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NOT ATTRIBUTABLE

COMMISSION CHALLENGES IN GATT THE US-JAPANESE AGREEMENT
ON SEMI-CONDUCTORS

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Background briefing for the Press

Main features of the agreement

The arrangement was concluded on 30 July this year and is scheduled to last for a period of five years, i.e. until 31 July 1991.

Its aim is to suspend the anti-dumping proceedings initiated in the United States against imports of Japanese semi-conductors. In return, the Japanese Government will assist efforts to increase imports of semi-conductors into Japan.

To this end the Japanese Government will monitor the price of the majority of semi-conductors exported to the United States so as to prevent dumping, and will also monitor the prices of exports to other countries, including the Community.

It should be noted, first, that the agreement covers eight products and product categories, whereas the anti-dumping petitions lodged by US manufacturers concerned three types of semi-conductors. This suggests that the agreement goes well beyond the settlement of an anti-dumping issue and amounts to a specific industrial and commercial strategy involving a key sector of world economic activity.

A dangerous precedent and an act of discrimination against the European Community

The Commission's concern is based primarily on two aspects of the agreement relating first to the markets in countries not party to the agreement and, secondly, to the question of access to the Japanese market. It is also feared that the arrangement contains secret clauses, either in the "accompanying letters", details of which both the USA and Japan refuse to divulge, or in a provision agreed between the industries concerned.

1. Monitoring of the price of exports to countries other than the USA

This constitutes an unprecedented interference in other countries' markets, the result of US pressures on the Japanese authorities.

This action is contrary to the GATT anti-dumping code, under which it is left to the sole judgement of the country concerned, or in this case the Community, to decide whether or not to initiate an anti-dumping measure concerning its own market.

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The United States apparently pressed its Japanese partners on this point for two reasons:

1. In order to improve the competitive position of United States firms exporting semi-conductors to countries other than Japan;
2. In order to avoid greater competition from firms in such countries which incorporate Japanese semi-conductors in their finished products.

One cannot, at this stage, form a clear picture of the consequences of this policy. The Commission's experts nevertheless broadly expect three effects:

- In the Community: the price of semi-conductors will increase over the whole range to the detriment of consumers. Though it is true that for European manufacturers of semi-conductors this will result in an increase in their profit margin, the same firms will have to bear the impact of higher prices on the products which they import;
- in the United States: a fairly spectacular increase in prices is expected in the short term (we have already seen price increases of between 20% and 40% on some semi-conductors and there are market rumours of increases of between 200% and 300%). Although US manufacturers of semi-conductors will profit from this situation, it is clear that consumers in the United States will have to bear the consequences;
- In Japan: it cannot be denied that exporters will see their profits increase substantially. There is also a major strategic element. Besides the profits accruing to the manufacturers of Japanese semi-conductors, the whole Japanese electronics industry will receive a further boost to its already strong competitiveness, brought about by the exclusion of the Japanese market from the price-fixing system laid down in the agreement.

2. Improved access to the Japanese market

Although officially the arrangement makes reference to GATT obligations, it is likely that the clause in question will work mainly to the benefit of US exporters, constituting thereby a discriminatory measure contrary to Article I of the GATT.

There are rumours circulating to the effect that a secret clause provides for a doubling in five years of Japanese imports of semi-conductors, from which US firms would be the chief beneficiaries. US exporters currently account for around 10% of the Japanese market, with "others" - including Community exporters - representing only 1%.

Apart from its commercial and industrial aspects, this clause would raise a fundamental political question for the European Community.

This is because the Japanese Government is committing itself for the first time to achieving a quantified import objective, a goal so far pursued in vain by the Community.

Should such a clause be applied, it could very well result in discrimination against Europe to the advantage of the USA.

A few statistics

According to the most recent estimates, the European market for semi-conductors is as follows:

1985 - USD million

Exports : 1,250

Imports : 2,721

of which USA : 1,113

of which Japan : 525

In all, imports into the Community account for 58.7% of consumption, the US share being 24% and Japan's share 11.3%.

The other main suppliers of semi-conductors are: Malaysia, Singapore, Hong Kong and the Philippines.

