THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

November 7, 1985

MEMORANDUM FOR EUGENE MCALLISTER

FROM: Beryl W. Sprinkel

RE: Decision Memorandum on Semiconductors

In response to your Decision Memorandum on Semiconductors, dated November 8, 1985, I request that CEA votes be reported as follows:

Recommendation 1: Oppose

Unless Commerce Department reports back to the EPC its basis for calculating the appropriate antidumping duty and determining that the case is strong, CEA opposes self initiation.

Recommendation 2: Oppose

Unless the negotiated package involves a strong emphasis on greater market access in Japan, rather than raising Japanese prices in the U.S. market, CEA opposes.

Recommendation 3: Oppose

Unless potential targets for retaliation are identified, and the EPC can assess whether the U.S. hurts itself more than the Japanese, CEA opposes.

With respect to suggested wording in the decision memorandum, I suggest the following rewording of the third disadvantage on page 3:

- o A successful case would lead to at least a temporary increase in chip costs to U.S. users, and may encourage them to relocate offshore to produce with cheaper Japanese components.

An additional disadvantage to be included in the same section is the following:

- o Calculation of large antidumping margins will likely rest on unacceptable measures of dumping, e.g. allocating development costs only to units already sold, without including those yet to be sold in the future.

THE WHITE HOUSE

WASHINGTON

November 8, 1985

MEMORANDUM FOR DOUGLAS W. McMINN
DAVID C. MULFORD
WILLIAM H. TAFT IV
D. LOWELL JENSEN
DANIEL G. AMSTUTZ
S. BRUCE SMART
DENNIS E. WHITFIELD
JAMES H. BURNLEY IV
ALTON G. KEEL, JR
MICHAEL B. SMITH
BERYL W. SPRINKEL
STEPHEN I. DANZANSKY

FROM: EUGENE J. McALLISTER EM

SUBJECT: Decision Memorandum on Semiconductors

A decision memorandum for the President reflecting the discussion at the Economic Policy Council meeting of November 5 regarding the Strike Force's recommendations on semiconductors is attached. Please advise me of any suggested changes in the memorandum and agency votes by 5 p.m. today, November 8.

Thank you very much.

Attachment

THE WHITE HOUSE

WASHINGTON

November 8, 1985

MEMORANDUM FOR THE PRESIDENT

FROM: THE ECONOMIC POLICY COUNCIL

SUBJECT: International Trade in Semiconductors

In your September 23 speech to the President's Export Council, you unveiled an interagency strike force designed to search out instances of unfair foreign trade practices and to offer recommendations to remedy those practices. The Strike Force, under the chairmanship of Secretary Baldrige, has presented the Economic Policy Council with its findings on unfair Japanese trade practices in the semiconductor industry and recommendations to address these practices.

The Economic Policy Council has reviewed the Strike Force's findings and recommendations, and we are offering you our views on the issue of unfair Japanese practices in semiconductors.

BACKGROUND

The Strike Force looked at trade in semiconductors for two reasons: (1) trade in semiconductors is very large, $25 billion worldwide in 1984; and (2) semiconductors are the heart of computers, robots, and industrial process controls, and are a key to technological leadership.

U.S. semiconductor manufacturers argue that the Japanese engage in two kinds of unfair trade practices:

- Dumping semiconductors into the U.S. market, and thus damaging the U.S. semiconductor industry.

- Pursuing policies and practices that limit U.S. access to the Japanese semiconductor market, the second largest in the world.

After a long period of dominance in this technology, the U.S. now shares leadership with Japan and is falling behind in the newest generation of semiconductors. Our position is a result of many factors, some of our own making. But a prominent cause is the Japanese practice of targeting. Their strategy has been to exclude U.S. companies from their home market, while gaining

share in ours by aggressive pricing policies. Japan has expanded production capacity rapidly; as a result the industry is now oversupplied, and prices are declining.

The U.S. market share has remained at 10 to 14 percent for many years, despite strong efforts by U.S. companies to expand in the Japanese market and our competitiveness elsewhere in the world. Half of the market share that U.S. companies have in Japan comes from Texas Instruments' plant in Japan.

UNFAIR TRADE ACTIONS INITIATED BY INDUSTRY

As might be expected, U.S. industry has taken a number of actions under U.S. trade law:

- Micron Technology has filed a dumping charge on 64K RAM (random access memory) chips.

- Intel, Advanced Micro Devices (AMD) and National Semiconductor have filed antidumping charges on EPROM (erasable programmable read only memory) chips.

- The Semiconductor Industry Association (SIA) has filed a Section 301 case claiming lack of market access and predatory pricing.

In addition, two antitrust actions relating to Japanese predatory pricing practices in the U.S. markets are underway.

In accordance with your policy, we are committed to assure the vigorous pursuit of legal remedies addressing unfair trade practices -- and we are doing so in all these cases.

RECOMMENDATIONS

The Strike Force forwarded three recommendations to the Economic Policy Council. If adopted, these would supplement the actions initiated by the industry as noted above.

1. The Department of Commerce would initiate an antidumping case on 256K RAMS, if the Commerce Department is very confident that the ITC will find injury and the Commerce Department will find dumping.

2. The USTR would accelerate its consideration of the SIA's Section 301 case. The USTR would seek a "package" settlement with Japan.

3. The Administration would confirm our intention to retaliate if the Section 301 case is not concluded to our satisfaction.

A more complete discussion of the recommendations follows.

Recommendation 1: Self-initiate an antidumping case on 256K RAMs if the Commerce Department is very confident that the ITC will find injury and the Commerce Department will find dumping.

U.S. law allows the Commerce Department to self-initiate antidumping cases. Dumping duties are imposed when: (1) the ITC determines that because of such imports, the U.S. industry is injured or threatened with injury; and (2) the Commerce Department determines that an import is being sold in the U.S. at "less than its fair value." If both these findings are made, the Customs Service may impose duties on the products being dumped. For the antidumping duties to be imposed, Commerce must find either: (1) U.S. prices are below home market prices; or (2) U.S. prices are below the cost of production. If dumping is found to exist, the Customs Service may impose duties on the products being dumped.

A Commerce Department preliminary investigation indicates that Japanese semiconductor manufacturers are dumping 256K RAMs in the U.S. market at less than their cost of production. Japanese RAMs sell in the U.S. for $2.00-2.50 while the fully allocated cost of production in Japan cannot be less than $2.60 and may be as high as $4.00.

The Commerce Department analysis also points to a probable injury finding by the International Trade Commission based on substantial evidence of lost sales, major financial losses, massive layoffs, and U.S. companies exiting from the market entirely.

Advantages

- Imposing a dumping margin would provide relief to the hard pressed U.S. industry.
- Self-initiating an antidumping case would send a message to Japan, U.S. industry, and the Congress that the Administration is concerned about unfair trade practices, particularly in critical technology industries.
- An antidumping case may strengthen our position in negotiating a solution to the market access and predatory pricing practices raised in the Section 301 case.

Disadvantages

- o The industry has not initiated an antidumping case. If they apparently are not interested enough to pursue such a case, the case may not be strong enough.

- o Initiating an antidumping case that the ITC ultimately finds unwarranted may damage our efforts to use self-initiation as a practice to emphasize Presidential interest in correcting unfair trade practices.

- o A successful case would lead to at least a temporary increase in chip costs to U.S. users. However, because semiconductors account for a small proportion of the final costs of most high technology products, e.g. computers, the cost increase should be extremely small.

Recommendation 2: USTR will accelerate its consideration of the SIA's Section 301 case. The USTR would seek a "package" settlement with Japan.

The Semiconductor Industry Association's (SIA) filing of a 301 petition is the most recent step in a series of negotiations begun in 1982 by the US-Japan High-Technology Working Group over market access in Japan. This group negotiated two agreements that were approved by the cabinets of both countries. These agreements committed Japan to providing access in Japan similar to that enjoyed by Japanese companies in the U.S. The Japanese government also undertook to encourage its companies to develop long-term relationships (as opposed to mere "spot" buying) with U.S. suppliers.

When it became apparent in June 1984 that negotiations to fulfill the promise of greater U.S. access to Japan were failing, the SIA consulted with U.S. negotiators about filing a 301 case to put pressure on Japanese negotiators. The United States Government encouraged the filing with the intent of using it to negotiate better access.

In our efforts to resolve the Section 301 case, we could address a number of issues including market access and predatory pricing. It might be possible to pursue a "package" of Japanese actions to remedy their unfair practices. Such a package might include an agreement by the Japanese to provide greater access to its market in return for the U.S. dropping the antidumping and Section 301 cases.

Advantage

- o A successful 301 case, particularly if the Japanese accept a "package" solution, would address the major concerns of the

U.S. industry: greater access to the Japanese market and a cessation of predatory pricing in the U.S. market.

Disadvantage

o Market access in a vaguely defined term. Essentially we are looking for increased U.S. market share. A deal inevitably leads to some, albeit tacit, agreement on market share, which is contrary to the Administration's free market principles.

Recommendation 3: The Administration will confirm our intention to retaliate if the Section 301 case is not concluded to our satisfaction.

This intention is implicit in a Section 301 case. The recommendation is to make the implicit threat explicit.

Advantage

o The history of U.S.-Japan discussions on market access is one of failure. An explicit statement of our intention to retaliate is necessary to convey to the Japanese that we mean business.

Disadvantage

o Making the threat of retaliation explicit raises the stakes if retaliation is necessary. Retaliatory action that would be perceived by Congress and our trading trading partners as sufficient under an implicit threat may be regarded as inadequate under an explicit threat.

Note: Without specifying what retaliatory measures would be adopted -- even if only for our internal use -- it is not clear what this option would mean. To the extent that it means closing our market to certain very high technology Japanese products (as recommended by some), it might have adverse national security effects in the short run.

DECISIONS

Recommendation 1: Self-initiate an antidumping case on 256K RAMs if the Commerce Department is very confident that the ITC will find injury and the Commerce Department will find dumping.

_____ Approve _____ Disapprove

(Supported by Defense, Justice, Commerce, Labor, Transportation, Energy, USTR, and NSC. Opposed by OMB.)

Recommendation 2: USTR will accelerate its consideration of the SIA's Section 301 case. The USTR would seek a "package" settlement with Japan.

_____ Approve _____ Disapprove

(Supported by Defense, Justice, Commerce, Labor, Transportation, and USTR. Opposed by OMB.)

Recommendation 3: The Administration will confirm our intention to retaliate if the Section 301 case is not concluded to our satisfaction.

(Supported by Justice, Commerce, and USTR. Opposed by Defense, Transportation, and OMB.)

_____ Approve _____ Disapprove

James A. Baker III
Chairman Pro Tempore

TRADE

United States Senate
COMMITTEE ON FINANCE
WASHINGTON, DC 20510

April 7, 1986

The Honorable Donald T. Regan
Chief of Staff to the President
The White House
Washington, D.C.

Dear Don:

I am following up on my conversation with you of Thursday, March 27 on the semiconductor trade problem. I am very concerned that the Administration grasp the importance of this case and the need for rapid and effective efforts at a solution. This industry is at the cutting edge of technology, and has proven itself to be highly competitive in all world markets. In fact, the U.S. industry has a commanding lead in every world market other than Japan. The Administration must fashion an effective response to the strategic program of the Japanese government which has provided the Japanese semiconductor industry with competitive advantages at the expense of foreign producers.

The repeated breaches by the Japanese of their commitments to open their market to U.S. semiconductors are well documented. The predictable result of this Japanese protectionism has been over-production and dumping. I am pleased to see the Administration moving aggressively to address the problem of dumping. When Japanese companies are found to be dumping by margins as great as 188%, it is clear that our trade laws need to be immediately and effectively enforced. There will also need to be a response that will prevent dumping in all markets. Clayton Yeutter and Mac Baldrige are working on this and I hope they will have your full support as they have mine.

Antidumping is only one half of the problem, however. There will not be a long term solution to this problem unless American companies get full access to Japan's market. This is the last thing that the Japanese wish to accept. It is unlikely that the talks can succeed unless the U.S. government is united and adamant on this issue of access. On this point there should be no confusion.

There will be purists who would prefer to rely solely on macroeconomic factors to solve our trade problems with the rest of the world. We are dealing with macroeconomic issues through the exchange rate, tax reform, and other broad measures. That is not what is involved in the semiconductor case, however. Vigorous prosecution of this case, including making the statutory findings, and if called for, indicating what will happen if there is no satisfactory outcome, is necessary to solve the market access problem, which is microeconomic and product-specific. Put simply, U.S. sales must increase in the Japanese market in line with U.S. competitiveness, with the Japanese under no illusions as to what is expected.

Effective and timely use of our current trade laws is the most persuasive counter to those in Congress who argue for the elimination of the President's discretion to act under these trade laws. In this context, it will be helpful to expedite a resolution of the semiconductor case that both prevents dumping and provides greater access to the Japanese market.

Sincerely,

BOB PACKWOOD

cc: Economic Policy Council
Ambassador Michael Smith
Mr. Douglas McMinn
Mr. Ron Silverman

DEWEY, BALLANTINE, BUSHBY, PALMER & WOOD

Benz per AW File

19 May 1986

Dear Dr. Sprinkel,

Enclosed are some background materials for your 11:00 a.m. meeting with our Semiconductor Industry Association executives May 20th.

If I can be of any use to you, please feel free to contact me.

Sincerely,

Steven I. Benz

April 3, 1986

MEMORANDUM FOR AMBASSADOR MICHAEL B. SMITH AND
MR. ALAN HOLMER

Re: Semiconductor Section 301 Case Determination

In September, the Chairwoman of the 301 Committee found, and the 301 Committee concurred, that there was sufficient evidence on the record of unreasonable activities by the Government of Japan -- consisting of first promoting and then tolerating an anti-competitive market structure which denied access to U.S. semiconductor companies -- as to create a rebuttable presumption that the Japanese Government acted in the manner indicated by the evidence in hand.

After a series of meetings with Japanese Government representatives, the presumption that unreasonable acts were and are taking place has not been rebutted. There is sufficient evidence on the record to draw the following conclusions:

(1) The Japanese government has not enforced it's Antimonopoly Law with respect to semiconductors. Japan's actions to organize its market and its subsequent and current lack of antitrust enforcement has enabled a group of domestic Japanese semiconductor producers (who are also leading semiconductor consumers) to restrict U.S. access

to the Japanese market through a variety of anti-competitive arrangements. Most striking is that this is not a case based on an omission but that these anticompetitive arrangements were actually encouraged by the Japanese government as a mechanism to undercut the practical effect of formal import liberalization, which Japan implemented in 1973-74, pursuant to commitments given to the U.S. government in 1971 and 1973.

(2) Complaints that anticompetitive Japanese practices restrict U.S. access to the Japanese semiconductor market go back a number of years. In response to these complaints, in 1983 the U.S. government conducted a lengthy analysis of the semiconductor industry in the bilateral High Technology Working Group. The U.S. Government concluded in its sectoral study that the Japanese market was characterized by "formal or informal market sharing arrangements not open to foreigners". The High Tech Working Group discussions culminated in the joint "Semiconductor Recommendations", endorsed by the U.S. and Japanese cabinets, which provided that the Japanese government would take a number of specific steps to improve U.S. firms' market access in Japan, and "vigorously [safeguard] the rules of the marketplace and [prevent] anti-competitive or predatory practices".

(3) The filing of this case was an outgrowth of the breakdown of the 1983 High Tech accords. No known action was taken by the Japanese government in this sector to implement its commitment to safeguard the marketplace against anticompetitive activity. U.S. firms' market share in Japan increased briefly in early 1984 and then declined sharply. In 1985 U.S. firms' share of the Japanese market was (8.9%), actually lower than their share immediately prior to the 1983 agreement or even while quotas were in place in the early 1970's.

(4) SIA filed this case only after the U.S. Trade Representative and other U.S. trade officials indicated that the filing of a case could provide them with useful leverage in seeking to persuade the Japanese government to adhere to the market access commitments which it had made in 1983. It was expressly stated by the industry that if there were any doubts about pressing this matter to a successful conclusion through a 301 case, the case should not be brought. Self-initiation was sought, but at that time was considered an unprecedented act that would be an undesirable precedent.

(5) The 301 Committee's record indicates that U.S. firms' share of the Japanese market had remained

steadily at 10-12 percent since formal liberalization, while U.S. firms held a much larger share of the European (55%) and rest-of-world (46%) markets, where they outsold the Japanese by wide margins. The record also includes a substantial collection of accounts from Japanese newspapers describing the Japanese government's efforts to organize horizontal linkages in R&D, production and sales between Japanese semiconductor firms in 1973-74 as "countermeasures" to the formal liberalization of the market. Several of these articles also described attempts by Japanese firms in 1971-72 to form a cartel for the production and sale of integrated circuits.

(6) The Japanese Government refused to respond to most of the Section 301 Committee's questions on anti-competitive activities in the Japanese market. No explanation was offered of the newspaper articles about cartel activity or the 1973-74 liberalization countermeasures. Moreover, the limited information which the Japanese government and industry were willing to provide on this subject tended to point toward the existence of activities in the Japanese market which the Committee the regarded as suspicious:

-- The Japanese producers are exchanging disaggregated production and sales data in their trade

association, the Electronics Industry Association of Japan. The Committee could not identify a reason why direct competitors would exchange such information unless it was for some form of market-regulating activity.

-- MITI admitted that Texas Instruments had been limited to a fixed market share when it opened its Japan subsidiary, TI Japan, and that MITI had enforced this limit by periodically collecting production and sales data from TI Japan. MITI indicated that it still gathers such data from TI Japan, although it denies that TI Japan's market share is being restricted today.

(7) The Section 301 Committee concluded that the evidence submitted by SIA with respect to anticompetitive Japanese practices, coupled with the failure of the Japanese government and industry to respond to inquiries on the subject, supports the conclusion that anticompetitive or restrictive combinations of Japanese companies are impairing U.S. access to the Japanese semiconductor market. Because such activities are illegal under Japanese law, such combinations would be possible only because of the Japanese government's unwillingness to enforce the Antimonopoly Law in this sector.

(8) Japan's Fair Trade Commission ("JFTC") is responsible for enforcing Japan's Antimonopoly law. The

Section 301 Committee is unaware that the JFTC has ever looked into allegations of anticompetitive activity in Japan's semiconductor industry. This may reflect the fact that Law No. 84 of 1978 (the "Kijoho") provides an exemption from the Antimonopoly Law for "concerted acts" by designated industries, including the semiconductor industry.

(9) The Japanese Government has taken actions which are inconsistent with a succession of trade agreements and commitments made to the U.S. Government.

(a) Japan maintained formal quantitative restrictions on imports of U.S. semiconductors prior to 1975 in direct violation of GATT Article XI.

(b) Japan officially prohibited U.S. investment in semiconductors until 1975 (with the exception of Texas Instruments, a special case) in breach of the national treatment commitment in the U.S.-Japan Treaty of Friendship, Commerce and Navigation.

(c) In 1971, Premier Sato made a formal commitment to the U.S. Government that Japan would liberalize imports and investment in semiconductors and computers. A timetable for liberalization was set in June, 1973. At the same time that these commitments were being

made, the Japanese Government was implementing an urgent program of "liberalization countermeasures" to nullify the practical effects of formal liberalization. These included:

-- Encouragement of horizontal linkages between vertically integrated semiconductor producers, who were also the principal consumers (joint R & D, production and sales arrangements).

-- Encouragement of "division of labor" and product specialization.

-- Encouragement of "buy national" practices following liberalization.

-- Subsidies for joint research and development.

The liberalization countermeasures fostered an anticompetitive market structure and restrictive business practices which impeded U.S. sales after liberalization. Because the Japanese Government has never taken steps to dismantle the structure it created in order to avoid its commitments to the U.S. Government, it remains in continuing breach of these commitments today.

(d) In 1983, the Japanese Cabinet made a commitment to the U.S. to take affirmative steps to expand U.S. sales opportunities in Japan.

Numerous specific measures to improve market access were agreed. In fact, however, this commitment was never carried out. U.S. sales increased briefly in the months following the Agreement (during a period of tight supply in Japan) and declined thereafter. The U.S. share of the Japanese market has actually fallen since the 1983 High Technology Working Group Agreement. Japan remains in continuing breach of this Agreement today.

(10) Based on the foregoing, the Government of Japan has engaged in unreasonable or unjustifiable acts, policies or practices within the meaning of Section 301 of the Trade Act of 1974.

Alan Wm. Wolff
Thomas R. Howell

Lowest Prices by Enterprise to Be Fixed — Semi-Conductors; Japan's Plan to Be Proposed for Negotiations with US; Demand-Supply Outlook to be Announced Four Times Per Year; Goal for Increase in Imports Rejected

In order to break the deadlock in the Japan-US semi-conductor negotiations, MITI has firmed up its policy to propose the adoption of a system for monitoring carefully the prices of Japanese-manufactured products in the fields of both exports and (consumption) within the country. (This proposal will be composed of) the following three points: (1) Efforts will be made to establish a demand-supply guide-post system, which will indicate prospects for the demand and supply of semi-conductors, to curb over-production, and to stabilize the domestic prices; (2) in regard to the export prices as to the US, a lowest-export-price system will be adopted toward each company concerned, in order to prevent below-cost sales; and (3) as for a measure to prevent circuitous exports, a uniform minimum price system will be induced also as to exports to third countries. MITI has judged that the realization of a goal for the increasing of imports of US-manufactured products, requested by the US Government, will be difficult, because it will lead to excessive intervention by administration. It is also taking the posture of pressing the US side for concessions by presenting a proposal which will step into the problem, in regard to price measures.

The proposed [demand-supply guide-post] system is the same as that which MITI is carrying out as to the production of iron and steel. A committee, including scholars and experts from industrial circles concerned, will be set up within MITI, and a semi-conductor demand-supply outlook will be announced quarterly. After that, MITI will listen to manufacturers' explanations on their respective production plans, and will carry out guidance for revision of the plans, if there are big gaps from the outlook.

The amount of facilities investments by 12 major Japanese semi-conductor manufacturing companies in fiscal 1984 increased by as much as 98%, compared with the level for the preceding fiscal year. The US side has criticized that the excessive investments and over-production have invited the price-reduction competition within Japan, and that exports to the US have been promoted by an amount equivalent to the point that profits cannot be realized within the country.

At the Japan-US negotiations held until now, the Japanese Government has proposed the induction of a lowest-price system based on its Trade Control Ordinance, with regard to the export prices. However, the US side has asserted that the problem will not fundamentally be solved unless the domestic prices are controlled, too.

Also, concerning the lowest-export-price system, meanwhile, careful price-monitoring measures will be carried out. In regard to exports to the US, each of six high-ranking companies, including NEC, Hitachi Works, Toshiba, and Fujitsu, will establish their respective lowest prices on the basis of production costs, with the 256-kilobit Dynamic RAM (256K DRAM [random-access memory) and other items of interest to the US as the objects. Other manufacturers concerned will adopt a uniform minimum price system.

The US Government is also seeking control over the export prices as to the markets of third countries, from the stand that there is the fear that Japanese manufacturers concerned may carry out low-priced exports to the US via production bases in Southeast Asia. Therefore, MITI will propose also the induction of a lowest-price system, with third-nation markets as the objects.

At the negotiations held late in March, the US side, from the standpoint of raising the share rate of US-manufactured products in the Japanese market, besides the proposed price control, requested the Government to set import-increase goals covering a period of several years. However, MITI views that it will be impossible to disregard the moves of demand and supply and to clarify figures in the amount of imports, and that there will be limits on involvement by the Government.

MITI has judged that there will be no other way but to leave the share-rate-increase problem to private-level talks. Also, at the next negotiations, it plans to reject the US request. No prospects have been obtained as to how the USTR (US Trade Representative) Office, which is the US party to the negotiations, will take the Japanese side's proposal which will focus stress on price measures. In the Department of State, there is also the view that "It will be impossible to request the clarification of the share," with regard to the USTR Office's posture toward the negotiations. Moreover, IBM and other semi-conductor users in the US are critical. Therefore, MITI judges that there is a possibility of the negotiations developing due to its new proposal.

NMi/6672t

May 9, 1986

Active Semiconductor Trade Cases

SIA 301 Case

On June 14 the Semiconductor Industry Association (SIA) filed a petition under Section 301 of the Trade Act of 1974 seeking to obtain full participation in the Japanese semiconductor market. On July 11, 1985, U.S. Trade Representative Clayton Yeutter initiated an investigation into the complaint on an expedited basis and requested consultations with Japan to address its market barriers in microelectronics. The SIA petition cites numerous structural barriers which have been created and supported by Japanese government policies which have acted to prevent U.S. producers from achieving more than a marginal participation in the Japanese semiconductor market.

Under Section 301 of the Trade Act of 1974, the U.S. Trade Representative has up to one year to investigate the petition, once accepted. The U.S. trade Representative must report to the President no later than July 11, 1986. If a finding results that unfair trade practices have occurred, and if a satisfactory resolution of the case is not achieved through negotiations, the Trade Representative may recommend that the President retaliate against the offending country. The President must act by August 1, 1986.

Micron Antidumping Case

On June 24, 1985, Micron Technology, Inc. filed a petition with the International Trade Administration of the Department of Commerce and with the International Trade Commission seeking the imposition of antidumping duties against imports of 64K DRAMS from Japan. Micron alleged that the price of these products in Japan and the United States is less than their cost of production in Japan.

Micron argues that less than fair value imports of 64K DRAMS from Japan have caused it, and by implication, the rest of the American industry, material injury, because the less than fair value sales have severely depressed market prices in the U.S., Japanese market share has increased, and in consequence U.S. operations are unprofitable. Micron also alleged that by dropping the price of 256K DRAMS too quickly, the Japanese have further injured manufacturers of 64K DRAMS, because the low price of the denser product induces premature switches to that product.

Motorola, Inc., Intel Corp., and Mostek Corp. have filed briefs in support of the Micron petition. On August 8, 1985 the International Trade Commission determined by a unanimous vote that there is evidence that the U.S. industry has suffered injury as a result of 64K DRAM imports. On December 2, 1985, the Commerce Department made a preliminary determination that 64K DRAMS from Japan are being sold or are likely to be sold in the U.S. market at less than fair value. Dumping margins ranged from 8.93% to 94%. The De-

partment of Commerce final dumping determination is due April 23, 1986. The International Trade Commission's final inquiry determination is due June 6, 1986.

Justice Department Investigation of Hitachi

On August 6, 1985 Senator Wilson announced that the U.S. Department of Justice had initiated an investigation of possible antitrust violations by Hitachi. The impetus for the investigation was a Hitachi memo which provides evidence that Hitachi was willing to price without regard to price considerations. The memo instructed Hitachi 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!" The investigation is currently in progress.

Micron Antitrust Case

On September 6, 1985, Micron Technology of Boise, Idaho filed an antitrust suit against six Japanese semiconductor manufacturers seeking 300 million in damages. Micron charged that the six (Hitachi, Fujitsu, NEC, Mitsubishi, Oki, Toshiba and their respective U.S. subsidiaries) are conspiring to monopolize the dynamic RAM market and drive U.S. manufacturers out of business. The defendants were named in a 25 page complaint alleging violations of two parts of the Sherman Act and of the Clayton Act, Wilson Tariff Act and the Antidumping Act of 1916.

Micron charged that the defendants "jointly...set prices, rebates, discounts, allowances and other terms and conditions of the sale of semiconductor memory products." Micron further alleged the Japanese companies "jointly timed the introduction of new semiconductor memory products...set the absolute, periodic volume of production and output of semiconductor memory products...and set the absolute volume of exports to and imports into the U.S. of semiconductor memory products."

Intel, AMD and National Antidumping Case

On September 30, 1985 Advanced Micro Devices, Inc., Intel Corporation and National Semiconductor Corporation filed a petition with the International Trade Administration of the Department of Commerce and with the International Trade Commission seeking the imposition of antidumping duties on Erasable Programmable Read Only Memory (EPROM) imports from Japan.

The petition charged Japanese companies with selling EPROMs below manufacturing cost in the U.S. market. 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. The Japanese respondents are Fujitsu Ltd., Hitachi Ltd., Matsushita Electric Corp., Mitsubishi Electric Corp., NEC Corp., Oki Ltd., Ricoh Corp., and Toshiba Ltd.

On November 14, 1985, the International Trade Commission, in a unanimous decision, determined that there is evidence the U.S. industry has suffered injury because of EPROM imports. On March 10, 1986 the Department of Commerce found that Japanese EPROMs are being sold or are likely to be sold in the United States at less than fair value (LTFV) at margins ranging from 21.7% to 188%. The Department of Commerce final dumping determination is due July 30, 1986. The International Trade Commission's final injury determination is due September 15, 1986.

Administration Self-Initiated Antidumping Case

On December 6, 1985 the Commerce Department, at the direction of the President, self-initiated an antidumping investigation on 256K Dynamic Random Access Memory Components (DRAMs) from Japan. The self-initiated case was the first recommendation of the Administration's Strike Force on International Trade. This was also the first time in history that the Department of Commerce has self-initiated an unfair trade investigation outside of the context of an established program such as the Steel Trigger Price Mechanism (which monitored imports and provided for the self-initiation of investigations as a result of predetermined criteria).

In self-initiating the case, the Commerce Department cited evidence that U.S. losses in the 256K DRAM market will

amount to 900 million over the life cycle of the product. Mostek, National Semiconductor, Advanced Micro Devices, Intel Corporation and Motorola have been forced by losses, and projections of future losses, to abandon the market. Employment losses have been unprecedented. Mostek laid off some 1,700 employees in October 1985, and over 2,000 in the previous nine months. Micron Technologies has laid off almost half of its entire workforce, and Texas Instruments has dismissed over 1,000 workers from its DRAM operations in 1985.

On January 22, 1986 the International Trade Commission voted 5-0 in favor of preliminary injury. The Department of Commerce dumping determination was rendered March 13, 1986. The Department found that DRAM's from Japan with a memory capacity of 256K and above are being sold or are likely to be sold in the U.S. market at less than fair value at dumping margins ranging from 19.8% to 108.72%. The Department of Commerce final dumping determination is due August 1, 1986. The ITC final injury determination is due september 15, 1986.

B. Spinkel
file Gabl

THE UNITED STATES TRADE REPRESENTATIVE
Executive Office of the President
Washington, D.C. 20506

√ Trade File
USTR File

April 30, 1987

The Editor
The New York Times
229 West 43rd Street
New York, New York 10036

To the editor:

Sometimes it is necessary for a nation to defend itself against unfair trade practices by taking countermeasures intended to open markets and stop unfair trading activity. Your April 17 editorial re our semiconductor sanctions against Japan seems not to be cognizant of that.

Two Japanese practices precipitated the Administration's recent sanctions on semiconductors. First, sales of American semiconductor chips were being severely limited in Japan's lucrative market. In the seven months since the United States and Japan signed the semiconductor agreement, our market share has been flat at best and far below what U.S. firms have achieved in competition with Japanese firms in other markets (even though the dollar has fallen substantially against the yen during that period).

Second, Japanese companies have continued to dump chips in third country markets. Predatory, below-cost dumping is a business practice that is widely comdemned. That is, in fact, why we have an international antidumping code, to which both Japan and the United States are signatories. It is a practice that the Government of Japan, in the semiconductor agreement, promised to stop. It is this promise to stop dumping that The New York Times characterizes as a price fixing cartel. But stopping dumping is hardly the same as rigging prices. There is no price fixing whatsoever in the agreement, and there is nothing cartel-like about it. Nor is there anything odious about an agreement that is designed to prevent predatory pricing.

Those who have been criticizing this agreement either have not read it or do not understand it. Its intent is to preserve fair competition in world semiconductor trade, and it is already beginning to have that effect in the U.S. market. With proper implementation it will have that same effect in third country markets. There is not one provision of that agreement which is protectionist. If the Times considers antidumping laws to be

inherently protectionist, as some economists do, the answer is to repeal those laws, which have been on the books for many years. But that would need to be accompanied, as your editorial implies, by changes in our industrial structure, alterations of our antitrust laws, etc. Otherwise many U.S. firms will find their hands tied behind their backs as they meet foreign competition.

Your editorial states that it is not clear that Japan violated the agreement. I assure you that there is no doubt whatsoever on that score. The Commerce Department did an intensive survey which demonstrated conclusively that Japanese firms were dumping semiconductor chips in third country markets. The dumping margins were, in fact, astronomical. There is just no way that U.S. firms can compete against pricing practices of that nature, no matter how efficient our firms may be.

Faced with Japan's failure to fully implement this agreement, President Reagan had no choice but to impose temporary sanctions on $300 million of Japanese exports to the United States. This was not "brute retaliation" as the Times put it, but a measured response based on the damage suffered by American semiconductor firms. Our list of countermeasures was carefully drawn to minimize the damage to American consumers and to maximize the pressure on Japanese semiconductor producers. This action was by no means precipitous. It was taken after consultations with the Japanese Government in October, November, December, January and March. We walked the last mile on this dispute -- more than once.

President Reagan remains adamantly opposed to protectionism. He and I applaud the Times' strong stand against protectionist trends in the United States. But it is necessary to take just as strong a stand against the protectionism and unfair pricing practices of our trading partners.

The New York Times' advice on how to handle the Japanese is "to badger them relentlessly." Badgering is often appropriate,but it becomes counterproductive if there is no credible follow up. Our action on semiconductors is designed to say to the world that we take our agreements seriously and will do what is necessary to enforce them.

Sincerely,

Clayton Yeutter

bcc:

B. Sprinkel
D. McMinn
J. Miller
M. Baldrige
B. Smart
G. Kaplan
A. Holmer
M. Smith
A. Woods
J. Frierson
R. Bolton
J. Massey
B. Wilson

United States Senate

COMMITTEE ON FINANCE
WASHINGTON, DC 20510

April 7, 1986

The Honorable Donald T. Regan
Chief of Staff to the President
The White House
Washington, D.C.

Dear Don:

I am following up on my conversation with you of Thursday, March 27 on the semiconductor trade problem. I am very concerned that the Administration grasp the importance of this case and the need for rapid and effective efforts at a solution. This industry is at the cutting edge of technology, and has proven itself to be highly competitive in all world markets. In fact, the U.S. industry has a commanding lead in every world market other than Japan. The Administration must fashion an effective response to the strategic program of the Japanese government which has provided the Japanese semiconductor industry with competitive advantages at the expense of foreign producers.

The repeated breaches by the Japanese of their commitments to open their market to U.S. semiconductors are well documented. The predictable result of this Japanese protectionism has been over-production and dumping. I am pleased to see the Administration moving aggressively to address the problem of dumping. When Japanese companies are found to be dumping by margins as great as 188%, it is clear that our trade laws need to be immediately and effectively enforced. There will also need to be a response that will prevent dumping in all markets. Clayton Yeutter and Mac Baldrige are working on this and I hope they will have your full support as they have mine.

Antidumping is only one half of the problem, however. There will not be a long term solution to this problem unless American companies get full access to Japan's market. This is the last thing that the Japanese wish to accept. It is unlikely that the talks can succeed unless the U.S. government is united and adamant on this issue of access. On this point there should be no confusion.

There will be purists who would prefer to rely solely on macroeconomic factors to solve our trade problems with the rest of the world. We are dealing with macroeconomic issues through the exchange rate, tax reform, and other broad measures. That is not what is involved in the semiconductor case, however. Vigorous prosecution of this case, including making the statutory findings, and if called for, indicating what will happen if there is no satisfactory outcome, is necessary to solve the market access problem, which is microeconomic and product-specific. Put simply, U.S. sales must increase in the Japanese market in line with U.S. competitiveness, with the Japanese under no illusions as to what is expected.

Effective and timely use of our current trade laws is the most persuasive counter to those in Congress who argue for the elimination of the President's discretion to act under these trade laws. In this context, it will be helpful to expedite a resolution of the semiconductor case that both prevents dumping and provides greater access to the Japanese market.

Sincerely,

BOB PACKWOOD

cc: Economic Policy Council
Ambassador Michael Smith
Mr. Douglas McMinn
Mr. Ron Silverman

1-025530A177 06/27/85
ICS IPMWGWD WSH
03871 06-26 1050P EDT
PMS WHITE HOUSE DC 20500
1-020415J177 06/26/85
TWX MONOLITHC SUVL
01 SANTA CLARA CA
PMS BERYL SPRINKEL, CHAIRMAN, COUNCIL OF ECONOMIC ADVISORS
OLD EXECUTIVE OFFICE BUILDING
17TH AND PENNSYLVANIA, NW
WASHINGTON, DC 20506

85 JUN 27 A 8:34

TO: OLD EXECUTIVE OFFICE BUILDING
JUNE 26, 1985
MSG: 63767

ATTN: BERYL SPRINKEL
SUPPORT OF THE SEMICONDUCTOR INDUSTRY ASSOCIATION'S SECTION 301 PETITION REQUIRES YOUR IMMEDIATE ATTENTION. THE REMOVAL OF BARRIERS TO ACCESS TO THE JAPANESE MARKET, AND THE AVERSION OF DUMPTING IN THE U.S. MARKET, ARE CRITICAL TO THIS COUNTRY'S STRATEGIC POSITION IN THE WORLD. UNLESS IMMEDIATE ACTION IS TAKEN, THE LONG-TERM LEADERSHIP OF THE U.S. IN THE HIGH TECHNOLOGY INDUSTRIES IS IN JEOPARDY. THE LOSS OF LEADERSHIP WILL ULTIMATELY RESULT IN FEWER EMPLOYMENT OPPORTUNITIES.
I RESPECTFULLY URGE YOU TO SUPPORT THE S.I.A. PETITION.
BEST REGARDS,
MICHAEL J. CALLAHAN
EXECUTIVE VICE PRESIDENT AND
CHIEF OPERATING OFFICER
MONOLITHIC MEMORIES, INC

2175 MISSION COLLEGE BLVD.
SANTA CLARA, CA 95054
TWX 910-338-2374/76

2052 EST

0638 EST

1-021620A177 06/26/85
ICS IPMWGWD WSH
03131 06-26 0659P EDT

85 JUN 26 P7:08

PMS WHITE HOUSE DC 20500
1-019033I177 06/26/85
TWX MOT SEMI PHX A DLY PD
01 DLY PHOENIX ARIZONA 6/26/85
PMS BERYL SPRINKEL
CHAIRMAN, COUNCIL OF ECONOMIC ADVISORS
OLD EXECUTIVE OFFICE BUILDING
17TH AND PENNSYLVANIA, NW
WASHINGTON, DC 20506

WE, AT MOTOROLA, URGE YOU TO SUPPORT THE SEMICONDUCTOR INDUSTRY ASSOCIATION'S SECTION 301 PETITION. WE STRONGLY SUBSCRIBE TO THE OBJECTIVES OF THE PETITION TO REMOVE BARRIERS TO ACCESS THE JAPANESE MARKET AND TO AVERT DUMPING IN THE UNITED STATES MARKET. AT STAKE IS THE TECHNOLOGICAL AND MARKET LEADERSHIP OF A STRATEGICALLY CRITICAL U.S. INDUSTRY AND THE LONG TERM VIABILITY OF THE ENTIRE HIGH TECHNOLOGY SECTOR OF THE U.S. ECONOMY.

I APPRECIATE THE OPPORTUNITY TO REVIEW THIS IMPORTANT MATTER WITH YOU PERSONALLY DURING THE LAST WEEK OR SO. HOPEFULLY OUR DISCUSSIONS WITH YOU CONVEYED BOTH THE MAGNITUDE AND THE URGENCY OF THE SITUATION FACING THE SEMICONDUCTOR INDUSTRY. THANK YOU AGAIN FOR YOUR CONSIDERATION OF THIS IMPORTANT MATTER.

RESPECTFULLY,

GARY L. TOOKER

CHAIRMAN,
BOARD OF DIRECTORS
SEMICONDUCTOR INDUSTRY ASSOCIATION
EXECUTIVE VICE PRESIDENT
AND GENERAL MANAGER
SEMICONDUCTOR PRODUCTS SECTOR
MOTOROLA INC.

EOM
1740 EST

1807 EST

UNITED TECHNOLOGIES MOSTEK

Mostek Corporation

1215 West Crosby Road
Carrollton, Texas 75006
214/466-6000

Robert B. Palmer
Executive Vice President
Semiconductor Operations
214/466-6313

June 26, 1985

The Honorable
Beryl Sprinkel
Chairman, Council of Economic Advisors
Old Executive Office Building
17th and Pennsylvania, NW
Washington, D.C. 20506

Dear Mr. Sprinkel:

The Semiconductor Industry Association has filed a Section 301 Petition for which we ask your support. The objectives of the petition are to remove barriers to access to the Japanese market and to avert dumping in the United States market. It is vital that these objectives be achieved in order that the technological and market leadership of a strategically critical U. S. industry and the long term viability of the entire high technology sector of the U. S. economy be assured.

Sincerely yours,

RBPalmer

Robert B. Palmer

western union

Telegram

ICS IPMWGWD WSH
00711 06-27 0846A EDT
ICS IPMWGWK
1-002077I178 06/27/85
TWX ESL62890693

PMS BERYL SPRINKEL
OLD EXECUTIVE OFFICE BUILDING
17TH AND PENNSYLVANIA NW
WASHINGTON DC 20506

CHAIRMAN, COUNCIL OF ECONOMIC ADVISORS

I URGE YOU TO SUPPORT THE SEMICONDUCTOR INDUSTRY ASSOCIATION'S SECTION 301 PETITION. I STRONGLY SUBSCRIBE TO THE OBJECTIVES OF THE PETITION TO REMOVE BARRIERS TO ACCESS TO THE JAPANESE MARKET AND TO AVERT DUMPING IN THE UNITED STATES MARKET. AT STAKE IS THE TECHNOLOGICAL AND MARKET LEADERSHIP OF A STRATEGICALLY CRITICAL U.S. INDUSTRY AND THE LONG TERM VIABILITY OF THE ENTIRE HIGH TECHNOLOGY SECTOR OF THE U.S. ECONOMY.
JOSEPH A. BOYD
CHAIRMAN
HARRIS CORPORATION

W.U. 1201-SF (R5-69)

western union

Telegram

0742 EST

0756 EST

W.U. 1201-SF (R5-69)

INTERNATIONAL RECTIFIER
233 KANSAS STREET
EL SEGUNDO, CA 90245

ITT SPEEDMAIL™

900504720403?INTL 06727785 20506472040 TXW994 2771726 S
IN 27/16:37 OUT 27/16:4 /1716 01

COUNCIL OF ECONOMIC ADVISORS
BERYL SPRINKEL
CHAIRMAN, COUNCIL OF ECONOMIC ADV
17TH AND PENNSYLVANIA, NW
WASHINGTON, DC 20506

JUNE 27 1985 1302 PM PST REF NO: 08425

BERYL SPRINKEL
CHAIRMAN, COUNCIL OF ECONOMIC ADVISORS
OLD EXECUTIVE OFFICE BUILDING
17TH AND PENNSYLVANIA, NW
WASHINGTON, DC 20506

I URGE YOUR SUPPORT FOR THE SEMICONDUCTOR INDUSTRY ASSOCIATION'S SECTION 301 PETITION. THIS PETITION'S OBJECTIVE OF REMOVING BARRIERS TO ACCESS OF SEMICONDUCTORS TO THE JAPANESE MARKET AND TO AVERT DUMPING IN THE UNITED STATES ARE ABSOLUTELY NECESSARY FOR THE LONG TERM VIABILITY OF THE ENTIRE HIGH TECHNOLOGY SECTOR OF THE U.S. ECONOMY.

INTERNATIONAL RECTIFIER
SEMICONDUCTOR DIVISION

ERIC LIDOW
PRESIDENT AND
CHAIRMAN OF THE BOARD

INT RECT

NNNN

Semiconductor Issues, Meeting with SIA 12/17/85

o U.S. industry's 301 case brought in 1985 alleges

-- Japanese predatory dumping in U.S. market

- Admits prices in Japan are lower than in U.S.

- Complains that Japan sells below cost of production

-- Market access blocked in Japan due to government encouraged practice of six large Japanese companies buying from each other

- Major users of semiconductors in Japan also are major suppliers

- U.S. firms only can sell products in short supply or with custom features

o U.S. industry's proposed goals for U.S. policy

-- Ensure dramatic increase in U.S. sales in Japanese market

- Aim for immediate commitment to U.S. share in Japanese market equal to Japanese share in U.S. market

- Japanese Federal Trade Commission to initiate investigation of practices in Japanese industry

-- Prevent Japanese dumping in U.S. market

- Formulate economic model to identify dumping and allow immediate action against it

o Issues to raise with SIA Desirable for suc. neg. Would like to see! strategy

-- What type of economic price-cost model would serve as the basis for determining dumping

-- What would the consequences of an antidumping agreement be?

- Would Japanese revenues from U.S. sales fall?

- Would antidumping duties be preferable to volunatry price increases?

-- Given large current Japanese capacity, would severe price cutting in third country markets occur?

- Would U.S. export earnings be hurt significantly?

- Would U.S. buyers move offshore to take advantage of much cheaper inputs there?

DEWEY, BALLANTINE, BUSHBY, PALMER & WOOD
1775 PENNSYLVANIA AVENUE, N. W.
WASHINGTON, D. C. 20006

JOSEPH A. CALIFANO, JR.
PHILIP W. BUCHEN
O. NILE BELL
FENTON J. BURKE*
ALAN WM. WOLFF
FELIX B. LAUGHLIN
CHARLES A. SEVERS, III
JOHN M. SAMUELS*
RICHARD COTTON
LAWRENCE F. O'BRIEN, III
W. CLARK McFADDEN II
GERALD M. ROSBERG
HAMILTON P. FOX, III
JOHN J. SALMON
R. MICHAEL GADBAW
MICHAEL H. STEIN
MYLES V. LYNK
RESIDENT PARTNERS

*MEMBER N.Y. BAR: NOT ADMITTED D.C.

TELEPHONE: (202) 862-1000
TELECOPIER: (202) 862-1095
TELEX: 897070

140 BROADWAY, NEW YORK, N.Y. 10005
101 PARK AVENUE, NEW YORK, N. Y. 10178
TELEPHONE: (212) 820-1100
TELEX: 961289 (IF BUSY 12-6825)
TELECOPIER: (212) 820-1403

45, AVENUE GEORGE V
75008 PARIS, FRANCE
TELEPHONE: 720. 85. 21
TELEX: 842 620297

CABLE: DEWBALAW

December 13, 1985

The Honorable Thomas Moore
Council Member
Room 314
Old Executive Office Building
17th St. & Pennsylvania, N.W.

Dear Mr. Moore:

Enclosed is a report on the state of the U.S. semiconductor industry, reflecting the serious adverse effects of Japanese unfair trade practices. Over the last quarter, one U.S. semiconductor company, Mostek, has essentially gone out of business. Seven others reported aggregated quarterly operating losses of $180.1 million. For these companies' semiconductor operations alone, the losses were even more severe. The result has been a 19% decline in employment by U.S.-based semiconductor companies. This translates into over 54,000 lost jobs between December 1984 and October 1985.

A semiconductor market downtown has contributed to the current losses, but if the unfair trade practices of the Government of Japan and of Japanese semiconductor companies that are the subject of the SIA Section 301 case, three antidumping investigations, and two antitrust actions are not halted, U.S. companies will continue to lose market share even as the market recovers. For that reason, SIA welcomed the decision by the U.S. Government to self-initiate an antidumping investigation in 256K and above DRAMs. We also are encouraged by the Government's commitment to negotiate a comprehensive and effective solution to semiconductor trade issues with the Government of Japan.

As the most recent operating loss and employment figures indicate, the response of the U.S. Government to these unfair Japanese trade practices comes none too soon.

Very truly yours,

Alan Wm. Wolff

DEWEY, BALLANTINE, BUSHBY, PALMER & WOOD

December 12, 1985

STATUS REPORT: THE IMPACT OF UNFAIR TRADE PRACTICES ON THE U.S. SEMICONDUCTOR INDUSTRY

SUMMARY

Quarterly Operating Losses*: $180.1 million

Annualized Operating Losses: $720.4 million

Employment Decline: 19% -- 54,171 workers

* This is for seven U.S. semiconductor manufacturers. These results do not reflect the announced closing of Mostek Corporation, the eighth largest U.S. manufacturer of semiconductors.

OVERVIEW

For their most recent quarters, U.S. semiconductor companies reported operating results which ranged from marginal profitability at best to major losses at worst. In aggregate, seven merchant semiconductor manufacturers we surveyed reported operating losses of $180.1 million as compared with profits of $355.8 million in the comparable quarter last year. These losses (which on an annualized basis would total $720.4 million) are attributable both to a substantial drop in semiconductor demand, and to the severe decline in semiconductor prices which has occured. The semiconductor price reductions in turn can, to a large extent, be attributed to Japanese companies' pricing patterns. As W.J. Sanders, III, the Chairman of the Board and President of Advanced Micro Devices stated in his company's "Second Quarter Report Fiscal Year 1986" issued November 8, 1985:

> Unfortunately, we are not able to enjoy the profits of our success [as innovative developers of EPROMs]. The reason is predatory pricing by Japanese manufacturers who have targeted this market segment for domination. These companies, parts of huge conglomerates, seem prepared to "buy" market share by setting prices extremely low -- even below manufacturing costs -- in order to squeeze U.S. manufacturers out of the market. This practice is called "dumping" and it is a violation of U.S. trade law. The effect of Japanese dumping

has been, for example, to force the price of 256K EPROMs down from $17 at the beginning of 1985 to less than $4 in August. That is well below manufacturing cost and as a consequence EPROMs were responsible for more than half of AMD's operating loss during the past quarter.

The Intel Corporation "Third Quarter Report 1985" also reported that:

> The most acute problem we face is in memory components. Japanese manufacturers have targeted the EPROM market and have driven prices down in an effort to capture market share without regard to profit. For example, the price of a 256K EPROM has fallen 75% this year.... Low prices also caused us to announce recently our withdrawal from the Dynamic Random Access Memory (DRAM) market.

Another reason for the losses posted by U.S. semiconductor companies is their lack of full access to the Japanese market. In National Semiconductor's "1985 Annual Report", Charles E. Sporck, President and Chief Executive Officer and Peter J. Sprague, Chairman of the Board of Directors noted:

> [W]e support the U.S. semiconductor industry's petition for action under Section 301 of the Trade Act of 1974. We ask that the President of the United States adopt as policy specific objectives including a dramatic improvement in U.S. sales in Japan commensurate with those in other world markets.... U.S. producers must have fair access to that important market if they are to remain competitive and viable in the long term.

EMPLOYMENT

One result of these operating losses has been a substantial decline in employment by U.S. semiconductor manufacturers. In the ten months from December 1984 to October, 1985, Dataquest, Inc. estimates that employment by U.S. semiconductor companies declined by 19%, or 54,171 workers. The attached report by Dataquest details the extent of this employement decline by individual company and provides similar information for Japanese semiconductor producers.

OPERATING RESULTS

During the most recent quarter, United Technologies Corporation ceased manufacturing operations at its subsidiary, Mostek and later sold Mostek's assets. During 1984, Mostek was the eighth largest U.S.-based manufacturer of semiconductors.

The net income data for the seven major semiconductor manufacturing companies in their most recent quarters (based on quarterly financial reports) are presented in the attached table. This data is for company-wide operations. For those companies which sell products other than semiconductors, column five of the table summarizes information provided in the quarterly reports on the semiconductor operations alone.

Alan Wm. Wolff
Timothy J. Richards

SUMMARY OF SEVEN U.S. SEMICONDUCTOR MANUFACTURERS' QUARTERLY OPERATING RESULTS

COMPANY	Quarterly Net Income (Loss)	Same Quarter Last Year Net Income (Loss)	Year to Year Change	Comment on Semiconductor Operations
AMD[1]	($15 M)	$42 M	-$57 M	
Harris	$12.8 M	$25.3 M	-$13.5 M	Nominal loss this quarter; Substantial loss previous quarter.
Intel	($4 M)	$70 M	-$74 M	Semiconductors account for most of Intel's revenues. 1st quarterly loss since 1971.
MMI[2]	$1.4 M	$10.8 M	-$9.4 M	
Motorola	($39 M)	$86 M	-$125 M	Substantial operating loss.
National	($53.5 M)	$35.9 M	-$88.4 M	Losses from semiconductors adversely impacted results.
TI[3]	($82.8 M)	$85.8 M	-$168.6 M	Losses increased.
Total	($180.1 M)	$355.8 M	-$535.9 M	

1. Advanced Micro Devices, Inc.
2. Monolithic Memories, Inc.
3. Texas Instruments

Nielsen Dataquest RESEARCH NEWSLETTER

SIS Code: 1984-1985 Newsletters: November

SEMICONDUCTOR INDUSTRY: LAYOFF UPDATE

The semiconductor industry has been struggling to survive the worst year in its history. Nearly all semiconductor companies have reduced employment levels either through layoffs or attrition. DATAQUEST has predicted that semiconductor consumption will begin to increase early in 1986. (See the SIS DATAQUEST Research Bulletin titled, "Semiconductor Industry Pulse: Faint Glimmers of Sunshine Amid the Gloom," dated September 4, 1985.) DATAQUEST expects employment levels to hold constant for several months and then to increase cautiously as the industry recovers.

Nearly all semiconductor companies have reduced their total employment levels by a combination of layoffs and attrition. (See Table 1.) Integrated Device Technology (IDT) and Cypress Semiconductor were the only companies who had increases in the employment number. Worldwide employment in the semiconductor industry is down an estimated 14 percent. DATAQUEST estimates that the current semiconductor industry recession has caused the elimination of over 60,000 jobs.

Employment numbers for the U.S. and European companies were, in most cases, obtained from the companies themselves. Some company employment figures were not available, and a DATAQUEST estimate was used. DATAQUEST estimates the drop in employee numbers for Japanese companies to be around 5 percent. Actual employee number figures for the Japanese companies can be misleading due to the large number of temporary workers employed by Japanese companies. Temporary workers are not counted in the total employment figures; therefore, when Japanese companies let the temporary workers go, there is no resulting drop in the total employment number.

Table 1

ESTIMATED NUMBER OF EMPLOYEES
(Semiconductor Operations)

	December 1984	October 1985	Percent Change
Total Market	450,495	386,649	(14%)
U.S. Companies	280,200	226,029	(19%)
AMD	15,000	14,000	(7%)
AMI	4,000	2,800	(30%)
Analog Devices	4,759	4,759	
Cypress	200	265	33%
Exel	240	58	(76%)
Fairchild	13,300	10,800	(19%)
General Electric	2,720	2,176	(20%)
General Instrument	8,000	7,000	(13%)
Harris	5,824	5,170	(11%)
Hewlett-Packard	2,400	2,400	
IDT	434	490	13%
Intel	17,000	14,500	(15%)
Intl Rectifier	2,200	2,198	
ITT	5,000	5,000	
Micron Technology	1,252	740	(41%)
Monolitnic Memories	2,800	2,260	(19%)
Mostek	10,000	150	(99%)
Motorola	45,000	38,000	(16%)
National Semiconductor	36,000	29,000	(19%)
NCR	1,700	1,360	(20%)
RCA	8,040	6,432	(20%)
Rockwell	2,239	1,704	(24%)
SEEQ	655	465	(29%)
Signetics	12,500	8,300	(34%)
Siliconix	2,727	2,720	
Standard Micro	710	670	(6%)
Synertek	2,168	0	(100%)
Texas Instruments	40,000	35,500	(11%)
Unitrode	3,120	2,600	(17%)
Xicor	780	430	(45%)
Zilog	1,432	1,402	(2%)
Others	28,000	22,680	(19%)

(Continued)

Table 1 (Continued)

ESTIMATED NUMBER OF EMPLOYEES
(Semiconductor Operations)

	December 1984	October 1985	Percent Change
Japanese Companies	104,460	98,740	(5%)
Fujitsu	12,400	11,582	(7%)
Hitachi	16,560	15,467	(7%)
Matsusnita	6,450	6,192	(4%)
Mitsubishi	8,950	8,440	(6%)
NEC	22,100	20,840	(6%)
Oki	4,330	4,044	(7%)
Sanyo	4,000	3,880	(3%)
Sharp	1,920	1,824	(5%)
Tosniba	14,900	14,006	(6%)
Others	12,850	12,465	(3%)
European Companies	62,175	58,950	(5%)
Inmos	3,650	2,190	(40%)
Philips	14,000	13,580	(3%)
SGS-Ates	10,150	9,850	(3%)
Siemens	11,250	10,900	(3%)
Telefunken	4,025	3,900	(3%)
Thomson	7,525	7,300	(3%)
Others	11,575	11,230	(3%)
Rest of World	3,660	2,930	(20%)

Source: DATAQUEST

The number of layoffs per month in the semiconductor industry reached a peak of 4,100 in May of 1985. (See Figure 1.) However, the frequency of major layoffs decreased until late October when Mostek closed its doors and left another 3,600 semiconductor employees jobless. (See Table 2.) Mostek's closure could help stabilize employment levels at other semiconductor companies. Zilog, for example, planned to increase hiring to be able to absorb some new Z80 microprocessor business as a result of Mostek leaving the market.

Sue Kelly

Figure 1

SEMICONDUCTOR INDUSTRY LAYOFFS WORLDWIDE
(Thousands of Employees)

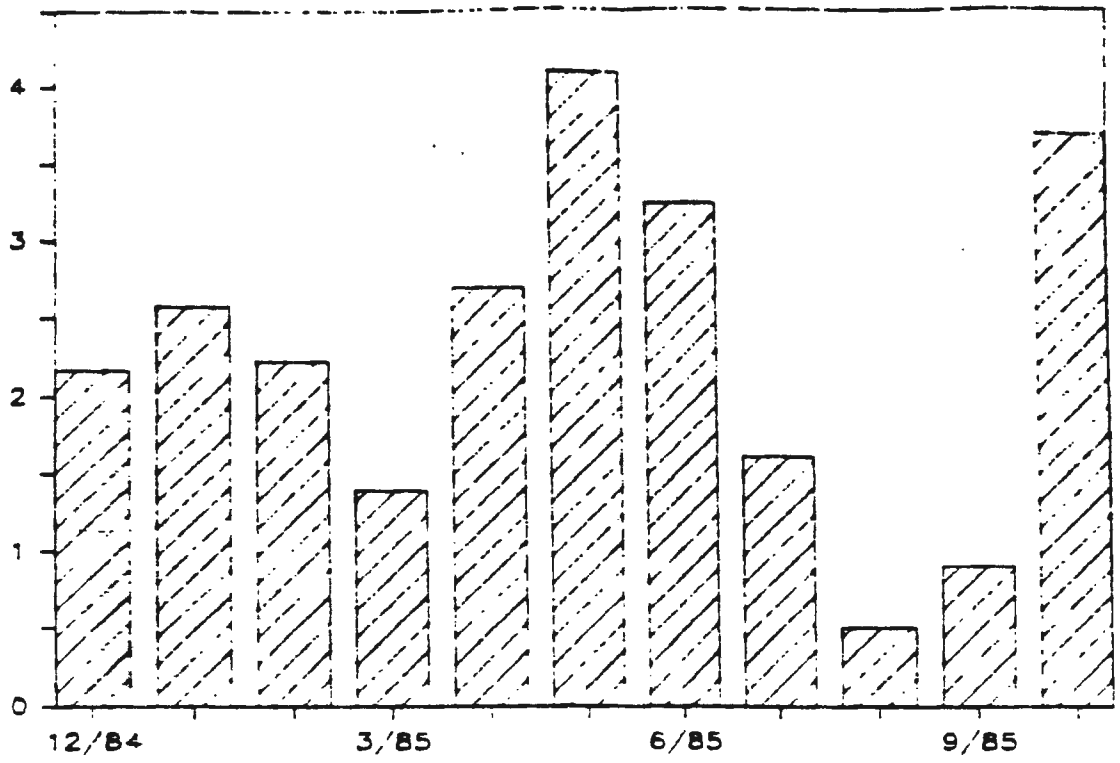

Table 2 (Continued)

RECENT SEMICONDUCTOR COMPANY CUT BACKS

Company	Date	Action
[illegible]	5/15/85	Reduction of 7,900 "employee equivalents" since Fall 1984 (18 percent of force) by workweek reduction, attrition, etc.
	5/15/85	Implements "voluntary layoff" plan that would provide employees with severance pay
	5/25/85	Closes Austin, Texas, plant for two weeks in summer 1985 (6,000 affected)
	5/25/85	Layoff of 24 (Total work force is 10,000 in Arizona)
	5/25/85	Closes for an additional one to four days after Memorial Day
	7/08/85	Layoff of 65 in Texas (planned to layoff about 50 more during the next several weeks)
	10/07/85	Will layoff 1,700 workers in the next few weeks
	10/07/85	Employees will take 5 to 10 percent pay cuts until 3/31/86
MEI	3/18/85	Closes two plants for two weeks (600 workers affected in Colorado)
MMI	3/08/85	Layoff of 400 while retooling its Salt Lake City plant (20 percent of SLC plant)
	3/08/85	Shortens the work week to 4 days for 10 weeks, beginning 3/17/85, for 21,000 workers (50 percent of work force)
	3/08/85	Management takes a 10 percent pay cut
	6/04/85	Layoff of 1,300 (600 in Santa Clara, 300 other U.S. locations, an additional 400 in several months)
	6/25/85	Closes Seremban, Malaysia plant (1,000 affected over four to six months)
	8/05/85	Closes for five days in the fiscal quarter ending September 22
	9/09/85	Extends shutdown to nine days (8,000 affected)
Rockwell	3/11/85	Layoff of 100 in California (8 percent of work force)
SEEQ	1/28/85	Layoff of 35 in San Jose
	2/21/85	Layoff of 83 in San Jose (15 percent of work force)
	2/21/85	Closes plant for six days beginning March 1, 1985
	5/27/85	Layoff of 70 employees (10 percent of work force)
	5/27/85	Closes some plants for the first week of July
Siemens AG	1985	Shortens workweek in Villach, Austria (500 of its 1,400 employees affected)
Signetics	2/14/85	Layoff of 60 production workers (1 percent of worldwide work force)
	2/28/85	Layoff of 400 (3 percent of worldwide work force)
	2/28/85	Shortens the work week to four days on alternate weeks from March to June 10, 1985
	2/28/85	Closes some plants for one to two weeks beginning April 1, 1985
	4/26/85	Planned to lay off 100 production workers in New Mexico on May 1, 1985
	5/02/85	Planned to lay off 550 (400 in Sunnyvale, California, and 150 in Orem, Utah)
Synertek	12/84	Honeywell closes Synertek, immediate layoff of 1,500 (1,000 in California and 500 in Singapore)
	12/84	Final layoff of 660 (200 in California, 450 in Bangkok, and 10 in Munich)
Texas Instruments	12/8/84	Shortens the workweek to four days at some plants
	1/85	Layoff of 2,000 in Texas
	4/22/85	Planned to lay off another 1,000 during second quarter 1985
	5/85	Closes some plants for two weeks in May and June
	7/04/85	Closes for two weeks around July 4 holiday
	7/29/85	Layoff of 1,800 in semiconductor operations
Toshiba	1/24/85	Layoff of 140 (27 percent of local work force)

(Continued)

Table 2 (Continued)

RECENT SEMICONDUCTOR COMPANY CUT BACKS

Company	Date	Action
Xicor	3/25/85	Layoff of 110 in Sunnyvale, California (18 percent of work force)
	3/25/85	Shortens the workweek to four days
	4/25/85	Layoff of 110 in Milpitas, California
	5/02/85	Layoff of 40 (7 percent of work force)
	5/13/85	Layoff of 70 in California (430 left)
Zilog	1/17/85	Layoff of 400 (19 percent of worldwide work force)
	4/29/85	Layoff of 30
	5/01/85	Layoff of 20
	5/01/85	Planned layoff of 100
Zymos	4/22/85	Layoff of 119 in Sunnyvale, California (18 percent of work force)
Zytrex	5/15/85	Declares bankruptcy (Samsung may give Zytrex financial and manufacturing support to resume operations)

Source: DATAQUEST

cc: Marjorie Waxman
Bob Cornell
Bob Fauver
Bill Barreda
Mary Liz Hansen
Brigita Woods
Margot Machol

Noted by BWS

DEWEY, BALLANTINE, BUSHBY, PALMER & WOOD
1775 PENNSYLVANIA AVENUE, N. W.
WASHINGTON, D. C. 20006

TELEPHONE: (202) 862-1000
TELECOPIER: (202) 862-1095
TELEX: 897070

140 BROADWAY, NEW YORK, N.Y. 10005
101 PARK AVENUE, NEW YORK, N. Y. 10178
TELEPHONE: (212) 820-1100
TELEX: 961289 (IF BUSY 12-6825)
TELECOPIER: (212) 820-1403

45, AVENUE GEORGE V
75008 PARIS, FRANCE
TELEPHONE: 720. 85. 21
TELEX: 842 620297

CABLE: DEWBALAW

JOSEPH A. CALIFANO, JR.
PHILIP W. BUCHEN
O. NILE BELL
FENTON J. BURKE*
ALAN WM. WOLFF
FELIX B. LAUGHLIN
CHARLES A. SEVERS, III
JOHN M. SAMUELS*
RICHARD COTTON
LAWRENCE F. O'BRIEN, III
W. CLARK McFADDEN II
GERALD M. ROSBERG
HAMILTON P. FOX, III
JOHN J. SALMON
R. MICHAEL GADBAW
MICHAEL H. STEIN
MYLES V. LYNK
RESIDENT PARTNERS

*MEMBER N.Y. BAR: NOT ADMITTED D.C.

August 12, 1985

Dr. Beryl W. Sprinkel
Under Secretary
Department of Treasury
Main Treasury, 15th St. &
Pennsylvania Ave., N.W. #3312
Washington, D.C. 20220

Dear Dr. Sprinkel:

Prior to the filing of the Semiconductor Industry Association's trade case under Section 301 of the Trade Act of 1974, several executives of U.S. semiconductor companies met with you to discuss their case. Now that an investigation into the case has been initiated by the United States Trade Representative, you may be interested in additional information on the background and purpose of the case.

We have, therefore, prepared for you the enclosed memorandum which describes the SIA case and the experiences in Japan which led the U.S. semiconductor industry to file the petition. I hope you will find this information useful. Please contact me should you have additional questions concerning the case.

Very truly yours,

Alan Wm. Wolff

DEWEY, BALLANTINE, BUSHBY, PALMER & WOOD
1775 PENNSYLVANIA AVENUE, N. W.
WASHINGTON, D. C. 20006

JOSEPH A. CALIFANO, JR.
PHILIP W. BUCHEN
O. NILE BELL
FENTON J. BURKE*
ALAN WM. WOLFF
FELIX B. LAUGHLIN
CHARLES A. SEVERS, III
JOHN M. SAMUELS*
RICHARD COTTON
LAWRENCE F. O'BRIEN, III
W. CLARK McFADDEN II
GERALD M. ROSBERG
HAMILTON P. FOX, III
JOHN J. SALMON
R. MICHAEL GADBAW
MICHAEL H. STEIN
MYLES V. LYNK
RESIDENT PARTNERS

*MEMBER N.Y. BAR: NOT ADMITTED D.C.

TELEPHONE: (202) 862-1000
TELECOPIER: (202) 862-1095
TELEX: 897070

140 BROADWAY, NEW YORK, N.Y. 10005
101 PARK AVENUE, NEW YORK, N. Y. 10178
TELEPHONE: (212) 820-1100
TELEX: 961289 (IF BUSY 12-6825)
TELECOPIER: (212) 820-1403

45, AVENUE GEORGE V
75008 PARIS, FRANCE
TELEPHONE: 720. 85. 21
TELEX: 842 620297

CABLE: DEWBALAW

~~CONFIDENTIAL~~

12 August, 1985

MEMORANDUM FOR BERYL SPRINKEL

FROM: Alan Wm. Wolff AW

SUBJECT: The Semiconductor Case

This case has been eight years in the making. The Semiconductor Industry Association (SIA) was formed in 1977 to deal with the competitive problem of Japan. The problem was, and has been from the beginning, severe restrictions on access to the Japanese market, and periodic waves of aggressive Japanese sales of products generated from excess Japanese capacity.

This is an important case in several respects. The United States government has never successfully dealt with the problem of Japanese competition. This time, the U.S. industry is indisputably competitive, and what is at stake is a vital part the American information industry -- the merchant semiconductor manufacturers. The size of the global semiconductor market is now $26 billion. On this base is built the United States competitive edge in telecommunications and computers -- a trillion dollar market for the 1990's.

What is sought and what is absolutely required by the U.S. industry is not protection, but full market access in Japan and a halt to periodic Japanese distress selling due to excess capacity. What is sought by Japan and its companies is a dominant position in the information industries, through leadership in integrated circuit design and production. One of the principal Japanese means to this end is maintenance of a closed home market.

In a sense this is an easier case for Japan to deal with than beef, citrus, leather, or tobacco -- all politically sensitive issues. The Liberal Democratic Party's future does not rest on how this issue is resolved. In one sense, this is a far less complicated matter. The senior executives of a few large Japanese companies could easily provide a solution by changing their conduct.

In other ways the case presents greater difficulties. The Japanese companies involved must act against what they have taken for several decades to be their self-interest. They must purchase competitive foreign (American) product without discrimination. This is the last thing they wish to do. They are far more willing to control exports, even production, but find import liberalization to be, without exaggeration in this context, an act against nature. The challenge for the U.S. Government in this case is to make import liberalization more palatable than the alternatives.

Putting aside for the moment the discussion of statutory trade remedies (which tends to impede rather than foster an understanding of any trade problem), the following are the basic facts which are the subject of the American industry's complaint.

The Current Barrier to Entry of American Products

(1) Americans find that selling semiconductors in Japan is extraordinarily difficult. They find themselves able to sell primarily proprietary product for which there is no Japanese substitute and products which are in temporary short supply. (This phenomenon is not peculiar to the semiconductor industry, although it is perhaps most pronounced and most easily discerned in this industry. This conduct is sometimes labeled "cultural" behavior, a description which obscures more than it enlightens).

(2) The U.S. industry is still indisputably more competitive than the Japanese. While measurements of competitiveness are usually very difficult, the success of U.S. companies in every market known to be fully open (e.g. the United States), largely open (the EC has an often-suspended 17% tariff which will soon be reduced to 14%), and generally open (the rest of the world where national semiconductor industries are still not developed), is amply demonstrated by market shares invariably in excess of 50%.

(3) In Japan, the market share of U.S. flag producers is only 9.5% (even counting Texas Instruments' and Motorola's production in Japan as American production). The extent of market penetration in Japan has never varied from

this by much, even when, a decade ago, the Japanese were clearly not competitive in any state-of-the-art chip design.

(4) There is no rational explanation for the disparity of U.S. firms' success in the rest of the world as contrasted with their lack of success in Japan -- other than the absence of a freely functioning market in Japan.

(5) The host of usual explanations for failure in the Japanese market do not apply. The chips sell well when there is no Japanese equivalent or when there is short supply. Therefore, language, standards, sales efforts, distribution problems -- all the reasons given for failing to sell -- evaporate at the convenience of the purchasers. Indeed, U.S. firms have made an extraordinarily intensive effort to sell in the Japanese market in the recent past, with the full support of the U.S. Government. This did not save them from still being treated as residual suppliers.

(6) From the gross market share performance statistics, from the repetitive rejections of U.S. product once competitive Japanese product is available, and from the corroborating evidence of those whose job it is to sell U.S. products in the Japanese market, the presumption is justified that the Japanese market is not open.

The Origins of the Closed Market

The absence of a substantial American presence in the Japanese market is not an accident. During the period when the Japanese industry was being created, foreign investment was barred. Only Texas Instruments was able to force its way in because it had caught Japanese producers in a major patent violation. Even then, it had to agree to limit its market share in Japan. In addition, imports into Japan were strictly controlled by license.

When Bill Eberle negotiated liberalization in the early seventies, the Japanese Government instituted what it called "counter-liberalization measures", instructing government agencies to buy only Japanese products, and encouraging others to do likewise. They needed little coaxing.

The current structure of the Japanese market did not arise naturally either. MITI wished to have the industry consist of a few, large, vertically-integrated producers, which were urged to specialize in particular products, channeling competition. The degree of concentration was purely by design. The six giant Japanese electronics firms emerged, aided consistently and copiously by grants, loans, waivers of antitrust rules, and free transfers from government laboratories of R & D. The memorandum in support of the section 301 petition details this history.

The principal barrier to the selling of U.S. semiconductors in Japan is the existence of reciprocal buying arrangements among these firms, instigated originally by the Government of Japan. It is thus not the vertical integration of these electronics firms which is critical, although this gives them enormous market power to cross-subsidize semiconductor investments, for example, from sales of consumer electronics products in this market. It is the fact that each of the firms buys most of its semiconductor requirements not from itself but from the other members of this elite group of six Japanese government-favored electronics firms. This arrangement achieves precisely what it was intended to achieve. U.S. market share is frozen.

It is a peculiarity of the American mind that it presumes fairness where there is none, and due to the excessive influence of our jurisprudence on our trade policy system, that it presumes innocence absolutely until guilt is proved conclusively. This perception prevails despite all evidence to the contrary -- except to those who are actually engaged in the market, who are forced to confront the reality. No Japanese who is speaking frankly and is well-informed would say that American semiconductor manufacturers have a chance to improve markedly their sales performance in Japan, absent a dramatic change in the attitudes of the principal Japanese consumers.

The U.S. Government's Response

The U.S. industry began discussing the problem of Japan with the U.S. Government in the late 1970's. The problem was then seen as the need to guard against a wave of dumping that was expected to occur when the results of a massive Japanese joint research project were felt in the market. With Administration support, language was included in the legislative history of the 1979 Trade Agreements Act to address this challenge.

The effects of the Very Large Scale Integration (VLSI) project were as devastating as predicted, if not more so. The collaboration of MITI's and NTT's laboratories with the big six electronics firms, backed by Japanese government grants, and loans from the Japan Industrial Development Bank, resulted in the Japanese producers being the first to introduce and then to capture the market for the 64K RAM (64,000 bit random access memory), the core memory product for computers. That Japanese lead in commodity memory devices was limited somewhat by something of an American comeback -- Japanese share was cut from 70% of the world market to 50%, but the Japanese are still ahead. They have 90% of the 256K RAM market, the current product generation.

The U.S. Government began consultations with the Japanese Government over semiconductor problems in 1980. The expressions of concern became more intense in the Reagan Administration. Mac Baldrige, Bill Brock, Lionel Olmer, and Mike Smith began stressing the need to find some solution to the impact of the joint activities of the Japanese firms and their Government in this sector. Largely in response, then MITI Minister Abe (now Foreign Minister) suggested the establishment of a High Technology Working Group in 1982.

Clyde Prestowitz and Jim Murphy chaired this group for the United States, negotiating a list of Japanese commitments with respect to semiconductors -- including an active MITI program to foster imports through consultations with the big six electronics firms, and putting into place a data collection system which was intended to guard against the phenomena of the disappearing market in Japan (where the U.S. introduced a product and lost the market completely when competing Japanese product appeared) and dumping (the Japanese phenomenon of the tsunami, or export tidal wave, where the effect of close industry-wide consultations on business intentions and market directions inevitably results in overinvestment and overcapacity).

The Decision to File a 301 Case

A year ago, progress appeared to be being made. While it was true that semiconductors were generally in short supply during this period, U.S. manufacturers allocated scarce supplies to Japan, and their share of that market began to rise. Then the global market softened in the last quarter of 1984, and the U.S. companies found themselves treated once again as residual suppliers to the Japanese market, being relegated to a lower market share than when formal quotas were in place a decade ago. Shortly thereafter, evidence of predatory pricing activities by the Japanese in the U.S. market surfaced.

At that point the SIA, an organization representing almost all U.S. semiconductor production, including both the major U.S. consumers and producers, decided to bring a section 301 case. (A non-SIA member, Micron Technologies, brought an antidumping case with respect to Japanese sales of 64K DRAMs. Other companies are actively considering bringing other cases -- antitrust, antidumping, and import relief. The Justice Department has initiated its own antitrust investigation of Hitachi's activities.)

It is worth noting why U.S. consumers (major American computer makers) do not oppose this case. Normally consumers welcome cheap product, even when it is being dumped. While U.S. computer makers require low-priced chips (integrated circuits) to remain internationally competitive

-- and thus would strongly oppose the imposition of restrictions on access to Japanese chips -- they are concerned about becoming dependent on Japanese semiconductors. The Japanese producers of chips are also the Japanese producers of computers. If the Japanese become dominant in this area of technology, it is not at all clear that Japanese state-of-the-art products would be made available to American computer makers as early as they would be to the Japanese themselves, or in adequate quantities.

For their part, American semiconductor manufacturers came to realize that they shared the fate of American computer and telecommunications manufacturers. The chip makers cannot survive long if they undermine the competitiveness of their customers by driving up the costs of producing electronic equipment in America. The only truly secure customer base for U.S. semiconductors consists of U.S.-based producers of equipment.

That is why import restrictions are not being sought. That is why the solution must lie in: (1) Japanese avoidance of dumping (which, while keeping prices at the lowest fair competitive level, will not drive American semiconductor makers out of business), and (2) access to the Japanese market (because it represents close to a third of the world market, granting the Japanese producers too great an advantage if they are allowed to keep it closed).

What is at stake is the U.S. position in the information industries. Semiconductors, particularly integrated circuits, are the basic building blocks of all electronic equipment. It is not that America will have no capacity to produce semiconductors if the merchant semiconductor manufacturers are severely cut-back or many go out of business. IBM and AT&T have very strong in-house (so-called captive) capabilities. But much of the U.S. innovation has come from the merchant manufacturers, and without volume production of chips for the commercial market, it is not clear that the United State will have the state-of-the-art designs in an essential range of products that are competitive.

Tactical Considerations

The United States has espoused the cause of the U.S. merchant semiconductor industry in negotiations with the Japanese for the last several years. It has already held numerous consultations with the Japanese Government on the basis of the facts as outlined in the industry's section 301 petition. It has even requested of the Japanese the commitments which this petition urges it to raise. The reason for this petition is not to begin a fresh inquiry into what the U.S. Government has already agreed is a major

trade problem, but to support the U.S. Government's ongoing efforts through a formal filing, to indicate to the Japanese Government the degree of seriousness of this matter, and to force a prompt and satisfactory resolution.

The U.S. industry is laying off workers each week. This is due in large part to a recession in the computer industry. But it means that the semiconductor industry is particularly vulnerable now. The further closing of the Japanese market at this time and the predatory practices of some Japanese companies severely exacerbate the serious injury that currently exists.