch recently installed in Singapore also failed, leaving that city phoneless for at least 23 hours! (Singapore immediately signed up with AT&T for its next switch)

- There has been no similar equipment failure in the U.S. for more than 20 years.

- The confidence of the U.S. telecommunications industry in the superiority of its equipment and software is very solidly based.

- I recently sent one of my staff to Silicon Valley to meet and discuss U.S. competitiveness with executives of both the telecommunications and semiconductors industries.

- Although we are running a trade deficit with Japan in both sectors, the telecommunications executives are basically angry but unworried.

- They are not worried about the Japanese competition in the United States and third-country markets. In terms of performance and quality, they know that their products are more than a match for the Japanese. The only segment of the U.S. market in which the Japanese have made significant penetration is the low-tech, low-profit one of telephones.

- But they are angry because their products are not selling in Japan, despite their superiority. They are pleased with the progress that has been made in the MOSS telecommunications talks at eliminating the formal trade barriers. But they are still deeply skeptical that any substantial U.S. exports to Japan will flow as a result.

- The reason in their view is the Japanese tendency to "buy Japanese" and the network of ties between companies that inhibits sales from outside the industrial group to which an individual company belongs.

- My staff member came away with a very different sense from his meetings with the semiconductor industry.

- The industry has been the world leader, and still leads in micro-processor chips that give computers instructions on problem solving.

- But most experts agree that the Japanese have taken the lead, perhaps permanently, in the memory chips that store information.

- They've been able to do that in large part because they have far greater financial resources and lower capital costs than the U.S. firms.

- As a result, each time there is a downturn in semiconductor demand, as there is now, the U.S. firms have to cut back production and delay capacity expansion. But the Japanese firms keep piling on new capacity and thus pick up market share when demand recovers.

- At the same time, according to the U.S. industry, the Japanese keep U.S. market share in Japan very constant and further develop their share in the U.S. by undercutting prices and sometimes dumping their chips.

- In evidence, the U.S. makers point to a memo of the Hitachi Co., titled the "Ten Percent Rule", which instructs Hitachi salesmen always to quote semiconductor prices that are ten percent lower than anything Intel and AMD, its two major U.S. competitors, quote.

- As Congress turns its attention back to trade, it will have a long list of protectionist bills to consider. Many of these would require that the U.S. take some form of retaliatory action against the "unfair trade practices" of our trading partners, especially Japan.

- In August, at about the same time that Congress begins to take up these various measures, you will have to make a decision whether to accept the ITC recommendation and provide import relief to the U.S. shoe industry. That industry, of course, is unlikely ever again to be competitive with imports.

- What is attractive about the semiconductor petition is that it offers the opportunity for the Administration to demonstrate that we can and will use existing trade laws to protect the rights of U.S. industries. Unlike shoes, any such action might actually help the semiconductor industry regain its competitive momentum, and not by restricting imports but by increasing foreign access for U.S. products.

- Thus, the semiconductor case could be politically helpful at the same time as it serves a rational economic purpose.

Semiconductor 301

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

February 3, 1986

The Honorable Clayton Yeutter
U. S. Trade Representative
Room 209
600 17th Street NW
Washington, DC 20506

Dear Ambassador Yeutter:

We are very pleased that you and other members of the Administration have given priority of the highest order to the Semiconductor Industry Association's Section 301 trade case. You are certainly to be commended for your personal efforts in that regard.

We are extremely concerned, however, that the December 21, 1985, deadline was not met for the completion of a conceptual framework for resolution of the Section 301 case. We are further concerned that there is no clear time set by which this vitally important trade matter will be resolved.

As you know, in the seven months since the SIA case was filed, an interagency committee has completed its investigation into the facts of the case. Thus, we strongly urge the immediate issuance of a formal finding that the SIA case is actionable under Section 301.

In parallel with such a Presidential finding, we hope you will be able to negotiate a fully satisfactory resolution of this case with the Japanese government. The direction of resolution proposed by the Semiconductor Industry Association appears to us to be sound, namely that access to the Japanese market should be reflected in sales to the Japanese market; that immediate action be taken to prevent the dumping of semiconductors in world markets; and, that future dumping must be deterred by an expedited procedure.

These principles seem the best means by which the semiconductor trade problem can be solved in a long-term, responsible manner, and we would hope for their implementation at the earliest possible date. Please do not hesitate to contact any of us if we can be of assistance to you on this matter.

Once again, we greatly appreciate your personal efforts to date to resolve the semiconductor trade problems and we look forward to rapid settlement of the semiconductor negotiations with Japan.

Sincerely,

Don Edwards

Carlos J. Moorhead

Norman Y. Mineta

Ed Zschau

Pete Wilson

Alan Cranston

Henry A. Waxman

Dan Lungren

Julian C. Dixon

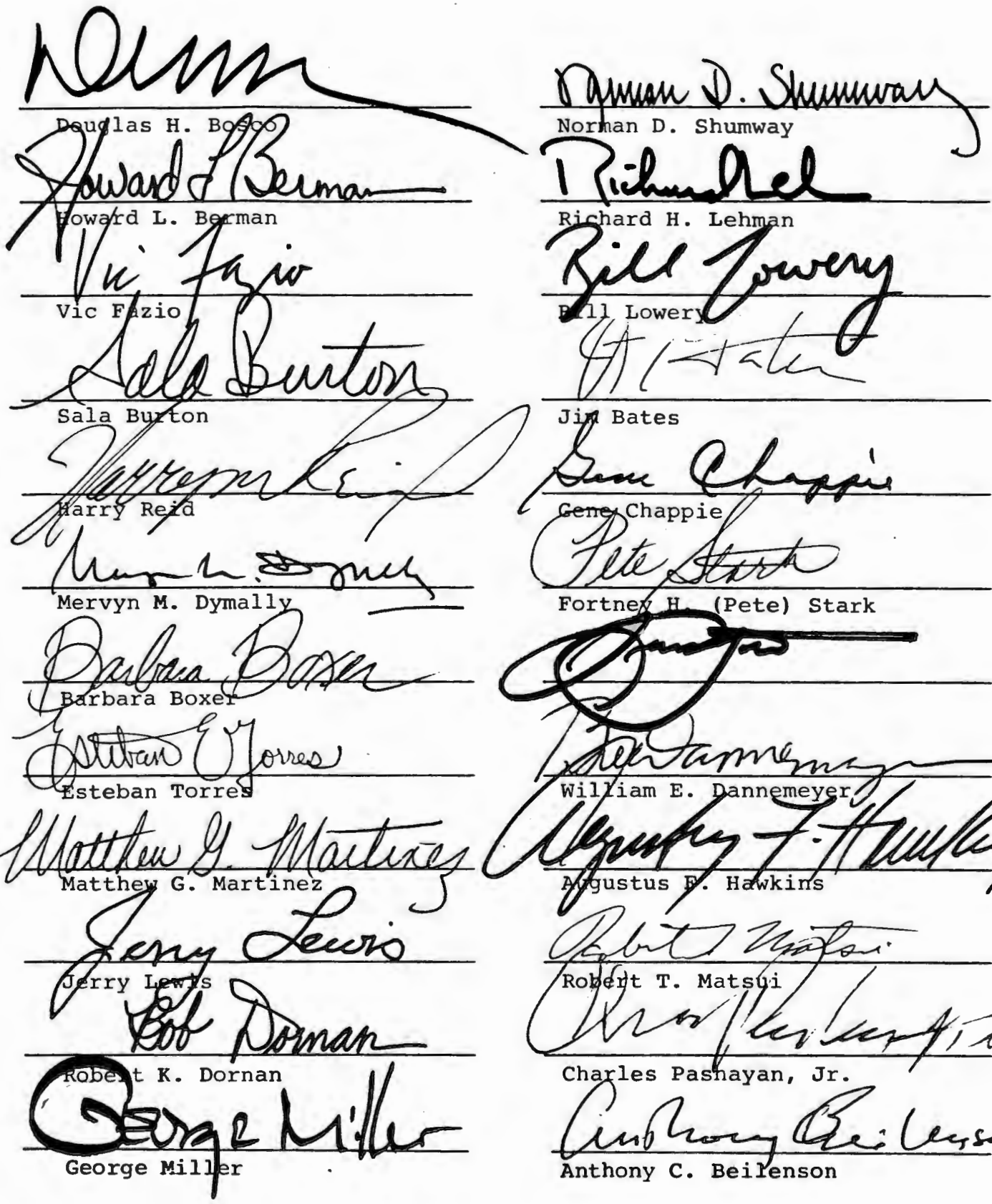
Robert J. Lagomarsino

George E. Brown, Jr.

Edward R. Roybal

Tony Coelho

David Dreier



Douglas H. Bosco

Norman D. Shumway

Howard L. Berman

Richard H. Lehman

Vic Fazio

Bill Lowery

Sala Burton

Jim Bates

Harry Reid

Gene Chappie

Mervyn M. Dymally

Fortney H. (Pete) Stark

Barbara Boxer

Esteban Torres

William E. Dannemeyer

Matthew G. Martinez

Augustus F. Hawkins

Jerry Lewis

Robert T. Matsui

Robert K. Dornan

Charles Pashayan, Jr.

George Miller

Anthony C. Beilenson

Robert E. Badham

Glenn M. Anderson

Mel Levine

Duncan Hunter

William M. Thomas

Ronald V. Dellums

Tom Lantos

Bobbi Fiedler

Alfred A. McCandless

cc: The Honorable James Baker, Secretary of Treasury
The Honorable Malcolm Baldridge, Secretary of Commerce
The Honorable George Shultz, Secretary of State
The Honorable Caspar Weinberger, Secretary of Defense
The Honorable John M. Poindexter, National Security Advisor

THE WHITE HOUSE

WASHINGTON

May 1, 1986

MEMORANDUM FOR JOHN A. SVAHN

FROM: MICHAEL A. DRIGGS mad

SUBJECT: Status of the Semiconductor Cases

ANTIDUMPING CASES

The Department of Commerce recently published its final determination on the anti-dumping case for 64K DRAM's from Japan. Commerce found that the company specific, weighted average margin rates were:

NEC Corporation	22.76%
Hitachi Limited	11.87%
Oki Electric Corporation	35.34%
Mitsubishi Electric Corp.	13.43%
All others	20.75%

The ITC is scheduled to make its final injury determination by June 6. If the ITC rules that injury has occurred, as it has already done once, Customs will be ordered to impose duties equivalent to the margin rates found above.

The companies involved, of course, may appeal in the Court of International Trade. If so, the additional duties will be paid in escrow until the appeals are decided. We have no indication of whether the Japanese companies will appeal.

The 256K EPROM case has already received preliminary determinations of dumping from the Department of Commerce and injury from the ITC. The final dumping determination is due on July 30. This date has been extended at the request of the Japanese companies (extention of deadlines is considered routine and normally granted in these cases by the Department of Commerce). The significance of the deadline is, of course, that it will occur after the anniversary date of the Section 301 filing. Thus, the President will have to decide on the Semiconductor 301 case before the final determination on the 256K chips.

SECTION 301 CASE

Little progress has been made in the 301 negotiations. USTR is still pushing for some guaranteed market share. (Their specific request is for assurances of ". . . progressive increases in sales of U.S. semiconductors in the Japanese market at an annual growth rate of imports greater than the growth rate of the market so that, after five years, the U.S. market share would be at a level consistent with an open market.") The Japanese have been asked to provide those assurances. They have offered "best efforts". USTR has rejected this phrase and has said that more will be needed; without defining more.

The negotiators are expected to get together within the next few days to begin another round of talks.

I recommend that you raise the 301 negotiations at the next Baker breakfast. The question: U.S. sales of semiconductors in Japan almost certainly will not increase with only promises of "best efforts" [Yeutter is right in this.] but, are we willing to adopt managed targets to win this case? Past experience says no. If that is the case here, we should start thinking of ways to get the U.S. semiconductor industry and the Congress to accept the outcome.

CC: Chuck Hobbs

Semiconductor 301

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release July 31, 1986

July 31, 1986

MEMORANDUM FOR THE UNITED STATES TRADE REPRESENTATIVE

SUBJECT: Determination Under Section 301 of the Trade Act of 1974

Pursuant to Section 301(d)(2) of the Trade Act of 1974, as amended (19 U.S.C. 2411(d)(2)), I have determined that the Agreement between the Governments of Japan and the United States of America Regarding Trade in Semiconductors, to be implemented by an exchange of letters, is an appropriate and feasible response to the practices of the Government of Japan with respect to trade in semiconductors. These practices have been investigated by the United States Trade Representative in response to a petition filed under Section 301 on June 14, 1985, by the Semiconductor Industry Association.

The Agreement, which will be in effect until March 31, 1991, will open up the Japanese market to U.S. exports of semiconductors and will help prevent dumping of semiconductors in the United States and third country markets. It achieves a key objective of Section 301, which is to open foreign markets to U.S. exports. The satisfactory resolution of this problem demonstrates our ability to help U.S. industries and to resolve contentious trade disputes through the negotiating process.

Fulfillment of the objectives and commitments in the Agreement is of critical importance. Therefore, I hereby determine that any future failure by the Government of Japan to meet the commitments and objectives of the Agreement would be inconsistent with a trade agreement or an unjustifiable act that would burden or restrict U.S. commerce. Therefore, I instruct the United States Trade Representative to report to me on: (1) the results of each of the periodic consultations held pursuant to the Agreement; and (2) annual improvements in foreign-based semiconductor firms' access to the Japanese market. I also direct the United States Trade Representative and the Secretary of Commerce to take any further action that may become appropriate to implement the Agreement. Finally, the Section 301 proceeding on semiconductors shall be suspended and shall remain suspended as long as the objectives and commitments of the Agreement are fulfilled.

This determination shall be published in the Federal Register.

RONALD REAGAN

# # #

THE UNDER SECRETARY FOR INTERNATIONAL TRADE
WASHINGTON, D.C. 20230

September 26, 1986

Dear Bill:

The semiconductor agreement was reached as a settlement of several trade actions brought against the Japanese producers under U.S. trade law. These were:

(1) A dumping charge brought by industry against the Japanese producers of 64-K DRAMS.

(2) A similar charge against Japanese producers of EPROMS.

(3) A section 301 case brought by the U.S. industry against denial of access to the Japanese market, and predatory pricing practices of Japanese firms.

(4) A dumping charge brought by the Department of Commerce against Japanese producers of 256-K and 1 megabit DRAMS.

The combined settlement of these cases has the following elements:

(1) Prices in the U.S. of dumped products will rise under a suspension agreement to "fair market value", based on actual cost, company-by-company. If they do not, dumping duties will be imposed which will have about the same effect on market prices paid by U.S. users.

(2) The Japanese will monitor other semiconductor products they ship to the U.S., and all semiconductor products shipped to major third markets, to prevent future dumping and predatory pricing there. This prevents diversion of U.S. semiconductor users to offshore locations, a likelihood if dumping laws alone had been used.

(3) The Japanese will take steps to open up their market to U.S. producers, and aid U.S. producers in their selling efforts.

Through this settlement - which admittedly relies on the vigilance of the U.S. government and industry, and the good faith of the Japanese - we have at last addressed the mercantilist practice of "targetting".

Targetting involves three principal steps.

First, R&D and capacity expansion is subsidized by government.

Second, the home market "is reserved" for home producers. Importers are excluded.

Third, excess capacity is dumped abroad at below cost prices to destroy international competitors in their home market.

Targetting requires government involvement and private firms with deep pockets. Its end result is dominance of the world market in the targetted industry, plus control of the downstream users of targetted products. Free market principles, are discarded, and international competitors die. Today it is semiconductors. Tomorrow it may be computers or biotechnology.

The semiconductor settlement may not seen elegant in its start-up phase, but it is a lot better than the bare legal dumping remedies for both producer and user, and it gives hope that we can protect American industry from this inherently protectionist and predatory practice.

I hope you can explain it to our critics who seem so uninformed or parochial in their view.

Most sincerely,

Bruce

Bruce Smart

Mr. Bill Archey
Vice President
International Division
1615 H Street, N.W.
Washington, D.C. 20062

P.S.
See Clyde's op-ed piece enclosed.

THE UNDER SECRETARY FOR INTERNATIONAL TRADE
WASHINGTON, D.C. 20230

September 26, 1986

Dear Bill:

The semiconductor agreement was reached as a settlement of several trade actions brought against the Japanese producers under U.S. trade law. These were:

(1) A dumping charge brought by industry against the Japanese producers of 64-K DRAMS.

(2) A similar charge against Japanese producers of EPROMS.

(3) A section 301 case brought by the U.S. industry against denial of access to the Japanese market, and predatory pricing practices of Japanese firms.

(4) A dumping charge brought by the Department of Commerce against Japanese producers of 256-K and 1 megabit DRAMS.

The combined settlement of these cases has the following elements:

(1) Prices in the U.S. of dumped products will rise under a suspension agreement to "fair market value", based on actual cost, company-by-company. If they do not, dumping duties will be imposed which will have about the same effect on market prices paid by U.S. users.

(2) The Japanese will monitor other semiconductor products they ship to the U.S., and all semiconductor products shipped to major third markets, to prevent future dumping and predatory pricing there. This prevents diversion of U.S. semiconductor users to offshore locations, a likelihood if dumping laws alone had been used.

(3) The Japanese will take steps to open up their market to U.S. producers, and aid U.S. producers in their selling efforts.

Through this settlement - which admittedly relies on the vigilance of the U.S. government and industry, and the good faith of the Japanese - we have at last addressed the mercantilist practice of "targetting".

Targetting involves three principal steps.

First, R&D and capacity expansion is subsidized by government.

Second, the home market "is reserved" for home producers. Importers are excluded.

Third, excess capacity is dumped abroad at below cost prices to destroy international competitors in their home market.

Targetting requires government involvement and private firms with deep pockets. Its end result is dominance of the world market in the targetted industry, plus control of the downstream users of targetted products. Free market principles, are discarded, and international competitors die. Today it is semiconductors. Tomorrow it may be computers or biotechnology.

The semiconductor settlement may not seen elegant in its start-up phase, but it is a lot better than the bare legal dumping remedies for both producer and user, and it gives hope that we can protect American industry from this inherently protectionist and predatory practice.

I hope you can explain it to our critics who seem so uninformed or parochial in their view.

Most sincerely,

Bruce

Bruce Smart

Mr. Bill Archey
Vice President
International Division
1615 H Street, N.W.
Washington, D.C. 20062

P.S.
See Clyde's op-ed piece enclosed.