

Beleaguered U.S. Electronics Makers Want Hard Line Against Japanese

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Nobody is going to accuse Robert W. Galvin or William C. Norris of beating around the bush in talking about their Japanese competitors.

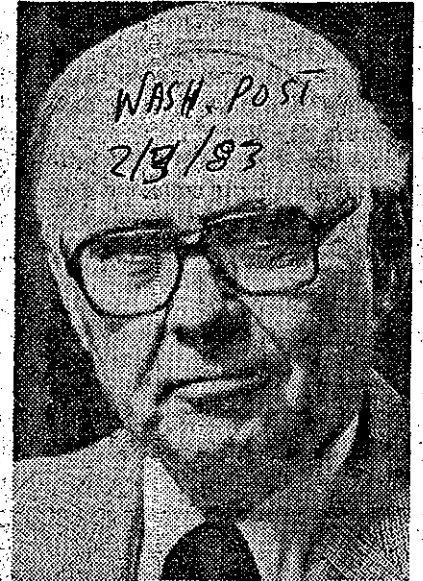
Galvin, chairman of Motorola Inc., says he thinks the Japanese are conducting a sustained campaign to reduce the United States to a position of dependence in the electronics industry.

Norris, chairman of Control Data Corp., says he thinks the way to deal with this Japanese threat is to throw them out of the American research laboratories where they acquire so much of their knowledge.

"The first thing the government ought to do is shut 'em off, exclude 'em from the research labs," Norris said.

These leading figures in the high-technology establishment, who were in Washington for a conference on high-technology industries and public policy sponsored by Government Research Corp., showed no inclination to be conciliatory about what they regard as unfair competitive tactics by their Japanese counterparts.

The specter of Japan hung over the entire two-day conference, which attempted to assess the state of U.S.



WILLIAM C. NORRIS

... bar Japanese from research labs

high-technology industries, related trade and investment issues, problems of research and technology transfer and federal government policy.

D. Bruce Merrifield, assistant Commerce secretary for productivity, technology and innovation, warned that the Japanese are preparing to use the same tactics to

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COMMERCE SECRETARY VERITY
URGES U.S. TRADING PARTNERS
TO LIFT BARRIERS

Commerce Secretary C. William Verity said today the United States will take steps to reduce its budget deficit but warned that America's trading partners, particularly Japan, must remove barriers that contribute to severe trade imbalances between the United States and its allies.

In a speech before the National Press Club, Verity said the trade imbalance, particularly with Japan, cannot be tolerated. Noting that Japan's trade surplus was \$82.7 billion with the world and \$51.4 billion with the United States last year, he said:

"This trade imbalance is part of the reason for the recent troubles on the world stock markets and other financial markets--trouble which is hurting the Japanese as much or more than anyone else."

To forge a new and constructive trade relationship with the United States, Japan will need to move faster to open its markets to American products, Verity said.

Saying that the U.S. budget deficit was the biggest problem the United States had to deal with in trying to reduce the trade imbalance, he said, "It is important that we bite the bullet now and that we take a big cut in the deficit in the current negotiations on Capitol Hill."

But he added, "Our trading partners are misreading the mood of America to believe that we will sit on our hands and do nothing while they maintain barriers to our trade".

"It is now that the United States needs to export more...reducing trade barriers and opening foreign markets is a priority item in trade policy," Verity said.

Verity also said that in the remaining 14 months of the administration, he will focus on getting Congress to pass a trade bill that will aid U.S. exports, on efforts to reduce the trade deficit and on programs aimed at fostering privatization.

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Verity said the administration will seek to eliminate negative parts of the trade bill such as those that would remove presidential discretion and weaken antidumping and countervailing duty laws.

Reduction of the U.S. trade deficit will require a cooperative effort of the private and public sector, Verity said. The private sector must work on improving the quality and attractiveness of American products, he said.

The Commerce Department will also develop incentives for encouraging government agencies to contract out parts of their work to the private sector where the work can be done more cost effectively, Verity said.

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SPEECH BY C. WILLIAM VERITY, SECRETARY, U.S. DEPARTMENT OF COMMERCE,
BEFORE THE NATIONAL PRESS CLUB, NOVEMBER 10, 1987, WASHINGTON, D. C.

Good afternoon. It's a pleasure to be with you today, and I want to thank the National Press Club for having Mrs. Verity and me as your guest.

I have been impressed to learn how many things the Commerce Department does. With just fourteen months to go, we have to ask the question, What can we at Commerce do of substance that will help our President achieve his goal of a stronger, more stable but-ever growing American economy?

The obvious answer is to take what has been put in place by Malcolm Baldrige, one of the ablest and most respected Cabinet officers Washington has seen in years, and finish the job he had started. I always had great respect for Mac Baldrige, but it has increased tremendously when I found out more about what the 33,000 people at the Commerce Department were all about and how diverse are their activities.

I had no idea when I took this job that I'd be in charge of the weather -- the good weather, that is. And during the very first briefing given me to acquaint me with the people and functions of the Department, I walked into the Secretary's meeting room where there were a sea of new faces, and as I walked around the room, shaking hands, all of a sudden there was an admiral.

And I said, "Admiral, what are you doing here?"

He replied, "You'll soon find out that you have a 24-ship Navy to carry out ocean research and geodetic studies and to enforce the laws for protecting our marine fishing territories, which are all under your charge. That was just the start. Those briefings took two weeks -- all devoted to getting me up to speed on the wide-ranging activities of Commerce.

And then during that same period and during the confirmation process, I learned the importance of export controls and what importance this town and others place on the transfer of high-technology items to the Soviet Union. And there was good reason.

The export control function is one of the most important mandates of the Department of Commerce. I am personally committed

to a strong and effective program to ensure sensitive U.S. technology is well guarded from the Soviets and other Warsaw Pact countries. The key to an effective program rests on two major points.

First, that the export control list be focused on truly strategic items unencumbered by low-level goods that only dilute the importance of those things we truly must guard well. And the second critical factor is assuring that the strong control and enforcement goals of the United States are also shared and implemented by our major trading allies.

Our export control experts were in Europe just last week talking with our allies in COCOM. The organization established for uniform controls, and we will continue to work closely with them to assure uniformly effective controls.

As I look forward to the next fourteen months, it was obvious there was already enough on our platter to keep us well occupied. But we decided we should focus on three topics which are of particular concern to the immediate well-being of our country.

1. A trade bill worth passing.
2. What can we do to reduce the trade deficit?
3. Foster privatization.

The trade bill now being reviewed by both Senate and House conferees is an unwieldy document of over a thousand pages. We would hope that by working closely with the Congress and our colleagues, that we can emerge with a trade bill that is good for the United States. We will work hard to enact those parts of the bill that will help U.S. manufacturers increase exports in world markets.

And we will work hard to preserve and strengthen the provisions already on the books which provide relief for unfair trading practices. Particularly, antidumping provisions and countervailing duties, those parts of the trade law that are administered by the Commerce Department.

There are good provisions in the trade bill -- the clarification of foreign corrupt trade practices, refinements and helpful additions in the Export Trading Company Act, improvements involving patent and trademark infringement, streamlining of the export control laws, and those provisions which help our firms increase exports. And it's important that we go forward with the Uruguay Round of the GATT if the Congress will give negotiating authority.

Those are the good parts of the bill.

The negative parts of the bill are plant closing notification, the efforts to remove Presidential discretion in trade cases and some of the proposed amendments to weaken the antidumping and

countervailing duty statutes. We've seen recently that the use of the 301 provisions are effective methods for controlling unfair trade practices.

Well I would like to see a bill that helps American business sell their products through the world and we'll try to create such a bill. I think it is possible, but will be very difficult. But no bill is better than a bad bill, and I think the President has made it clear that he will use the veto if it's a bad bill.

As many of you may know, I will be going to Japan next week at the invitation of MITI Minister Tamura, and I hope to meet the new Prime Minister, Mr. Takeshita. I do not, of course, expect to negotiate on specific items, but I do expect to talk very frankly with our Japanese friends about our mutual -- and I stress mutual -- trade problem.

The U.S.-Japan relationship is a truly strange and paradoxical one. On a whole range of issues, from defense to the Philippines, our relationships with Japan could hardly be better. We probably have fewer problems with them than with any of our other major friends and allies. But the relationship is increasingly soured by the one bad apple -- trade.

For myself, I have had a number of contacts with the Japanese over the years, and I count myself a genuine friend of that country. I hope that position entitles me to speak to them forthrightly, as I intend to do next week. Both they and we know that the Japanese trade surplus -- \$82.7 billion with the world last year and \$51.4 billion with the United States alone -- is simply not sustainable. This trade imbalance is part of the reason for the recent troubles on the world stock markets and other financial markets -- trouble which is hurting the Japanese as much or more than anyone. Some of their barriers to imports, not only from us but from others, simply seem inexplicable, but indeed are very serious.

I certainly intend to approach the Japanese as an old friend who is desirous of new and constructive initiatives in our trade relationship.

But this will require that the Japanese accept more responsibility for trade imbalances, and that they move faster to open their markets to us, and to the rest of the world. I believe the Japanese understand this, that they want to do this, and that they desire the goodwill of its world trading partners.

Now how about the culprit, our horrendous trade deficit. This nation can't stand -- nor should tolerate -- a trade deficit of \$160 billion. Unless we concentrate on reducing this now, we can do serious damage to world trade and the world economy. What causes the trade deficit? Many things. And some will be hard to reverse in a short timeframe, such as savings and investment rates, exchange rates.

It's a problem that requires cooperative effort of the private and public sector. The U.S. trade surplus in 1981 reversed itself in 1982 and then continued North because of the steep rise in the value of the dollar. It literally knocked American products out of the box. At the same time, our budget deficit went out of control, raising interest rates and the value of the dollar, making U.S. exports expensive and imports cheap. And those high interest rates jacked up the cost of capital, making it more difficult for American firms to invest, modernize and compete effectively.

So, government is a factor in the trade deficit, since the major cause is the budget deficit. Other factors worth mentioning quickly are economic coordination among the developed countries, particularly Germany and Japan, to encourage them to stimulate their own economies. We should also push for a growth-oriented solution to the debt crisis of the less-developed countries so that these countries can increase their imports. But the biggest problem is the U.S. budget deficit.

It is important that we bite the bullet now and that we take a big cut in the deficit in the current negotiations on the Hill. And then we must continue to urge Americans to let Congress know that we want spending reductions. And that we will support and tolerate less Federal largess to make it happen.

But there are things that the private sector must work on. First, the quality, price and attractiveness of our products. It is quite simplistic but true that we will export more and import less only if we can produce products at better prices and quality than our foreign competitors. We must make "Made in the USA" the symbol of highest quality and performance.

And we have the need, secondly, to do all we can to get new technology from the laboratory, whether government or private, to the marketplace faster.

Thirdly, we need to have an export mentality awareness.

The Commerce Department is very interested in working with the Council on Competitiveness in a new program -- "Export USA" -- which spells out guiding principles that may be useful in framing an effective competitiveness strategy, with emphasis on "Export".

We plan to make the resources of the Department of Commerce available to this effort and to work hand-in-hand with the Council. American business has brought innovation and creativity to getting new technologies to the marketplace faster. And now we have several initiatives which will help inventors in government-funded laboratories to do likewise.

The U.S. has been investing about \$110 billion annually in R&D. Half is federally funded. But of the 120,000 patent

applications filed annually, only 3,000 cover federally-sponsored research. A new act called the Federal Technology Transfer Act of 1986 makes it possible for government laboratories and inventors in those laboratories to share in the proceeds of bringing the product to market. These inventors will receive a percent of the income from the invention and also from royalties after the product is in the marketplace.

This can be very significant in taking advantage of the many inventions that derive from government laboratories or from federally-funded university efforts.

One of the items in the trade bill is to establish, within the Commerce Department, the National Institute of Technology. Based on the existing National Bureau of Standards, the new institute would work with small and mid-sized manufacturing businesses to help improve their technical abilities. And through this Institute, the Department of Commerce would provide Federal leadership and a single focus for all state and local efforts to develop technology and generate economic development.

Another plus for America is that the Commerce Department's Patent and Trademark Office is being automated. This will allow an inventory in, say, South Carolina to access patent office files and compare his invention with all existing patents.

A total commitment to quality individually, industrially, and nationally, is a high priority. Many U.S. companies have made the commitment to world-class quality and are beginning to regain market share. These are some of the winners, such as, Hewlett-Packard, Xerox. But there are still many companies that have not learned yet how to respond to this threat. But I was heartened by a recent Gallup poll that showed business executives believe that improving the quality of the nation's goods and services is the most critical challenge facing U.S. business in the next three years. Substantially ahead of such things as cost reduction, government regulation or industrial relations.

A good example of a company that has surmounted quality challenge is Corning Glass Works. They developed ceramic substrates for automotive emission-control devices. Corning invented the material, developed the manufacturing process, sold the concept to Detroit, and built a plant to manufacture it. A short time later, Japanese competition threatened to capture the entire market, based on quality.

Threatened by the loss of Detroit's business and 1,000 jobs, a determined Corning plant manager led a rigorous quality drive, reducing the error rate to 30 defects per million pieces made. This averages out to about one mistake per person every six weeks. The result -- Corning has the U.S. business and they now sell to Japanese car manufacturers.

Closer to home, the Commerce Department is working on a new award to be called the Malcolm Baldrige National Quality Award. This award will be given annually by the President to that company that achieves quality excellence of products, processes or services. It will be the Academy Award of Quality for American Industry. The prestige of this award will make it the most highly sought award in the country -- hopefully much like the Deming prize in Japan.

My third initiative is to foster privatization. We will develop incentives to encourage departments and agencies of government to move to the private sector those programs which can more efficiently be carried out by private, rather than government, institutions.

This will help us do all we can to trade tax costs for tax income.

Where possible, user fees should be put in place to lessen the burden on the taxpayer and put it on the persons who use the service. At the Commerce Department we shall look into every chance to transfer functions to the private sector, and before adding any new federally-funded programs, we shall make the test to see if that function could be done by the private sector or in a public/private partnership.

So, ladies and gentlemen, there is much to be done in the next fourteen months to help strengthen our nation domestically and in world markets.

First, we will work with Congress to produce the trade bill that is worth passing.

Two, we will work with the Japanese and other trading partners to reduce barriers to our exports.

Three, we will work with the business community to increase U.S. competitiveness in world markets through the "Export USA" program and other efforts to attain highest quality and more rapid commercialization of new technologies.

And four, the time for privatization is here. We will take a leadership role in achieving an efficient and rational privatization program.

Let me close by telling you just one more story. And this happened just the other day when Mrs. Verity and I attended our first formal black-tie function at the National Gallery of Arts. I was fortunate enough to sit next to an attractive lady and, in making conversation, she asked me what I did. I said, "I'm Secretary of Commerce." She said, "What's that -- what do you do?" I was somewhat taken aback and I started to say something and she said, "Well, who are you a secretary for -- who do you work for?" Well I was a bit surprised, but as I thought about it, that's a pretty good question.

Because I'm working for the 33,000 able and dedicated employees at the Commerce Department. I'm working with the leaders of our business community who are striving to improve our competitive position in the world markets. And I'm working for our President to help carry out his policies which have made his Presidency the shining light in this century's recordbooks. And I'm looking forward to working with all of you over the next fourteen months to help focus on those things which will truly strengthen our nation and its economy.

Thank you.