No.
Date 3-31-87

= FUJITSU AMERICA, INC. = // FUJITSU, LTD. =

NORM PETERSON, FUJITSU @ SAN JOSE (408) 946-8777 CALLED @ ABOUT 11:15 AM RE. PRES. REAGAN'S DUTY ON JAPANESE PRODUCTS – CONCERNED ABOUT SOME OF THEIR PRODUCTS & THOSE SOLD TO AMDAHL – HE WILL FAX DETAILS

TOLD HIM I WOULD GET ON IT TO HELP & COST IS $1000 PER DAY PLUS EXPENSES WHICH HE ACCEPTED WITHOUT COMMENT

4-1-87

CONG. BOB SMITH RETURNED MY 3-31-87 PHONE CALL @ 7:50 AM (PST) – DISCUSSED THE QUESTION & ASKED HIM TO CONTACT SEC. BALDRIDGE – CALL ENDED AT 8:15 AM (BALDRIDGE FX (202) 377-5270)

CALLED ALAN HOLMER, GEN. COUNSEL TO TRADE AMBASSADOR (600-17th ST. N.W. WASHINGTON, D.C. 20506 FX (202) 395-3911) — DISCUSSED MY QUESTIONS & HE WAS RECEPTIVE — LETTER BEING SENT VIA "OVERNIGHT MAIL" & FX TO HIM ABOUT 10:30 AM — CALL 8:28 AM / 8:35 AM

CALLED NORM PETERSON TO UPDATE HIM —— FX, TO CONG. SMITH, TO NORM & TO HOLMER

4-2-87

CONG. SMITH CALLED @ 8:20 AM — HAD A DISCUSSION WITH SEC. BALDRIDGE RE. OUR CASE —— BALDRIDGE SAID ORDER CALLED FOR ABOUT $1 B IN TARIFFS TO BE SCALED TO $300 M DURING TESTIMONY, SUGGESTED I PREPARE & ORALLY DELIVER MY CONCERNS IN D.C. —— CONG. SMITH SAID I SHOULD SEND A LETTER WHICH HAS NOW BEEN DONE.
CALLED NORM PETERSON @ 9:30 AM & GAVE HIM UPDATE —— HE ALSO SAID JAPAN FUJITSU HAD SUPPORTED HIS SELECTION OF ME TO REPRESENT THEM
CALLED NORM PETERSON AGAIN TO TELL HIM THE FULL SCALE WAS $1 B TO BE SCALED TO $300 M

No. Pg. 2
Date 4 · 3 · 87

About 8:45 AM (PST) Michael Farren called (Deputy Under-Sec. for International Trade - Dep't of Commerce) — Related he was aware of Cong. Smith's discussion w/ Sec. Baldrige & had my fax to Sec. Baldrige — Indicated twice that they wish to "not have an undue burden on U.S. manufacturers" & "minimal, if at all, amount of damage to U.S. manufacturers" — that their industry specialists "are aware of your concerns" — that written testimony would do but he did not want to say I should not present oral testimony — I asked to whom I should talk to testify & still be able to catch a 1:00 PM plane back to Oregon — he thought Carolyn Frank @ USTA office would be the person & that I should keep him posted on my testimony or any other reason to contact him — the person in his office co-ordinating this effort is Regina Vargo, Industry Product Div. @ Commerce 377-3703 — Also, if I cannot get him his ass't is John Meserve

About 9:10 AM called Norm Peterson & brought him up to date on above

Earlier — @ 8:00 AM — called for Allan Holmer, he was out for about 1-1½ hours & will call me back

Alan Holmer called about 2:45 PM (PST) — said "if it is a product not in commercially available supply in U.S." undoubtedly would be excluded — would get my communication to him over to Jack McFee 377-0572 a "Technical Industry Specialists" & I will call him on Monday 4-6-87 — Also said for me to call him (Holmer) to arrange to get on for oral testimony in time to catch a 1:00 PM (EST) plane from D.C.

About 3:15 PM called Norman Petersen & gave him this final update for today

Tokyo Reacts Cautiously; Some Firms Are Defensive

By DAMON DARLIN
And KARL SCHOENBERGER
Staff Reporters of THE WALL STREET JOURNAL

TOKYO—Government and business reaction here to President Reagan's proposed trade sanctions on certain Japanese electronics goods ranged from cautious to defensive.

Tokyo officials believe that there is still time to negotiate an amicable settlement before the quotas are imposed April 17 and that the problem will be solved without a trade war. They also insisted that Japanese companies were complying with last summer's semiconductor pact with the U.S., which was supposed to limit dumping of computer chips and improve U.S. access to the Japanese market. And some Japanese said privately that the tariff threat was just the latest evidence of the U.S. belief that Japan is the enemy, not an ally.

Still, the U.S. threat may be having the additional effect of finally pushing the Japanese government to stimulate its economy as the U.S. repeatedly has demanded. Some news reports Sunday speculated that Japanese government agencies also are preparing to purchase U.S. supercomputers, another prickly trade issue that played a role in the U.S. decision to impose punitive sanctions.

"We find it impossible to understand the decision by the U.S.," said Hajime Tamura, the minister of international trade and industry, who remained calm and conciliatory during a news conference Saturday. "It's simply a matter of time. We have confidence that the steps we've already taken will have visible results."

Emergency Meeting

Nonetheless, the Ministry of International Trade and Industry said it has asked for an emergency meeting with U.S. trade negotiators. But if the U.S. carries out its threat, the ministry said, it would consider scrapping last year's semiconductor agreement and filing a complaint with the Geneva-based General Agreement on Tariffs and Trade, alleging that the U.S. action violates international trade accords.

MITI said it isn't taking any additional steps to satisfy the Americans. "We don't have any magic tricks that we can use to resolve the problem," a ministry spokesman said. "What we fear most is if the communication stops." MITI denies that Japanese companies are dumping semiconductors in Southeast Asia and Europe at prices below production costs. It has charged U.S. and South Korean companies are doing that.

Some action is being taken behind the scenes, however. The ministry was making private requests Friday that electronic companies begin the immediate purchase of U.S. chips in an effort to boost U.S. companies' market share in Japan. Each company is being told to substitute a certain percentage of its chips from Japanese sup-

Leading Exports

U.S. to Japan
- Aircraft and parts
- Chemicals
- Office machinery and computers
- Logs and lumber products
- Corn and soy beans
- Coal

Japan to U.S.
- Passenger cars
- Office machinery
- Consumer electronics
- Trucks and other motor vehicles
- Telecommunications equipment
- Motor vehicle parts
- Steel mill products

Source: Dept. of Commerce

wine and Brie that we are talking about. Regular people buy our products at Sears," said an industry analyst. Some estimates put the damage to the Japanese electronics appliance industry as high as $10 billion.

Industry analysts in Japan are skeptical that any progress can be made in a short time. "There is nothing the Japanese companies can do in two weeks that makes any difference," said Carole A. Ryavec, analyst with Salomon Brothers. Another analyst suggested that the only way to show progress would be for MITI to buy U.S. chips and sell them for the U.S. companies because "the cultural barriers against U.S. products still exist."

Limited Options

The Japanese have few options for striking back. The country could ban the export of semiconductors to the U.S.—Japan makes the majority of certain kinds of chips—or ban the import of certain U.S. agriculture products. But such bold and openly antagonistic moves would be uncharacteristic of Japanese trade relations. These ideas are said to have next to no support in the MITI or in the Foreign Ministry. "We know we are pretty much powerless," said one official.

The confrontational U.S. approach points up Japan's weakness and is disheartening, a few Japanese officials said privately. Another recent example was the U.S. scuttling—for national security reasons—of Fujitsu Ltd.'s plan to buy Fairchild Semiconductor Corp., the California semiconductor unit of Schlumberger Ltd. Said one Japanese trade negotiator, "The U.S. repeatedly holds a gun to our head (on these trade issues) and when we ask what we get in return, they say, 'We won't pull the trigger.' "

The heightened level of trade friction adds to the domestic political troubles of Prime Minister Yasuhiro Nakasone and will complicate his state visit to the U.S. April 29 to May 5. Just what Mr. Nakasone

Chips Fight: Reagan Plan to Raise Tariffs May Be Watershed in U.S.-Japanese Ties

Continued From First Page

ing the breakdown of the semiconductor accord.

"Everyone was complaining that the administration had been too soft on Japan," a congressional strategist says. "These guys would have gone berserk if the administration had decided not to go ahead."

What's more, even if the tougher tariffs on Japanese products are imposed as scheduled on April 17, it is likely they will last only a few weeks or a couple of months. Even before the U.S. decided to act, Tokyo had been moving to enforce the accord more vigorously, and might have succeeded given a few more weeks. U.S. officials say they will probably remove the April 17 penalties as soon as Japan comes into compliance. Significantly, neither side has said it wants to abandon the accord.

Yoichi Funabashi, a veteran Japanese political analyst now visiting at the Washington-based Institute for International Economics, predicts that imposition of the new tariffs will bolster Tokyo's hand with errant Japanese microchip producers. "It's still very much part of a game," Mr. Funabashi asserts.

Japan announced over the weekend that it is rushing Makoto Kuroda, vice minister of trade and industry, to the U.S. for "emergency" consultations on the semiconductor issue. Mr. Kuroda was Japan's chief negotiator for the semiconductor accord. In Tokyo, Japanese Trade Minister Hajime Tamura called the U.S. move "regrettable."

Could Hurt Nakasone

Ironically, the most immediate political victim of the retaliation effort may be America's biggest friend in the Japanese government, Prime Minister Yasuhiro Nakasone. Mr. Nakasone, who has built his political reputation on his ability to manage relations with the U.S., already is in serious political trouble over domestic issues. "This is going to hurt him for sure," Mr. Funabashi says. As a result, future prime ministers might be less inclined to accommodate concerns of the U.S. However, Mr. Nakasone might be able to redeem himself with Japanese voters if he can settle the dispute during his scheduled visit to Washington late next month.

The penalties that the White House announced Friday will result in 100% tariffs on some $300 million worth of Japanese imports that either contain Japanese-made semiconductors or are manufactured by the same Japanese firms that make the microchips themselves. The list of potential targets includes hard-disk drives, central processing units for computers, 18- and 19-inch color television sets, smaller color TVs, black-and-white television sets, black-and-white computer display terminals, combination radios and tape players, combination phonographs and tape players, communications satellites and parts, small electric motors, computer tape and disks, window air conditioners, electric measuring devices, power hand

Tariffs and Trade

(In billions of dollars for 1986)

U.S. current account deficit	$140.57
Japan trade surplus with U.S.	51.48
U.S. electronics trade deficit with Japan*	20.40
Electronics trade to be affected by tariffs	**$300 million**

*Estimated by American Electronics Association

bling other products. The idea is to make the chip makers' other exports here prohibitively expensive for Americans. U.S. officials say they don't expect the move to add much to inflation here because in most cases consumers can easily find alternatives.

The $300 million figure is what U.S. officials estimate American firms have lost as a result of a failure by Japan to comply with the eight-month-old accord. The 100% tariffs would replace the 3% to 7% tariffs that already exist on most of the affected products.

U.S. officials say Japan won't be able to avert imposition of tariffs on at least $135 million of the $300 million total. That portion is linked to U.S. charges that Japanese semiconductor makers have been engaging in predatory pricing in third-country markets, which is prohibited under the agreement that the two countries signed last July 31. A Commerce Department review already has found such "dumping"—selling below the cost of production or fair market value at home—has continued unabated, despite U.S. protests. Japanese semiconductor firms are selling abroad at an average of 59.4% to 63.6% of their home price.

But there is still a faint chance that Tokyo will escape the remaining $165 million worth of tariffs if it acts before April 17 to address a second U.S. complaint: that it is failing to live up to a promise in the accord to allow American semiconductor makers a larger share of Japan's own home market.

In the accord signed last summer, Tokyo promised to allow U.S. producers to expand their market share in Japan, then about 8.5%, to "more than 20%" by 1991. But a world-wide glut of chips, combined with the rise in the value of the yen, has made that difficult. U.S. producers' share actually has slipped slightly, to 8.4%.

Industry analysts say the government's efforts to enforce the pact have been thwarted because a handful of large Japanese producers—such as NEC Corp., Hitachi Ltd., and Fujitsu Ltd.—have refused to follow the Ministry of International Trade and Industry's "administrative guidance," which technically doesn't have the force of law.

The Japanese have recently taken further steps to ease semiconductor tensions. On March 23, MITI ordered large Japanese chip makers to cut their production by a

Corp. Says Harald Malmgren, a Washington trade specialist: "In another few weeks it's going to look a lot better."

The decision Friday wasn't an easy one for the president and his advisers. U.S. officials were well aware that Tokyo had begun taking steps to enforce the fragile semiconductor agreement, that Japan already is hurting from the impact of the decline in the dollar and that Mr. Nakasone is hurting politically. "Japan is an ally and a friend," Commerce Secretary Malcolm Baldrige lamented in announcing the retaliation. "Nobody in the administration is very happy about having to do this."

But the administration was also facing the possibility that it could lose all leverage with Congress in the trade debate unless it demonstrated its resolve. Moreover, the administration's own top trade officials have become increasingly exasperated at Japan's snail's-pace response to U.S. trade complaints. "There's a feeling of tremendous frustration here," a senior U.S. trade official says. "The Japanese have been nickel-and-diming us for years."

Friday's announcement marks the second time in 15 months that the U.S. has formally retaliated against Japan after failing to resolve a trade dispute. In December 1985, in a much smaller-scale move than Friday's, the administration slapped tariffs on $24 million worth of Japanese imports to protest Tokyo's refusal to lift restrictions on U.S. leather exports. The action resulted in Japanese concessions. Last year, in a dispute involving Japanese refusal to ease cigarette duties, trade officials were on their way to the White House with retaliatory tariff orders when Tokyo telephoned with a compromise.

No Guarantee

While Tokyo is expected to take some steps to ease the immediate tensions, there is no guarantee that the new U.S. salvo will produce the change in long-term attitudes that Washington is hoping for. Clyde Prestowitz, a former Commerce Department specialist on Japan, warns that although Japan is unlikely to counterretaliate openly, it can easily "get back" at the U.S. covertly.

"The feeling already is broad and deep in Japan that the U.S. is picking on them and making them the scapegoat," Mr. Prestowitz says. As a result, he says, the U.S. action could "hurt to some extent the ability of American companies to sell in Japan."

Moreover, notes Henry Nau, a former Reagan-administration national-security aide, with the U.S. now so dependent on Japanese capital to help finance its budget deficit, "the spat we're going through has a real potential for some misunderstanding and some explosion."

Meanwhile, the U.S. action may embolden other major trading blocs that have longstanding trade disputes with Japan. Sir Roy Denman, the Common Market's ambassador to the U.S., says the 12-nation European compact will be "watching this

Chips Fight

Reagan's Tariff Move May Be Turning Point In Japanese Relations

But Impact in the Short Run Isn't Likely to Be Great; A Rethinking by Tokyo?

Economic Risks Seen for U.S.

By ART PINE
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON – President Reagan's decision to impose stiff tariffs on Japan because that country has failed to live up to its semiconductor trade accord with the U.S. may prove to be a watershed in U.S.-Japanese economic relations.

In the short term, the administration's action, which involves only a small fraction of Japan's electronics exports to the U.S., is likely to have little if any impact either on the U.S.'s $170 billion trade deficit or on overall Japanese trade practices. Rather, it is primarily a symbolic move intended both to jolt Japan into enforcing the semiconductor accord and to mollify demands in Congress for a tougher U.S. trade stance.

Sanctions Against an Ally

The White House action draws attention to the persistent imbalance of Japanese trade—not only with the U.S. in semiconductors but with copiers in Europe and other products in both continents. Stories on page 10 include:

- **U.S. chip makers lead applause for the Reagan measures**
- **Japan seeks talks on a settlement to avoid penalties**
- **EC takes further steps against certain Japanese imports**

But the administration's action – the first time in recent years that the U.S. has retaliated in force against Japan in a trade dispute—shows that Washington's frustrations over the trade issue have finally reached the point where it now is willing to bite, not just bark, if it believes that Japan isn't playing by the rules. Senior administration officials hope that that will cause a major rethinking in Japan.

Although Tokyo has threatened to retaliate against the U.S. move—and may even file a token complaint in the Geneva-based General Agreement on Tariffs and Trade—American strategists are counting on the White House announcement to create a "shock wave" in Japan that will spark a serious national debate there over opening the Japanese market to more imports.

The U.S. action also is expected to make policy makers here more willing to retaliate in future disputes, although Washington still is expected to use such weapons sparingly.

THE WALL STREET JOURNAL WEDNESDAY, APRIL 1, 1987

Japan's Tra

By Kenichi Ohmae

President Reagan's decision last week to impose stiff tariffs on Japan was a response to demands in Congress for protectionist legislation to make America more "competitive." The chief problem, many Americans believe, is a trade imbalance, a one-way flood of Japanese goods into the U.S. while Japan prevents American products from entering its markets. That picture is distorted, and makes the Japanese look like better managers than they really are. The activity of American and Japanese companies based in each other's countries provides a better indication of the true score. Using this measurement, American companies far surpass the Japanese in international competitiveness.

The usual trade figures ignore the considerable market successes of American multinationals. Goods manufactured by American-owned companies in Japan and shipped to the U.S. are counted as Japanese exports; those sold to users in Japan by the same U.S. companies count as neither exports nor imports, and do not show up on the trade statistics for either side.

Product Presence

A better yardstick for measuring penetration in global markets is product presence, or the total of goods exported by a country together with goods produced locally by subsidiaries of companies from the same country. In 1984, when the trade imbalance became "intolerable," Japan imported $25.6 billion in American goods and bought made-in-Japan American goods worth $43.9 billion, for a total American product presence of $69.5 billion. Correspondingly, the U.S. imported $56.8 billion in goods from Japan and bought $12.8 billion in goods manufactured and sold in the U.S. by Japanese firms.

In other words, the Japanese product presence in the U.S. was $69.9 billion, almost exactly that of the American product presence in Japan. The difference is that the Japanese bought more than three times the amount of goods from local American subsidiaries as Americans bought from their Japanese counterparts. In 1985, production and sales by American companies in Japan exceeded $53.1 billion, a figure greater than the American trade deficit of $46 billion with Japan.

The point of these examples is this: A trade imbalance does not equal a market-penetration deficit, and in this regard American multinationals still hold the competitive edge. On a per-capita basis, the Japanese spend twice as much on American products as Americans spend on Japanese products.

The apparent success of Japanese business is really its failure: The Japanese have had to resort to exporting because they have not adequately acquired the management and production know-how of operating close to their foreign markets the way Americans do. Japanese multinationals still have a long way to go before catching up with the superior expertise of the IBMs, Texas Instruments, Coca-Colas and McDonalds of the world—all of which now successfully run integrated operations in Japan as insiders—developing, making and selling their products.

The call of a Japanese management consultant like myself for his countrymen

A trade imbalance does
tion deficit, and in this reg
still hold the competitive edg

to emulate the competitiveness of American multinationals is not mere rhetoric. American multinationals have been doing a good job, as shown by a study published last October by the National Bureau of Economic Research. In the study, Robert E. Lipsey of Queens College and Irving B. Kravis of the University of Pennsylvania show that since 1966 U.S.-based multinationals have held a steady share—7.7%—of world exports.

While the export share of the U.S.-based parent companies declined between 1966 and 1977, the gains by their majority-owned foreign affiliates more than offset the drop. In addition, American-controlled firms abroad have more than held their own in markets throughout the world. The National Bureau report credits American management with taking good advantage of overseas opportunities, and it is right to do so. Japanese companies could learn a lesson from this.

The Japanese presence in the U.S., limited as it is, has been chalked up as a response to Western protectionism. Japanese companies that establish U.S. subsidiaries are said to do so in order to offset U.S. domestic criticism about the American jobs that have been "lost" by imports from Japan. Critics of Japan argue that the number of lost jobs corresponds to the volume of goods exported to the U.S. plus the production and sales of American affiliates in Japan. That is, using the same figures cited above, in 1984 there was a supposed imbalance of jobs equivalent to $62 billion.

The validity of this argument is questionable. In the past several years, the U.S. has created several million new jobs at the same time that its trade balance was shifting from positive to negative. (In

Tariffs Please U.S. Chip Concerns; Others See Them as Necessary Evil

By Brenton R. Schlender
Staff Reporter of The Wall Street Journal

While the U.S. semiconductor industry is generally elated by President Reagan's decision to impose tariffs on Japanese electronic goods, some international trade and chip industry executives and analysts say the measures are more symbolic than punitive.

Companies outside the industry, but which are affected by semiconductor prices and availability and compete with Japanese firms covered by the tariffs, generally view the proposal as regrettable but necessary. Giants such as American Telephone & Telegraph Co. and General Motors

Semiconductor industry analysts and trade consultants say they think the proposed 100% tariffs on various electronic products, recording tape and photographic film probably won't be imposed for long, if at all. They also point out that the proposed tariffs don't pack much wallop anyway, affecting products valued at $300 million—only a tiny fraction of Japan's total imports into this country. Last year, for example, Japanese imports into the U.S. exceeded U.S. products sold to Japan by $58.6 billion.

Even so, chip industry officials are pleased with the proposed tariffs. "In the past, it has always appeared that the Japanese industry and government were ganging up on us, while the U.S. government and chip industry always seemed to be at odds with each other and unable to fight back," says F. Thomas Dunlap, general counsel and secretary of Intel Corp., Santa Clara, Calif., a leading U.S. chip maker that last year had a $183.3 million loss. "Well, it's the other way around now. They know we mean business."

George Scalise, a senior vice president for Sunnyvale, Calif.-based Advanced Micro Devices, who spearheaded efforts by the Semiconductor Industry Association in recent weeks to convince the government to impose sanctions on the Japanese, says he would like to see the measures "stay in effect for six months; to see demonstrated compliance for six months before releasing them."

A spokeswoman for International Business Machines Corp., Armonk, N.Y., says the company hopes sanctions "won't be necessary and a resolution can be reached during the upcoming comment period."

Robert Nelson, president and chief executive of South El Monte, Calif.-based Cetec Corp., a maker of electronic and plastic products, says the tariffs are too broad to have a real impact on the immediate problem of semiconductor dumping. "Since that's where the problem is, why not address that problem?" he asks. Mr. Nelson says he believes American consumers will be hurt most by the tariffs, since "so many products are made in Japan that aren't made here."

And Norbert Fuhrmann, president and vice chairman of Solitron Devices Inc., a Riviera Beach, Fla.-based manufacturer and exporter of defense-related semiconductor parts, says, "Remember, the present realignment of currencies could have a much greater impact on our international business activities than the import tariffs."

In last-minute attempts to forestall sanctions, the Japanese government recently ordered chip makers to cut by 11% production of certain chips covered by last summer's trade agreement. That followed production reductions of 23% earlier in the first quarter in efforts to help market forces shore up chip prices. Accordingly, industry analysts say, chip prices around the world have begun to creep up. As a side effect, however, production lead times—the delay between the time a chip consumer places an order and the time it is shipped—have doubled to 12 weeks for certain high-performance memory chips.

"There's no question the Japanese production cuts are beginning to be felt," says Mark Giudici, a semiconductor pricing analyst for Dataquest Inc. in San Jose, Calif. "We've been telling our clients for two months now that it would be a good idea to sign long-term contracts with chip producers just to be sure of delivery later this year."

While the new tariffs might spur the Japanese government to finally find a formula to force companies to charge at least marginally higher prices for chips, industry executives concede the sanctions don't address the U.S. industry's other big problem—namely, penetrating Japan's market for semiconductors. Currently, U.S. companies account for less than 9% of that market, which is now the world's largest consumer of chips. In last summer's chip trade accord, Japan informally agreed to try to help U.S. companies increase that market share to at least 20%, but so far little progress has been made.

Steven G. Mihaylo, chairman and chief executive of Phoenix, Ariz.-based Inter-Tel Inc., a maker of telephone systems, says his company has stopped doing business in Japan. "We've found the Japanese very difficult to negotiate with," he says. "They've raised procrastination to an art form."

Tariff Targets

Japanese shipments to U.S. that may be hit with tariffs

	1986 IMPORTS (In millions)
Products containing semiconductors	
Central processing units	$400.0
Hard-disk drives	187.0
Smaller color TV sets	114.3
Black-and-white video display terminals	78.9
Black-and-white TV sets	49.2
18-inch and 19-inch color TV sets	39.9
Radio-tape players	31.7
Phonograph-tape players	20.5
Communications satellites and parts	0.5
Other products	
Electric measuring apparatus	$259.5
Power hand-tools	187.0
Commercial photographic film	110.5
Small electric motors	69.5
Computer tapes, floppy disks	64.2
Pumps and parts	59.6
Refrigerators	28.9
Window air-conditioners	27.0

Source: U.S. Trade Representative's Office