

World trade war looms over microchip accord

- USA demands that Japan fulfil trade pact
- EEC calls for ruling on 'illegal' trade plan

London and Washington

A MAJOR trade row is about to erupt, embroiling the governments of the United States, Japan and Europe. At the heart of the conflict is frustration in the United States at unsuccessful attempts both to curb the rising tide of Japanese microchips and to tighten its grip on its own components sold overseas.

The fears of the US semiconductor industry, which has accused the Japanese of 'dumping' microchips below their market value, had been partially allayed by an agreement signed with Japan last summer. But the Americans have not been able to satisfy themselves that the Japanese are adhering to the terms of the agreement — increasing the price of microchips while assisting US companies to penetrate the Japanese market — and at the same time have provoked the wrath of European allies who consider the pact a cartel.

The United States is now forced into trying other methods of protecting its home electronics industries and preventing military programmes from depending on imported products and technology because of a weakened infrastructure.

For its part, the European Economic Community (EEC) is making plans to take the US-Japanese microchip accord to a meeting of the General Agreement of Tariffs and Trade (GATT) next week to seek a ruling on the legality of the pact. It says the agreement is a breach of international trading procedures.

Meanwhile, a Defense Science Board Task Force report looking into dependence of foreign semiconductors for military hardware says that unless something is done quickly, the US semiconductor industry will die. The report urges the Pentagon to pump more than \$1,000 million into a new institute for advanced, high-yield manufacturing techniques that will restore US self-sufficiency.

This concept differs from a similar industry-sponsored programme called Sematech because it focuses on generic process technology rather than large-scale production. The task force also encourages the Defense Department to spend \$50 million per year to establish eight university centres of excellence in semiconductor science and engineering.

The report focuses on dynamic, random access memories (DRAMs). US manufacturers used to produce nearly all of the world's supply, but now they hold less than 5 per cent of the world market. Japan

has taken over the lead in DRAMs, and is moving up in other areas of the industry.

Part of Japan's success comes from aggressive marketing and government support and protection for domestic industries. But the key, according to the task force report, is Japan's superior manufacturing practices. Japanese manufacturers have invested approximately 35 per cent of sales in plants and equipment, compared with 20 per cent for their US counterparts. Japanese firms also outspend US firms in research — 13 per cent compared with 10 per cent of sales. US research funds are spent on developing products for immediate sale; in Japan more is spent on long-term improvements.

To solve the problem, the report recommends that US industry be permitted to form a consortium called the Manufacturing Institute for Semiconductors. The Pentagon would provide a \$250 million capital investment, and \$200 million per year in contract support for five years. The consortium would not only assure US military needs, but would also help restore commercial industry. The report suggests that the institute's efforts be focused on advanced manufacturing techniques for the next generation of DRAMs, specifically the 64-megabit DRAM.

The Semiconductor Industry Association was quick to endorse the task force report. The association will decide on its plans for the future of Sematech at a board meeting in Washington next week. But for the present, the industry is still struggling.

The trade agreement with Japan worked out last summer has not brought hoped-for relief to the US industry. Association officials have accused Japanese manufacturers of violating agreements to stop dumping chips — selling them below their manufacturing costs. The industry has asked the government to impose financial penalties on Japanese manufacturers for these actions, and take steps to open Japanese markets for US chips.

On another front, Britain, like other European partners, has been questioning the right of the United States to demand that no 'American' technology be re-exported from Europe without the permission of the Department of Commerce. The issue came to the fore again last week with Mr Paul Channon, the UK Secretary of State for Trade and Industry, rejecting a US request for audits on British companies to monitor their behaviour.

Bill Johnstone & Joseph Palca

UK space plan for government go-ahead at last

London

THIS week, a cabinet meeting, expected to be chaired by Prime Minister Mrs Margaret Thatcher, will try to arrive at a decision on the future of Britain's space research and investment. A 15-year plan, drawn up by the British National Space Centre (BNSC), which has called for about £200 million a year, is to be discussed with ministers, with particular attention to be paid to the views of the ministries that might suffer if money were diverted to a space programme.

The Treasury is likely to be the most formidable opponent to the plan and is unhappy about any laxity in the Public Sector Borrowing Requirement (PSBR), despite disclosures last week that the government's finances are well in the black.

Thatcher could be asked to be the final arbitrator, as some government ministers are prepared to side with the Treasury if the alternative is reduced budgets. The space research and investment funds at present come largely from the Departments of Trade and Industry and Environment and the Ministry of Defence.

The BNSC plan requires not only the doubling of UK investment in space but also that it should control those diverse funds. That aspect of the plan is expected to be opposed by the respective departments and some of the research councils.

The BNSC had to postpone allocating industrial development contracts last month because of a lack of funds caused by the government's vacillations, and the centre was becoming increasingly embarrassed by its inability to commit Britain to the new projects to be undertaken by the European Space Agency (ESA), of which the United Kingdom is a member. BNSC officials have been meeting their European counterparts weekly since the beginning of the year, preparing for a full ministerial council meeting of ESA in June, but cannot outline Britain's space plans.

The government has been extremely reluctant to invest in research or industry if such funding can be acquired from the private sector. The BNSC, however, says that the government must take a lead in developing technologies and in research that shows no obvious commercial return.

The scientific advisers to the Cabinet Office prefer a more modest approach to Britain's space ambitions. The proposed BNSC budget is a commitment not favoured by the advisers. A plan in which spending would approach an annual target budget over a three-year period has more popular appeal.

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