



Embassy of the United States of America

Tokyo, Japan

JM

October 7, 1993

UNCLASSIFIED
MEMORANDUM

TO: The Ambassador

THROUGH: DCM - William T. Breen

FROM: EMIN - John H. Penfold

SUBJECT: Your Request Concerning MITI's Claimed Sales Data for Japanese Supercomputers

On several recent occasions, MITI officials separately refuted U.S. claims of superiority in supercomputer technology and sales and made the counter claim that "...on a flow basis, Japan now has a 42 percent share of the European market." You requested information concerning the baseline for this figure.

MITI confirmed the 42 percent claim by telephone October 7, and explained that the figure is based on the Japanese share of the actual number of supercomputers that entered the European market from all sources during 1992. The number is not based on the value of sales, nor does it refer to any other year.

The claimed percentage share was calculated from Japanese industry sources. MITI said that it has no official data for Japanese supercomputer sales abroad and that it does not know the sales breakdown for the public and private sectors.

According to U.S. industry sources, MITI's number is probably founded on "installed base" data. "Installed base" refers to the actual number of machines in existence, regardless of whether they changed hands as gifts, as gratis transfers between capital-affiliated entities or as sales. There is no way to determine from the MITI data whether these numbers represent actual sales. The number commonly cited for the U.S. share of the European market, 85 percent, is also calculated from the "installed base" and is current to roughly mid-1993. Although hard data is not readily available, the U.S. figure is usually interpreted to represent machines transferred through sales.

MITI's claim that the U.S. discriminates against sales of Japanese supercomputers into the U.S. market is questionable. U.S. industry sources tell us that there are, at most, four to five Japanese supercomputers installed in the U.S. private sector and that there has never been a pure sale of a Japanese supercomputer to a U.S. private sector entity that was not a Japanese capital-affiliated organization.

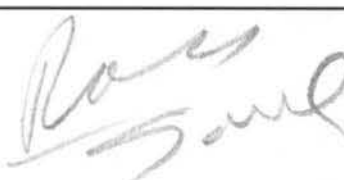
To present a credible brief showing a pattern of discrimination against U.S. Government purchases of Japanese supercomputers, MITI would have to demonstrate a clear discrepancy between U.S. private sector purchases of Japanese machines and U.S. Government purchases of similar Japanese machines. The situation is actually more complex than this, but because Japanese supercomputer manufacturers have not been competitive in the U.S. private sector market, the question does not arise.

It is difficult to level accusations of discriminatory public purchase practices for supercomputers or computers in general against the U.S. Government, which has purchased through public tenders, foreign-branded computers and equipment valued at over USD 300 million. In addition, the U.S. has bought computers from Japanese capital-affiliated companies such as Amdahl (49 percent Fujitsu-owned) for use at the Strategic Air Command, the FBI and the Federal Reserve.

Drafted: ECON:HMKrawitz:ETRD 4936
Info: ECON:JJFoster

Note for Walter Mondale

From: Ed Lincoln
 Date: Fri, Jan 21, 1994 9:43 AM
 Subject: Semiconductors
 To: Walter Mondale



I talked with Glen Fukushima on Thursday about semiconductors. USTR began discussions with MITI in the summer of 1985 about both the dumping and market access sides of the semiconductor problem. On the question of market access in Japan, SIA claimed then (just as Alan Wolff did on Wednesday) that in the absence of barriers, they would have 30 percent of the Japanese market. Michael Smith of USTR felt this would be too much to aim for, and told his MITI counterpart (Mr. Wakasugi) that we felt that our market share in the absence of barriers would be at least 20 percent. In 1986, the new MITI negotiator (Makoto Kuroda) told USTR repeatedly that MITI would "take care of the problem" of market share. However, when the time came to put a written agreement together, MITI balked at making the promise explicit. The end result was a "secret" side letter, and even in this MITI refused to make the promise binding. Once the agreement was signed, USTR felt that MITI did nothing to enforce either the anti-dumping or the market access provisions. The subsequent 1987 retaliation (100 percent tariffs imposed on \$300 million worth of Japanese exports to the United States--in relatively minor areas such as hand-held power tools), was imposed for failure to abide by both aspects of the agreement. Willingness to sign the agreement, and the later decision to engage in retaliation was based on USTR's firm belief that, despite the lack of precise language in the side letter, MITI was committed to delivering the 20 percent market share based on the earlier verbal statements of Mr. Kuroda.

This history is quite different from what is happening now. Recognizing that Kuroda's verbal assurances became the basis for American actions, MITI is very wary of hinting informally that it can bring about any market changes through administrative guidance.

I do not have any background on the auto agreement, but will be seeing the Tokyo representative of GM next Wednesday, who will undoubtedly give GM's interpretation of what happened.

Final note: Fukushima points out that the 1987 retaliation for failure to fulfill the semiconductor agreement represents the only time since 1945 that the United States has retaliated against Japan for such a failure. Even if our current negotiations do not end up yielding numerical indicators, we certainly are still in a position to retaliate if the Japanese government does not carry out the procedural measures in good faith. I remain dubious about the possibility and advisability of numerical targets for market share, but strongly agree with Fukushima and others that retaliation is an important tool in bringing compliance with agreements.

From: Walter Mondale on Thu, Jan 20, 1994 3:46 PM
 Subject: AUTOS AND SEMIS
 To: Ed Lincoln

COULD YOU TRY TO DETERMINE WHAT WE CLAIM TO BE THE INFORMAL ASSURANCES WE BELIEVE WE OBTAINED ON THE SEMICONDUCTOR AND, IF ANY, ON THE AUTO PARTS UNDERTAKINGS. FUKUSHIMA COULD HELP YOU, I AM TOLD, ON THE SEMICONDUCTOR ISSUE.

PLEASE FOLLOW UP ON THE FRAMEWORK UNDERSTANDINGS. I REALLY NEED A BETTER IDEA ABOUT WHAT HAPPENED. WHAT CAN WE HONESTLY CLAIM WAS THE AGREEMENT ON INDICATORS, MARKET SHARES, AND ETC.



ECON

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THE AMBASSADOR

3/26/96

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_____	Econ. Advisor
_____	Exec. Asst.
_____	Staff Aide
_____	Secretary

Comments:

Same

Semi conductor



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Renewing the U.S.-Japan Semiconductor Agreement

Issue

The U.S. semiconductor and Japanese electronics industries must build on the cooperative relationships and harmony established over the past decade and must continue to make progress in Japan market access.

Recommendation

The U.S. and Japanese government should continue the 1991 U.S.-Japan Semiconductor Agreement in some form.

Background

Significant progress in accessing the Japanese market is being achieved through the 1986 and 1991 U.S.-Japan semiconductor agreements. Foreign market share in Japan rose from 8.5% in 1986 to 25% in calendar year 1995. While recent increases in foreign share in Japan are partly a result of Japanese firms shifting offshore the production of low-end consumer products---leaving the relatively high foreign content production in Japan----much of the higher foreign share is a result of greater efforts by Japanese purchasers to design foreign products into their systems.

The continual monitoring and encouragement by the U.S. and Japanese governments has also made a vital contribution. The joint calculation of foreign market share by the governments is an improvement over the widely differing Japanese market-share figures released prior to the 1991 agreement and should be continued.

With continued efforts by both sides, further steady progress in Japan market access can be achieved. U.S. companies have a 50 percent market share outside Japan, but only an 18 percent share inside Japan.

The agreement also provides for Japanese firms to provide appropriate data to the U.S. Commerce Department within 14 days if a dumping petition is filed. A fast-track investigation by the Commerce Department speeds the imposition of a remedy if dumping is found, or quickly ends the disruptions of a suit if no dumping is found. Given the history of Japan's dumping in this sector and the fast-paced nature of this industry, having data available on standby basis can avoid trade friction.

The extraordinary market access efforts by both U.S. and Japanese firms are creating relationships which, if given time to strengthen, will be lasting and mutually beneficial. A government-to-government agreement from 1996 is the best environment in which to strengthen these relationships.

March 26, 1996



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