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Last Updated: 08/30/2023

THE WHITE HOUSE

WASHINGTON

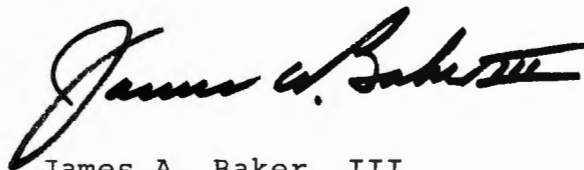
March 30, 1987

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

SUBJECT: Presidential Policy Directive --
U.S.-Japan Semiconductor Agreement

Pursuant to the Economic Policy Council memorandum of March 26, 1987, the President has approved the following course of action:

1. Immediately publish a Federal Register notice announcing possible candidates for sanctions in response to Japan's failure to fulfill its obligations under the semiconductor agreement.
2. After a fourteen day comment period, the President would issue a proclamation raising tariffs to a prohibitive level on Japanese products worth \$135 million. This would be in response to Japan's failure to enforce the third country dumping provisions.
3. If by mid-April no significant progress is detected in market access in Japan, the President would raise tariffs on an additional \$165 million in Japanese products.
4. These sanctions would remain in force until Japan has demonstrably complied with the agreement.



James A. Baker, III
Chairman Pro Tempore

MEMORANDUM
OF CALL

Michael Duggan
Previous editions usable

TO:

Ken *6437*

☒ YOU WERE CALLED BY- ☐ YOU WERE VISITED BY-

Richard Fairbanks
OF (Organization)

☒ PLEASE PHONE ► ☐ FTS ☐ AUTOVON

457-9477

☐ WILL CALL AGAIN ☐ IS WAITING TO SEE YOU

☐ RETURNED YOUR CALL ☐ WISHES AN APPOINTMENT

Richard - I shan

semiconductor
301

LAW OFFICES OF
PAUL, HASTINGS, JANOFSKY & WALKER

A PARTNERSHIP INCLUDING PROFESSIONAL CORPORATIONS

TWELFTH FLOOR
1050 CONNECTICUT AVENUE, N. W.

WASHINGTON, D. C. 20036

TELEPHONE (202) 223-9000

CABLE ADDRESS: PAULHAST WSH

TWX: 710 - 822 - 9062

COUNSEL
LEE G. PAUL
ROBERT R. HASTINGS
LEONARD S. JANOFSKY
CHARLES M. WALKER

LOS ANGELES OFFICE
TWENTY-SECOND FLOOR
555 SOUTH FLOWER STREET
LOS ANGELES, CALIFORNIA 90071
TELEPHONE (213) 489-4000

ORANGE COUNTY OFFICE
SEVENTEENTH FLOOR
695 TOWN CENTER DRIVE
COSTA MESA, CALIFORNIA 92626
TELEPHONE (714) 641-1100

WEST LOS ANGELES OFFICE
FIFTH FLOOR
1299 OCEAN AVENUE
SANTA MONICA, CALIFORNIA 90401
TELEPHONE (213) 451-1200

ATLANTA OFFICE
FORTY-SECOND FLOOR
GEORGIA-PACIFIC CENTER
133 PEACHTREE STREET, N. E.
ATLANTA, GEORGIA 30303
TELEPHONE (404) 588-9900

CONNECTICUT OFFICE
SECOND FLOOR
THREE LANDMARK SQUARE
STAMFORD, CONNECTICUT 06901
TELEPHONE (203) 357-0100

NEW YORK OFFICE
EIGHTH FLOOR
299 PARK AVENUE
NEW YORK, NEW YORK 10171
TELEPHONE (212) 750-1166

April 8, 1987

VIA MESSENGER

OUR FILE NO:

Ms. Carolyn Frank
Office of the United States
Trade Representative
600 Seventeenth Street, NW - Room 521
Washington, DC 20506

RE: Section 301 Proceeding Concerning United States-
Japan Semiconductor Agreement

Dear Ms. Frank:

As we informed you by our letter of April 1, 1987, the Amdahl Corporation wishes to testify at the April 13, 1987 hearing to be held by the 301 Committee on proposed retaliatory actions concerning the Semiconductor Agreement between the United States and Japan.

Testifying for the Amdahl Corporation will be:

Mr. John C. Lewis
President and Chief Executive Officer
Amdahl Corporation
1250 East Arques Avenue
Sunnyvale, CA 94088-3470
(408) 746 6000/TWX: 910 339 9293

Mr. Lewis will be accompanied by the undersigned as counsel. Because of prior commitments on Mr. Lewis' schedule, we would greatly appreciate an opportunity to appear early in the day on Monday.

Amdahl's testimony will concern three products imported by the company from Japan in the categories under consideration for retaliatory tariffs:

Hard disk drives for large computer systems (TSUS 676.3055);

Test and manufacturing equipment related to Amdahl's manufacture of large computers in the U.S. (imported under the "instruments" classification, TSUS 712.4971/75); and

Front-end communications processors (classified under TSUS 676.1530).

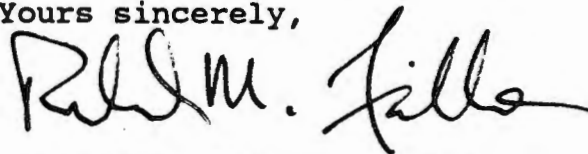
Although the proposed retaliatory tariff is 100% of the import value, it is necessary for Amdahl to continue to import these products from Japan. The disk drives represent a significant portion of Amdahl's revenues and Amdahl's customers are relying on the company to supply thousands of the drives in 1987. The manufacturing and test equipment is required for Amdahl to manufacture its core product, large-scale computers. These products are designed to Amdahl's specifications, are unique, and are not available from any other supplier. Consequently, Amdahl would have no choice but to pay the tariff.

By contract, all tariffs are to be paid by Amdahl, not the Japanese manufacturer, Fujitsu. Imposition of the proposed retaliatory tariffs is estimated to cost Amdahl up to \$100 million in 1987 alone, compared to Amdahl's pre-tax income last year of \$69 million. Payment of such tariffs would have a significant adverse affect on Amdahl's 1987 income and could have long-term implications for the company.

The size of the potential penalty on Amdahl is punitive to an American manufacturer. Such a punitive impact on a U.S. company cannot be the intention, and should not be the result, of a discretionary decision to be taken by the President in an effort to advance the interests of the U.S. semiconductor industry.

Please feel free to call me if you have any questions.

Yours sincerely,

A handwritten signature in black ink, appearing to read "R.M. Fairbanks, III". The signature is fluid and cursive, with a large, sweeping "F" and "B".

Richard M. Fairbanks, III
of PAUL, HASTINGS, JANOFKY & WALKER

Counsel to Amdahl Corporation

cc: Members of Section 301 Committee

AMDAHL CORPORATION

Executive Summary

I. Application of §301 retaliatory tariffs to disk drives and test equipment imported by Amdahl is contrary to the government's intention to avoid excessive harm to American companies.

- ° The products are unique -- designed to Amdahl specifications.
- ° There are no practical alternative suppliers for these products.
- ° The cost to Amdahl of increased tariffs is unfairly disproportionate -- approximately \$100 million for the last three quarters of 1987 (over one-third of the total levels of sanctions to be imposed), applied to a company whose pre-tax income for last year was only \$69 million.
- ° The entire impact of the tariff increases would fall on the U.S. company, and none on its Japanese supplier.
- ° If Amdahl's customers were unable to obtain Amdahl disk drives, they would be required to incur substantial increased costs to reconfigure their computer systems.

II. These results would severely damage and disadvantage Amdahl and could affect the long term viability of the company.

- ° Amdahl has over 7,000 employees and more than 17,000 shareholders.
- ° Absorbing increased costs of these magnitudes would have a major adverse effect on the company's profits and availability of funds for future research and development. Such an impact on a U.S. company cannot be the intention and should not be the result of a U.S. government discretionary decision.
- ° Amdahl has been a worldwide leader in the application of advanced technology and design techniques to large scale commercial computers. The continuation of a viable Amdahl Corporation is clearly in the interest of maintaining high technology leadership in the U.S.

AMDAHL CORPORATION

I. AMDAHL, A SUCCESSFUL LARGE-SCALE COMPUTER MANUFACTURER, STANDS TO BE PENALIZED SEVERELY AND DISPROPORTIONATELY BY THE PROPOSED SANCTIONS.

A. Impact of Proposed Retaliatory Tariffs

The proposed §301 sanctions threaten Amdahl by imposing tariffs equal to 100% of the import value of three products imported by Amdahl:

- o Hard disk drives (TSUS 676.3055) for Amdahl's large-scale computers (import value in the last three quarters of 1987 estimated at up to \$95 million)
- o Amdahl's test and manufacturing equipment (TSUS 712.4971/75), developed jointly with Fujitsu solely for internal use in Amdahl's computer manufacturing process and not for sale to any third party (import value in the last three quarters of 1987 estimated at up to \$5 million);
- o Front-end communications processors (TSUS 676.1530 (import value for the last three quarters of 1987 estimated at up to \$1.5 million).

The total of these retaliatory tariffs is \$101.5 million.

B. Amdahl Background

Amdahl Corporation was founded in 1970 in the Silicon Valley of California with the objective of designing, manufacturing, selling, and servicing advanced technology large-scale mainframe computers. Since its first product shipment in 1975, the company has grown to revenues approaching \$1 billion annually and does business throughout the U.S. and abroad. Amdahl is exclusively in the large-scale computer systems business, sell-

ing mainframe computers, large-scale direct access storage drives (disk drives), scientific computers and communications processors, and related software and services for these products. Sixty percent (60%) of Amdahl's revenues are derived from U.S. customers; 40% come from sales overseas.

Amdahl employs over 7,200 people throughout the world. It has over 17,000 stockholders, and many more indirect stockholders through their interests in pension funds and other institutional holdings. Although Fujitsu Limited owns approximately 46% of Amdahl's common stock, only three of Amdahl's ten directors are Fujitsu executives. By written agreement with Amdahl, Fujitsu is precluded from buying a majority of Amdahl's stock. Fujitsu plays no part in the management of Amdahl, which is operated as an independent corporation by American business executives. Amdahl is one of the largest employers in Santa Clara County, California, the heart of Silicon Valley.

Since its inception, Amdahl has emphasized R&D activities and product innovation. The company has consistently been among the leaders in R&D expenditures as a percentage of revenues. In 1985, the most recent year for which industry figures have been published, Amdahl's R&D expenditures were 15.6% of revenues, placing the company first among major U.S. computer companies with respect to this ratio. (See Tab 1, derived from Business Week data.) Amdahl has been responsible for many major innovations in large-scale computers, including:

- (1) the use of ECL semiconductor technology in large-scale computers;
- (2) air-cooling for large-scale computers;
- (3) in-board channels;
- (4) processors that are upgradeable in processing power on customer sites;
- (5) large memory processors; and
- (6) highly efficient multiple operating system environment.

C. Amdahl Disk Drives

As Amdahl expanded its market for large-scale computers, it experienced increasing demand from its customers for the company to supply disk drives and other products to be attached to its computers. Since Amdahl was devoting a large portion of revenues to R&D in the large-scale computer and software areas, it was not feasible for Amdahl to take on the additional task of developing disk drives. Like many other computer companies, Amdahl found it necessary to identify a manufacturer that could supply high performance, high-quality disk drives to Amdahl's specifications. After fully evaluating a number of potential suppliers -- and publicly announced attempts to acquire Storage Technology and Memorex, major U.S. disk drive manufacturers -- Amdahl selected disk drives manufactured by Fujitsu. The disk drive units manufactured for Amdahl by Fujitsu, while incorporating Fujitsu's basic hard disk technology, are different in configuration from those Fujitsu manufactures and sells itself. Under its agreement with Amdahl,

Fujitsu is prohibited from selling the Amdahl disk drive products to any other customer, and Amdahl plans to purchase thousands of these products from Fujitsu in 1987.

Amdahl does not manufacture or market semiconductor devices. Just as Fujitsu plays no role in Amdahl's marketing or pricing, Amdahl plays no role in Fujitsu's semiconductor marketing or pricing in the U.S. or elsewhere. Amdahl is in no way responsible for present problems with respect to semiconductor pricing.

Amdahl's comments on the proposed §301 sanctions are directed primarily at the hard disk drive and test and manufacturing equipment categories.

II. HARD DISK DRIVES SHOULD NOT BE INCLUDED IN THE RETALIATION LIST.

Retaliating against hard disk drives imported under TSUS 676.3055 will severely impact Amdahl. It will not stop sales of the Amdahl disk drives manufactured by Fujitsu, and Fujitsu will not incur the retaliatory tariff. Amdahl has no choice but to continue to supply its customers with its disk drive units and is required to pay all duties applicable to these products. Amdahl has no alternative source for these drives, and its customers cannot switch to other sources without incurring substantially higher costs and disruption of data processing facilities.

- A. Amdahl has no alternative but to continue to import and sell its disk drives -- even if it has to absorb a 100% duty.

The Administration's intent in imposing retaliatory duties is to make importation prohibitive, and thereby to block Japanese imports in the selected categories. In the large-scale disk drive area, it simply will not work this way. Disk drive units are an integral part of the Amdahl customer relationship. Most of Amdahl's disk drive customers have Amdahl computer systems, and rely on Amdahl to supply and support the disk storage capacity for these systems. Nearly all are constantly expanding their disk drive storage capacity, with new units being added incrementally as needs require.

Amdahl cannot, as a practical matter, walk away from its customer base by failing to supply customers' disk drive requirements. This would create concerns about Amdahl's reliability in supporting the full systems on which Amdahl's customers depend. This, in time, would jeopardize Amdahl's fundamental competitive position. In addition, hundreds of Amdahl employees in the company's disk drive activities would no longer be required, and Amdahl would have large unnecessary inventories of spare parts.

For an American company with \$1 billion in revenues such as Amdahl, this is an unacceptable consequence. In order to preserve the reputation and customer relationships it has developed over 17 years, Amdahl will be compelled to absorb the 100% duty rather than jeopardize the long-term viability of the entire company.

B. Amdahl has no alternative source for disk drives.

The disk drive units sold by Amdahl are high-performance devices for large-scale IBM-compatible mainframe computer systems. These are entirely different from the small hard disk drives incorporated into microcomputers (such as APPLE or the IBM-PC) and engineering work stations (such as those from Apollo or Sun Microsystems). These pc-level disk drives are not imported as complete storage units and therefore are not classified under TSUS 676.3055; to the best of our knowledge, that category is accounted for almost entirely by large-scale mainframe-system disk drives imported by Amdahl and National Advanced Systems (NAS), a subsidiary of National Semiconductor Corporation.

In 1986, there were only five suppliers in the U.S. of IBM-compatible large-scale disk drives. They were:

<u>Company</u>	<u>Share of Market*</u>
IBM	77%
Amdahl	8%
NAS	8%
StorageTek	6%
Memorex	1%

Memorex was recently sold in a management-buyout and no longer manufactures disk drives. StorageTek is in bankruptcy proceedings and consequently must be regarded as a questionable supplier. NAS's drives are sourced in Japan. IBM, Amdahl's

* Source: Gartner Group, a leading computer industry analyst.

major competitor, is not a practical alternative source of supply.

Accordingly, Amdahl has no source to meet its customer commitments for disk drives. There are no Korean or other third-country sources of large-scale disk drives. Such sources may be available for small-scale pc hard disk components, but not for large-scale disk drives.

- C. Amdahl customers will be faced with additional expense and disruption if Amdahl is no longer a source of supply for disk drives.

Disk drives for large-scale computers are not commodity products. Most customers buy disk drives as needed until their "strings" (a set of disk drives attached to a controller) are completed. If Amdahl cannot supply these units, its customers will be forced to abandon plans to complete existing strings and to start over with new controller devices and new channels at substantial, unnecessary cost. Moreover, because Amdahl's disk drives occupy less floor space than competitors' products, many users may be forced to reconfigure their computer centers. Thus, alternative sources would be expensive and would create significant dislocations for Amdahl customers. There is no justification for imposing these burdens on a large number of such innocent parties.

In addition, IBM would likely increase its already dominant position in the large-scale disk drive market to above

90%. Mainframe users would be deprived of substantial competition for IBM-compatible disk drives, increasing prices and decreasing incentives for new product innovation.

- D. The impact of disk drive sanctions on Amdahl alone will account for up to \$95 million in the remainder of 1987, severely damaging the company.

Amdahl currently estimates it will import up to \$95 million in hard disk units during the last three quarters of 1987. Imposing sanctions on this category of products would cause almost a full one-third of the total \$300 million in target sanctions to fall on a competitive American company that has had nothing to do with the semiconductor violations. It is Amdahl, not Fujitsu, that will absorb these duties.

The effect of these sanctions would be dramatic. Amdahl reported a pre-tax income of \$69 million in 1986. Ninety-five million dollars (\$95 million) in special tariffs relating to disk drives alone during the last three quarters of 1987 would exceed Amdahl's pre-tax 1986 income. The effect on Amdahl's stock value, its employees' jobs and profit sharing, and its investors would be substantial. Moreover, purchasers of large-scale mainframes make decisions based not only on product performance but also on the financial viability of the supplier. To the extent that Amdahl's financial viability is called into question by these special tariffs, its sales of large computers could be adversely affected. Such a result

would be completely contrary to the stated objective of the sanctions to penalize Japanese semiconductor manufacturers without hurting innocent American interests.

Amdahl and other U.S. computer companies have borne the brunt of the commercial impact of the Semiconductor Agreement already by paying higher prices for chips used in the manufacture of their products. It makes no sense to attempt to benefit a segment of the U.S. semiconductor industry (the segment that manufactures random-access memories) while sacrificing a competitive American technological leader in the large-scale computer business by imposing on it a massive additional cost.

- E. If disk drives are not deleted from the list, the Administration should exclude high-end disk drives or, in the alternative, disk drives sold under independent American trademarks._____

If the Administration does not remove disk drives from the retaliation list entirely, it should consider implementing either of the two important exclusions.

First, an exemption should be provided for high-performance drives that are imported and sold under a registered American trademark of an independent U.S. company. Amdahl's disk drives are manufactured to its unique specifications and are sold under the Amdahl name. To include such items in the sanctions would be contrary to Secretary Baldrige's assurances that products of this type will not be subject to retaliation. This exclusion would be easy to administer under normal Customs procedures, since the importer need only produce a registered American trademark in the name of an independent U.S. company.

Second, the Administration should exempt disk drives with capacity greater than 100 MB per disk enclosure. This would leave sanctions in effect on low-end pc-level hard disk drives for which there are a number of alternative sources.

III. AMDAHL'S TEST AND MANUFACTURING EQUIPMENT SHOULD BE EXCLUDED FROM THE INSTRUMENTS CATEGORY ON THE RETALIATION LIST.

As part of its primary business, Amdahl constantly designs and develops new, higher performance mainframe computers. In order to test and manufacture these advanced systems, Amdahl must obtain unique proprietary test and manufacturing equipment.

Amdahl plans to receive several items of test and manufacturing equipment for its computer systems over the course of this year. This equipment is specifically dedicated to Amdahl's proprietary manufacturing processes, and it will not be sold to third parties. Because of its proprietary nature and because of the long lead time for its development, this equipment cannot be obtained from alternative sources. These items have high unit values, which altogether are expected to exceed \$5 million for the remainder of 1987.

This test and manufacturing equipment is essential to Amdahl's product development activities and to introduction of new Amdahl computers on a commercial schedule. A technology company such as Amdahl cannot delay production of new products and remain competitive.

V. REMEDIES

A. For disk drives:

TSUS 676.3055 should be deleted from the list; alternatively, sanctions under this section should be defined administratively to apply only to disk drives of less than 100 megabyte storage capacity; or disk drives imported bearing registered U.S. trademarks in the name of independent U.S. companies should be excluded from retaliation.

B. For test and process equipment:

TSUS 712.4971/75 should be deleted from the list; alternatively, test and manufacturing equipment delivered for end use by a U.S. company for manufacturing (not for resale) should be excluded.

C. For front-end communications processors:

TSUS 676.15 should be defined to exclude processors whose primary function is communications.

T A B 1

1985 R&D EXPENDITURES - INFORMATION PROCESSING

<u>C o m p a n y</u>	<u>Sales</u> <u>(Million)</u>	<u>Research & Development</u>		
		<u>Expenses</u> <u>(Million)</u>	<u>Percentage</u> <u>of Sales</u>	<u>Expenditures</u> <u>Per Employee</u>
Amdahl	\$ 862.0	\$ 134.8	15.6	\$ 19,514
Cray	380.2	49.2	12.9	15,460
Digital Equipment	6,686.3	717.3	10.7	8,059
Hewlett Packard	6,505.0	685.0	10.5	8,154
Data General	1,239.0	128.4	10.4	7,767
Control Data	3,679.7	316.1	8.6	7,134
Sperry	5,687.2	460.7	8.1	5,928
IBM	50,056.0	3,457.0	6.9	8,524
NCR	4,317.2	299.1	6.9	4,824
Honeywell	6,624.6	451.4	6.8	4,801
Burroughs	5,037.7	285.2	5.7	4,724
APPLE Computer	1,918.3	72.5	3.8	16,866

SOURCE: Business Week, June 23, 1986

TAB A

Attendees for Richard Fairbanks Meeting are as follows:

~~Richard Fairbanks~~ 2/10/41

John W. Larson 6/24/35

~~Hamilton Loeb~~ ~~6/22/51~~

~~Jack Lewis, Amdahl Corporation, CEO~~ 10/15/35

~~Murray Scorman, Vice President of Amdahl Corporation~~

~~Michael Driggs, OPD~~

Contact: Joyce 457-9477

SUBJECT: Section 301 action against Japanese Imports and its
impact on the Amdahl Corporation.

LAW OFFICES OF
PAUL, HASTINGS, JANOFSKY & WALKER

A PARTNERSHIP INCLUDING PROFESSIONAL CORPORATIONS

TWELFTH FLOOR

1050 CONNECTICUT AVENUE, N. W.

WASHINGTON, D. C. 20036

TELEPHONE (202) 223-9000

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NEW YORK OFFICE

EIGHTH FLOOR
299 PARK AVENUE
NEW YORK, NEW YORK 10171
TELEPHONE (212) 750-1186

LOS ANGELES OFFICE
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TELEPHONE (213) 481-1200

April 8, 1987

VIA MESSENGER

OUR FILE NO:

Ms. Carolyn Frank
Office of the United States
Trade Representative
600 Seventeenth Street, NW - Room 521
Washington, DC 20506

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Japan Semiconductor Agreement

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President and Chief Executive Officer
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Ms. Carolyn Frank
April 8, 1987
Page 2

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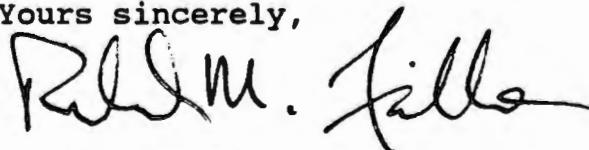
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Please feel free to call me if you have any questions.

Yours sincerely,



Richard M. Fairbanks, III
of PAUL, HASTINGS, JANOFSKY & WALKER

Counsel to Amdahl Corporation

cc: Members of Section 301 Committee

2:00 p.m. guests

Tom Evans

Robert Kable

11/30/46 D.O.B.

#15

1 en, L

463-4380

I talked w/ Bob Kable yesterday re: a possible meeting w/ you re: the attached. Mr. Kable said he would get the materials over to us today, however they did not come in until 7:30 p.m. I wanted you to see the materials before agreeing to a meeting. Friday morning a hearing will be held to determine the fate of the attached & Mr. Kable wishes 15 minutes of your time tomorrow. Del

00

Shall I schedule 15 minutes tomorrow afternoon?

ext. 6437

yes

no

Rn. 224, O.E.O.B.

Michael Duggs

2:00 P.M.

Tom Evans

11/5/31

w/ Duggs

Robert Kable

11/30/46

Confirmed for 2 p.m. 4/16/87

MANATT, PHELPS, ROTHENBERG, & EVANS

TO: Honorable Kenneth Cribb
FROM: Robert J. Kabel *Bob Kabel*
DATE: April 15, 1987
SUBJECT: Automated Identification System

Attached is a fact sheet and relevant materials on the Automated Identification System (AIS), a state of the art fingerprint identification system supplied by NEC Corporation through our client, NEC Information Systems, Inc. AIS is currently used by the law enforcement agencies around the country and has been credited for the identification of countless criminals that would not otherwise have been apprehended. To date, the law enforcement agencies utilizing this system include the State of California Department of Justice, the Los Angeles County and City Police Departments, the Orange County, Alameda County, and San Bernardino County Police Departments, and the San Francisco Police Department.

On Monday, April 13, 1987, the United States Trade Representative held a Section 301 tariff hearing to determine whether a 100% tariff increase should be imposed on certain Japanese electronic goods. AIS is one of the items affected by the proposed tariff. Imposition of this tariff would effectively preclude law enforcement agencies from utilizing this unique technology and instead force them to use the lower quality criminal identification systems available from European suppliers.

We all recognize the need to take steps to cure the current trade imbalance our country has with Japan. However, in light of the unique nature of NEC's product and the fact that the only comparable technology is supplied by subsidiaries of foreign companies, cause exists for exempting AIS from these tariffs.

It has been announced that the President is expected to sign an order on this matter by Friday. We have advised the Attorney-General of our interest in this matter through Brad Reynolds. However, it would be helpful if you would stress the critical importance of allowing the law enforcement community continued access to this technology. Tom Evans and I would like to visit with you before Friday of this week to discuss this further if your busy schedule permits.

Many thanks for your assistance on this important issue.

**EXCLUDE AUTOMATED IDENTIFICATION SYSTEMS (AIS)
FROM SECTION 301 TARIFF**

On Monday, April 13, the U.S. Trade Representative will hold a Section 301 tariff hearing to determine whether a 100% tariff increase should be imposed on certain Japanese electronic goods valued at \$300 million. One of the items affected by the proposed tariff is the Automated Identification Systems ("AIS"), a state-of-the-art criminal identification system supplied by NEC Corporation through its U.S. subsidiary, NEC Information Systems, Inc. The imposition of this added tariff on AIS would effectively preclude U.S. law enforcement agencies from employing this unique technology, thereby undermining public safety.

Currently, \$100 million of NEC's AIS hardware is being used by numerous law enforcement agencies in the U.S. to make criminal identifications within seconds that were impossible prior to this technology. In addition to fingerprint identification, AIS will soon be capable of high speed sorting and comparison of hundreds of thousands of mug shots and rap sheets. NEC's system is based on unique proprietary technology which cannot be duplicated by any company in the world. NEC's superiority in this field is demonstrated by the fact that users purchase the NEC system despite its higher cost. The only other suppliers in the U.S. are subsidiaries of foreign companies.

While the tariffs would make it essentially impossible for NEC to continue shipping AIS systems to the U.S., the total amount of AIS components covered by the tariff is only a small percentage of the total \$2 billion exported to the United States by Japan. As such, excluding AIS from the tariff would not significantly diminish the effect of the sanctions.

The imposition of the 100% tariff on AIS would result in the following:

- o Criminals who would otherwise be apprehended using AIS will remain at large.
- o Law enforcement agencies will be forced to turn to inferior products from alternative suppliers. Those agencies with NEC equipment will be unable to upgrade because the inferior products are not compatible with AIS. Reconversion to alternative systems will result in exorbitant costs to taxpayers.
- o The law enforcement agencies (Illinois, Virginia, St. Louis, Missouri) that have recently decided to purchase NEC equipment will be required to begin the procurement process anew, thus delaying by several years the installation of any AIS.
- o The envisioned nationwide criminal identification system linking federal, state and local agencies through the AIS technology will be impossible.

TSUS Item No.

Article

Calculation machines; accounting machines, cash registers, postage-franking machines, ticket-issuing machines, and similar machines, all the foregoing incorporating a calculating mechanism:

Accounting, computing and other data processing machines

676.15 pt. . . .

Having a calculating mechanism accommodating words of 16 bit to 63 bit in length (except automated systems specifically designed for law enforcement identification purposes)

Office machines not specifically provided for:

Data processing machines:

Display units:

[with monochrome CRT; with color CRT]

676.3046

Other (except components destined solely for use in automated systems specifically designed for law enforcement identification purposes)

Disc drive units:

676.3055

Hard magnetic disc drives (except components destined solely for use in automated systems specifically designed for law enforcement identification purposes)

JOHN K. VAN DE KAMP
Attorney General

State of California
DEPARTMENT OF JUSTICE



P.O. BOX 90281
SACRAMENTO, CA 94203-2810
(916) 789-5241

April 8, 1987

The Honorable Edwin Meese III
Attorney General of the United States
United States Department of Justice
10th and Constitution Avenue N.W.
Washington, D.C. 20530

Dear Attorney General Meese:

On April 13, 1987, the Section 301 Committee will be meeting to consider the imposition of tariff sanctions against selected Japanese products currently being exported to the United States. While the imposition of sanctions pursuant to Section 301(b) is an appropriate means of addressing the trade imbalance between the United States and Japan, cause exists for exempting certain items.

Of immediate concern to law enforcement throughout California and the United States are computer systems that operate specifically in the interest of public safety.

In California, one such system is the California Identification (Cal-ID) System, an Automated Fingerprint Identification System (AFIS) that is experiencing tremendous success in the identification of latent fingerprints recovered from crime scenes. Imposition of the proposed tariffs will have a deleterious effect on law enforcement's ability to install and maintain advanced technology such as Cal-ID.

I am sending Fred Wynbrandt of my staff to testify before the Section 301 Committee and urge them to exempt law enforcement contracts in favor of recreational products such as televisions and stereos. I believe this to be a responsible approach that will avoid negative impact on the U.S. consumer and taxpayer.

As Attorney General of the United States, your support for this position will have significant impact on the recommendations the Section 301 Committee makes to President Reagan.

Very truly yours,

JOHN K. VAN DE KAMP
Attorney General

G. W. Clemons
G. W. CLEMONS, Director
Division of Law Enforcement

STATEMENT OF FRED H. WYNBRANDT
ASSISTANT DIRECTOR, CRIMINAL IDENTIFICATION AND INFORMATION BRANCH
CALIFORNIA ATTORNEY GENERAL'S OFFICE
BEFORE THE OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

APRIL 13, 1987

REGARDING: 301 COMMITTEE - TRADE IMBALANCE BETWEEN UNITED STATES AND JAPAN

Mr. Chairman, members of the committee, I am pleased to appear here today on behalf of the California Attorney General's Office. Under the leadership of Attorney General John K. Van de Kamp, I am responsible for the operations of the Division of Law Enforcement's Criminal Identification and Information Branch. Consisting of three separate bureaus -- Bureau of Criminal Identification -- Bureau of Justice Information Services -- and Bureau of Criminal Statistics and Special Services -- this branch maintains and operates the California Criminal Justice Information System. This includes, but is not limited to, the maintenance of automated/nonautomated files on criminal history, wanted persons, vehicles, firearms, and dangerous weapons as well as a field training program, an audit program, and statistical reports on crime, delinquency, and the criminal justice system.

At this time, I would like to share with you some detailed information about the Bureau of Criminal Identification within the Criminal Identification and Information Branch, briefly describing the services they provide, how they are utilized and the importance of their continued development.

The Bureau of Criminal Identification maintains an applicant and criminal history record system that contains over 7.6 million subjects. The Department receives and process approximately 800,000 criminal fingerprint cards per year and approximately 500,000 applicant fingerprint cards.

A part of this record keeping system is the Master Name Index. The Master Name Index is an automated on-line file that contains the personal description records for all subjects on file in the Bureau of Criminal Identification. The Master Name Index will indicate whether these records are maintained manually or in the Automated Criminal History System.

The Automated Criminal History System is a centralized, automated system designed to provide authorized criminal justice agencies on-line access to automated criminal offender and applicant record information from the Bureau of Criminal Identification automated files. The automated files are comprised of 2.2 million records established primarily for offenders and applicants with activity after 1973.

The Automated Criminal History System is part of the Criminal Justice Information System and through the California Law Enforcement Telecommunications System is accessed 24 hours a day, 365 days a year, from 4,500 computer terminals throughout California. The bureau responds to approximately 34,000 inquiries per day.

The bureau also maintains the record review program which provides the opportunity for an individual to review their own record.

The most common and reliable method of identification used by the criminal justice system is fingerprints. Additionally, fingerprints are the most commonly retrieved item of physical evidence found at crime scenes.

To enhance and streamline its fingerprint file, the California Department of Justice, in December 1984, signed a multi-million dollar contract with a Japanese firm to purchase and install a large-scale Automated Fingerprint Identification System.

The Automated Fingerprint Identification System stores the fingerprint ridge characteristics (minutiae) data from two fingers of 5.0 million persons with dates of birth in 1940 and later. This data base of minutiae is used to conduct fingerprint searches for licensing and recordkeeping purposes. Besides the minutiae data, the Automated Fingerprint Identification System data base contains sex and date of birth information. The Automated Fingerprint Identification System is 96-100% accurate (i.e., if 100 searches are performed with the knowledge that all 100 subjects are in the data base, 96 - 100 will be identified), exceeding the accuracy rate of the current manual system by 25-30%.

The new California Identification System's Automated Latent Print System stores the minutiae data from eight fingers (omitting the little fingers of both hands) of 1.5 million known criminal offenders and is used to conduct latent fingerprint "cold searches" with no known suspects. The Automated Latent Print System has the capability to search individual and partial latent prints with at least 70% accuracy. The Automated Latent Print System will be capable of processing 50,000 latent cases each year, or about one search every five minutes.

The Digital Image Retrieval System is used in conjunction with the two previously described systems. The purpose of the image system is to store and retrieve and display on a screen the electronic image of fingerprints contained in the Automated Fingerprint Identification System and the Automated Latent Print System data bases.

This makes it possible for fingerprint examiners to visually compare the fingerprints of the searched print to the fingerprints of the person selected as possible matches by the Automated Fingerprint Identification System or Automated Latent Print System; and to confirm the identity of persons tentatively identified as a result of a name search. These comparisons are possible without inspecting the actual fingerprint cards. Without the fingerprint images in the Digital Image Retrieval Sytem, it would not be possible for the California Identification System to feature remote access.

The fourth system component, the Remote Access Network, will provide sheriffs and police departments with the capability to access the state data base from their local jurisdiction to conduct fingerprint searches, latent "cold searches", and retrieve images.

Implementation of the California Identification System has improved service by increasing the accuracy of fingerprint searches, reducing the response time for identification requests, expanding the latent print "cold search" service to all

California counties, and brought about operational savings through a reduction in Department of Justice personnel. Some of the current and anticipated benefits of the California Identification System are:

- Since fewer people will be needed to process routine fingerprint requests, the state will be able to reduce personnel and save almost \$2 million per year.
- The searching capability of the Automated Fingerprint Identification System will provide for a more thorough and detailed search of the fingerprints on file in the data base. Accuracy will improve by approximately 25%.
- The latent print "cold search" capability will be expanded to all California counties.
- Expansion of the latent print "cold search" service to the entire state and more than tripling the size of the data base (impossible with the current system) will result in a higher hit rate. The Department of Justice estimates that more than 7,500 additional criminals will be identified by the California Identification System's Automated Latent Print System each year than with the existing system.
- The current automated "cold search" latent print system shows that many of the burglars/thieves are identified and arrested before they can dispose of the stolen property. The California Identification System will increase the

number of criminals identified and arrested with the stolen property still in their possession. Therefore, the amount of stolen property recovered and returned to its rightful owner will increase.

- Since most crimes are committed by a relatively small number of persons, the rapid identification, arrest, and incarceration of these individuals will benefit citizens and enhance public safety. Criminals cannot continue to commit crimes against the general population while they are in jail.

A number of local jurisdictions have purchased additional equipment pursuant to the master state contract. The result is that by June 30, 1988, the combined statewide investment will be in excess of \$40 million. This sophisticated network has been designed to support a statewide Criminal History System and to identify thousands of latent fingerprints annually to resolve crimes which may have otherwise remained unsolved.

The California Identification System has, to date, identified over 2,000 latent fingerprints, many of which were in homicide and rape cases spanning several years and with multiple victims.

While we recognize that the imposition of tariffs may be a desirable method of addressing the trade imbalance between the United States and Japan, we firmly believe that those tariffs should be restricted to recreational products (e.g., televisions, stereos, personal computers). Long-term contracts to provide and support law enforcement systems, such as the Automated Fingerprint

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Identification System, which is currently underway, should be exempt from the increased tariff. We feel the financial and operational impact of such tariffs will have an adverse effect upon the contracting agency as well as the general public.

For example, the Automated Fingerprint Identification System technology is specialized so that no two systems are compatible. Thus, the software and hardware maintenance must be provided by the contracting vendor.

Accordingly, the imposition of the proposed tariff on the major components of the system as described in TSUS or TSUSA items 676.15 pt., 676.3046, and 676.3055, could make it difficult or impossible for law enforcement agencies to protect their investment, either because the cost of an effective maintenance program would be too high or because the supplying vendor could no longer afford to support current installations since the broader market would be denied to them.

The operational impact of such tariffs would be a marked deterioration in the system over time by:

- 1) reduction in the number of crimes solved throughout the state due to the financial burden of maintaining established systems, and
- 2) requiring that planning be based on cost rather than performance standards.

The cost of system replacement would be millions of dollars over and above a normal equipment replacement schedule and would result in tremendous backlogs and inefficiencies during the transitional period.

Since these systems are usually obtained through a competitive bid process, the imposition of prohibitive tariffs would have the net effect of reducing competition and denying government and law enforcement the full advantage of the competitive bid process and the full range of alternatives it offers. This would degrade law enforcement's ability to provide efficient and cost effective service to the public.

In light of the foregoing, on behalf of law enforcement throughout California and the nation, I strongly urge that you concentrate the proposed sanction on recreational products and exempt law enforcement programs. Such actions will surely satisfy the intent of the sanctions and, at the same time, avoid a negative impact on law enforcement, public safety, and the taxpayer.

NEC

NEC Information Systems, Inc.

AFIS CUSTOMER REFERENCE LIST

<u>CUSTOMER</u>	<u>CONTACT NAME</u>	<u>PHONE</u>
San Francisco Police Department 850 Bryant Street San Francisco, CA 94103	Capt. Henry Eidler Sgt. Ken Moses	415-553-1242
Alaska State Troopers 450 Whittier Janeau, AK 99801	Dep. Commissioner James D. Vaden	907-465-4322
Department of Justice State of California 4949 Broadway Sacramento, CA 95820	Mr. Tony Doonan	916-739-5644
Calgary Police Service 316 7th Avenue, SE Calgary, Alberta Canada T2G 0J2	Mr. Ken Collier	403-365-3300
Australia New South Wales Police Department Remington Building 12th Floor 196 Liverpool Street Sydney 2000	Mr. Malcolm Bell	02-219-3245 Ext. 3245
Milwaukee Police Department City Hall, Room 607 200 East Wells Street Milwaukee, WI 53202	Mr. Joseph Slawinski	414-935-7283
Chicago Police Department 1121 S. State Street Chicago, IL 60605	Lt. John Burzinski	312-774-8310
Massachusetts State Police 1010 Commonwealth Avenue Boston, MA 02215	Sgt. William Anderson	617-566-4500
Regional Justice Information Service 4255 West Pine Boulevard St. Louis, MO 63108	Ms. Patty Medley	314-535-1950

NEC
NEC Information Systems, Inc.

AFIS CUSTOMER REFERENCE LIST

<u>CUSTOMER</u>	<u>CONTACT NAME</u>	<u>PHONE</u>
Los Angeles County Sheriff's Department 211 West Temple Street, Room 304 Los Angeles, CA 90012	Lt. Frank Woodall	213-974-0151
Los Angeles Police Department 150 N. Los Angeles Street Los Angeles, CA 90012	Mr. Joseph P. Bonino	213-485-2601
Orange County Sheriff's Department 550 North Flower Street Santa Ana, CA 92702	Mr. Frank Fitzpatrick	714-834-3073
San Bernardino County Sheriff's Department 115 West Court Street San Bernardino, CA 92401	Lt. Jim Cox	714-387-6495
County of Alameda Sheriff's Department Central ID Bureau Police Administration Building 455 Seventh Street Room 313 Oakland, CA 94607	Lt. D. G. Schueller	415-874-5844
Illinois State Police 108 Armory Building Division of Forensic Service & ID Springfield, IL 62706	Deputy Superintendent Joseph E. Ginter	217-785-5796
Suffolk County Police Department Yaphank Avenue Yaphank, NY 11980	Det/Sgt. Larry Rooney	516-286-5487
Washington State Patrol 3310 Capital Boulevard Criminal Records Division Olympia, WA 98504-6502	Capt. William G. Keller	206-753-6858

NEC
NEC Information Systems, Inc.

AFIS CUSTOMER REFERENCE LIST

<u>CUSTOMER</u>	<u>CONTACT NAME</u>	<u>PHONE</u>
VA Department Criminal Justice 101 North 14th Street Department Information Technology Richmond, VA 23219	Ms. Elaine Zacharias	804-225-2442



Chris Spallin of the U.S. Trade Representative's Office listens to testimony on sanctions at yesterday's hearing.

BY JOEL RICHARDSON—THE WASHINGTON POST

Seeking Shelter From Computer Chip Sanctions

Japanese Companies and Customers Testify Against U.S. Tariffs

By Stuart Auerbach
Washington Post Staff Writer

Baltimore grocer Stephen Denrich claims the proposed duties on Japanese electronics goods would hurt plans to expand his Valu Food supermarket chain.

Six U.S. law enforcement officials warn the proposed tariffs would make life easier for criminals.

They were among the more than 80 representatives of Japanese companies, U.S. businesses that buy Japanese products and users of Japanese products who yesterday paraded before a panel of officials from nine government agencies to give their views of trade sanctions scheduled to take effect Friday. The hearing is to continue today.

The sanctions, imposed by President Reagan March 27 to punish Japan for failing to keep a semiconductor trade pact, amount to 100 percent tariffs that could double the import price of a wide range of products. While semiconductors themselves will not face retaliation, the products include those that have chips in them or are made by chip producers.

When he announced the sanctions on March 27, Reagan listed \$1.7 billion worth of products. The committee will pare that list to \$300 million in Japanese products, the amount Reagan said should be affected by the sanctions.

Chris Parlin of the U.S. Trade Representative's Office said a major factor in the decision would be "the

See CHIPS, C5, Col. 2

Japanese Firms, Customers Testify Against Chip Sanctions

CHIPS, From C1

degree of impact on U.S. consumers" from the sanctions.

White House chief of staff Howard Baker said yesterday the president was likely to sign the retaliatory order Friday as scheduled (story on Page A20).

Valu Food's Denrich appeared at the hearing on behalf of TEC America Inc., the U.S. subsidiary of Tokyo Electronics Corp., to explain how duties on automated scanners and cash registers would hurt expansion plans.

Law-enforcement officials from Illinois to Alaska to California appeared, boosting an automated fingerprint identification system supplied by NEC Corp. that they said was better than any other system, including U.S.-made ones used by the FBI and Secret Service.

They credited the automated system with catching California's "night stalker" murderer and the killer of two UCLA coeds. "If we had the technology eight years ago, 10 people would have been alive today," said Rose Marie Ochi of Los Angeles.

The wide interests represented at the hearing illustrated how intertwined the U.S. and Japanese economies and industries have become, especially in high-technology fields.

Former Indiana congressman Thomas F. Railsback, for instance, said the U.S. construction industry would be hurt because of duties on power tools used by professionals. He represented Roybi Ltd. Another Japanese power tool maker, Makita

Electric Works Ltd., is set to appear this morning.

The Computer and Business Equipment Manufacturers Association supported the semiconductor agreement to help domestic makers even though it raised prices on some chips. But CBEMA President Vico Henriques said he opposed retaliation that would hurt the competitiveness of its members, many of whom buy Japanese components and would be hit by the doubled tariffs.

Edwin Lee, speaking on behalf of the American Electronics Association, supported the sanctions but urged that they be imposed in a way "that minimizes disruption to the U.S. electronics industry."

But AEA Senior Vice President Ralph Thomson said it is increasingly difficult to avoid hurting American firms as U.S. companies place a greater reliance on Japanese components. "We have not only become interdependent, but dependent."

Sanyo E & E Corp. is scheduled to appear today to protest tariffs on a Japanese compressor for small refrigerators it makes in a Richmond, Ind., plant. Mayor Frank H. Waltermann will back up the Japanese company's appearance, citing fears that the tariffs will put 190 of his constituents out of work in a town already hard hit by unemployment.

Even National Semiconductor Corp., which strongly supported the unfair trade cases against Japanese semiconductor makers, found itself raising objections, explaining that it buys mainframe computers and disk drives from Hitachi and modifies them for U.S. sale to help overcome losses in its semiconductor business.

U.S. Tariffs Against Japan Expected

By GERALD M. BOYD

Special to The New York Times

SANTA BARBARA, Calif., April 13 — Senior White House officials said today that President Reagan was virtually certain to issue a proclamation Friday that doubles the import prices of some Japanese electronic products and predicted that the action would lead to a "difficult" trade situation with Japan.

Leaving little doubt that the President would take such a step, Howard H. Baker, the White House chief of staff, said today that "I don't know of anything that argues against it right now."

"I don't know of any reason why there wouldn't be, so I assume that there will be a proclamation on Friday," he said, talking to reporters here.

The Administration had left open the possibility that Mr. Reagan would take a less confrontational course with America's second-largest trading partner when the President announced on March 27 that he was considering a 100 percent tariff on some Japanese products. That would be the first major retaliation against Japan in the postwar period.

'Nobody Wants a Trade War'

But sounding hard-line, Mr. Baker said today, "Nobody wants a trade war, but nobody wants to be a patsy either."

Mr. Baker and Frank C. Carlucci, the President's national security adviser, said that Mr. Reagan had received no reason to reject the sanctions since the March announcement and that he did not expect any change over the next few days.

Talks between the United States and Japan had broken off Friday and Mr. Carlucci suggested that no progress had been made.

"The Japanese presented some statistics indicating that market access has increased," he said. "Our statistics do not confirm this. Indeed, they tend to go in the other way."

'A Very Difficult Situation'

"And we are currently studying both sets of statistics, but it does, as Mr. Baker has said, look like a very

difficult situation at this point."

Mr. Reagan's action could affect up to \$300 million worth of television sets, laptop computers, stereo equipment and other consumer electronic products annually and could cloud a planned meeting between Mr. Reagan and Prime Minister Yasuhiro Nakasone later this month in Washington.

The dispute emerged from contentions by the Administration that Tokyo had failed to comply with a semiconductor agreement that it had signed last July. The accord committed Japan to open its market to American semiconductors and to re-

frain from selling chips in third markets below cost.

White House officials would not indicate how many products would come under the stiff penalty when Mr. Reagan issues the proclamation.

Tariffs Seen as Harmful

By CLYDE H. FARNSWORTH

Special to The New York Times

WASHINGTON, April 13 — Users of Japanese electronics today warned

of financial losses, layoffs and even a negative impact on public safety if certain targeted goods are hit by punitive tariffs that the Reagan Administration is preparing to impose later this week.

Crowded hearings in the Commerce Department's main auditorium gave the public the first chance to comment on sanctions the White House is aiming at Japan for failure to comply with an eight-month-old semiconductor agreement.

On to the stage of the auditorium, in front of blinding television lights came one witness after another to describe before a panel of Government examiners from a half-dozen agencies the impact of the planned action on their operations.

The testimony included appeals

from the Los Angeles and other law enforcement agencies worried that higher costs of Japanese-made automated fingerprint identification systems will weaken crime fighting in this country.

"This city will suffer a substantial financial loss, but the more significant concern is that the promise of improved crime solving, so desperately needed, may become short-lived," said Rose Ochi, director of the Criminal Justice Planning Office of the City of Los Angeles.

One of the witnesses, Harry L. Slam, the senior vice president for sales of an Irvine, Calif. maker of video display terminals, wound a sumo wrestler's kerchief around his head as he spoke, saying he was "defending his village."

The Administration has published a

list of more than 20 products, representing annual import volume of \$1.8 billion, that could be hit by duties of as much as 100 percent.

The purpose of the hearings, at which more than 70 witnesses have signed up to testify, is to help trade officials winnow the list down to goods representing import volume of \$300 million — the amount the White House said it would target in what would be the first postwar trade sanctions invoked against Japan.

Christopher Parlin, an official in the general counsel's office of the Office of the United States Trade Representative, and co-chairman of the hearing, said the judgment of an interagency body that will make the recommendations to the President would be based on "the degree of impact on United States consumers."