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JPRS L/10376

9 March 1982

# Japan Report

(FOUO 16/82)

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## JAPAN REPORT

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POLITICAL AND SOCIOLOGICAL

GAPS BETWEEN OPPOSITION PARTIES CONTINUE TO WIDEN

Tokyo THE JAPAN ECONOMIC JOURNAL in English 16 Feb 82 p 10

[Article by Teruo Tsutsumi: "Gap Grows Among Opposition Parties"]

[Text]

The debut of the Japan's Socialist Party's new leadership headed by Chairman Ichio Asukata (who won his third term toward the end of last year) seems to have further widened the inevitable gaps among Opposition parties.

The Socialists held a three-day annual convention from February 4 and selected new leaders to work under Chairman Asukata. As expected, a serious ruckus developed over the choice of the party's secretary-general. Leftists and middle-of-the-roaders who supported Asukata in last year's chairmanship election called for the selection of Noboru Baba, a 56-year-old virtual new face in party affairs. Right-wing members put up strong resistance to the choice on the following three major reasons: 1) The new leadership should be of the kind which will work for the complete solidarity of the party; 2) Selection of Baba will mean monopolization of the party's leadership by the pro-Asukata groups as Masashi Ishibashi has already been chosen for vice presidency; 3) Baba is not an ideal choice for the party's secretary-generalship, the very symbol of the party.

The internecine tug-or-war between the pro-Asukata groups and their opponents remained unsolved even by February 6, the last day of the annual convention, and the right-wingers refused to send any of their members to the new leadership. The new Asukata leadership, therefore, comprises solely of the groups supporting the chairman.

The debut of the "lop-sided" Socialist leadership has dealt a serious blow to the party's relations with Komeito. The two parties have for some time been in close cooperative relations with each other, having jointly formulated a concept for a coalition government. The two parties also have

served as a link tying up all the Opposition parties, ranging from the Japan Communist Party to the Democratic Socialist Party, the New Liberal Club and the Social Democratic Federation.

Fearing that the new Socialist leadership will dangerously swerve to the left, however, Komeito informed the Socialists that it would "freeze" the regular Diet policy consultation meetings which it had held with the Socialists. Komeito's action dealt a serious blow to the joint struggle structure of the Opposition parties in the Diet designed to effectively cope with the ruling Liberal Democratic Party.

At present, the Opposition parties control only 212 seats in the House of Representative as compared to the 287 seats controlled by the Liberal Democratic Party. The debut of the Socialist Party's new leadership threatens to divide the Opposition camp, already in an underdog position vis-a-vis the ruling party, into two separate groups -- the Communist-Socialist group having 133 Lower House seats and the middle-of-the-roaders having 79 seats.

As the Liberal Democratic Party enjoys a clear majority in the House of Representatives, it is in a position, at least theoretically, to formulate whatever legislations it likes. In practice, however, the ruling party does not usually risk courting the general public's anger by railroading legislations strongly opposed by minority parties.

The main point in the ruling party's Diet maneuverings is to somehow obtain the consensus or tacit nod from all or part of the Opposition camp. The debut of the new leadership of the Socialist Party and the resultant schisms among the Opposition parties will make it all the easier for the Liberal Democratic Party to successfully manipulate Opposition members.

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POLITICAL AND SOCIOLOGICAL

UNSETTLED POLITICAL SITUATION CONTINUES

Tokyo THE DAILY YOMIURI in English 12 Feb 82 p 3

['Political Beat' column by Kenji Kitahara: "Fukuda's Forecast Blown"]

[Text]

As the year 1982 opened, former premier Takeo Fukuda made an ominous prophesy that it would be a year of political upheavals.

But there has been one development which may make this prediction somewhat invalid.

The change that will upset Fukuda's forecast is that the verdict in former premier Kakuei Tanaka's Lockheed payoff trial is certain to be postponed from within this year to next year.

But Tanaka's verdict was not the only expected political disturbance. There were such problems as the election of the president of the Liberal-Democratic Party (LDP) next November, financial rehabilitation and administrative reform and US pressure on Japan to increase its defense capacity. Any of these could be a big problem for Prime Minister Suzuki.

It is certain that if the premier, who seems to lack administrative ability, fails to overcome any of these problems, he will have to take political responsibility. One didn't need Fukuda's prediction to know this.

Causes of political disturbance are ample enough. And the verdict in the Marubeni route of the payoff case which is expected in March is one of them, if added to the Tanaka verdict in the future.

Suzuki's reelection as party president has become less clear cut because of speculation on the chances of two competitors.

Toshio Komoto, director-general of the Economic Planning Agency and Yasuhiro Nakasone, director-general of the Administrative Management Agency.

These are elements of the political

scenario which Fukuda had in mind.

The Tanaka faction, whose movements are strongly influenced by the forthcoming Tanaka verdict, launched something like a counteroffensive against Fukuda's vision.

Tanaka's strategy focuses on how to ensure the reelection of Suzuki, his sworn friend, as party president, apparently because Tanaka could not stand the top post of the ruling party going to a political enemy which would be disadvantageous for his trial and verdict.

There would have been a political upheaval if Tanaka had been found guilty before the LDP election, since this would adversely influence the outcome against Suzuki. To avoid this situation, it was imperative to postpone the verdict.

With this apparently in mind, the Tanaka faction began to employ tactics to retard the progress of the trial early this year.

Although it is impossible to say for sure, it is almost certain that the verdict will not be handed down this year.

If the verdict is not forthcoming within the year, which was anticipated by Fukuda, what will be the course of politics?

With relief the Tanaka faction believes there now will be no political commotion this year. Those who surround Suzuki cynically say they appreciate Fukuda's apprehensions about the political world. The Tanaka-Suzuki allies seem to have regained their confidence.

But recalling the disorder in government following the Suzuki-Reagan summit in Washington last year, it is really impossible to predict what will happen in the political world. Suzuki's election can only be assured after his election.

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POLITICAL AND SOCIOLOGICAL

'YOMIURI' PREVIEWS LDP PRESIDENTIAL ELECTION

Factions Form

Tokyo YOMIURI SHIMBUN in Japanese 3-9 Jan 82

/Article: "LDP: Presidential Election Stirs Factional Campaign"]

/3 Jan 82 p 2/

/Text/ 1. A Dangerous Gamble

Will it be the reelection of Suzuki or the election of a new party president? After greeting the new year peacefully, the ruling LDP is expected to experience stormy developments, for a change, focusing on the presidential election to be held in the autumn. A fierce confrontation between the ruling party and the opposition parties is expected in the Diet when it reconvenes on the 25th, but in its wake heated discussions will result from the involved intentions arising from among the various LDP factions of Suzuki, Tanaka, Fukuda, Nakasone and Komoto in their struggle for government leadership. Although "Suzuki's reelection" is observed to be firmly rooted, none of the factions possesses a decisive advantage. Furthermore, there is the fluid element of the successive judgments in the Lockheed case, intimately affecting the shifts in politics and depicting and undercurrent that is extremely difficult to predict.

Strong Confidence in the Three-Faction Arrangement

"They call the Tanaka corps, but our number in the Lower House is just as large as theirs. The Tanaka faction shouldn't be given any preferential treatment. Also, weren't cabinet minister posts allotted to the Fukuda faction?"

Suzuki was speaking to Naganori Oyama, former director general of the Environment Agency, and Iwazo Kaneko, former director general of the Science and Technology Agency, both elders of the Koyu Kai of the Suzuki faction who were visiting the prime minister at his private residence in Kyodo, Tokyo, at the close of the year. Suzuki continued talking while being extremely disturbed about the rumors that "the reshuffled cabinet of Suzuki is tantamount to government leadership by Tanaka."

Because Kaneko, Suzuki's friend of more than 30 years' standing, had continually cautioned him, "Don't think about your reelection. Actions revealing reelection motives will only betray your vulnerability." Suzuki was indeed apologetic about the reshuffle and party official selection, having ignored the restraints of Kaneko and others in selecting Nikaido as secretary general--an action symbolic of entrusting the leadership of the party to the Tanaka corps--but on the other hand, Suzuki has asserted that "as long as the three-faction arrangement of Suzuki, Tanaka and Fukuda is firm, everything's fine and there's no need to worry."

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Both Nakasone, director general of the Administrative Management Agency, and Komoto, director general of the Economic Planning Agency, are interested in the prime ministership, but their hands are tied with their containment in the cabinet. On the basis of the past performance of the government, as long as the supraparty setup, called the three-faction arrangement, does not collapse, the proposition of reelection during the presidential election in autumn is assured. Suzuki, who showed his extraordinary confidence in his reelection by inference, committed an uncalled for mistake during the compilation of the FY-82 budget right after that.

## Successive Acts of Ineptness During the Budget Compilation

When informed by Rokusuke Tanaka, chairman of the Policy Affairs Research Council, that "Mr Doko is considering resigning," Suzuki apparently did not grasp the seriousness of the matter. Even after it was confidentially agreed between Tanaka and Jinhachiro Hanamura, vice president of the Federation of Economic Organizations, who had understood the position of Doko, the chairman of the Second Ad Hoc Commission on Administrative Reform, in refraining from tampering with the retirement pension reserve fund from among the tax increases for industries, for some unknown reason, Suzuki emphasized tax reinforcements and incurred the wrath of the business world. Although they were displeased with the breach of public promise of "fiscal reconstruction without tax increases," the added fuel to the fire was the additional issue of deficit-covering government bonds.

To the "rash act" of Suzuki trampling on his own cabinet's broad principle of changing the structure of reliance on government bonds in order to seek fiscal reconstruction, criticisms erupted within the party, even forcing Kiichi Miyazawa, chief cabinet secretary, to apologize to the party headquarters.

"The fate of the cabinet was at stake with this problem, but everyone appears to have forgotten it. Good to have a stable majority." So saying, close associates of the prime minister heaved a sigh of relief at the abatement of the affair, but there is no denying that a bitter aftertaste was left with the party and financial world. As reflected in the remarks of Shosai Hyuga, president of the Kansai Economic Federation, about "a freewheeling consistency," and Yoshihiro Inayama, president of the Federation of Economic Organization, about "the posture of a blundering government," leaders of the financial world showed an unprecedentedly cold reaction.

According to close associates of the prime minister: "Former Prime Minister Tanaka is saddled with the judgment in the Lockheed case in the autumn, and he will support the reelection of Suzuki. Nakasone in all likelihood will not be able to maneuver. So it boils down to Komoto and former Prime Minister Fukuda, who shows signs of a comeback as head of the government, but as long as no change occurs in the balance of strength within the party, Suzuki's reelection is assured."

With this analysis, the Suzuki faction will rely on the strategy, where possible, of negotiating for the right number for his presidential reelection, but his successive acts of ineptness have left his members in great shock. It has been reported that Oyama remarked with a deep audible sigh at a gathering that "reelection is a backbreaking task."

Suzuki greeted his second New Year's Day as prime minister and now is pressed with regrouping the forces for his reelection. Together mainly with Oyama and Kuniyoshi

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Saito, the former chief cabinet secretary, both of whom hold the leadership roles within the faction since the cabinet reshuffle, Suzuki will begin immediately to meet with the younger members to gain their cooperation by settling the frequently recurring problems arising from the intrafactional squabbles, such as the rivalry between Kiichi Miyazawa and Rokusuke Tanaka.

Suzuki has stated that to achieve reelection, above all, "there must be unification of the factions for the presidency." However, the approaches for Suzuki are by no means easily accessible.

The denial of Mutsuki Kato for a cabinet post and the deep-seated grudge held against government control by the Suzuki-Tanaka collaboration have led former Prime Ministers Fukuda and Miki to promptly issue an ominous forecast "that portends earth-shaking upheavals in 1982." And undeniably Komoto is secretly biding time to resign from his post.

## How Will Judgment of the Lockheed Case Affect Politics

Even Nakasone, who believes that "Suzuki's reelection cannot be realized with Kakuei Tanaka's support only" may have reasons to say so, and by hinting at his resignation along with that of Doko and as a cabinet member indirectly criticizing the additional issue of deficit-covering government bonds, he has given the impression of assuming an aloof position.

Even with government policies, there is no bright outlook for economic management, which as a foundation for fiscal reconstruction is shaky, and there are no signs that the foreign diplomatic relationships, such as the U.S.-Japan and South Korea-Japan talks that have been tactlessly undertaken since last year, will improve expeditiously. As for administrative reforms, on the eve of launching a full-scale inquiry into the management structure of public corporations such as the National Railways Corporation, one of the influential members remarked with extreme coldness: "I do not have the courage to execute it for Suzuki." The smoldering opinion even among those close to Suzuki is that "business considerations should be subtly substituted for the administrative reform line."

Of course, the biggest hurdle is the series of judgments in the Lockheed case that will continue starting in the latter part of January, and their effect on the political situation. The eyes and ears within the party will be focused especially on the swing of the Tanaka verdict, which is expected to be handed down in the autumn, and pandemonium will occur in the political world if a verdict of "not guilty" is declared for former Prime Minister Tanaka. Although an optimistic view prevails, such as that of an elder of the Suzuki faction who remarked: "This is not only Suzuki's problem; rather, a centripetal action will operate within the party to solidify into a supraparty arrangement," but there is no guarantee that Suzuki's gamble of entrusting the key to reelection totally to the number and strength of the Tanaka faction will, in one stroke, not go against him.

/4 Jan 82 p 2/

[Text] 2. A Concealed Plot

## An Overflow of New Year's Day Well-Wishers

Throughout New Year's Day at the Mejiro residence of former Prime Minister Tanaka, an overflow crowd of well-wishers from the political, business and official worlds visited his office, which has been expanded during the latter part of the year.

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"The number of patrons paying respects to Tanaka did not drop, even this year. Nay, the number increased!"

With his left hand holding a highball, his right hand raised lightly at shoulder height and shouting "Hi" while in his familiar pose, Tanaka swept his eyes over the waves of New Year's Day well-wishers, and he was in a jovial mood all along.

This is finally the year that Tanaka will face the crucial moment as a politician. It has been 6 years since his arrest on 27 July 1976. The sentence recommendation by the prosecution for the Marubeni-route defendants will be made this spring, and the verdict for the first trial is expected this autumn, at which time the guilt or innocence of defendant Tanaka will be known. On the other hand, in the LDP, with the expiration of the presidential term in November and the issue of either the reelection of the incumbent, Prime Minister Suzuki, or the emergence of a new president, furious infighting is expected to occur with the new leaders and influential individuals within the party, pivoting around Tanaka and Fukuda, both formerly prime ministers.

As pointed out by Eiichi Nishimura, former party vice president, when he said "Tanaka's mind is preoccupied with his trial," all of Tanaka's energies are directed on how best to defend himself in the Lockheed trial and how to gain his acquittal. Even the refutation of the "Enomoto alibi" was merely one of trial and error to Tanaka.

"The Lockheed trial is a political plot. We will remain united and fight until chief Tanaka is fully restored," close associate Tatsuo Ozawa, former minister of welfare, boldly said in public.

With a following of 108 people from both the Upper and Lower Houses, "Tanaka's Corps" has continued to grow like a living creature into a huge force. With strength in numbers as a background, with Susumu Nikaido as secretary general, Noboru Takeshita as deputy secretary general, Gen Tamura as chairman of the Diet Policy Committee and Yoshio Hayashi as director of the Finance and Accounting Bureau, and even holding a firm grip on the nucleus of the LDP--"they are all there for the sake of Tanaka," according to a leader of the Suzuki faction.

One night during the closing days of the cabinet reshuffle which was set for 30 November last year, Nikaido quietly gathered the trustworthy "loyal retainers," former Justice Minister Yuichi Gun, Takeshita, Ozawa and former Minister of Home Affairs Masaharu Gotoda, at a downtown restaurant. Nikaido's selection as secretary general had already been confirmed at that time.

Trusted Friends Promise Unity

"Next year will be crucial for us, with the Lockheed verdict and the presidential election. We must see to it that the Tanaka faction and the party are not rattled. I will do my best and I ask for your cooperation."

Nikaido spoke in behalf of Tanaka, and his request for the invaluable cooperation of the trusted friends was made to strengthen the Tanaka faction. Tanaka also agreed that "unity within the faction is of paramount importance." Tanaka and Nikaido were busily occupied straightening out differences that had arisen as a

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consequence of the cabinet reshuffle, such as when dissension arose between the younger members of the faction and the group including Shin Kanemaru, former director general of the Defense Agency who is related to Takeshita, on the cabinet entry of Minister of Transportation Tokusaburo Kosaka.

Tanaka shook hands with Kanemaru when the latter visited the Mejiro residence on 20 December with a humble bow: "Mr Kanemaru, I fully understand your feelings. I admire you for holding your temper in silence."

On one hand, at the year-end party of the secretary club of the Tanaka faction held on 10 December, Nikaido lauded Takeshita with such remarks as: "Unlike a dummy like me, Mr Takeshita is one who fully comprehends the subtleties of affairs" and "Mr Takeshita is the de facto secretary general and I am his deputy." In reality the bulk of party problems are assigned to Takeshita.

Begin With a Two-Pronged Operation

According to an explanation by a leader of the Tanaka faction: "The long-range strategy of Mr Tanaka was concealed in the plan for the appointment of Secretary General Nikaido and Deputy Secretary General Takeshita. Suzuki accepted the plan."

"If the first trial verdict in the Lockheed case is 'not guilty,' that's fine. In the case of 'guilty,' the party will be confronted by Secretary General Nikaido, who will make every effort to minimize the impact. He will hold his ground if Fukuda, Director General of the Economic Planning Agency Komoto and others should issue a challenge; at any rate, preparations will be made for both war and peace. Secure Suzuki's reelection and then strike out at the double election of the Upper and Lower Houses in the summer of 1983."

This sort of broad outline is being fashioned in Tanaka's mind, and it is reported that placing election expert Takeshita as deputy secretary general and retaining the post of the director of the Finance and Accounting Bureau were included in his deliberations and foresight.

It was in July 1972 that Tanaka became prime minister at the young age of 54, and this marks the 10th year since then. The gray on his head has increased. This is the year of judgment, of acquittal or conviction, that will determine whether the Tanaka residence will enjoy the same kind of festivity on New Year's Day next year.

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/Text/ 3. Regimentation Like the Military

Patterned After Tanaka's Corps

Former Prime Minister Fukuda has been bursting with enthusiasm, since after the cabinet reshuffle on 30 November last year up to the present. Fukuda's surprising change to an energetic appearance was observed at the year-end party of the Fukuda faction at a downtown restaurant on 16 December 1981.

It is reported that Fukuda made his declaration before close to 70 Diet members of his faction: "Knotty problems will occur from month to month in 1982. It could be a year of 'major upheavals in the country.' I ask one and all to do your utmost."

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Because, for reasons of his own, Fukuda always pressed for party reforms, vehemently remonstrated against power action by large factions and was always composed at gatherings of this sort in the past, the younger Diet members were overjoyed and, for a change, displayed their enthusiasm at the splendid party that night.

"Periodically, at least once a month, even if it is a strain, members of our faction should gather as we have tonight and discuss matters for mutual understanding."

The members drew close to Fukuda, and it is reported that the decision to meet four times a year was made that evening.

Prior to that gathering, Fukuda had strongly urged Deputy Chairman of the Executive Council Shiokawa, a former minister of transportation, and others to strengthen the structure of his faction. Patterned after the organization of the Tanaka faction, he created the "Counselors Club," consisting of 10 Lower House and 8 Upper House members, among other activities. A ranking member of the Tanaka faction welcomed the moves by remarking: "This shows that Mr Fukuda has finally acknowledged the importance of factional actions. The Fukuda faction should not remain idle while the Tanaka faction keeps growing."

Why did Fukuda succumb to the idea of strengthening factional activities to which he had strongly objected in the past? It is not difficult to surmise that one of the biggest reasons was the humiliation that he had to "yield to those having decisive powers" which came after he had remarked that "power attained only through sheer numbers is problematical" and after he had been strongly critical of the "cabinet reshuffle" by the leadership of the Suzuki and Tanaka factions.

Focusing on Developments After August

The reason Prime Minister Suzuki insisted on the selection of Nikaido as secretary general was "clearly in preparation for his reelection as party president," according to Deputy Chairman of the Executive Council Shiokawa. Not to be overlooked is Fukuda's strong awareness and feeling of crisis that the main route of the Tanaka faction is being secured by the present executive staff with Nikaido at the top, Deputy Secretary General Takeshita and Chairman of the Diet Policy Committee Tamura."

And as Fukuda indicated, successively scheduled this year are such important events as the verdict on individuals in All Japan Airways involved in the Lockheed case, economic friction abroad, primarily with the United States, and the prosecution's recommendation that former Prime Minister Tanaka be sentenced, which will surely rock the national political scene. In the analysis of Fukuda's close associates, during these developments, public opinion critical of Suzuki's government will mount, dissatisfaction with government leadership will arise resulting in the dissolution of the Diet and the resignation of the prime minister, and what will happen after August is anybody's guess." Without doubt, this faction will act swiftly in preparation for this turmoil.

Then how will Fukuda react when confronted by such a momentous situation? From the standpoint of having been called "The Fair-Haired Boy of the Showa Era" and "The Postwar Saionji," following which as the "Genro," will he try to exert his influence on the government in power? Or will he rely on his much-awaited theory that has

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been consistently discussed as an "undercurrent" in the political world, and in one stroke seek a comeback as the prime minister? Fukuda has asserted that "there will be no preliminary presidential election," but in the event either the preliminary election or the decisive presidential election is held in November, will he support Director General of the Economic Planning Agency Komoto, whose friendship with him has deepened?

As for the presidential election, it is only natural that interest will be focused within the LDP on the many selective options open to Fukuda.

Mentor or Restored Leader

"Although he has openly stated he has no thought of grabbing the reins of government, this is not altogether the truth. He has both the urge to withdraw to become a mentor and the urge to be restored as the prime minister."

The fact is that intermediate Diet leaders who are close to Fukuda have not disavowed these observations.

Again this year during the New Year's holiday, Fukuda leisurely enjoyed golfing at the hotel in Miyazaki.

"I sank a 13-meter putt last year and so this year I will try to sink a 15-meter putt."

Fukuda spoke of golf to express his bubbling political spirits, but from what he and his close associates have said, from the circumstantial evidence of strengthening his faction and from the appraisal of Fukuda by former prime minister Kishi that "Fukuda is peerless in the political world for insight and capacity," the plain fact is that he has the attributes required to enter the troubled political waters and he should enter them.

Although Fukuda strongly demanded the cabinet entry of Mutsuki Kato, who was called a "gray" official because of his Lockheed connection, and received a blow to his prestige when a Suzuki faction leader caustically remarked, "It is not like Fukuda, who has trumpeted for clean government," there is no change in the fact that Fukuda is one of the pillars supporting the Suzuki government. Furthermore, considering that Fukuda is the only strongman who is a match for former Prime Minister Tanaka, from the standpoint of political capacity and career, and as commented by a young member of the Fukuda faction that "Mr Fukuda is one who rides the portable palanquin and not one who carries it into battle," Fukuda's movements which can sway the stormy political situation have concealed elements that cannot be overlooked.

/6 Jan 82 p 2/

/Text/ 4. A Cartel

Pleased at Remaining in His Post

"Thankful for having him remain in the cabinet." "Not a day passes without Mr Komoto's name being seen in the mass media."

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A gathering of intermediate leaders and young members of the Komoto faction was held at a restaurant in downtown Tokyo in late December of last year. Director General of the Economic Planning Agency Komoto has invited them to dinner, which he rarely did, so they could meet and talk, but he did not show up at all because he was busy attending successive meetings related to business and finance. Yet no one complained and one attendant remarked on leaving: "I had a good time at the expense of hardworking Mr Komoto."

It can be said, according to Komoto, that "the biggest government topics that must be confronted" are Japan's economy saddled with such problems abroad as trade friction with the United States and Europe, at home with fiscal reconstruction and business sluggishness, and the response to the people's request for a reduction in taxes--a cry which is heightened by the day.

In these circumstances, Komoto, who refused to retire from public service during the cabinet reshuffle and remained as a statesman who understands living economics, left a deep impression of his tremendous capabilities with his overseas economic policies, the compilation of the FY-82 budget, etc. According to the laudatory description by associates of Komoto, in the final analysis, Prime Minister Suzuki, who had been yielding to Finance Minister Watanabe, was forced to accept Komoto's positive economic theory and the theory on the necessity of tax reductions, and the same Watanabe, who had the prime minister in the clutch of his hands, dispatched Finance Ministry staff personnel to Komoto for explanations, and as a result of these activities, Komoto's reputation and his proposals carry a tremendous amount of "weight" within the government and the LDP.

One Should Try His Luck at Least Once

Concerning the post of prime minister sought by Komoto, this is the year he might be faced with a do-or-die situation. At age 70, he should "try his luck at least once," says former Prime Minister Miki, and the presidential election is his last chance. He cannot help but "make a dash for it in the autumn," according to Naozo Shibuya, former minister of home affairs. Even the consolidation of the Komoto faction as a political body under the name of the "New Policy Research Association" on the first of the year can be said to have been undertaken to remove the "Komoto private shop" label pinned on by a leader of the Suzuki faction, in preparation for the unification of the faction.

But the path for the realization of Komoto as prime minister is "extremely difficult considering the present conditions within the party," opined a leader of the Tanaka faction. Although there was a clash with former Prime Minister Fukuda over the refusal to select for the cabinet gray official Mutsuki Kato, chairman of the party's National Organization Committee, during the cabinet reshuffle in November of last year, the "Suzuki government" is unshakeable for the present with its alignment with the Tanaka and Fukuda factions. Having been bound to the dynamics of large factionalism and having continued to take a cooperative stance with Prime Minister Suzuki on his policies to protect the constitution, overall security guarantee policy, etc, when and how will Komoto split from the "Suzuki government" and challenge Suzuki's leadership?

Broadly speaking, two analyses prevail within the faction. One is the theory of Suzuki's self-destruction. The other is the theory of policy differences among Komoto, Suzuki and the rest of the candidates for prime minister. With a bit of

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wishful thinking, a leader of the Komoto faction remarked that with the first theory, "regardless of the intentions of Tanaka and Fukuda to support the Suzuki government, Suzuki himself will come to realize the limits of his capacity as leader and withdraw after this term."

Regarding the second theory, with arguments on policy differences, Suzuki has drawn the analysis that "inevitably policy discussions on the people's level will be held on the performance in the formal report of the regular session of the Diet, the Second Ad Hoc Commission on Administrative Reform and the operations in the compilation of the FY-83 budget which is focused on tax reductions.

"In the event the problem of policy selection is submitted to the people, factional strength will not be a consideration," according to factional leader Heisuke Hani.

Emphasize Differences By Actively Participating

Although called the "prince who never smiles" and the "taciturn fellow," Komoto has been seen conspicuously recently in active conversation at cabinet meetings and at other related gatherings. This sort of more can be considered to be part of the strategy to contrast the rivalry and the differences in policies between Komoto and Director General of the Administrative Management Agency Nakasone, as well as others. For sure, there is reason to see why Suzuki's associates and the Tanaka faction are so sensitive to the warning, "Be cautious with Komoto's remarks."

Komoto is never deceptive when discussing the future of the present government. But judging from the moves for rapport with Fukuda which is quietly underway, and the close association with Ichiro Nakagawa, the director general of the Science and Technology Agency, Minister of International Trade and Industry Shintaro Abe and other new leaders, in the event the political world is shaken up at the time of the first trial verdict of former Prime Minister Tanaka, unmistakably Komoto will have the intention to stake his reputation in the political arena.

Will the presidential election in November be decided by negotiations or by public election? At this stage a conclusion cannot be drawn, but it is common knowledge that Komoto will surely raise his banner.

As to the dying possibility of a preliminary presidential election, some within the faction are hopeful that, as former Minister of Transportation Kinji Moriyama asserted, "The possibility of a preliminary election exists."

The 1982 political scene might possibly witness big waves when Komoto breaks his silence and starts moving.

/7 Jan 82 p 27

/Text/ 5. Troubled-Filled Spring

Number One Candidate of the Post-Suzuki Era

"Do you have any good ideas?"

It was one evening in December last year, right after the cabinet reshuffle, that Director General of the Administrative Management Agency Yasuhiro Nakasone asked this of a friend whom he had not seen for awhile. The conversation naturally shifted to Nakasone's strategy in taking over the reins of government.



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His friend asked: "Isn't the Tanaka faction going to be allied with you?"

Nakasone replied: "Well, there's no guarantee."

His friend continued: "First of all, shouldn't you seriously tackle the issue of administrative reforms? The cancer among these is the National Railways Corporation. Conduct a searching inquiry into the National Railways and you will be credited with the achievement. Other avenues will open up from there."

Although pointed out by Masaharu Gotoda of the Tanaka faction as "the natural number one candidate of the post-Suzuki era," Nakasone has not been able to take a positive outlook. This uncertainty was evident in the conversation with his friend. With his support of Ohira during the passage of the non-confidence motion of the Ohira cabinet which led to the double election 2 years ago, the basic strategy of the Nakasone faction has been for coalition with the mainstream forces of Ohira, which later became the Suzuki faction, and Tanaka.

Although some dissatisfaction has existed with the cabinet reshuffle and selection of party officials last year, within the party the foundation of the Suzuki government, which is supported by the two former prime ministers, Tanaka and Fukuda, does not appear to be easily shaken. The Tanaka faction, which Nakasone is dependent on, is fighting desperately to shake off the derogatory effects of the Lockheed case in order to remain solidified, and winning over its consensus for "Nakasone after Suzuki" will surely take time.

At the Administrative Reform Committee of the Upper House in late November of last year, Nakasone emphasized that "We must unite as one body with Prime Minister Suzuki as a matter of life and death, until the final report of the Ad Hoc Commission on Administrative Reform in March 1983." After that, in typical manner, he expressed his inner feelings with the haiku poem of Kairyō, pupil of Bashō: "Go, go until you fall flat on your face on the Plains of Ogi."

"That poem means that Suzuki's reelection is good. With the present state of affairs within the party, we are in no position to force the issue." Associates of Nakasone have their views. As long as the prospects of a short-term decisive battle aimed at the presidential election this autumn does not unfold, one can foresee a position of dealing with medium- and long-range strategies, based on the premise of Suzuki's reelection.

"Absorbed in Administrative Reform" Again This Year

As to the move of Director General of the Economic Planning Agency Toshio Komoto, who will compete in the post-Suzuki era, a Nakasone faction leader gave his interpretation that "Komoto is a businessman who fully calculates the advantages and disadvantages. He will not rashly appear before the public election for the presidency and challenge Suzuki. There is every indication that the presidency will be decided through negotiation."

It seems Nakasone's thoughts are concentrated on "being absorbed in administrative reform" again this year, and although he might be criticized to some extent, administrative reform is the only means for him to pave the way.

The following views also prevail within the faction. "Poland is in a state of internal war, and this depicts the severity of international affairs. Criticism

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is mounting over whether allowing Japan to be the only country living in luxury is right or not, and strong voices are being raised to seek an increase of the defense strength. Even taking the single issue of the additional deficit-covering government bonds in the FY-81 supplementary budget, the cry within the party is that Suzuki is not dependable. Then gradually the protest will be: 'Is Suzuki's reelection necessary?'

How will Nakasone react in the event the political situation changes because of an upheaval? How will he cope with Suzuki's strategy of containing him in the cabinet, and what about his entry in the presidential race? He may be forced into selecting from complex options.

Study Group Consisting of Prominent Younger Members

"Government control is doubtful if the impression conveyed is intrafactional weakness. Let us gather at our headquarters to strengthen our unity."

These rallying remarks were made by Sosuke Uno, former director general of the Defense Agency, and Tadashi Kuranari, former director general of the Economic Planning Agency, both of the Counselors Club, at the general meeting of the Nakasone faction at year-end, which was also the last meeting for the year.

The bulk of the young Diet members of the Nakasone faction with a record of less than five terms belong to the "Onchi Kai," a policy group led by Finance Minister Michio Watanabe, whose political star has been rising as one of the new leaders, and this move has conveyed the impression within and outside the party that Nakasone's faction lacks unity. As a result, the young Diet members agreed to exercise discretion when participating in the "Onchi Kai" and related study groups. The faction will form its own study group, principally for the young members, this spring.

A Nakasone faction leader who is a member of the "Onchi Kai" remarked that it should be considered as a small organization and not as an intermediate-size organizational force. Although participation in the regular meetings of the "Onchi Kai" study group is expected to drop, some observers are doubtful of the effectiveness of the pressure exerted on the members.

Whenever he finds time, Nakasone is seen painting. Right now he is painting Mt Kamuro in Hakone. "When will it be finished? It will be like the unfinished symphony," laughed Nakasone.

While eyeing Komoto, who is strengthening his alliance with Fukuda and the new leaders, what sort of sketch will Nakasone draw of government leadership and political power?

/8 Jan 82 p 2/

/Text/ 6. Signs of Sprouting

Successive Dilemma From Containment

Although this is the new year of the 1982 fluid political world, none of the new leaders shows any sign of promise to outsiders. At the time of the cabinet reshuffle and selection of party officials in late November of last year, they were heralded as "New leaders march abreast" and "One straight line sideways," and somewhat the arrival of a new era was the feeling.

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A new leader of junior rank offered this explanation. "Contrary to the mood, the restoration and intensification of the LDP's ancient regime (reference to the old system before the French revolution) took priority, and the individual was forced to exert all his energies in the duties of his assigned post, and besides being drawn away from engaging in factional functions, his exposure to the political limelight was minimized. Some are well known but have no record of accomplishments, while others have accomplished quite a bit for the party but have never been recognized; at any rate, the new leaders are not of the caliber possessing both name and career."

A month ago, just after completion of the cabinet reshuffle, Rokusuke Tanaka, chairman of the Policy Affairs Research Council, received an ultimatum two or three times from Kuniyoshi Saito, former welfare minister and a leading counselor of the "Kochi Kai" of the Suzuki faction.

"Rokusuke, you have finally been appointed to the important post that you coveted. It's about time you had the bunch of capricious elders quit attending the meetings of the disreputable New Generation Research Association."

The New Generation Research Association which Rokusuke Tanaka presides over is the source of power that cleared the way for his rapid promotion to chairman of the Policy Affairs Research Council. It was only natural for Tanaka to balk. However, in light of the strong measures ordered by Prime Minister Suzuki utilizing Saito as spokesman, the office of the New Generation Research Association in Takagi Cho has remained locked since last year.

In a similar action, Rokusuke Tanaka's rival, Chief Cabinet Secretary Kiichi Miyazawa, stepped down as head of the Hirakawa Kai at its general meeting held in late December of last year.

As if staged in concert, the leading younger members of the Nakasone faction who had formed the nucleus of the Onchi Kai, which was led by Finance Minister Michio Watanabe, pressured partly by the faction leaders, agreed to exercise discretion in attending the Onchi Kai. Faction leaders believe that "the Onchi Kai will practically cease operating after New Year's."

#### Admiration for the Prime Minister's Performance

Although differences in makeup exist, the various policy groups which give the impression of being factions of the new leaders are being forced to withdraw. Amid these developments, having formed his small faction as an outgrowth of a policy group and supposedly able to act independently, Director General of the Science and Technology Agency Ichiro Nakagawa, although stating that he "greeted the new year without any change," in reality does not have peace of mind. According to an outside source, at the time of the reshuffle, when Nakagawa was asked to remain at the post, he was threatened that "if you do not remain in the cabinet, your factional representation will be nil; a nonfaction individual will replace you." All the new leaders, who have been bottled up in the cabinet, are forced to be reserved in their speech and conduct. "Had I retired from public service...." "Yet I must regard Suzuki either as a wizard in personnel selection or a crafty person...."

The same holds true for Miyazawa and senior ranking Shintaro Abe, minister of international trade and industry, and Noboru Takeshita, deputy secretary general.

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Abe's recommendation of his confidant Mutsuki Kato, chairman of the National Organization Committee, for cabinet entry was rejected and although he was supported by aging but bubbling Takeo Fukuda, former prime minister, the difficult post he assumed can be damaging if errors are committed. He has confided that: "It is a devotion to public duty on a day-to-day basis." On the other hand, Takeshita is under close scrutiny by Secretary General Nikaido, who is said to be the alter ego of former Prime Minister Tanaka. As for Ganri Yamashita, former chairman of the Standing Committee for House Management, "He is only a handyman for the faction," according to Tatsuo Ozawa, former welfare minister.

## Trouble If Fukuda and Komoto Should Act

The new leaders, who attracted the eyes and ears of the people as the "changeover to the new generation" during the double election of both Houses 1 and 1/2 years ago, seemingly appear to be in a bottled-up situation. Under these restrictions, a situation of political storm is not likely during the presidential election to be held toward the end of the year.

But according to a new leader: "Nothing can be done right now, so slowly but surely we are nurturing our basic strengths, such as organizing booster clubs and establishing fund raising routes, and we are just awaiting the first trial verdict of former Prime Minister Tanaka."

Putting aside Takeshita, Yamashita, Rokusuke Tanaka and others who are allied with the mainstream forces, many new leaders exist who are close to Fukuda and Toshio Komoto. If Fukuda, who is biding his time for "signs of a major upheaval in the country," or Komoto, who shows indications of making a challenge in the presidential election in November, should create some action in the political cauldron as a result of the Lockheed case...."

Then at that time the movements of the new leaders will unmistakably be one of the focuses of the political situation. For sure, there are some young leaders who have already focused their attention on this possibility.

Although they are said to be in a state of containment, in substance the new leaders want to destroy the existing order and they have fluid aspirations. In that respect, their movements this year can be said to be full of signs of sprouting.

/9 Jan 82 p 2/

/Text/ 7. Outlook

## Normally a Fluid Year

Public election of the party president in November; before that, a series of verdicts in the Lockheed case; the full-scale study of administrative and fiscal reforms/ perplexing economic operations; U.S.-Japan friction on defense and trade issues.... The normal prediction without speculation is for a "fluid year" and with "signs of a major upheaval" just as former Prime Minister Fukuda announced. But Prime Minister Suzuki for some reason is extremely aggressive.

It is reported that he related his private thoughts to an LDP Diet member during a New Year's Day visit.

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"I am not extremely fond of having government power. Should someone appear to make a challenge for the office, I will step down. I wonder if someone confident enough to say he is 'destined to be the country's leader' will appear?"

This is the year that the president and the Suzuki government will be adjudged for the first time. Parts of Suzuki's declarations reveal the expedient strategy of skipping the public election of the president, if possible, and of succeeding in the reelection by proposing supraparty unanimity through negotiations.

The following is believed to be the strategy for reelection drawn up by such leaders as Kuniyoshi Saito, former secretary general, and close associates of Suzuki:

1. Pending problems of domestic and foreign affairs will be closely dealt with in the spirit of total participation. The political schedule, including foreign diplomacy, will be tightly established and any action causing the government to be jolted will not be tolerated.
2. Observe the movements of Fukuda, who has been hustling since the first of the year, and presidential candidate Toshio Komoto, the director general of the Economic Planning Agency, and contain them within the framework of a supraparty government.
3. Heighten the mood to support reelection within the party, centering around the Tanaka and Nakasone factions, and a lot of votes will be decided with a vote by Yasuhiro Nakasone, the director general of the Administrative Management Agency, who has his sights on being the "successor."

Shackled With Administrative Reforms

In other words, this is a clever plot to entrust operations within the party, in reality, to Secretary General Susumu Nikaido of the Tanaka faction, which is the largest faction, to have him defend against any impact from the verdict of the Lockheed case and to reward Nakasone, who is the most likely candidate for the post-Suzuki era, for his contribution to Suzuki's reelection.

Such being the case, although dissatisfied with the political developments maintained at the Suzuki-Tanaka pace but still confident of making a comeback, Fukuda will be made immobile. Komoto alone is no match, and his position can be resolved through negotiations.

These designs by the Suzuki camp are accurately grasped by ally Tanaka, the former prime minister.

"Suzuki's reelection is firm. Nakasone is bound to administrative reforms and cannot leave Suzuki. Komoto must want to prevail on Fukuda. The essential thing is to prevent the party from becoming rattled."

If the neutrals and nonfactional groups are added to the Suzuki, Tanaka and Nakasone factions, the total count for both Houses should be close to 250 people. In the circumstances, the most logical strategy is for the Suzuki-Tanaka alliance to make reelection the priority issue and to avoid any lashback from troublesome occurrences in the political world, beginning with the verdict of the Lockheed case.

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Heard from associates of Nakasone is the comment: "Suzuki's reelection is inevitable." As for Fukuda's comeback, the doubtful view as expressed by a nonfactional elder is that "it will occur only if Suzuki is taken ill and asks Fukuda to substitute."

Still, Suzuki's biggest rival is Komoto, who might throw in his hat this year. But if Fukuda should seriously endorse Komoto and if the new leaders from the various factions in a cross-section should join in, even if the Suzuki camp has a preponderance in number, an unpredictable situation could occur in the operations of government.

"Mr Komoto is a terrific person. Chun Doo Hwan, president of South Korea, came on the scene suddenly and maybe the same thing can happen in Japan."

So stated a leader of the Fukuda faction emphatically. As for intimacy between Fukuda and Komoto, in the event the impact from the Lockheed verdict should be compounded by such issues as the bungling in administrative management by Suzuki whose past performance cannot be considered perfect, then the course of the presidential election could, in one turn, assume a complex change.

"A climax will occur in the political situation in June," according to a leader of the Komoto faction. It is not certain whether this is an early prediction of "Komoto's resignation from his present post." However, within the party "unpleasant developments might occur in the government starting around the end of the Diet session, after the prosecution's concluding speech and opinion on punishment regarding Tanaka (believed to be in the spring)," according to the concurring analysis of a mainstream faction leader.

Although unthinkable to occur at this time, if the government should be in a state of confusion, there is no guarantee against the occurrence of such unsettling possibilities as the "threat of dissolution" by the mainstream forces, depending on the moves by the opposition parties, and "party secession" by opposing camps. At such a time, how will the party plan to control the situation?

How about this supposition? Fukuda proposed the installation of a party vice president late last year. Of course, his nominee was Hirokichi Nadao, former speaker of the Lower House. Although in a concurring mood at one time, Suzuki only said repeatedly: "After gathering the opinions within the party, I will try to decide at the party convention on the 21st," and made no attempt to exercise his leadership as president.

Will "Vice President" Issue Cause Rift?

It is not exactly clear whether Fukuda has his sights on "being the antidote to Nikaido, who is a gray ranking official" or if he wants to project his image for future political developments. Yet on reviewing the past, it is true that he has become one of the buffers and in that capacity has exercised his conciliatory talents.

Suzuki complied with the negative attitude of the Suzuki-Tanaka alliance on the vice presidential issue, and in escaping (?) from making a decision he left a bad after-taste in Fukuda's mouth, and it is possible that this can be seized on to come to the fore as a sensitive undercurrent.

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The moves have already begun confronting the 1982 political situation, which will undergo a fluid change in the latter half of the year.

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No Vice President of LDP

Tokyo NIHON KEIZAI SHIMBUN in Japanese 17 Jan 82 p 2

/Text/ Prime Minister Suzuki, president of the LDP, passed over the issue of installing a party vice president, which had remained unsettled, and in its place he decided to increase the membership in the party's Supreme Advisers Council. Former Prime Minister Kishi is considered to be a likely addition.

The vice president's post has been vacant ever since the resignation of Eiichi Nishimura at the expiration of his term in November 1980, and during the cabinet reshuffle and selection of party official during the latter part of last year, former Prime Minister Fukuda had proposed the installation of a vice president out of dissatisfaction with the fact that the important posts in the party Executive Council were filled with persons from the Tanaka faction, and the prime minister had been studying the matter. However, (1) within the party, especially with the Tanaka faction, the issue of installing a vice president is preponderantly negative, and (2) members of the Upper House have asked for the installation of a vice president, making settlement difficult. Because of these developments, the prime minister passed over the issue of installing a vice president and as a counter-proposal decided not only to increase the number of supreme advisers, but also to have the council convene on a regular basis.

Based on the party rules that the Supreme Advisers Council will consist of the president, vice president and former Upper House presidents and Lower House speakers who are party affiliated and active Diet members, the present membership of the Supreme Advisers Council consists of House Nadao and former President of the Upper House Yasui. The prime minister intends to add "former party presidents who are not Diet members" and hopes to include former Prime Minister Kishi.

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## POLITICAL AND SOCIOLOGICAL

## ANXIETY EXPRESSED OVER JSP'S NEW EXECUTIVE PANEL

Tokyo MAINICHI DAILY NEWS in English 17 Feb 82 p 2

['Nagatacho Doings' column by Takehiko Takahashi: "Doubts About JSP's New Executive Panel"]

[Text]

A new structure has been created in the Japan Socialist Party which has bewildered the Liberal-Democratic Party. Chairman Ichio Asukata retains his post so there is no change here. Masashi Ishibashi, who has become vice chairman, is a veteran who served as secretary general for many years under former Chairman Narita (now deceased) and is well known by the LDP. The problems are the new secretary general, who will be the central figure of the JSP, and the chairman of the Diet policy committee, who will be the "window" for Diet operation.

Noboru Baba, who has been elected four times to the House of Representatives, became the JSP secretary general in the form of designation by Chairman Asukata and despite opposition within the party.

In the case of the LDP, a Diet member who has been elected four times is not yet entitled to assume such an important post. As a "junior Diet member," he is often called upon to run errands for the executives.

JSP's new Secretary General Baba is known to only a few LDP members and vice versa. The same thing holds true for new Chairman Murayama of

the JSP's Diet policy committee. Since he has not been concerned with Diet policy up to now, he is practically unknown to those within the LDP and other parties related to Diet policy.

After the new JSP executive committee was formed, courtesy calls were made on other political parties. At that time, it was necessary for Baba to present his calling card and say, "I'm Baba, the new JSP secretary general, Yoroshiku."

In the past the JSP had Tanabe as chairman of the Diet policy committee and Yamaguchi as director of the Diet operation committee. Both were well acquainted with those of other parties concerned with Diet policy. Moreover, the JSP's director of the Diet management committee was concurrently vice chairman of the Diet policy committee in the past.

## Post Refused

This is no longer so. Although Yamaguchi is director of the Diet operation committee, he is not vice chairman of the JSP's Diet policy committee. This is because anti-Asukata and anti-Baba members have refused to become executives and

Yamaguchi did not take the concurrent post.

What the LDP finds troublesome is the difficulty of gauging as yet whether "those who have become chairman of the JSP's Diet policy committee and director of the Diet management committee have the ability."

Negotiations had proceeded among the political parties for the fiscal 1981 supplementary budget draft to pass the House of Representatives plenary session on Feb. 10. At the House of Representatives' Budget Committee meeting on that day, Shun Oide of the JSP took up the problem of bombing devices on the F-4 Phantom and grilled the government on this matter.

The discussions were interrupted because of this. The LDP accepted the JSP's demand "to suspend the execution of the budget related to bombing devices" so that the Diet proceedings would go on smoothly. As a consequence, the LDP believed that the supplementary budget draft would pass the House of Representatives safely.

Voices rose from the JSP side, however, that "even if the budget committee approves the supplementary budget draft,

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today's (Feb. 10) plenary session of the House of Representatives cannot be convened."

This was made known to other opposition parties, which had been dissatisfied from the past about the bargaining between the LDP and JSP in the Diet. Their members not only left the budget committee meeting but other Diet members, who had been waiting for the opening of the plenary session, disappeared. As the result, the scheduled passage of the supplementary budget draft on Feb. 10 was aborted.

This was a verification of the attitude that even if those concerned with the JSP's Diet policy committee and Diet

operation committee make a promise with other parties, this will not necessarily be upheld within the party.

The LDP is left wondering with whom in the JSP negotiations can be conducted and promises kept.

#### Sohyo Looks On

In the past, when there was turmoil within the Japan Socialist Party, Sohyo (General Council of Trade Unions of Japan) stepped in to settle the situation. But this time, Sohyo only looked on from the outside in regard to the selection of the new secretary general.

There seems to be a certain reason for this. When the

present chairman of Sohyo was secretary general of the Japan Teachers Union (Nikkyoso), Baba was vice chairman of Nikkyoso's Tokyo chapter, and relations between the two were not good. Because of Makieda's strength, it became necessary for Baba to elevate him.

As can be seen from this, the relations between Baba and Makieda are not of the best, and anxiety is being felt as to whether the relations between the Japan Socialist Party and Sohyo will proceed smoothly from now on.

In this way, the new JSP structure has a number of uncertain factors. How this will affect politics is an important problem.

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POLITICAL AND SOCIOLOGICAL

PUBLIC SUPPORT OF DEFENSE REVISIONS REQUIRED

Tokyo MAINICHI DAILY NEWS in English 17 Feb 82 p 2

[Editorial: "F-4 Issue and Diet"]

[Text]

Diet deliberations were stalled last week over the Air Self-Defense Force's plan to install bombing mechanism on F-4 fighter bombers. In introducing the F-4s in 1968, the Japanese government removed bombing devices from the aircraft which was claimed to have a longer cruising range than necessary for Japan's defense purposes. In fiscal 1981, the government appropriated 1,300 million yen for experimental installation of the devices for an F-4. The Defense Agency now plans to equip other F-4s with the devices in fiscal 1982.

In implementing the plan, the agency said that the money would be used for remodeling the aircraft whose life would thus be extended. The agency's explanation was not adequate as Prime Minister Zenko Suzuki later said he had never heard a detailed explanation on the installation of bombing mechanisms. The agency has apparently placed emphasis solely on the longer life of the aircraft.

The improvement of the defense capability should not be put into practice by experts of their own accord. This must be implemented with the approval of taxpayers who bear the financial burden. We do not believe the government and the Defense Agency officials are fully aware of this important fact. The Self-Defense Force cannot function satisfactorily without the full support of the Japanese people.

The people's approval is gained through deliberations in the Diet. In 1968, opposition parties raised a question on whether or not the said aircraft was more sophisticated than the Japanese demand. Defense Agency Director General Kaneshichi Masuda pledged that the F-4s had a long range and an

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“offensive” character. Accordingly, bombing devices would be removed from the aircraft, he said.

In 1978 when F-15s with bombing mechanisms were introduced, the government reiterated that F-4s were different from F-15s which were interceptors. In other words, the government reconfirmed that Japan's Self-Defense Forces were solely for defense.

Since then, the government has made no revision of its basic policy in the Diet sessions. Nevertheless, the government appropriated a total of 9,800 million yen for the restoration of the specific mechanism to the aircraft in fiscal 1981 and 1982. We hear that about 100 F-4s would be equipped with bombing devices at the cost of 1,000 million yen each. According to the Defense Agency's operational plan, the installation of these devices is obscurely termed as “experimental remodeling” of the aircraft for the improvement of their capability.

Hitherto, the Self-Defense Forces have established fait accompli behind the scenes. The latest development indicates that such a characteristic has not been removed from the Self-Defense Forces. The attitude of the government, the Defense Agency and the Self-Defense Forces following the exposure of contradictory points have shown that the civilian control system has been inadequate.

In a Diet session, Defense Agency Director General Soichiro Ito pledged suspension of spending in the fiscal 1981 budget for the bombing devices. Cabinet ministers criticized Ito during their meeting Friday, forcing him to make an excuse that the pledge was made to pacify opposition parties. On the same day, Gen. Osamu Namatame, chief of staff of the Air Self-Defense Force, disclosed that the reinstallation of the devices in question was the ASDF officers' original plan.

Prime Minister Suzuki said he had never heard of such an explanation. This is a clear disregard on the part of officers of the civilian control principle. Namatame also said that he planned to replace F-1s with F-4s which must be equipped with bombing devices. This is news for us.

We have noticed the high-handed attitude of uniformed officers who seem to be taking advantage of the recent trend of military expansion. The concept of replacing F-4s with other aircraft may overstep the limit of Japan's self-defense definition.

In his policy speech last month, Prime Minister Suzuki emphasized: “...Defense is an issue impinging upon the state's very existence, so it is essential

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above all that a popular consensus be achieved and that defense be backed by popular support." His speech and action are contradictory. We call for full-fledged discussion of the F-4 issue in the current Diet sessions.

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## ECONOMIC

## TRADING FIRMS' EXPECTATIONS ARE HIGH ON SOUTHEAST ASIA

Tokyo JAPAN ECONOMIC JOURNAL in Japanese Vol 20 No 993, 16 Feb 82 p 15

[Article by Jun Kusaka]

[Text]

Sogo shosha will place extra emphasis on deals with Southeast Asian countries in 1982, according to survey of the presidents of Japan's nine sogo shosha conducted by the Nihon Keizai Shimbun. President Toshio Takeuchi of Toyo Menka Kaisha went so far as to cite Indonesia as his company's top priority market.

There are several reasons why Japan's top trade executives are so enamored of Southeast Asian markets. One is that Southeast Asia is already one of Japan's biggest trade partners. In concrete figures, the five nations comprising ASEAN (Association of Southeast Asian Nations) alone accounted for 10.0 per cent of all Japan's exports and 15.1 per cent of its imports in 1980. The other is that there is still much room for Japan's exports in Southeast Asian countries, while sharp export increases are now virtually impossible to advanced countries of the West because of growing trade frictions and to Mideast countries because of persistent political instability in some of the countries.

Sogo shosha's trade with Southeast Asian countries usually takes the form of pur-

chases of such raw materials as crude oil, gases, foodstuffs and non-ferrous metals and sales of such manufactured goods as machinery, steel products and chemical goods. A considerable part of the exports is being made in connection with gigantic industrial and other projects sponsored by importing countries.

Although each of the nine sogo shosha is making subtly different approaches to the Southeast Asian market, they are in agreement that emphasis should be placed on plants, equipment and steel structures. Believing that "Southeast Asian countries are still in strong need of producer's goods necessary for improving their social infrastructures," in the words of Akihito Mori, vice chief of the Overseas Market Department of C. Itoh & Co., President Hideo Suzuki of Kanematsu-Gosho Co. has declared that his company will beef up its personnel to expand its exports of lumber-processing machinery to Southeast Asian countries.

#### Misgivings about Mideast and East Europe

Sogo shosha apparently have considerable misgivings about

the Mideast and East European countries. The Asia Team of Mitsubishi Corp., for example, states that the company will have to tighten its trade relations with Southeast Asian countries now that shipments to the Mideast may fall off because of the sluggish transactions in crude oil.

Yoshiaki Asano, chief of the Asia Office of Mitsui & Co. announces that the importance of the Southeast Asian market is being recognized anew by the entire company in the face of the murky developments in the Mideast and East European countries. These pronouncements show that sogo shosha are quite eager to turn the Southeast Asian market into their main theater of operations now that not much can be expected of virtually all other world markets.

Competition among sogo shosha is bound to increase under the circumstances. Mitsui & Co. believes that competition will not be limited to Japanese corporations alone but that it will also come from U.S. and European companies. There is no guarantee, moreover, that the Southeast Asian market will sensitively respond to stepped-up approaches by Japa-

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**Japan's Trade with ASEAN Countries**  
(in \$ million)

	1975	1976	1977	1978	1979	1980	1981 (Jan.-Sept.)
Malaysia	Exports	570	710	860	1,160	1,510	2,060
	Imports	690	1,360	1,560	1,900	3,260	3,470
The Philippines	Exports	1,080	1,110	1,110	1,550	1,620	1,680
	Imports	1,120	790	900	1,060	1,580	1,950
Singapore	Exports	1,520	1,530	1,720	2,300	2,680	3,910
	Imports	400	650	690	870	1,470	1,510
Thailand	Exports	960	1,070	1,360	1,530	1,710	1,920
	Imports	720	850	750	840	1,170	1,120
Indonesia	Exports	1,850	1,640	1,800	2,090	2,120	3,460
	Imports	3,430	4,090	5,000	5,250	8,790	13,200

Source: Customs Statistics, Ministry of Finance.

nese sogo shosha and Western traders. The "pie" may prove not big enough to cut up for so many eager eaters.

It is true that ASEAN member countries grew at an extraordinarily high annual rate of nearly 10 per cent in the late 1970s and that the area was widely referred to as the world's growth center. The growth, however, visibly slowed down in 1981. Although all five ASEAN member nations set high growth targets ranging from five per cent (for the Philippines) and eight (for Singapore) for 1981, the actual growth performances are believed to have been lower by one to two points.

One of the primary reasons for the slowdown of economic growth in the Southeast Asia is the steady levelling-off in exports. The prices of rubber, copper, tin and other primary products — all major export items of Southeast Asian countries — recorded an across-the-board decline in 1981. The economic slumps in the United States and European countries also dealt producers of manufactured goods in such countries as Singapore and Malaysia a serious blow.

Japanese sogo shosha believe that ASEAN economies in the new year will depend heavily on the price movements of such international commodities as rubber and copper as well as on the degree of recovery of the U.S. economy. Although companies like C. Itoh & Co. maintain that Southeast Asia will be able to maintain 6-10 per cent economic growth this year, the prediction seems more like wishful thinking rather than a statement of faith.

There are also moves among Southeast Asian countries to demand their trade partners make "counter purchases" of their own products in exchange for their purchases of the trade partners' goods. Indonesia, for example, announced toward the end of last year plans to force foreign corporations engaged in big projects there to purchase Indonesian products other than crude oil and other fuels, although no details about available products have as yet been revealed.

Mitsubishi Corp., Mitsui & Co. and other Japanese sogo shosha are not sure whether such counter purchase programs are really possible

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and say that they will wait and see.

**Changes in economic construction programs**

There have also been some subtle changes in the economic construction programs of ASEAN member nations. Up to the 1970s, such countries placed extra emphasis on construction of large-scale export-oriented projects best represented by the LNG (liquefied natural gas) plants and the Asahan Aluminum Refinery in Indonesia, taking advantage of the raw materials abundantly found in their territories.

Recently, however, priorities have apparently been shifted to fostering small and medium-size businesses. The reason is partly because heavy investments in gigantic projects have ended, according to Hiroshi Hashimoto, chief of the Regional Policy Section of the Asian Affairs Bureau of the Ministry of Foreign Affairs.

ASEAN member nations are now strongly urging Japan,

through various diplomatic channels, to provide economic assistance and to invest in their territories to promote regional small and medium-sized industries. Chief Asao of the Asia Office of Mitsui & Co. is well aware of the changing situation in such countries and says that Japanese corporations should not devote themselves only to major projects but pay greater attention to their smaller counterparts. As of this writing, however, small-time transactions between Japanese corporations and their Indonesian counterparts are still very much limited.

In order to greatly increase their dealings with Southeast Asian countries, Japanese corporations should try to fully understand the economies and cultures of such countries. It is only after doing so that Japan will be able to really penetrate into the Southeast Asian market by taking full advantage of its geographical proximity to the area.

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ECONOMIC

OPENING MARKET TO FOREIGN TRADE DISCUSSED

Tokyo YOMIURI SHIMBUN in Japanese 31 Jan, 2, 3 Feb 82

[31 Jan 82 pp 9-10]

[Text]

The Government's "plan for the improvement of the import inspection procedures, etc." has been drawn up. It consists of a total of 67 items, which are all said by foreign countries to symbolize the closed market. Therefore, we can place expectations on the effects thereof, for the time being. However, when it comes to the question of whether the criticism against Japan will subside with this, we are very uneasy. It seems better to position this improvement plan rather as a "milepost" for the opening of markets or one step toward eliminating the non-tariff barriers.

Marking in Pounds Removed in the Past

On the 30th, when the improvement plan was decided, a leader of a food import company, who looked at the list, expressed the following impression: "I am surprised that such a system, like a relic of the last century, has remained."

The frank impressions received by persons connected with imports about the Government plan are generally unfavorable. Voices saying "At long last ...," rather than "Well done," are conspicuous. The elimination of the non-tariff barriers made little progress on such occasions as Japan-US negotiations in the past. This time, however, it has been decided that 67 out of the 99 items subjected to studies will be revised. The "physical strength" of International Economic Measures Special Research Council Chairman ESAKI, who succeeded in making that decision, was certainly considerable. Nevertheless, the evaluation by private circles is severe. This is because the improvement items include many cases which "should have been revised long ago."

As to errors in typing, which are found in the case of collation between an invoice and a permit, for example, an improvement was made so that "simple errors will be dealt with flexibly." Upon reflection, however, this is too natural, and it is even ridiculous. A document in which "L"

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was mis-typewritten for "R," for example, used to be rejected, but it has been decided that this has only to be corrected.

The same can be said of the "acceptance of the dual marking under the yard-pound and metric systems." Imports of foreign canned goods were not permitted when labels on which the amount of contents is marked in grams were only pasted on, and the persons in charge took the trouble to paint the marking in pounds. However, this has been revised so that the word pound does not have to be painted in in the future. MITI says that "Measures were already taken in 1978 for the acceptance of the dual marking." In short, a notification is only to be issued again as to items whose purport was not thoroughly known. Even those who are not importers probably think that "It is strange that they should be taken up now."

What is more surprising is that the Ministries and Agencies concerned severely resisted even such revisions. When the Product Import Measures Conference, which consists of private persons, submitted a request for improving 51 items late last year, only MITI answered that "We are prepared to improve them." Even in that case, improvement was limited to 12 items. The Agriculture-Forestry-Fisheries, Welfare, and Transportation Ministries gave zero answers. They refused to revise them, under the excuse of protecting consumers.

As to this, Prime Minister SUZUKI strongly ordered the Party to improve such items, saying, "I do not want foreign countries to invent a pretext for starting a quarrel." Behind the Government offices which stick to authority, there are groups which support Diet members, as to various items. The fact that he saw through this point and gave leadership to the Party is a "clever point befitting Mr. Zenko who is a party man" (member of the Research Council). The initial 12 items increased to 58 items at the medium stage, and they finally increased to 67 items, like in the case of a sacrifice sale of bananas. Here, the Prime Minister's "pressure" worked greatly.

Feeling of Earning "Batting Average," Too

On the other hand, there is also an aspect in which they turned to earning the "batting average," probably because they tackled it by an order from the above. In the Government, there are many who explain that "The number of items for which measures were taken amounts to 91," including "the 15 cases based on misunderstanding" and "9 cases which are to be checked into continuously." This also shows one aspect of the idea of sticking to the "batting average."

There is also "testimony" saying that "There were certainly eight items based on misunderstanding, at first." What is meant by the fact that the number of the items based on misunderstanding increased halfway?

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In this situation, there are also voices of appreciation, saying that "The physical strength of Research Council Chairman ESAKI is great" (Mitsui Bussan Department Manager). They mean that although the contents are poor, it would have been utterly impossible unless it had been led by the Party.

However, even trading company people who regard it with good intentions point out that "Whether or not it can really convince foreign countries depends upon future implementation."

One example is that "One will be exempted from the obligation to kill germs by heating mineral water, and one will be allowed to adopt a method having the same effect as killing germs by heating." This is an answer to the criticism that no problem has arisen in exports to various countries without heating it. However, the problem is how to interpret the "same effect as heating." It is said that the methods of killing germs other than by heating include irradiation by ultra-violet rays, killing germs with chlorine, and killing germs with ozone (Welfare Ministry Food Sanitation Division). In the future, however, what method of killing germs should be recognized as "equivalent" will become a problem. If they are limited too strictly, it will become the cause of a new dispute, in which they will say that "The actual situation is the same as before."

Also as to the simplification of procedures for the inspection of automobiles, the same handling as before will continue, unless the purport is made thoroughly known to the actual scenes. It may rather cause re-criticism that "We have been deceived by honeyed words."

Government Offices and Industry Circles Readily Stick Fast to Each Other

Chairman ESAKI also says as follows: "I want to follow what responses are actually being made, by making on-the-spot inspections of the situation of inspection of automobiles and the ways of testing medical supplies." To make the series of measures this time really effective and answer the requests overseas, follow-up investigations in the future will be indispensable. It has been decided that a kind of ombudsman system (Headquarters for the Promotion of Settlement of Grievances Concerning Opening the Market) will be established as a plan for guaranteeing surveillance for this purpose and acceptance of grievances. It is necessary to pay special attention so that it will not become nominal.

In Japan, there is a habitual practice of Government offices and industry circles and users organizations readily forming friendship clubs and shutting out other parties, as can be seen from the fact that use of metal bats for soft-ball and tennis balls is not permitted except those which have been "officially approved" by the Sports Federation. This may have gotten by in the age when Japan was only an "island country in the Far East." However, at this time when its GNP ranks second in the Free World, such a closed constitution is not permissible. A change to a bold, positive posture toward complete opening (of the market) will be sought, with the 67 items this time as an occasion.

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[2 Feb 82 pp 7-9]

[Text] U.S. Reactions Cold

Mr. Dick YAMASHITA (President of Malcolm International), the US side's representative of the "Japan-US Trade Research Association," which is formed by business circles of Japan and the US and persons connected with the Governments of the two countries, made the following severe remark: "It is difficult to show in numerical figures the effects of the improvement plan, including import procedures, but those connected with an increase in exports from the US to Japan are probably less than \$100 million. It is felt as if one is relieved after recovering from a headache, in spite of the fact that one has actually developed cancer."

In the situation where Japan's trade surplus toward the US amounted to \$18 billion (according to statistics on the US side) in 1981, the US side's reactions are generally cold, as can be seen from the following remark: "The effects of improvement of (Japan's) non-tariff barriers (NTB) are only a drop of water in a bucket" (Washington Post reporter).

The NTB's which were taken up this time are entwined with 9 Ministries and Agencies and 24 laws. Research Council Chairman ESAKI repeated speedy deliberations 22 times from the first general meeting on December 9 last year, and formed a conclusion in only one month and a half.

The improvement measures include items on which imports have been thought to be intentionally restricted, in the eyes of foreign countries.

They include the following items, for example: "In giving permission to importers and sellers of medical supplies, cosmetics, etc., Directors other than those in the sectors in charge will be exempted from submitting medical certificates" (Welfare Ministry); and "The international standards will be accepted as to the thickness of sprays for cosmetics and aerosol" (MITI).

In this sense, it may be alright to evaluate as a success for the time being the operations this time, in which "political power" was used to draw up the improvement plan, without leaving matters to Government officials.

However, it is also true that there is a wide difference between "evaluation" and "effects," even without seeing the reactions on the US side.

Take, for example, the improvement measure of accepting the analysis tables prepared by the Government organs of exporting countries as to additives to wine and champagne (sulfurous acid gas -- SO<sub>2</sub> -- salicylic acid, and sorbic acid). So far, there have been cases where the submitting of tables showing the results of tests by the inspection organ designated by the Welfare Minister was sought, even when there were certificates and analysis tables from the Government organs of exporting countries. Through

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the improvement this time, no inspection is to be made in cases where an analysis table from a reliable inspection organ, approved by the Government of an exporting country, is attached, and where it is judged that the inspection is reliable, in the light of the cases in the past.

Words of Government Offices Not Understandable

What comes into question here is where a "reliable" line should be drawn. The Welfare Ministry says that "We will promptly prepare a table showing the approval organs, through the Foreign Ministry" (Food Sanitation Division). However, it is doubtful how far imports will increase, even if that is realized.

New exporters will be checked strictly, as before, and inspection of new products will be conducted strictly, too. As the things are additives to food, it is dangerous to inspect them easily. However, the general view is that "It will produce only the effect of increasing imports of champagne at Christmas."

The same can be said of the "stamp showing the date of the manufacture of canned goods," connected with the Agriculture-Forestry-Fisheries Ministry. Strict checking has so far been conducted when there are spaces among the "year, month, and day" shown by the stamp. This is because there is the fear that it may be re-written. In the improvement plan, it is mentioned that "Written instructions will be given to the Agriculture and Forestry Products Inspection Institute, etc., within this fiscal year." From this alone, it is not clear how improvement is to be made. In short, however, it is said that "Guidance will be given so that inspection will be conducted flexibly" (Agriculture-Forestry-Fisheries Ministry Consumption Economy Division).

However, the Agriculture-Forestry-Fisheries Ministry says that it is difficult to prepare unified standards as to what spaces are approved, and that there is no other way but to depend upon the eyes of inspectors, in the end.

Such words as "flexible" and "forward-looking" are expressions peculiar to the Japanese Government offices. In regard to these, too, various Western nations say that they are NTB's in a broad sense, including cultural practices.

Furthermore, the irony in the February 1 issue of Time magazine is sharp.

Follow-up Investigations Will Be Conducted, But...

"We wonder if the inspectors at Yokohama Port, who have continued to say 'This is not good' for 40 years, will immediately say 'This is alright,' for the reason that new rules have been laid down." Therefore, it is likely that even if the measures to improve the NTB's are described, to

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publicize them in Europe and America, this alone will not cause various Western nations to understand them well.

"We recognize the efforts which Japan is making for opening the market. However, the real problem is how to put them into practice. Even if it enumerates the 67 items and explains that it will simplify them, this will not be readily understood by Westerners who respect rationalism. The problem is how they are to be actually changed" (Mr. Dick). Thus, he emphasizes an "argument on effects," to the last.

Of course, Chairman ESAKI, too, gathering these circumstances, expressed the following resolve: "I want to make efforts for opening the market by conducting follow-up investigations to see whether or not the items which are to be subjected to improvement measures this time will be carried out pertinently."

Moreover, the Headquarters for the Promotion of Settlement of Grievances Concerning Opening the Market" (OTO), which is to be established in the Government as a grievance procedures organ for the future, intends to take perfect measures as to new grievances, etc., saying that "If there are requests for grievance procedures, we will check into them in one week to about 10 days and give answers."

Thus, a window, which has not so far existed, will be established, and this is a step forward from before. However, this does not mean that a particularly new organization will be set up. A "signboard" is to be put up in an existing Division of the Economic Planning Agency.

Eventually, grievances will be communicated to the Government offices having authority, and they will be left to their handling with strong sectionalism, which is inherent to Government officials. To prevent the measures from being criticized as "being the same as before," there is probably no other way but to pile up actual records by handling problems promptly and in a forward-looking way.

[3 Feb 82 pp 11-12]

[Text] Spearhead as to Unemployment Will Soon Be Directed

At the USTR (US Trade Representative) Office, a cartoon which was drawn in 1933 is being much talked about at present. The contents of the cartoon are as follows: "Such 'strong countries' as the US, Britain, France, Germany, and Italy lie in beds in a hospital, and Japan in the guise of Santa Claus appears there, carrying a bag filled with many textile, sundry and other goods."

The year 1933 was immediately after the Great Depression in the world, and various countries were still in a dark depression. Competition in

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the devaluation of currency occurred, tariff rates were lowered successively, and protectionism gained strength simultaneously. This occurred 50 years ago. However, the thought that they are "quite the same as at present," when the textile and sundry goods in the cartoon are replaced by automobiles and electronics, invites sour smiles, and this is sent around to read in succession.

Certainly, the depression in the US has gradually become serious. Since August last year, production has continued to be minus almost consistently, compared with the preceding months, and the rate of unemployment in December reached 8.9 percent. In the light of the fact that there was just one case in the past where the rate was 9 percent, that can be said to be abnormally high, after all.

Moreover, it has become "common sense" that "The rate will certainly reach the 10-percent level in April." The US Government does not as yet say that "The cause of this lies with Japanese goods." However, the US Congress and managers of medium and small enterprises clearly think so.

The EC also is under similar circumstances. The various countries have in mind the problem of unemployment among young people, the rate of which unemployment reaches 40 percent of all the unemployed persons. EC External General Bureau Director DENMAN, who came to Japan recently, appealed for the elimination of the trade friction, saying as follows: "I do not think that such a situation has been created by Japanese goods, but it is true that there are many who think so. It is at least certain that the influence of protectionism has become something which cannot be ignored."

Second and Third Rounds of Strategy Toward Japan

"Such an atmosphere has been mounting further since the start of this year," said Finance Ministry and MITI leaders who visited Europe and America early this year. They say that the criticism is incomparable with that about the fall of last year.

Why? Former Government Representative Saburo OKITA points out: "The fact that future prospects have become darker in both Europe and America since the start of this year can be taken up as a big reason."

Take, for example, the recent re-raising of the interest rates in the US. Various reasons are being cited for this. As a result, however, this is linked to the sales of housing and automobiles and to the holding down of facilities investments. Consequently, employment will not increase, and the number of unemployed persons will increase further. Impatience results in further impatience.

Looking around, however, we find that only Japanese goods are growing smoothly, and that moreover, exports to Japan from the US cannot readily get in. In the view of the Japanese side, this "proves the superiority of Japanese goods." In the eyes of the US, however, it is reflected as inequality.

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This is also the prime mover of the spread to the US Congress, etc., of protectionist mutuality with which they say that "If Japan is closed, this side also ...," instead of forward-looking "mutuality" to talk about the opening of the market with each other.

In this situation, the Government of Japan announced in December the policy of carrying out the tariff-lowering schedule two years ahead of schedule, and the policy of simplifying 67-item import procedures, at the end of January. The Government can by no means be said to be negligent, compared with its measures in the past to cope with the friction. However, when it comes to the question of whether the friction will calm down to some extent with this, the answer is negative, after all.

This is because, although there is also the factor that the way of opening the market is still lukewarm, the actual effect of those measures will be "hundreds of millions of dollars" (Foreign Ministry), which is like throwing water on the thirsty soil of the surplus toward the US amounting to \$18 billion and toward the EC amounting to \$10,300 million.

As a matter of fact, after Japan announced the series of measures, US Senator DANFORTH, who came to Japan recently, stated that "A mutuality bill will be presented soon." There is no doubt that it will have a strong protectionist coloring in the way of saying that "As you do that, I too ..."

It is reported that in co-ordination with such moves of the Congress, Western countries are already "preparing for the second and third rounds of strategy toward Japan." Aside from what the contents of such strategy will be, a clue to this will not be lacking this year. At the end of this month, a meeting of the Japan-US Trade Sub-Committee (3rd meeting) will be held in Tokyo. This will be followed by a visit to the US by Foreign Minister SAKURAUCHI in March.

Live Atmospheres in Europe and America Must Be Explored

French President MITTERRAND is scheduled to come to Japan in April. As the said President is to be Chairman of the June Summit, Japan will be pressed for a response to this, too. Furthermore, Japan-US summit talks will be held after the Summit. About that time, deliberations on the mutuality bill will reach the peak. At least as a response to the trade friction, the two kinds of measures which have so far been announced will be a "mere entrance."

It is said that LDP Research Council Chairman ESAKI and others, who arranged for the simplification of the import procedures, will make "explanation trips" to Europe and America, carrying this "Japanese plan."

Actually, the following voice was strong within the Government at first: "Why will you do such a thing? You will only meet with a sound thrashing, for

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the reason that it is insufficient." Recently, however, such a voice has disappeared completely, and it has changed to a voice saying, "We want you to go by all means."

The reason for this seems to be the following: "Meeting with a sound thrashing will rather lead to subsequent measures. It will be a serious matter if politicians think that 'Things have been finished with this, for the time being'." Mr. ESAKI and others are to play a thankless part. However, this also is a duty of politicians. It seems necessary for them to make further efforts by fully inhaling the live atmospheres in Europe and America.

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ECONOMIC

JAPAN, U.S. TRADE FRICTION INCREASES OVER IMPORTS

Tokyo NIHON KEIZAI SHIMBUN in Japanese 1 Feb 82 p 3

[Text]

US dissatisfaction toward Japan is increasing, against the background of the increase in unemployment and the large-scale trade deficit with Japan. It is the re-kindling of the Japan-US trade friction. The dissolving of the friction is a big task for the SUZUKI Cabinet, together with the realization of administrative and financial reforms. The Government has started to tackle measures for surmounting this situation, such as to decide on measures for the improving of the non-tariff barriers at the Ministerial Conference on Economic Measures, held on January 30. However, the US request for the liberalization of the Japanese market is still strong, and its objects are also wide-spread. What is the real aim of the US? What should Japan do in order to defend the free trade structure, which has supported the expansion of the Japanese economy? This paper had ITI Minister ABE, who attended the Tri-Polar Trade Conference among Japan, the US-Canada and the EC, held in Key Biscayne in Florida, on January 14 and 15, and who also held talks with top US Government and Congressional leaders, including President REAGAN, and this paper's Economic News Section Chief Tetsuo OHTA discuss the present state of Japan-US relations and future measures to cope with the situation.

Eye on the Off-Year Elections

OHTA: Trade frictions arose several times in the past, too, with Japan showing a surplus balance in trade and the US and Europe showing deficits. It seems, however, that friction is once again becoming severe. Furthermore, I think that the nature of the friction has also changed, when compared with those in the past. How do you regard the present trade friction?

ABE: It is unprecedentedly serious. The depression is continuing in the US and the various European nations, and both the US and the EC nations have more than 10 million unemployed persons, respectively. Inflation is also progressing. Despite these facts, Japan alone is developing smoothly. As a result, they focus their attacks on Japan. The dissatisfaction over the worsening of the economies of their own countries is appearing, in combination with their dissatisfaction toward the trade imbalance. In this respect, it can be said to be a severe situation for Japan.

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OHTA: At the Tri-Polar Conference and at the talks with the top leaders of the US Government and Congress, what views did the US side show? Did you receive the impression that it is fairly rigid?

ABE: In the US, I explained Japan's position. I explained as follows: You say that Japan's trade surplus with the US reached 18 billion dollars in 1981 (US statistics). However, this is the result of the low yen, and the US side's high interest policy is also partly responsible for this. The Japanese economy is now in a good state because finances made great efforts for tiding over the oil crisis. As evidence of this, the financial situation in Japan is the worst in the world. For the correction of the trade imbalance, Japan is taking such measures as the package lowering of tariffs ahead of schedule, and the abolition of non-tariff barriers. The US side should also make efforts for exports. The US side, however, looks at Japan with severe eyes, because unemployment has exceeded 10 million persons, even though it understands Japan's assertions, as logic. Especially in the Congress, there is the idea of mutuality, of a retaliatory nature.

OHTA: Friction arises from the attitude that "we understand the reasons, but ..." From the start, Congress has the tendency to succumb to the lure of protectionism. The pattern in the US is for the Administration, which advocates the firm maintenance of the principle of free trade, to hold this down. However, partly due to the fact that the off-year elections will be held in November, Congress is pressing more strongly than usual. Do you think that it is becoming difficult for the Government to put a curb on Congress?

ABE: Frankly speaking, I received the impression that, if the present situation continues, the US Government will also be unable to hold down the Congress.

OHTA: US Ambassador to Japan MANSFIELD had so far shown the posture of trying to convince his home country, in regard to groundless US criticism against Japan, up until now. However, upon looking at the Ambassador's recent speeches, the sense of defending Japan has lessened. We should take this as evidence that dissatisfaction within the US has mounted to that extent, should we not?

ABE: I do not think this is something tactical, such as to apply pressure on Japan. When I met with the Ambassador before my visit to the US this time, the Ambassador showed the judgment that "I have been taking the posture of curbing the moves of my country, up until now, but the situation is no longer that way." Therefore, I deepened the impression that the criticism against Japan this time is different from that in the past.

OHTA: As for the measures to cope with this situation, the objects up until now were fairly limited, such as textiles and automobiles. However, recent criticisms are not focused on specific matters, and I receive the impression that it is something like "chasing moles," because when you hold

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down this point, another problem crops up elsewhere. In this kind of case, what basic posture do you think we should take?

ABE: If Japan were to continue its attitude of not doing anything and watching the situation a little further, the US Congress will incline to the posture of abandoning it, saying that "if that is the case, that is that, and if Japan takes such an attitude, the US will also measure the height of Japan's barriers, in its own way, and create the same kind of barriers, based on mutuality."

This kind of protectionist moves must be blocked, without fail. I think, therefore, that Japan should take various measures, anyway, and that it is important for Japan to transmit such efforts to the other side, as quickly as possible. The measure for the lowering of tariffs ahead of schedule, taken by Japan, covers 1,653 items, and the financial burden entailing this amounts to 200 million dollars. Therefore, it is a fairly bold decision. However, I have the feeling that this has not been fully understood. Even in that meaning, I frankly felt, upon visiting the US, that Japan is not good at PR.

Expectations Attached to Public Projects

OHATA: Let us assume that the US takes measures toward Japan, based on mutuality. In that case, Europe, which has a protectionist tendency to begin with, is likely to erect a higher barrier against the US, this time, using that as an excuse. In the case of the US and Europe, the US is showing a surplus of exports over imports. Therefore, in this case, the US will be reversely placed in a disadvantageous position in relation to Europe. When considered in that way, mutuality has both merits and demerits for the US. Will it not be possible to consider that, such being the situation, there will naturally be limits to the measures the US can take?

ABE: It is true that there are also various problems between the EC and the US. However, it is dangerous to think that if the US were to adopt mutuality toward Japan, the EC will also adopt mutuality toward the US, that in that case, it will not be a plus for the US, and that therefore, in conclusion, the US is only talking about it and will not actually take any steps.

OHATA: The SUZUKI Cabinet makes the administrative and financial reforms and the calming down of the trade friction its big political tasks. When they are viewed from a short-range standpoint, the simplification of import inspections, etc., will become linked with administrative reform. On the other hand, however, the reconstruction of finances and the calming down of the trade friction are somewhat in contradiction, and do they not contain elements which mutually reject each other? In other words, will there not appear, once again, the way of thinking like the traction-power argument, in the past, and will not Japan be asked to become the engine pulling along the world economy? This will mean the expanding of domestic demand and increasing imports, but this will be contradictory to the severe financial situation.

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ABE: They do have aspects which are contradictory as policies. However, Japan's finances are in the worst condition, in the whole world. Therefore, they must be reconstructed. At the same time, domestic demand must be expanded, even though our hands and feet are bound by the straitened finances, and they must be led to an increase in imports, so that the trade friction can be dissolved. Although it is now becoming impossible to buoy up business with finances, as in the past, it is not that there are no other measures at all, and I think that if various efforts are mobilized, it will not be impossible to attain an economic growth of 5.2 percent, in real terms, in fiscal 1982. Especially, if public enterprises were to be carried out concentratedly in the first half of the fiscal year, and if they were to act as a bridge to the second half of the year, I think that the economy can be invigorated. Therefore, I feel that the first half of this year will determine the outcome of the expansion of domestic demand.

OHTA: It is also important to lead the exchange market in the direction of a higher yen, is it not? It will be a plus for improving Japan's trade conditions, and it will also help to dissolve the trade imbalance. However, the yen does not become higher, as desired, and there is rather a tendency to a lower yen ...

ABE: This is because interest rates are high in the US. Viewed in the light of the keynote of the Japanese economy, the yen should definitely not be weak. (In order to return the yen to its real strength), it is necessary to have the US change its high interest rate policy.

OHTA: The OECD, for example, says that "if Japan were to lead its interest rates in a somewhat higher direction, and if it were to make efforts for the expansion of domestic demand, using finances a little more, the high yen and the expansion of domestic demand, combined together, will help to dissolve the trade imbalance." Is it not possible to take a combination of measures which will lead to the correction of the imbalance, without affecting monetary measures too much?

ABE: When I mentioned the expansion of domestic demand, during my visit to the US this time, there were not a few persons in the US Government, who expressed concern, saying that if Japan were to take measures for the expansion of domestic demand, it will lead to inflation, that this will lead to a lower yen, in the end, and that as a result, exports (of Japanese manufactured products) will come to increase. Toward this, I emphasized that that view is mistaken, and that, since Japan's commodity prices are extremely stabilized, even the taking of somewhat bold measures for the expansion of domestic demand will not bring about inflation. As for the interest rates, even somewhat higher rates would become a drag on expanding domestic demand. The official discount rate was finally lowered in December of last year. If we were to raise the interest rates, once again, at this point, facilities investments will decrease.

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"Self-Restraint" Is Unavoidable

OHTA: President REAGAN held talks with you, on the occasion of your visit to the US this time. This is viewed as President REAGAN's attaching considerable expectations on Shintaro ABE, the politician, who also has the experience of having served as Agriculture-Forestry-Fisheries Minister, and not only in your capacity as ITI Minister. As a result, will not the responsibility for internal co-ordination, in the direction of the improvement and abolition of the remaining import restriction items, among which the items concerning the Agriculture-Forestry-Fisheries Ministry account for a considerably large part, fall rather heavily on your shoulders?

ABE: I suppose there may have been expectations on me, but I think that expectations on Japan were bigger, as this was the first visit to the US by a Cabinet member of the reshuffled SUZUKI Cabinet. The improvement of the non-tariff barriers will be carried out to a considerable extent. Therefore, the remaining measures are how to handle the remaining import restriction items, centering on agricultural products. However, this problem is far from easy, because it is intertwined with domestic circumstances. Even if it may be possible to expand the import framework for the remaining restriction items to some extent, I think it will be difficult to go as far as their abolition.

OHTA: Is it unavoidable for Japan to consider the implementation of one-sided curbs on exports for various items, as an emergency relief measure, on a case-by-case basis, in the future, too, in the same way as for automobiles last spring, following those on textiles and iron and steel?

ABE: Viewed from the principle of free trade, voluntary restrictions on exports are the second best measure, but it is a realistic measure for the prevention of protectionism. I think it is unavoidable, to some extent, to take emergency relief-type measures, such as the curbing of the exports of automobiles, in order to defend free trade.

OHTA: It seems that the recent situation is that matters do not develop as set forth in an ideal scenario. It seems that the task for the moment is how to stop one step short of being driven into the worst situation. Do you think that, once the off-year elections this autumn are over and US business starts to look up in the second half of this year, the "steam" will be let out, or do think that the trade friction between Japan and the US is fairly structural?

ABE: There is a full possibility that, when the off-year elections are over and if the economy starts to be re-activated, the friction may disappear. The problem cannot be settled by trade measures alone, and the basic problem is how to re-build the US economy. For that purpose, I think that Japan should also offer co-operation where co-operation is due.

OHTA: Even so, co-ordination within the country, from now on, will be a troublesome task. Unless measures are carried out quickly and dramatically, there is the relationship with the US, and ...

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ABE: Yes, it is important to produce an answer quickly. When I talked with US Senate Finance Committee Chairman DOLE, he said that the US Congress will also reach a conclusion as to what it will do, within the next one month, while watching the moves of Japan. At any rate, we have come to a stage where we must sensitively watch the moves of the US Congress, with close attention. I think that the outcome will be determined in the next two or three months. We should not stop with the improvement of the non-tariff barriers this time. There are many difficult problems, but we must check seriously into the US requests, including the reduction of the import restriction items, and reach a conclusion at an early date, as to "what we can do, and what we cannot do."

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ECONOMIC

COUNCIL RECOMMENDS PROCEDURES ON IMPROVING IMPORT INSPECTION

Tokyo JAPAN ECONOMIC JOURNAL in Japanese Vol 20 No 992, 9 Feb 82

[Editorial: "Non-Tariff Barriers"]

[Text]

There seems to be always a gap in perception or assessment between Japan and the U.S. or Western Europe on steps taken by Japan to improve trade relations. One may get the impression that a step by Japan only leads to another demand by the West, leaving no hope for solving the current trade frictions. Nevertheless, it is obvious that Japan cannot stop trying to make its market as open as possible in order to maintain the free trade system which is essential to its economic survival.

The latest action taken by the Government was one on improving import inspection procedures. This was decided following recommendations by the Ad Hoc Investigation Council on International Economic Problems of the ruling Liberal Democratic Party, which acted in quick response to grievances among the other industrialized democracies on the various non-tariff barriers restricting their exports to Japan.

The Government not only accepted one hundred per cent the recommendations by the Council but decided to establish a new headquarters (the so-called ombudsman) for resolving grievances pertaining to opening Japan's market.

High marks should be given to the decision because it covers correction of 67 out of 99 cases of foreign complaints of non-tariff barriers against exports to Japan. These included, among others, correction of restrictive standards in such fields as autos, cosmetics, drugs and sporting goods, which were of particular concern to the U.S. and were cited on many occasions as blocking billions of dollars of U.S. sales to Japan.

It is noteworthy that the Government could take this action in a fairly short period of time after it decided on advance implementation of tariff reductions for 1,653 items. It may help change the image of the Japanese Government which has been internationally notorious for its slowness in implementing its promise. Although there

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are still 9 cases to be studied further for correction (15 other cases being judged as based on misunderstanding on the part of the U.S. and Europe), Japan has done its utmost at this stage to reduce the trade barriers, both in tariff and non-tariff areas.

This does not mean, however, that the latest action will be appreciated by the other side as much as Japan wishes in view of the gap in perception as pointed out earlier. As long as the huge trade imbalances between Japan and the other industrialized nations remain unchanged, their dissatisfaction with Japan's efforts will be left unabated. Besides, any substantial improvement in the imbalances cannot be expected without parallel efforts by the other trade partners to penetrate the Japanese market. In other words, it takes a formidably long time before the latest action in reducing non-tariff barriers can be reasonably effective in alleviating criticism against Japan's trade policies.

Demands for a more open market will come one after another, whether in the form of higher import quotas for oranges and beef or more competitive opportunities in banking and data service industries. Such demands by the trade partners may sometimes look too high-handed and unilateral to the eye of related industries. But, to be fair, many of them are reasonable enough to expose their weakness or inefficiency.

The important thing for Japan is to understand that any action in reducing the non-tariff barriers is only one step toward making the Japanese market completely free and open. Japan should always be positive in responding to such demands in full awareness that only the free trade system can keep her alive.

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ECONOMIC

HIGH U.S. IMPORT TARIFF ON SMALL TRUCKS HIT

Tokyo YOMIURI SHIMBUN in Japanese 3 Feb 82 p 1

[Text]

A Government source revealed on the 2nd that the Government will lodge a protest with GATT against the US within this month, on the grounds that it contravenes the GATT Convention that the US has raised drastically the tariff rate for small trucks of Japanese make. It is the first time that Japan is going to file a complaint with GATT in connection with a trade problem. The Japanese side will contend that "This case of tariff raise is an act of restricting imports, and therefore contravenes the GATT rules." The US recently has presented strong requests to Japan in succession, in connection with the growing Japan-US economic friction. The Japanese side says that it wants to counter the unfair measures against Japan by carrying such measures into international agencies.

The present case was taken up between the Governments of Japan and the US at unofficial consultations in September, 1980. The contentions of the two sides, however, continued to run along parallel lines. As a result, it became necessary to secure the intervention of a third party called GATT, which is an international organization. From July last year, "official consultations" were held on this case according to Article 22 of the GATT Convention.

Even these consultations, however, could not bring the case to a settlement. The Japanese Government then gave up hope for settlement by negotiations, and decided to file a complaint with GATT in order to make a settlement by GATT's decision. The GATT Council is scheduled to meet in session in Geneva within this month, and the Government will make a complaint on that occasion.

The step of filing a complaint with GATT is provided for in Paragraph 2, Article 23 of the GATT Convention. Following the acceptance of the complaint by the GATT Council, three sub-committee members (hailing from neutral countries), who are equivalent to judges in a judicial trial, will be appointed. The three-member sub-committee

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will listen to the opinions of the plaintiff (Japan) and the defendant (US), and hand down an arbitration award or recommendation which corresponds to the ruling of a law court. Filing of a complaint, therefore, is a more vigorous step than "consultations," and may be regarded as a kind of emergency measure. Therefore, Japan until now has avoided taking this step in connection with trade problems.

If the arbitration or recommendation is against the US, the US must restore its abnormally high tariff rate (25 per cent), which has been applied to small trucks of Japanese make, to its original level (four per cent). If the US refuses to take this step, the Japanese Government will be justified, by international rules, to take retaliatory action (such as to raise tariffs). In many past instances, however, GATT's trial of trade disputes took too long, and the disputes disappeared naturally before the trial came to an end.

Between Japan and the US, a complaint was once filed by the US side in connection with the case of import restrictions on leather. Now the US is showing a posture to make a complaint in pursuit of the liberalization of farm products.

The present problem came to the fore in connection with the sudden expansion of passenger car and small truck exports from Japan to the US. In August, 1980, the US Government carried out a revision of its tariff classification list, which revision involved the raising of the tariff on cab chassis for small trucks from four per cent (rate for automobile parts) to 25 per cent (rate for unfinished cars). As a result, the sales price of a small truck of Japanese make in the US rose by \$500 to \$1,000, and there was a sharp decline in sales. From January through October last year, 107,600 such trucks were sold in the US. This figure was 63 per cent less than that recorded in the corresponding period of the preceding year.

The Japanese side began to control passenger car exports to the US (with a maximum limit fixed at 1,680,000 for the present fiscal year), according to the Government-to-Government agreement reached in April last year. On the other hand, the US side raised the tariff on small trucks unilaterally, without any consultation in advance with the Japanese Government.

The US Government notified the Japanese Government on the 2nd that it appreciates the positive posture taken by Japan in correcting the non-tariff barriers, but that the US Congress maintains a stern attitude toward Japan, because the extent, to which Japan has decided to open its market, is still problematical. The notification was conveyed to Director General FUKADA of the Economic Affairs Bureau of the Foreign Ministry by US Minister to Japan BARRACLOUGH the same day. This is the first official reaction shown by the US side to the efforts made by Japan for the correction of its non-tariff barriers.

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By the same day, Canada and the EC, too, recognized the efforts made by Japan, and at the same time, announced their intention to seek further liberalization. In the US Congress, mutuality bills have been proposed in succession, and there is a packed schedule to hold hearings on problems with Japan. As a result, it has become necessary for Japan to take early such additional measures as abolition of the remaining import restrictions and liberalization of trade in the field of service industries.

The reaction of the US side was revealed at the request of Director General FUKADA, who conferred with Minister BARRACLOUGH on the 1st. At this conference, FUKADA said that he "wants to know the reaction of the US side." The US Minister, who conveyed the reaction to FUKADA by telephone on the 2nd, revealed that "I have made contact with my home government," and then said that the US Government appreciates the "earnest and positive" efforts made by the Japanese side to correct its non-tariff barriers, but judges that "Some measures taken by the Japanese side to open its market, such as the expansion of the import framework, are still problematical." Reportedly, the US Minister also touched upon the reaction in the US Congress, and revealed as follows: "The reaction is severe, and dissatisfaction is particularly noticeable in the Senate." It deserves attention that not only the US Congress but also the US Government itself have expressed dissatisfaction.

In the US Congress, Chairman GIBBONS of the Trade Sub-Committee of the House Ways and Means Committee, who is known as an advocate of free trade, proposed a "retaliation bill" directed against Japan, on the heels of Senator HEINZ. It is expected that many mutuality bills will be proposed in succession in Congress hereafter. Also, the International Trade Sub-Committee (Chairman: DANFORTH) of the Senate Finance Committee is scheduled to hold a hearing, on the 11th, on the proposed revision of Article 301 of the Trade Act in accordance with the principle of mutuality. The US Congress is expected to see a rush of hearings related to Japan.

It can be thought that the US Government has emphasized the stern posture of the US Congress, because it wants to exhort Japan to "further efforts" by clarifying its crisis-feeling that the growth of protectionism in the US Congress prior to the off-year elections this fall cannot be halted, unless Japan announces additional measures to open its market.

On the other hand, the Canadian Government recognized the measures taken by Japan for the correction of the non-tariff barriers as a "good step," at the fourth meeting of the Japan-Canada Joint Committee on Economic Co-operation, which meeting was held in the Foreign Ministry on the 2nd. At the same time, however, it again asked for such measures as abolition of the remaining import restrictions. The EC Commission, too, expressed dissatisfaction, when Director General DENMAN of the EC External

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Relations Committee stated, at the press conference he held after the recent high administrative-level consultations between Japan and the EC, that the measures are "far from meeting our expectation."

The Government had expected, to a certain extent, such reactions from other nations. It admits, however, that it must step up further the efforts to open the Japanese market hereafter, which efforts are not to be limited to such publicity campaigns as the visit to the US and Europe by Chairman Masumi ESAKI of the LDP International Economic Measures Special Research Council, now that such reactions have been shown actually.

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ECONOMIC

ISUZU TO SUPPLY SMALL PASSENGER CARS TO GM

Tokyo JAPAN ECONOMIC JOURNAL in Japanese Vol 20 No 992, 9 Feb 82 p 1

[Article by Masaaki Sato]

[Text]

Isuzu Motors Ltd. has agreed to supply General Motors Corp., which owns 34 per cent of the Japanese automaker, with about 200,000 subcompact cars a year from the summer of 1984 when Japan's voluntary restraint on car exports to the U.S. expires, it was revealed last week.

Sources said the arrangement will call for some ¥100 billion in capital investment for which Isuzu plans to obtain about ¥40-45 billion from GM in the form of GM's purchase of convertible debentures to be issued by Isuzu. If GM converts all the debentures into stock, its equity ownership of Isuzu will climb from the present 34.2 per cent to around 40 per cent.

Isuzu is now developing the next generation subcompact front-wheel drive car, based on its version of GM's T-Car series (dubbed Gemini in Japan) and combined with concepts of S-Car, which also is now under development.

Both T-Car and S-Car are so-called "world cars," which are produced by GM-affiliated automakers based on the same blueprint with a few modifications. (Isuzu Gemini and Chevrolet Chevette are conven-

tional rear-wheel drive cars sharing basic mechanical concepts. S-Car is the next-generation world car of GM family, and the development of the FWD car is underway in Detroit, Tokyo and Ruesselsheim aiming at a marketing start in one or two years.)

The subcompacts to be supplied to GM are now called "ST-Cars" within Isuzu. Maybe a little bigger than the S-Car, the FWD ST-Car will be powered with a 1,300-cc gasoline engine or a 1,500-cc diesel engine. The power sources for the ST-Car are said to be extremely light, compact, and frugal in operation.

GM is planning to sell those ST-Cars as their 1985 model from the fall of 1984 through its Chevrolet Division. Besides supplying 200,000 vehicles a year to GM, Isuzu also intends to sell ST-Cars in Japan and abroad thereby bringing up annual production to about 300,000 units. As soon as details are worked out with GM, Isuzu will start remodeling its assembly plant at Fujisawa, Kanagawa Pref.

At present, Isuzu is implementing a 5-year, ¥200 billion investment program, under which it is scheduled to build an

engine plant in Tomakomai, Hokkaido. Thus, when the plan to supply ST-car with GM came to the fore, Isuzu first studied procuring all the needed investment money (¥100 billion) through borrowing. But since further loans will mean greater interest payments, Isuzu decided to obtain about half of the needed funds from GM.

The Ministry of International Trade & Industry now has a policy of not allowing automakers to boost production capacity during the period of voluntary restraints on car exports to the U.S. Although the remodelling of Isuzu's Fujisawa plant runs counter to this policy, MITI believes that Isuzu's moves will indirectly contribute to the industrial cooperation between the two countries and, therefore, should be allowed.

If the Isuzu-GM plan materializes, it will be the first case where one of the "Big Three" increases its equity ownership in a Japanese business partner. In 1971 when GM first established equity participation in Isuzu, it signed and submitted a memorandum to MITI that it "will not change its equity ownership ratio for the next five years."

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ECONOMIC

FORECAST FOR SMALL CAR BATTLE: LONG TERM

Tokyo NIHON KEIZAI SHIMBUN in Japanese 4 Feb 82 p 8

[Text]

(Commentary) Isuzu Motors' furnishing of large numbers of small-size automobiles to GM (General Motors) of the US, and the accompanying raising of the rate of the Isuzu shares held by GM, are to be extremely noted in the sense of foretelling the whereabouts of the small-car battle in the world and the Japan-US automobile problem.

The small-car battle in the 1980's, on which battle the world's automobile manufacturers have staked their business existence, has already reached the third year. On the US market, which is regarded as the front stage for this battle, the Big Three are still unable to free themselves from their long-term sluggishness. Various Japanese manufacturers, too, who are attacking them, are being hampered by the wall of self-imposed restrictions on exports to the US, and they are intent on firming up their footholds in preparation for a long-term battle. The merger between Toyota Motors and Toyota Auto Sales, which merger was made public recently, is also in preparation for the long-term battle.

It is GM, the biggest automobile manufacturer in the world, that is taking steps steadily in this situation. In August last year, it achieved its capital participation in Suzuki Motors which is the top-level manufacturer of light automobiles, and it opened a way for selling, in the US, mini-cars with 1,000-cc exhaust. From August this year, it will start the production of "S-cars" also in Spain. It is said that GM's plan for products has already been drawn up for the period up to 1990, and both Isuzu and Suzuki are incorporated in this plan.

It is with awareness of Japanese automobiles that GM is to receive the supply of small cars from Isuzu at the rate of 200,000 cars per annum. The "J-cars," which are the first world cars put on sale with fanfare in May last year, are in a slump, contrary to the prior evaluation. There are some causes for this, but the biggest cause is that they are still inferior in quality to Japanese automobiles, and have no competitive power in the field of cost, either.

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From a long-range point of view, there is no doubt that GM will directly produce "T-cars" and "S-cars" which are still smaller than "J-cars." However, in view of its experience as to "J-cars," it is too dangerous to develop the production of small cars in the US immediately and across the board. It is presumed that it will import such cars from Isuzu and Suzuki first, in the form of finished cars, and form a judgment while watching the situation.

If the small-car battle in the world intensifies, medium- and low-level manufacturers will drop out earliest. Isuzu is becoming such an presence as to promote a "concept for world-wide trucks (large-size trucks in the world)" in the GM family, virtually replacing GM in regard to trucks. In regard to passenger cars, however, it is still weak. Its production of passenger cars last year amounted to a little more than 120,000 cars, and this number is the smallest among the nine passenger car manufacturers.

In 1971, Isuzu decided to co-operate with GM to have its passenger-car sector continue to exist. However, in view of the amount of production at present, it may possibly become a "burden" in the future. Isuzu has accepted GM's request for supplying small cars, at this time when the problem of extending the self-imposed restrictions on the export of Japanese automobiles to the US is smouldering, simply because it has judged that "Now is not the time for re-constructing the passenger car sector."

However, Isuzu's fund power is too weak. In compensation for introducing funds from GM, the rate of GM's investment will be raised to about 40 percent. However, this will not undermine Isuzu's management. Isuzu has chosen a way for survival within the GM structure, and it will rather move in the direction of excluding its "softness" toward GM.

On the other hand, effects on the Japan-US automobile problem cannot be overlooked, either. The self-imposed restrictions on automobile exports to the US will be in effect until the end of fiscal 1982, and as to exports in fiscal 1983, consultations are to be held again between Japan and the US. However, the matter is still fluid, as can be seen from the fact that on the US side, Senator DANFORTH, who came to Japan in January this year, proposed the extension of the restrictions until the end of fiscal 1983. MITI is attaching importance to GM's having requested Isuzu to supply (small cars). It judges that the possibility has arisen that the US will seek in the future that factors other than quantitative restrictions be incorporated on the problem of exports of Japanese automobiles to the US.

ITI Minister ABE also is burning with enthusiasm for industrial co-operation in Japan-US automobile industry circles. There is the possibility that Isuzu's supply of small cars to GM and the raising of the rate of its investment will become timely help in this regard.

However, even if the self-imposed restrictions end at the end of 1983, as called for by the US side, Japanese manufacturers will not

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necessarily be able to engage in exports in the open air, as before. They will rather be forced to engage in orderly exports. If GM imports Isuzu cars in large numbers and sells them, Toyota and Nissan will be pressed to review their strategy toward the US.

As to plant advance into the US, only Nissan is constructing small-truck plants, and the two companies have not passed the "stage of study" in regard to passenger car plants, the construction of which the US side is requesting. If actual export hoops are put on Toyota and Nissan from 1984 on, and if GM conversely sells Isuzu's small cars in large numbers, they will inevitably have to take some step or other.

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ECONOMIC

## LIBERALIZED NAPHTHA IMPORTS RUN INTO DIFFICULTY

Taxes Hit

Tokyo NIKKAN KOGYO SHIMBUN in Japanese 29 Jan 82 p 1

[Text]

MITI and the Resources and Energy Agency have begun studying the problems concerning the oil policy to be established in connection with the measures for the petro-chemical industry, on which measures attention is now focused, to draw up their views on these problems by March. Petro-chemical industry circles are strongly arguing for the correction of the internal oil policy of the Government, on the grounds that this policy, which does not approve the liberalization of naphtha imports and which levies a tax on home-produced naphtha, is the major factor for the present plight of the petro-chemical industry. On the other hand, the Energy Agency holds it problematical, above all, that there is "reverse discrimination" between home products and imports in the case of naphtha, contrary to the primary necessity of treating home products favorably. It thinks that the liberalization of naphtha imports, if carried out under such a situation, will hinder the stabilization of oil supply in the country. The Energy Agency is prepared to oppose liberalization stubbornly from this standpoint. It also thinks that the demand for reduction or abolition of the tax on home-produced naphtha leaves room for consideration. This step, however, has bearing on the revenue sources of the Government's Energy Special Account as a whole. For its implementation, therefore, it is necessary to co-ordinate opinions with various circles concerned. Thus, the step of tax reduction, too, involves problems. While dealing with these problems, the Energy Agency wants to treat, from a fundamental point of view, the oil-refining and petro-chemical industries as a "community bound together by common fate," and ask them to restudy what the petro-chemical industry at home should be.

Toward the end of last year, the Chemical Industry Department of the Industrial Structure Deliberation Council (Director of Department: Hiromi ARISAWA) pointed out, in its interim report on relief measures for the petro-chemical industry, that the Japanese petro-chemical industry has lost its international competitive power, because the price of naphtha, a material for petro-chemical products, in Japan is

higher than in other countries. It revealed the view that the high price of naphtha in Japan has its cause in the present oil policy which maintains the prices of raw materials at a high level artificially, or by such measures as the Oil Industry Law, which bans the importation of naphtha except through the oil-refining companies, and the levying of an oil tax on home-produced naphtha. Petro-chemical industry circles, too, have been demanding the complete liberalization of naphtha imports and the reduction or abolition of the tax on home-produced naphtha. They are pressing the Government for a fundamental review of the internal oil policy which has brought about such a situation, by June this year, when the Industrial Structure Deliberation Council is scheduled to present its final report.

Confronted with these moves, the Resources and Energy Agency has decided to make an earnest study of the naphtha problem and establish a definite view of its own on this problem. According to the results of the surveys conducted by the Agency until now, maximum possible measures under the existing system have already been taken for the convenience of naphtha importation. This can be seen from the fact that the ratio of imported naphtha to total supply in the country, which ratio was 29.1 per cent in 1980, rose to 35.4 per cent in the January-November period of last year. Especially, the ratio became as high as 44.0 per cent in September, 44.4 per cent in October and 44.5 per cent in November, last year, to satisfy virtually the demand of petro-chemical industry circles. As a result, the ratio of naphtha to total products of the oil-refining companies, which ratio was 9.5 per cent in 1980, fell speedily, to 8.5 per cent in September, 8.1 per cent in October and 7.4 per cent in November, 1981, to the screams of these companies.

Furthermore, imported naphtha is free of duty, while home-produced naphtha is subject to a 3.5-per cent oil tax. Also, home-produced naphtha must be stockpiled to an amount equal to 90 days' supply, but the amount is equal to only 70 days' supply in the case of imported naphtha. It can be seen, therefore, that home products, which primarily should be protected against imports, are subject to "reverse discrimination," as far as the oil tax and the amount for stockpiling are concerned. The Energy Agency thinks that it is difficult to remove the restrictions on naphtha imports under such a situation.

Besides, a sudden decline in the demand for some kinds of oil products will affect the quantity of crude oil to be handled by the refining companies and hinder the supply of other kinds of oil products as well, because oil products are obtained from crude oil. It can be thought, therefore, that the liberalization of naphtha imports under the present situation will widen the window for importation limitlessly, and, with the decline of demand for home-produced naphtha, make it impossible to secure the necessary supply of kerosene and other oil products needed by the people at large, the demand for which products is firm.

On the other hand, criticism has been raised in such countries as the US against Japan's oil policy which keeps naphtha prices at a high level. In recent years, however, international controls have been strengthened against oil purchases, in such ways as the establishment of import goals and voluntary restraint of purchases at high prices. At present, Japan's oil imports are controlled by the Energy Agency's administrative guidance over individual importers. If this framework for control is removed, it will become impossible for the Government to meet the situation with soft measures. In the end, it will become unavoidable to resort to such hard steps as the establishment of a licensing system for imports. The Agency holds that liberalization is difficult to carry out for this reason as well. Moreover, all countries today control oil imports in accordance with their respective internal circumstances. The Agency contends that there is no reason for a country like the US, which controls even the prices of natural gas, to make a complaint against Japan.

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Reaction Against Demand

Tokyo NIKKAN KOGYO SHIMBUN in Japanese 4 Feb 82 p 1

[Text]

Petro-chemical industry circles, which are demanding the exemption of indigenous naphtha from taxation, abolition of the system of compulsory stockpiling of naphtha and complete liberalization of naphtha imports, have decided to apply for the right to import naphtha (to start importing oil on the basis of the Oil Industry Law), depending on circumstances. MITI and the Resources and Energy Agency, however, have shown a strong reaction against this decision, saying as follows: "We cannot accept any of their demands under the present framework for the stabilization of oil supply. Depending on circumstances, we shall not hesitate to relinquish our responsibility of supplying indigenous naphtha" (high-ranking official of the Oil Department of the Energy Agency). In this connection, the Energy Agency has revealed its plan to set up an "association to study the development of new uses of naphtha" within its Oil Department, for the study of such questions as follows: (1) the limit for the reduction of the ratio of naphtha to be obtained by the respective oil companies; (2) the possibility of expanding drastically the uses of naphtha except as a material for petro-chemical products, by such methods as the use of naphtha mixed with heavy oil C and asphalt for fuel; and (3) the possibility of decreasing drastically the supply of indigenous naphtha to the petro-chemical industry under the oil supply plan for the period after fiscal 1982, which plan will be drawn up by the end of March. Within MITI, there is the growing view that it is necessary to review the energy policy in connection with the measures to be taken for the raw material industries. MITI leaders doubt, however, whether it is proper that petro-chemical industry circles are going

to resort to vigorous steps hastily, at this time when the Chemical Industry Department of the Industrial Structure Deliberation Council is scheduled to draw up its final report covering the naphtha problem in June this year. So, the possibility of development of fierce emotional confrontation involving MITI officials and industrial circles concerned is growing.

Petro-chemical industry circles hold that the high cost of material naphtha in Japan is the biggest factor for the loss of international competitive power by the Japanese petro-chemical industry, and that such a situation has been created artificially by the energy policy which lays major emphasis on the stabilization of energy supply. From this standpoint, they contend that the Government should abolish the tax on indigenous naphtha (3.5 per cent) and the system of compulsory stockpiling of naphtha, and carry out the liberalization of naphtha imports. They say that seven petro-chemical industry companies and a company, which is importing naphtha jointly with petro-chemical industry companies, will apply for the right to import naphtha according to the provisions of the Oil Industry Law, unless their demands are accepted.

The Resources and Energy Agency, however, maintains the following position: "We can understand the circumstances in petro-chemical industry circles. However, a drastic decline in the demand for naphtha will lead directly to a decline in the supply of kerosene and other major oil products, to hinder the stabilization of oil supply in Japan, because all these oil products are obtained from crude oil." The Agency also points out that imported naphtha is free of duty, while indigenous naphtha is subject to taxation, and that indigenous naphtha must be stockpiled to an amount enough to meet demand for 90 days, as compared with 70 days in the case of imported naphtha. On the basis of these facts, it contends that imported naphtha is treated more favorably than indigenous naphtha. Besides, the Agency points out that the ratio of imported naphtha to be used by the petro-chemical industry recently has risen to a little more than 44 per cent, although naphtha must be imported solely through oil companies under the present situation.

The Agency holds it particularly problematical that petro-chemical industry circles are going to resort to such a vigorous step as to apply for the importation of naphtha under the Oil Industry Law, at this time when the Industrial Structure Deliberation Council is scheduled to complete its studies covering the naphtha problem by June, and when the Energy Agency, too, is groping for various measures. It showed a strong reaction, saying as follows: "It is strange that petro-chemical industry circles are acting in such a way as to secure concessions from us by threatening us with a dagger, because of their domestic circumstances. We cannot accept but ignore their application under the present situation." It went so far as to say that "We may relinquish our responsibility of supplying indigenous naphtha, if they persist in their demands." A MITI leader, too, revealed the view that "It is very problematical that petro-chemical industry circles start such an action, at this time when MITI is asking all those concerned to find a moderate solution through talks."

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On the other hand, the Energy Agency thinks that the demand for indigenous naphtha will inevitably decrease. So, it will set up an association to study how to develop uses of naphtha except as a raw material for petro-chemical products, and to what extent the ratio of naphtha to be obtained by oil industry circles can be lowered. The annual consumption of naphtha in Japan amounts to about 21 million kiloliters, and about 30 per cent of this amount is used as material for petro-chemical products. The remaining amount is used by such industries as fertilizer, gas and electricity. The Resources and Energy Agency, therefore, wants to decrease the supply to the petro-chemical industry drastically, and increase instead the supply to the electricity and other industries which use naphtha for fuel. Naphtha, if mixed with heavy oil C, can be used as a relatively clean fuel. This use of naphtha will also lead to the development of new uses of heavy oil C, which at present is in a state of oversupply. So, it is possible to kill two birds with one stone. The ratio of naphtha obtained by oil industry circles, which ratio was 9.5 per cent in 1980, recently has fallen to 7.4 per cent. At present, the Energy Agency is seeking the opinions of the oil companies on the extent to which it is possible to lower this ratio hereafter. On the basis of these opinions, it will cut drastically the supply of naphtha to the petro-chemical industry in its oil supply plan.

#### Petro-Chemical Industry Circles to File Petition as Early as Next Week

Seven petro-chemical industry companies held a conference of their Presidents at the Hotel Okura in Toranomon, Tokyo, on the 3rd, to discuss the problem of material naphtha. In the end, it was agreed that the seven companies should jointly file a petition with MITI next week, at the earliest, to ask for the following: (1) exemption of indigenous naphtha from the oil tax; (2) abolition of the system of compulsory stockpiling of naphtha; and (3) liberalization of naphtha imports. Depending on the result of the petitioning, the seven companies -- Showa Denko, Sumitomo Chemical, Mitsubishi Petro-Chemical, Mitsubishi Chemical Industries, Mitsui Petro-Chemical Industries, Osaka Petro-Chemical Industries (affiliated with Mitsui Toatsu Chemicals), and Sanyo Petro-Chemical Industries (affiliated with Asahi Chemical Industry), with the participation of Petro-Chemical Material Joint Import, will present to the Resources and Energy Agency a report on the starting of oil import business, on the basis of Article 12 of the Oil Industry Law.

The problem of material naphtha has come to the fore, because the Japanese petro-chemical industry, which uses the highest-priced naphtha in the world, at this time when chemical industries are seriously depressed, is in what is called triple distress. Petro-chemical industry

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circles have been demanding, above all, the liberalization of naphtha imports, which will enable them to obtain low-priced naphtha from abroad and reduce their production costs. However, they have gone into fierce confrontation with the Resources and Energy Agency and oil-refining industry circles which maintain their stand against liberalization within the established framework of energy policy. It deserves attention, therefore, what attitude the Resources and Energy Agency will take toward petro-chemical industry circles' presentation of a report on their starting of import business.

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ECONOMIC

CONCERN OVER STAGNATION IN BUSINESS TALKS WITH USSR; SANCTIONS

Tokyo NIHON KEIZAI SHIMBUN in Japanese 21 Jan 82 p 7

[Text]

In connection with ITI Minister ABE's statement in the US hinting at the strengthening of sanction measures against the Soviet Union, including restrictions on new contracts, trading circles concerned are watching with attention development of the Japanese Government's policy in the future, fearing that "in case measures, such as the suspension of the extending of export credit loans, are taken, exports to the Soviet Union may be affected on a large scale."

The volume of exports from Japan to the Soviet Union last year was about \$3.2 billion (on the basis of customs statistics spot reports), the ratio of which to the total amount of exports carried out by Japan is a little over 2%, which is by no means big. However, it showed a smooth increase, that is, an increase of 14% over that in the preceding year, while the environment surrounding Japan-Soviet trade has been worsening, due to the Polish situation, etc. Recently, too, "inquiries are being made actively in the extensive fields of commodities, such as machinery, chemicals, textiles, and iron and steel" (Marubeni Soviet Office). Trading circles have been watching the Soviet Union with attention as a promising export market, when viewed from medium- and long-range standpoints.

In case measures, such as the suspension of institutional financing, including Export-Import Bank loans, are taken, there is the strong possibility of business talks on the export of machinery plants, an item the export of which is increasing, being actually discontinued. [Circles concerned] are in accord on the view that "it is probably impossible to avoid effects on exports to the Soviet Union" (Nissho-Iwai Executive Director Sosaburo TSUJI).

In regard to the recent trend concerning plant exports to the Soviet Union, various trading companies had concluded [contracts for] exports, with a rush, before the raising of interest rates concerning the export credit guidelines by the OECD on November 16 of last year. As a result,

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"the situation where business talks are taking a brief rest" (Mitsui Bussan, etc.) is continuing. For this reason, there will not appear a situation where effects will come to the fore immediately, even if measures to suspend the extending of export credit loans are taken. However, it is viewed that in case economic sanctions against the Soviet Union are protracted, there will inevitably be effects on business talks.

In trading circles, there are many voices seeking the Government's giving consideration to act in concert, at least, with the various European nations, in regard to an attitude toward the policy of strengthening sanctions against the Soviet Union, and not to place trading circles in a less advantageous position than European enterprises as to conditions for carrying out competition.

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ECONOMIC

USSR REQUESTS BANK LOAN EXTENSION

Tokyo NIHON KEIZAI SHIMBUN in Japanese 4 Feb 82 p 3

[Text]

It came to light on February 3 that the Foreign Trade Bank of the Soviet Union has been requesting private banking organizations in Japan to extend a total of \$70 million (about ¥16 billion) as loans. According to a banking source, the Soviet side explained that it wants to use the requested funds as down-payment for trade financing connected with the imports of large-dimentional steel pipe, on which agreement was reached toward the end of November of last year. It is unusual for the Soviet Union to have directly sought of Japanese banks the extending of dollar-basis loans, in the form of the procurement of temporary funds. The banking source views that this shows that the shortage of funds in the Soviet Union has become more serious, with financial aid to Poland also becoming an additional cause.

The Soviet Union proposed, in its request, seven years as the term of the loans, and the Euro-dollar interest rate (15% level at present for loans of a three-month period) plus a floating interest rate of 0.5%, as the interest rate. The Foreign Trade Bank of the Soviet Union reached agreement with the Japan Export-Import Bank last year on the receiving of co-operation loans, from Japanese private banking organizations, amounting to ¥99.3 billion (about \$400 million), equivalent to 85% of the funds necessary for importing 700,000 tons of large-dimentional steel pipe from Japan. However, that country hurriedly sought of private banks alone the extending of loans, because it has not been able to obtain funds for the remaining 15% of the down-payment.

The Soviet Union has so far supplemented, in many cases, deficits in foreign capital by selling gold. However, it is said that that country has recently changed this policy into the policy of holding down the selling of gold, which leads to a fall in the international prices of gold, and of making up for a shortage of funds by obtaining loans from the West, in coping with the situation where necessary funds have come to run up, due to the stagnant grain production within its country and an increase in

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financial aid to the various East European nations, including Poland. A leading magazine in the US reported earlier that the Soviet Union is requesting Japan and Europe to extend a total of \$400 million as loans. In banking circles in Japan, the view has started to appear that the \$70 million, [which the Soviet Union has requested] this time may be a part of the reported Soviet request to Japan and Europe.

Japan has so far extended loans to the Soviet Union, mainly in the form of co-operation loans from the Export-Import Bank and private banks. Since around the second half of last year, however, the Soviet Union has started to aim to approach banking circles in Japan, by eagerly urging private banking organizations to open branch offices in Moscow. All the more for this reason, if they are to comply with the Soviet request this time, there will be the possibility of the Soviet side's starting to obtain loans from Japanese private banking organizations on a full scale, all at once.

Various private banks in Japan take the stand, for the present, that "it is quite impossible to respond to it, in the light of the proposed conditions," because the interest rate, which the Soviet Union is seeking, is lower than regular private-level loans extended to that country by a little less than 0.3% to 0.5%. Also, there is the information that the US is seeking of the various nations of the West the suspension of private-level loans to the Soviet Union, for the purpose of checking the Soviet Union from intervening in Poland. For this reason, private banks in Japan intend to assume a careful attitude, for the time being, while watching moves to be made by banks in West Europe and ascertaining the Finance Ministry's judgment.

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SCIENCE AND TECHNOLOGY

U.S., JAPAN NUCLEAR AGREEMENT DISCUSSED

Tokyo NIHON KEIZAI SHIMBUN in Japanese 8 Feb 82 p 4

[Text]

(Washington, February 7, Correspondent YAMAZAKI) The White House Office of Science and Technology Policy Director KEYWORTH, who is the advisor to US President REAGAN on science and technology policies, granted an interview recently with this Nihon Keizai reporter (Correspondent YAMAZAKI), and clarified the basic points of the "REAGAN policy for technology," centering on relations with Japan. In this interview, Director KEYWORTH mentioned a revision of the Japan-US Atomic Energy Agreement for the first time, and also clarified that a proposal for an "international joint development project" with Japan and Europe, aiming at the adapting of the fast breeder reactor to practical use will be formally made, in the near future.

He also said that the establishment of a new "White House Science Conference" has been decided, for the formulation of comprehensive policies for advanced technology, including the strengthening of the United States' most sophisticated and advanced technology.

Director KEYWORTH occupies the position of being in overall management of the REAGAN Administration's science and technology policies. In the course of this interview, Director KEYWORTH touched upon the problem of revising the Japan-US Atomic Energy Agreement, and emphasizing that "an early revision is indispensable," stated definitely that "I wish to make it possible to conclude a new agreement at the earliest possible time."

The intention of revising the Atomic Energy Agreement has been hinted at by the US Government from before, but this was the first time for a person, holding a responsible position in the White House, to make this clear, and the Japanese side will also be pressed to formulate new measures to cope with this.

As for the concept for international joint studies for the adaptation of fast breeder reactors to practical use, he said that "talks will be pushed, centering on Britain and West Germany, in Europe, but basically, it is joint

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research between Japan and the US," and showed the intention of pushing full-scale joint studies in the direction of adopting them for practical use.

In regard to the REAGAN Administration's science and technology policies, Director KEYWORTH said that they will be given the position of "technological security policies," with the strengthening of restrictions on the transfer of highly advanced strategic technology to the Soviet Union and emphasis on the strengthening of the United States' science and technology capability, as the two pillars, and that they will be pushed in a positive way.

The main contents of the questions and answers exchanged with Director KEYWORTH were as follows:

Question: The problem of restricting the transfer of high technology and strategic technology to the Soviet Union has come into the limelight. I wish to hear the REAGAN Administration's basic policy on this.

Answer: Our basic principle is to restrict strictly the transfer of any technology, which can be used for the improvement and strengthening of Soviet military power. The US has so far been able to maintain superiority over the Soviet Union in military power because it maintained superiority over the Soviet Union in the technological field. The approving of free transfer of technology to the Soviet Union will endanger the maintaining of US superiority over the Soviet Union in technology.

Question: In the field of co-operation with the US on the strengthening of restrictions on the exports of high technology to the Soviet Union, we hear that the REAGAN Administration is attaching big expectations on Japan ...

Answer: We are strongly requesting that all the Western allies, including Japan, fall in pace with this. It is especially important that (1) all nations strictly uphold the restriction standards of COCOM, (2) they establish the common awareness that the transferring of high technology to the Soviet Union will have grave effects on the security of the West, and (3) they refrain from actions which will run counter to US sanctions against Poland and the Soviet Union.

Question: At the same time as blocking the transfer of technology to the communist bloc, the REAGAN Administration is also laying emphasis on the propping up of its own technology, standing on the basis of the decline in the United States' advanced and strategic technology capability in recent years. In connection with this, I heard that President REAGAN is planning to establish a special task force for this ...

Answer: The new establishment of a science conference in the White House has been decided. It will be made up of 13 most outstanding science and technology experts of the US, and will be headed by Bell Research Institute Deputy Director Solomon BUXBAUM [TN: phonetic]. The announcement will be made by the President, even during this week. This conference will check compre-

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hensively into the most advanced technology policies of the US, including the application of advanced technology, the development of more advanced and strategic technology, the development of technology, the purpose of which will be for use for armaments and security, etc.

Question: Can those science and technology policies of the REAGAN Administration be understood as technological security policy?

Answer: You are correct. The development, transfer and superiority of technology are indispensably related to the security and stability of the US and of the world. At the same time, strong competition from other countries will be good material for the development of US technology.

Question: What are your concrete measures for the expanding of the utilization of nuclear energy?

Answer: The REAGAN Administration places greatest emphasis on measures for the handling of nuclear energy waste, the spreading of nuclear re-processing and the application of fast breeder reactors to practical use. Especially, we will soon propose to Japan and our European allies joint international research for the adaptation of fast breeder reactors to practical use, on a long-range basis. The US has earmarked as much as 15 million dollars as the budget for this, in its fiscal 1983 budget. As regards Europe, talks will be pushed, centering on Britain and West Germany. However, we are basically aiming at joint research between Japan and the US.

Japan-US nuclear energy relations, including the problem of the Tokaimura re-processing facilities, are coming to an important stage. Are you thinking of a revision of the Japan-US Atomic Energy Agreement?

Answer: We consider that a revision, at an early date, is indispensable. Japan-US nuclear energy relations should be based on not only a sense of mutual trust in Japan-US relations in general, but also on special trust relations and co-operative relations in the field of nuclear energy, including safeguards and nuclear non-proliferation.

Question: What is the position of the REAGAN Administration toward the nuclear non-proliferation policy, which had been advocated in a positive way by the preceding CARTER Administration?

Answer: The nuclear non-proliferation policy will be maintained basically. However, nuclear non-proliferation must be maintained and strengthened through political negotiations. Our grand premise is that nuclear non-proliferation will be realized in connection with diplomatic policies and by political methods. In that meaning, the REAGAN Administration's nuclear non-proliferation policy is extremely realistic.

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SCIENCE AND TECHNOLOGY

CANADA EXPECTED TO EASE NUCLEAR FUEL SUPPLY

Tokyo YOMIURI SHIMBUN in Japanese 6 Feb 82 p 1

[Text]

According to what was clarified by a Government source on the 5th, the Government of Canada, which is the biggest natural uranium-supplying country for Japan, has formally announced that it will markedly ease its restrictions on nuclear materials toward Japan and adopt a "long-term comprehensive prior agreement system." This was proposed at the Japan-Canada nuclear energy negotiations which were informally held late last month. The policy of the the Governments of the two countries is to sign a note of agreement by about June. The US Government also hinted, at the Japan-US nuclear energy problem consultations held in Washington early this month, at the posture of starting negotiations for the "permanent easing of restrictions" on the re-processing of nuclear fuel by the first half of this year. Also, between Japan and Australia, the Nuclear Energy Agreement was revised last month. Thus, the biggest natural uranium and enriched uranium-supplying countries are all to ease their restrictions toward Japan. As these measures are indispensable for the establishment of the nuclear fuel cycle, the Government will do its utmost for negotiations and work for the promotion of nuclear power generation. At the same time, it is welcoming them as measures in accordance with INFCE (International Nuclear Fuel Cycle Evaluation), which is aimed at making peaceful uses of nuclear energy compatible with the prevention of nuclear proliferation.

The nuclear energy team consisting of the Directors of the Divisions in charge at the Foreign Ministry, MITI, and the Science and Technology Agency held informal negotiations with the Canadian Government in Ottawa on the 25th and the 26th of last month and with the US Government in Washington on the 1st and the 2nd of this month, successively, over the flexible implementation of the Nuclear Energy Agreements.

The Japan-Canada Nuclear Energy Agreement imposes severe restrictions on the movement of nuclear materials overseas and re-processing, for the prevention of nuclear proliferation, and seeks that the supplier country (Canada) consent to the re-processing of spent nuclear fuel and bringing it

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out from the country, in each case. This is called a "separate prior agreement system." Partly because of the complex administrative procedures, the Japanese side has been restricted as to the autonomy of uses of nuclear energy and the degree of freedom of uses of nuclear materials.

Last year, the Canadian Government hinted that it is alright to revise the separate prior agreement and inspection system. At the latest informal consultations, however, it agreed to shift to a "long-term comprehensive prior agreement system" which has a weak restriction coloring. This system has a big advantage in that if the list and capabilities (plan for using nuclear energy) of various facilities in Japan (including nuclear power plants and nuclear fuel re-processing plants), which use Canadian natural uranium (to be imported after being re-processed to enriched uranium in the US) are reported to the Canadian side collectively, the "stream" of nuclear materials, including re-processing, will become free on the part of Japan.

This formula is the same as the contents incorporated in the revised Japan-Australia Nuclear Energy Agreement. Japan and Canada have decided to prepare a "note of agreement concerning the new formula as soon as possible," and it is expected to come into effect by about June. However, as the principle in terms of the "prior agreement system," which is laid down in the present Japan-Canada Agreement, is not to change, the Agreement will not be revised, and a form of changing the implementation will be taken.

At the informal negotiations on nuclear energy which were held in Washington, on the other hand, the Japanese side asserted that the Japan-US joint decision (liberalization or easing of the restrictions on re-processing), which came into effect in November last year, should be eased further and shifted to a "permanent measure."

In response to this, the US side pointed out that in the US Government and Congress, voices attaching importance to nuclear non-proliferation and opposing a "permanent measure" are still strong. However, it is thought that there are prospects for being able to start formal negotiations for permanent easing, within half a year.

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SCIENCE AND TECHNOLOGY

DEVELOPMENT OF SEA BOTTOM RESOURCES CRITICIZED

Lag Deplored

Tokyo NIHON KEIZAI SHIMBUN in Japanese 3 Feb 82 pp 1, 3

[Text]

The Governments of the US, Britain, West Germany and France have notified Japan that they will sign, on February 19, a secret agreement on the monopoly of development of the sea-bottom mineral resources in the Pacific and other areas, which agreement will take effect simultaneously with the signing. This club of four nations will establish mine lots for the early development of the sea-bottom strategic mineral resources, such as cobalt and nickel, which resources are about 40 times as plentiful as those on land. Japan, which is not a party to the agreement, cannot take part in this project. So, the Government will file protests with the Governments of these four countries by diplomatic notes around the time of the going into force of the agreement. Japan did not join the club of four nations, because it attached greater importance to the UN Conference on the Law of the Sea, which Conference is to establish international rules concerning the development of sea-bottom resources. This Conference, however, is still unable to gain a prospect for its arrival at a conclusion, because it is involved in the confrontation between the US and the developing nations. If such a situation is left as it is, Japan will be left behind the international race for the development of sea-bottom resources. Moreover, it may lose the government funds amounting to about ¥10 billion, which funds it has already poured into the development of sea-bottom resources as a national project.

The sea-bottom mineral resources, the development of which is to be started by the four nations according to the agreement among themselves, are distributed mainly in the Pacific, especially at the bottom of the sea between the Hawaiian Islands and the North American Continent, in the form of nodules consisting mainly of manganese. The nodule contains, besides manganese, more than ten kinds of rare metals including cobalt, which is used for military weapons and atomic reactors, nickel and copper. It is expected that it will become possible to meet the total demand for

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cobalt with the sea-bottom resources, with the progress of the development of these resources.

According to a Government source, the four-nation agreement is called the "Agreement on Mutual National Systems" concerning the development of sea-bottom mineral resources. This agreement provides for the following: (1) Simultaneously with the going into force of the agreement, the organizations of the four countries, which organizations are to undertake the development of resources, shall report to their respective Governments the mine lots they have selected for prospecting; (2) When the lots selected by these organizations overlap each other and when organizations concerned cannot make a compromise by negotiations between themselves, the matter will be settled by Government-to-Government consultations; (3) The areas of the mine lots to be acquired by these organizations will not be limited; (4) Commercial development will not be permitted until January, 1968, but preliminary mining will not be restricted; (5) After the going into force of the agreement, only the countries, which have taken necessary internal legislative steps, will be admitted to this agreement, but no country will be admitted until January 24, next year, at the earliest; and (6) the participants in the agreement and their Governments shall bear the obligation to keep such matters as the operation of the agreement secret.

A Government source pointed out that this agreement is "extremely exclusive" as an international agreement. It is not until late January next year or later that Japan can take part in the agreement, even if the related internal laws are to be revised to meet the requirements of this agreement. It can be expected that enterprises of such countries as the US will acquire most of the excellent mine lots by that time. Since the start of the 1970's, five groups, which were formed as international consortia for the development of resources under the leadership of big European and US non-ferrous metal enterprises, have been endeavoring for the development of technology. Last year, a US major (international oil capital) purchased Kennecott which is one of the leaders of the consortia, to take part in the project.

On the other hand, the deliberations on the proposed Treaty on the Law of the Sea at the UN Conference on the Law of the Sea, which Conference is supported by Japan, have had hard sailing. In view of the fact that the sea-bottom resources are distributed in the high seas, the proposed Treaty aims at establishing common rules to be observed by all nations including the Soviet Union and other communist countries and the developing nations as well as the advanced nations of the West, and setting up a unified international organization with the right to control the development of these resources. The REAGAN Administration of the US, however, is strongly opposed to this Treaty, on the grounds that such a treaty will make it impossible for US enterprises to gain profits from the investments they have already made, and moreover, bring benefits to the Soviet Union.

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The UN Conference on the Law of the Sea is scheduled to reopen on March 7. It is certain that the Soviet Union and the developing nations at this Conference will raise a strong voice of protest against the arbitrary decision made by the four nations including the US. Unless the UN Conference, however, adopts a draft of the new Treaty on the Law of the Sea, the four nations will establish mine lots and start prospecting enterprises earlier than the establishment of a new law of the sea. Japan is scheduled to protest against the arbitrary step taken by the four nations, but will be confronted with the necessity of groping for a compromise with these nations.

Japan has already poured government funds, which amount to ¥9,300 million, into such projects as construction of prospecting ships. The Government holds, however, that research and development will not be completed until 1988 or 1989. Of private enterprises, the Mitsubishi group and the Sumitomo group have made contributions to the international consortia formed by European and US enterprises. So, these two groups alone are likely to enjoy the benefits of the four-nation agreement. The Japanese Government, however, has maintained the policy of relying on indigenous technology and funds for the full-scale development of sea-bottom resources.

Japan Lagging in Technology; Europe and US Give Priority to Security;  
Monopoly Agreement on Development of Sea-Bottom Resources

(Commentary) -- The US enacted an internal law for the development of sea-bottom resources in June, 1980. Britain, West Germany and France, too, have enacted such laws until now. Japan, however, has been unable to take such a legislative step, largely because it has been lagging behind these nations in technological development. A prospecting ship, the "Hakurei-maru," has already gone into operation. This ship, however, "lacks the ability to discover excellent mine lots" (Government source). In such a situation, no decisive step can be taken for the early enactment of the needed internal law.

Another reason is the delay in the establishment of rules concerning the development of sea-bottom resources of the world by the UN Conference on the Law of the Sea. It is expected that a sea law treaty, even if agreed upon in the next session of this UN Conference, will not take effect until 1988 or later, because such procedures as ratification must be taken by the signatories. So, Japan remained unprepared, thinking that it "will not miss the boat," even if it follows the UN schedule in its efforts for legislation and technological development.

While Japan remained idle, the REAGAN Administration of the US decided that the securing of sea-bottom strategic resources will guarantee the security of the Western world, and embarked on conclusion of a four-nation agreement, with the consent of three European nations.

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It is expected, however, that such an agreement will invite strong objections from the developing nations. It is said, therefore, that the US Government is contemplating a modified draft of the Treaty on the Law of the Sea, which draft will harmonize the four-nation agreement with the UN treaty to be concluded, to make it possible for the US to make a compromise with the developing nations at the UN Conference on the Law of the Sea.

Unless such a draft is adopted, however, the four nations will establish mine lots and start prospecting enterprises ahead of other nations. So, it is necessary for Japan, which is scheduled to protest to these four nations, to grope for a compromise as well. It can be said that it is necessary for Japan to make itself prepared, first of all, to take part in the development of resources, so that it can gain an advantageous position in such a situation.

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Protest To Be Lodged

Tokyo NIHON KEIZAI SHIMBUN in Japanese 3 Feb 82 p 1

[Text]

The US, Britain, West Germany and France, four nations in all, have agreed to conclude an agreement for monopolizing deep sea-bottom mineral resources development. Concerning this, the Foreign Ministry, on February 3, said that "the development of the deep sea bottom should be promoted, based on a comprehensive rule (the UN Treaty on the Law of the Sea)." Thus, the Ministry officially clarified the policy of lodging protests with the four nations at the stage when the Agreement takes effect in the near future.

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SCIENCE AND TECHNOLOGY

CONSTRUCTION OF NEW-TYPE CONVERTER REACTOR PUSHED

Tokyo NIHON KEIZAI SHIMBUN in Japanese 22 Jan 82 p 8

[Text]

The Atomic Energy Commission (Chairman: Science and Technology Agency Director General NAKAGAWA) as of the 21st firmed up the basic policy of promoting the construction of a demonstration reactor for the new-type converter reactor (ATR), using a mixture of plutonium and uranium as the fuel, followed by commercial reactors. The output capacity of the demonstration reactor will be 600,000 KW, and as to the construction cost of ¥320 billion, the Government and private circles will pay ¥20 billion - ¥50 billion in aid, to push the construction. The commercial reactors (output capacity: one million KW each) will be materialized with the construction of 3 - 5 reactors in mind. In regard to the main body for the construction of the reactors, it was decided that the Atomic Energy Commission will not decide on it, and that the formula of deciding on it after receiving recommendations from private circles, including electric power companies and reactor manufacturers, will be adopted. This policy will be explained by Chairman NAKAGAWA to representatives of the Federation of Electric Power Companies, the Atomic Energy Industrial Forum, Hitachi, which is a manufacturer, etc., at the AEC discussion meeting to be held on the 27th, and private circles' positive co-operation will be requested.

As to the construction of the ATR to be autonomously developed by Japan, the New-Type Converter Demonstration Reactor Evaluation and Study Special Sub-Committee, which is a subordinate organization for the Atomic Energy Commission, compiled the following recommendation in July last year: "The development should be pushed with private circles as the main body, with the support of the State." The said Commission, receiving this recommendation, has been pushing studies on such matters as the main body for the carrying out of the construction, the ways or rate of the share of construction expenses between the Government and private circles, and the number of commercial reactors to be constructed.

As a result, a policy was firmed up to the effect that it is necessary for the Government and private circles to co-operate in tackling the construction of the ATR, and the Commission's views were firmed up.

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The main points of the Commission's views are as follows: (1) To incorporate the ATR in the nuclear power generation system in the future, construction of a demonstration reactor should be pushed, first of all; (2) the main body for the construction should be decided by receiving recommendations from nuclear power industry circles including electric power industry circles and manufacturers; (3) a part of the funds for the construction of the demonstration reactor should be shared between the Government and private circles, the unit price for power generation should be established on the level of LNG (liquefied natural gas) thermal power generation, which requires the highest cost among the energies to be substituted for oil, and it will be taken by electric power companies; and (4) in consideration of the risk on the part of the main body for the construction, the cost should be calculated by fixing the operation rate of the demonstration reactor at 60 percent, which is lower than that at the present nuclear power plants.

Especially as to the construction funds, the cost for the construction of a demonstration reactor amounts to some ¥320 billion, about 40 percent as high as that for a light-water reactor for commercial nuclear power generation. For this reason, the Commission has adopted the idea of lightening the burden of the main body for construction by fixing the unit price for power generation at a relatively high level, and proposed that the Government and private circles cover the unprofitable part in the form of aid in construction expenses. A person concerned says that if the unit price for power generation by the demonstration reactor is fixed on the level of LNG thermal power generation, aid amounting to some ¥20 billion will be necessary even when most expenses are borne by the main body for the construction, and that if the unit price is fixed on the level of coal thermal power generation, which requires a lower unit price, aid amounting to some ¥50 billion will be necessary. The unit price on the level of LNG power generation will be proposed as a test plan.

In regard to commercial reactors, too, pushing the use of plutonium through the commercialization of new-type reactors will be helpful in establishing the nuclear fuel cycle in industry circles, and it will also be advantageous for the use of plutonium for light-water reactors. From these points of view, a "go sign" has been given for the construction. At the negotiations between the Atomic Energy Commission and private circles in the future, materialization of the development plan, including the number of commercial reactors to be constructed, together with the rate of the share of construction expenses between the Government and private circles, is expected to become a focal point.

The Commission intends to find a clue to settling this problem by showing these views to persons concerned. It wants to settle such problems as the main body for construction and funds by the end of March, at the earliest, and start the plan in fiscal 1983.

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SCIENCE AND TECHNOLOGY

HITACHI EYES SECOND PLANT IN AMERICA TO PRODUCE VLSI'S

Tokyo JAPAN ECONOMIC JOURNAL in Japanese Vol 20 No 993, 16 Feb 82 p 9

[Text] Hitachi Ltd. is planning to start construction within this year a second plant in the U.S. to mass produce very large scale integrations (VLSIs), it was learned recently. The envisaged U.S. plant, details of which still are undecided, will have integrated manufacturing lines for 64-kilobit random access memory (RAM) chips. The Tokyo electronics giant's production subsidiary in Dallas, Texas, now assembles major components imported from Japan for memory chips, mostly 16K RAMs.

Hitachi's plan to set up more production facilities for VLSIs in the U.S. seems aimed at forestalling a fresh Japan-U.S. trade friction on semiconductors that now seems to be rekindling in the U.S. industry and Congress.

Japanese manufacturers, including Hitachi, Fujitsu Ltd. and Nippon Electric Co. (NEC), are already taking leadership in the market for 64Ks. Japanese-made 64Ks are said to be enjoying 70 per cent share of the American market for the first generation VLSIs.

These manufacturers are planning to boost production capacities in Japan to as much as some 1 million chips a month around next March.

Faced with the aggressive strategies of such Japanese firms, some of the U.S. competitors eventually have been forced to withdraw from the market. Only the two giants — Texas Instruments Inc. and Motorola, Inc. — will be equally competitive with the Japanese in the coming years, some industry observers say.

So-called "reciprocity" legislation now regarded likely to be enacted in the U.S. Congress is aimed, among others, at the Japanese semiconductor industry, it is widely believed. Testifying last week in a public hearing in the Congress, Secretary of Commerce Malcolm Baldrige charged that the Japanese semiconductor producers are sharply increasing exports to the U.S., while protecting themselves by non-tariff barriers, and helped by governmental assistance on research and development. His accusa-

tion is in line with recent criticisms by the U.S. Semiconductor Industry Association, and micro chips appear likely to become a new source of trade friction between Japan and the U.S.

Tariffs on ICs in the U.S. were lowered from last year's 5.6 per cent to 4.24 per cent in January, and also in Japan will be slashed from 10.1 per cent to 4.20 per cent next April. Prolonged recession caused slowdown of Japan's IC exports; its IC trade surplus vis-a-vis the U.S. in the first 11 months of 1981 narrowed to ¥500 million from ¥3,400 million a year earlier.

However, more Japanese manufacturers, on their part, will have to follow Hitachi in "transferring" production lines from Japan to the U.S., in order to alleviate possible friction over semiconductors, analysts here predict.

"We sincerely hope that our colleagues in the American industry will succeed in a roll-back of 64Ks," says Atsuyoshi Ouchi, senior vice president of NEC.

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SCIENCE AND TECHNOLOGY

MHI, WESTINGHOUSE TO COOPERATE IN REACTOR TECHNOLOGY

Tokyo JAPAN ECONOMIC JOURNAL in Japanese Vol 20 No 992, 9 Feb 82 p 6

[Text]

Fast breeder reactor will be developed jointly by Mitsubishi Heavy Industries, Ltd. and Westinghouse Electric Corp., subject to final approval by the Ministry of International Trade & Industry.

The new international cooperation at the industry level stemmed from the pair's FBR engineering service contract. As the specific means of cooperation, MHI and WH agreed to swap technical know-how by holding engineers' meetings, mutually award research contracts and develop a program for joint development efforts.

The two companies, both world-scale pressurized water reactor builders, reached a basic FBR cooperation agreement at the end of 1981. They worked out details, which are being studied by MITI for approval. The Ministry favored the deal, which it believes will help accelerate FBR development.

Mitsubishi Heavy Industries is slated to play a key role in

construction of Japan's Monju prototype FBR. WH's FBR jobs in the past included construction of an experimental FBR called fast flux test facilities, and design of a prototype plant at Clinch River.

The know-how WH obtained from those U.S. Government projects will be excluded from the tieup programs with MHI because Washington forbids such data's transfer to foreigners.

Despite that limit, the two major PWR makers decided that there are a lot of technical problems to solve before FBR can be commercialized — perhaps early in 21st century.

The pair originally tied up in December, 1971 for PWR construction.

FBR is run by a fuel, mixture of plutonium and uranium, which is obtained from the spent fuel of light water reactors, including PWR. Uranium, as contained in the fuel, turns into plutonium, thus making it possible for an FBR to produce a larger volume of plutonium than it consumes.

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SCIENCE AND TECHNOLOGY

PRACTICAL TYPE 1.5 MICRON SEMICONDUCTOR LASER PRODUCED

Tokyo JAPAN ECONOMIC JOURNAL in Japanese Vol 20 No 992, 9 Feb 82 p 13

[Text] Kokusai Denshin Denwa Kaisha (KDD) of Tokyo, Japan's sole international telecommunications company has developed an ideal laser beam for fiber optics communications. The semiconductor laser emits infra-red beams of exactly 1.5 microns in wave length without trace of neighboring wave-length beams.

Representing the world's first success of its kind, it was announced in a recent issue of the Electronics Letters, a regular publication of the Institute of Electrical Engineers, an prestigious British society, it was learned. Equivalent achievements have been almost simultaneously disclosed by the Musashino Electric Communication Laboratory, in Tokyo, of Nippon Telegraph and Telephone Public Corp. (NTT) and the Tokyo Institute of Technology.

Infra-red beams of 1.5 microns in wave length have long been known as the most transmittable kind of light for optical fiber quartz lines because beams at that wave length are least subject to losses during transit through such lines.

It had been extremely difficult to develop a semiconductor laser giving off pure infra-red beams of that wave length. Forerunners of such a laser developed two or three years

ago had not worked well because their 1.5-micron wave length beams had been accompanied by slight traces of neighboring beams different in wave length which had scattered and conflicted with the desired central beam when running through a long length of such fiber line.

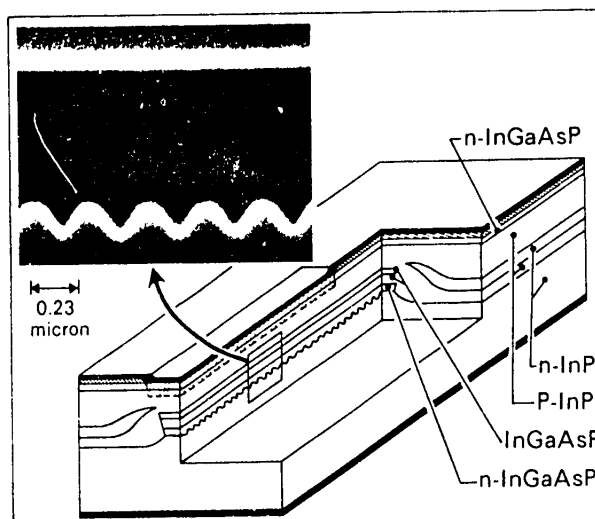
Made of layers of four different elemental crystals — indium, phosphorous, gallium and arsenic, variously compounded with each other or one another —, KDD's new laser

completely pens up all unwanted wave length beams and lets out only the wanted one.

Though more troublesome to produce than NTT's equivalent, it is stronger in light reflection and shorter in pitch.

KDD plans to apply the new laser to its current undersea fiber optics communication test line using a 1.2-micron laser, expecting a 50 per cent cutdown in light loss, doubling of inter-repeater distance, and a much greater economic feasibility.

Structure of 1.5-micron Laser



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SCIENCE AND TECHNOLOGY

RAPID JUMP IN 'NON-WEAPON CERTIFICATES' NOTED

Tokyo NIKKAN KOGYO SHIMBUN in Japanese 30 Jan 82 p 1

[Text]

The export of military weapons and technology has come to the fore as a new problem to attract attention. At this time, applications for "non-weapon certificates," which prove exports "not falling under the category of military weapons," are being filed with MITI by industrial circles in rapidly-increasing numbers. Such certificates enable exporters to go easily through the customs procedures which often take time, and prevent the occurrence of disputes, after export, over whether the exported items are military weapons. So, many enterprises have begun to apply for such certificates in competition. The sudden increase in the number of such applications indicates that exports of those general-purpose items, which are not clearly distinguishable from military weapons, are increasing, and that many enterprises have begun to fear that they may be regarded as exporters of military weapons, because of the occurrence of the case of Hotta Steel and that of export of a communications network by Nippon Electric.

The system of such certificates is called the system of "non-weapon certificates" or "certificates of non-requirement of approval." It is a system created on the basis of the Export Trade Control Ordinance. Formerly there was a system which can be regarded as an origin of the present system. This system, however, made a new departure, after it was revised in accordance with the lessons given by the case of Hotta Steel last year.

Under the revised system, the enterprises, which are to export items not clearly distinguishable from military weapons, can have such items examined by MITI prior to the inspection at custom houses. If these items are recognized not to be military weapons, they are given by MITI certificates proving that the items "do not fall under the category of military weapons and therefore do not require approval." Such certificates give the exporters such advantages as to go through the inspection at custom houses easily.

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After the occurrence of the case of Hotta Steel, MITI and other Government authorities concerned revised the old system, with a view to controlling exports of military weapons smoothly. The revised system, however, also reflects the "consideration" paid by administrative authorities to make it clear in advance whether export items fall under the category of military weapons, so that industrial circles will not become less willing to export general-purpose items out of their anxiety over the possible occurrence of disputes over weapons exports.

It is still less than a year since the revised system took effect. In such a short period, however, the number of enterprises applying for examinations by MITI has increased suddenly. Under the old system, there were few such applications. Since the new system was established, more than 500 applications have been filed until now. MITI is busy meeting such applications, saying that "We may receive nearly 1,000 applications by this spring."

Industrial circles have become nervous about weapons exports, partly because of the controversies over such exports in the Diet. Furthermore, a company, which is a subsidiary of Nippon Electric, recently was suspected of exporting weapons, for the reason that the parts for communications apparatuses it had delivered to an American telephone company were used, in the end, for a military communications network of the US Defense Department. These circumstances seem to have given an impetus to the tendency to apply for non-weapon certificates.

The items, for which certificates have been requested, include such controversial items as special steel and IC's, the use of which for military weapons has often become a problem. They also include, however, toy guns which are imitations of real guns, and the export of which will be approved as a matter of course. MITI thinks that it is indicative of the growing anxiety of many export enterprises over the problem of export of military weapons and technology, that certificates have been sought for such a wide range of items.

MITI emphasizes that the system of non-weapon certificates aims not only at controlling weapons exports, but also at preventing enterprises from becoming reluctant or giving up plans to export general-purpose items which they think fall under the category of military weapons.

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SCIENCE AND TECHNOLOGY

PROBLEMS OF SMALL INFORMATION PROCESSING ENTERPRISES NOTED

Tokyo SHUKAN TOYO KEIZAI in Japanese 9 Sep 81 pp 92-95

[Article by Koichi Kobayashi]

[Text] Information processing service is an especially promising industry, which is expected to grow rapidly, at a rate of 20 percent a year, up to the 1990's. It is an intellectual group that has a command of science and technology calculations. Yet the majority of the companies are small or medium-size enterprises standing on a weak business foundation, and they face various problems. There are some companies which have given up the operation. An industrial reorganization has begun.

With the progress of computerization in Japan, the information processing industry, which is responsible for its software sector, has developed dramatically in the last 10 years or so. Already by FY-79 the market had grown to the level of 596.6 billion yen (specialty companies only; 804.7 billion yen level if combined with companies that also engage in other lines of business--investigation of actual conditions of specific service industries by the Ministry of International Trade and Industry). The average growth rate of the past 5 years is 19.5 percent, and 20-percent level growth is also expected in the future. It is even estimated that the industry will reach the 6-trillion-yen scale by the end of the eighties.

In spite of the super growth market of the eighties, the size of the enterprises is small; for example, even Japan Business Consultant, at the top of the industry, claims sales at only the 18.5-billion-yen level (FY-80). There are only a few "majors" that net sales above 10 billion yen. This industry consists of small and medium-size enterprises, estimated to include 1,200 companies, and many of them have less than 100 employees.

Super Computer Strong in Science Calculations

The forerunner of the information processing industry was the calculator, which used a punch card system, in the latter half of the fifties. Later, centers which were contracted for paycheck calculations, from software development to input-output related work, rapidly increased with the incorporation of computers. It was a time when even small and medium-size companies could have lucrative operations as long as they rented their computers by the hour between operations.

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Unfortunately, as the cost of hardware was reduced, general users bought affordable computers and the demand for computer rental at an hourly rate was curtailed. In contrast, contracts for the development of software and field service business increased.

Nevertheless, office calculations claim a large part of the total business, exceeding 20 percent. The recent trend is the upcoming change from batch processing, where data is brought from users and calculated collectively, to on-line processing, where input and output are remote-controlled by using a communication line.

Companies such as Japan Business Consultant and Japan Electronic Computer (FY-80 sales, 10.8 billion yen) sell terminal equipment to users and locate them at branch offices throughout Japan to form an on-line network with the company's own large computers. The users utilize software developed by contract and can instantly obtain information regarding sales and stock management, reservation system, etc, using terminal equipment spread nationwide. Major general companies use this service, and the demand is rising.

What is most promising in the calculation business is science and technology calculations. Application programs prepared by dealers are operated and utilized through the terminal equipment of the users.

Among the programs, the largest in number are the structural analytic simulation programs. Simulations for civil engineering and bridge building and simulations by the finite elements method all make the most of the respective characteristics. Other programs available are: electron circuit design programs, chemical calculation and rocket orbit tracking control programs, etc. There are many cases where general use programs have been set up applying the technology used in the past when the software was developed under contract.

Especially noteworthy for its contribution to the improvement of science and technology is the ultra-high-speed super computer on-line service for science and technology calculations.

The super computer CRAY-1 of Cray of the United States features an arithmetic processing capacity 20-40 times greater than other general super size computers in vector and decimal calculations. There are only 20 some units like this in the world, and two of them are installed in Japan, one at Mitsubishi General Research Institute and the other at the Century Research Center.

The computer at Mitsubishi General Research Institute is used for analyzing data transmitted from resource-finding satellites. The computer made the practical use of satellites possible by shortening the conventional picture processing time of 20 hours/picture to 1 hour. Also, it helps to reduce research costs as it is capable of handling simulation analyses by three-dimensional calculations in lieu of large-scale wind tunnel experiments and water tank experiments.

In addition, the need has arisen for analyzing, for instance, a small motor down to the nuts and bolts using a super computer in place of the analysis conventionally made by means of experiments. This is one example of the utility of a super computer, where the accuracy is improved by detailed analysis which was previously considered impossible.

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In the days to come, the demand for the use of information in conjunction with the expansion of the computer network will rise continuously and steadily. The restrictions imposed by Nippon Telegraph and Telephone Public Corporation on communication lines are rigid, and the speedy liberalization of communication lines is desired by various sectors.

Field Services Suffer From Low Job Holding Rate

The demand for field service business has been growing recently in the information processing industry. Field service businesses dispatch SEs (systems engineers) and operators upon the request of the users. This service is often called for when business is particularly heavy or when special technical knowhow is required.

Furthermore, there has been a surge in inquiries about FM (facilities management), in which all information processing work is taken care of under a contract, i.e., from building the user's system and development of software to the daily input-output related work.

Computer Service, one of the major companies of the industry, (estimated sales for September 1981 term, 17 billion yen) tells a success story of raising sales almost 100 fold in the past 10 years, with FM business as its leading sector. Many other companies also have a hand in the FM business, and not a few companies have grown up around this business.

It is certain that FM business will continue to grow extensively in the future, but at the same time it is plagued by the problem of "low job holding rates."

The dispatch of personnel, after all, is a service business. The servicemen must work closely with the users because of the nature of the work, i.e., development of software. Indeed, it takes 3-4 years to organize a large system, during which time the servicemen will be stationed at the work site.

Incidentally, software engineers maintain an artisan spirit. In some cases an engineer's pride is damaged when his program is rejected by the customer. In addition, a service engineer works every day in "somebody else's company," and finds no desk of his own even when he returns to his own company. No wonder his sense of belonging is diminished.

If an engineer suddenly quits his job, great damage is inflicted upon the company, and also on the users. As a countermeasure to this, some companies even dispatch four servicemen when actually only three are required. There are limitless stories of the trouble companies go to in order to increase the job holding rate. The companies come up with various countermeasures, for example, holding regular parties and athletic meets and contracting all work including the management of the computer rooms of the users.

At any rate, it will be very interesting to see how and where these engineers can fit into Japanese society with a keen sense of belonging in keeping pace with the future growth of the FM business.

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In any case, the biggest problem, the chronic shortage of personnel, will continue in the future because the supply of engineers cannot catch up with the software demand, which is rising steadily and rapidly.

Under the circumstances, jobs relating to software development and program preparations are plentiful. A man with any knowledge of computer technology will not starve. Engineers confident of their ability do not hesitate to seek better opportunities in other companies or spin off and become independent. On the other hand, simple work such as substituting machine language for program language can be subcontracted from a subcontractor at any time.

However, in reality, the world is not full of sweet talk. Recently, there has been an increase in cases where even companies which achieve an annual sales rate increase of 30 percent do not necessarily improve their profits. That is, they raise the salary scale to hold on to their engineers, and that outlay, in addition to the investment put out to obtain and educate personnel, squeezes the profits.

Reality is not so sweet even for the small companies which became independent at the first chance in order to grab overwhelming job opportunities. The fact is that many of them are suffering from insufficient funds and have difficulty in meeting monthly expenses such as payrolls. They try desperately to survive by working as subcontractors, since this brings in cash no matter how small the profit, in order to procure operating funds.

However, the maker-affiliated and user-affiliated companies that claim one-quarter of the total can rely on backing from a parent company, and that makes the situation slightly different. Even an independent company considered a major organization cannot truly and completely feel relaxed about the profits retained.

As explained above, the biggest problem of the industry is the weakness of the business foundation of each company, which is why the industry is referred to as "prosperity without profit."

Selection Rapidly in Progress

In fact, in some cases, small and medium-size companies were unable to survive and went under the umbrella of other companies. The problem will get more serious in the future from the aspect of compensation such as pay, etc. It is entirely predictable that companies will announce the closing of their business operations one after another in the next several years.

Simultaneously, the selection of the surviving medium-size and small companies will begin. Already, it is noted that some companies are formulating a survival strategy in anticipation of the future.

For example, Central Computer Service (FY-80 sales, 1.3 billion yen) has a policy of not employing or increasing personnel in order to pursue a long-term plan of balancing the makeup of personnel by age; instead, it utilizes outside orders and field services whenever possible. Also, System Consultant (FY-80 sales, 1.1 billion yen) will not employ people with previous work experience and will not scout for talent but will hire only new graduates above a certain level, in order to prevent a drop in the technological level and to obtain stable growth.

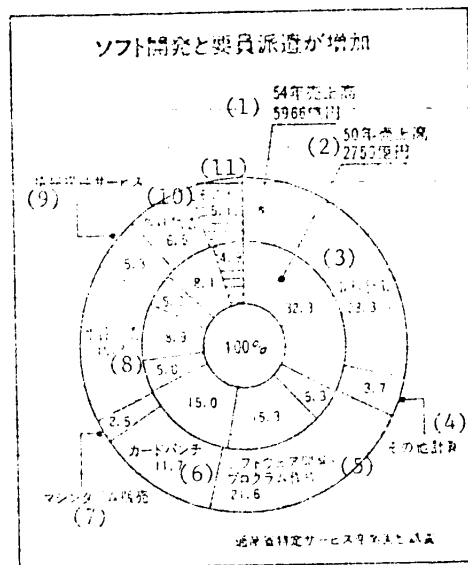
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Also, in some localities, local companies are grouping together with the backing of the financial world. In parallel with this trend, tieups of central major companies and local medium and small companies are in progress. Even now, calculation centers are grouping under makers and sharing software and national scale work.

Thus, the reorganization and consolidation of the industry is proceeding, and the current bipolar structure of "a handful of majors and numerous weak small business groups" is expected to evolve into a bipolar structure of "a few majors and selected medium and small company groups." This crystallization started gradually, and many believe strongly that the general structure will be solidified in a few years.

Increase in Software Development and Field Service

source: Investigation of Actual Conditions of Specific Service Industries by MITI



Key:

- |   |                               |
|---|-------------------------------|
| 1. FY-79 sales 596.6 billion yen            | 6. card punch                 |
| 2. FY-80 sales 275 billion yen              | 7. machine time sale          |
| 3. office calculation                       | 8. field service              |
| 4. other calculations                       | 9. information service        |
| 5. software development program preparation | 10. various types of research |
|   | 11. other                     |

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Acceleration Toward Specialization

What serves as the key to survival and the source of the acceleration of the bipolarization is the technological ability of each company.

Computers have penetrated into all fields of industry, and the object of software development tends to be increasingly narrowed into specialty fields. However, there are on the horizon some companies (engineers) which cannot catch up with this, and the selection of companies is also proceeding from the area of developmental ability.

Special technology entails many fields of specialization, such as the building of on-line systems, safety maintenance systems for nuclear power plants, roll press control programs for steel and iron and CAD (computer-aided design). It requires deep knowledge of each field, which naturally creates a domain in which each company is comfortable. A future strong trend will be that companies will trade on their specialties and take on jobs to which their specialties can be applied.

It may be possible for major companies to expand the scope of their business by leasing certain special engineers to other fields to make that technology available for application.

The problem here is the question of how to sublimate individual technical ability to the corporate technical ability. If a company pays attention to a systematic accumulation of skills through everyday education, the individual ability can be useful as part of the corporate technical ability and it can work as insurance against a possible spinoff.

Software engineers, SE, must possess sophisticated ability, which includes not only computer knowledge but also knowledge of the objects of software. Furthermore, they must have the competence to grasp the essence of the matter from a broad field of vision and to formulate a concept when organizing a system. The applicational range of software has latent possibilities to expand endlessly.

Especially because of the possibilities, SE is a profession that encourages a man to embrace a great romantic vision, and the market is expanding so dramatically as to allow an engineer to do so.

Talented engineers will circulate around the business operators who can give a "dream" to these exuberant engineers. The possibilities of information processing will greatly expand when many such companies emerge and extensive and intensive new needs are found. With the progress of specialization, we will enter an era when not only quantitative expansion but also qualitative improvement are pursued.

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SCIENCE AND TECHNOLOGY

## INDUSTRIAL PLANT EXPORTS RAPIDLY INCREASING

Tokyo JAPAN ECONOMIC JOURNAL in Japanese Vol 20 No 993, 16 Feb 82 pp 1, 19

[Article by Kaizo Suzuki]

[Text]

With the tempo of plant export expansion picking up speed, the Ministry of International Trade & Industry has come to feel that such exports readily will reach a value of around \$15 billion in fiscal 1981.

According to a survey by the Nihon Keizai Shimbun, large plant contracts (one case exceeding ¥20 billion, and including those provisionally agreed on) in the last half of fiscal 1981, running from October 1981-March, this year, reached 14 cases for a value of ¥1,005 billion.

This is because there is a global boom in building oil refining plants, centering on the oil-producing nations, and exports of plants for steel, fertilizer, cement and others needed for the first stage of industrialization also are active to the Southeast Asian countries.

Factors working addedly in favor of Japanese plant exports are the weakening of the yen against the dollar and the continued lowness of Japan's interest rates as compared with the rest of the world.

MITI authorities thus feel that Japan's exports of industrial plants (total of approved exports and those not requiring approval) will reach an all-time high in the current fiscal year.

They consider it is certain that exports will attain "from \$15-16 billion in value," and sentiment is spreading within the plant industry that such a

high level of exports is going to continue also in the next fiscal year.

The Ministry of International Trade & Industry up to now has used only the value of officially approved exports as the basis for its plant export statistics. However, since cash settlement plant exports, including those on a yen loan basis, have begun to increase, the Ministry has turned its attention to compiling new statistics taking this trend into account.

MITI's forecast of exports reaching \$15-16 billion is based on such new statistics, and breaks down into about \$12 billion worth of approved exports and \$3-4 billion worth of those not requiring official approval.

The past record for approved exports was \$11.7 billion for fiscal 1979 and for those not requiring approval \$2.3 billion for fiscal 1980. The statistics for the latter type are available only from in and after fiscal 1979.

This means that the anticipated figures for fiscal 1981 are higher for both of these categories. The rate of growth over the preceding fiscal year of the estimate for fiscal 1981 reaches around 27-35 per cent.

Considering the sharp expansion of exports after they had scored a minus growth in the preceding fiscal year, it may be said that plant exports loom as a new factor for pulling ahead

the business of the domestic machinery industry.

The first large contract in the latter half of fiscal 1981 was the acceptance of an order from the Soviet Union by the Toyo Engineering Corp.-Mitsui & Co. group in November, last year for building a butadiene plant worth about ¥25 billion, beating out influential Italian and French makers.

In the same month, the Japanese plant makers lost out to their European counterparts in a tender to supply the Russians with about ¥140 billion worth of a natural gas booster plant.

After this, from the end of last year to the beginning of this year, however, the Japanese received a series of big contracts — two Mexican orders for steelmaking facilities aggregating ¥101 billion, an about ¥217 billion Kuwaiti order for an oil refinery, an about ¥40 billion East German order for residual oil cracking facilities, and an about ¥200 billion New Zealand order for an oil refinery.

Plant makers ascribe the favorable trend of exports to such as the following points: 1) The yen rate has continued cheap at around ¥230 to the dollar; 2) Japan's interest rates are lower than those in the West, and are stable.

As compared with the dollar,

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European currencies actually are cheaper than the yen, meaning that the European plant makers are in a more favorable position than the Japanese in winning export orders.

But a leader of the plant industry explains that the Japanese are winning orders despite such a situation as plant buyers have begun to evaluate the Japanese higher as to quality and delivery time. This means that they have become now able head on to some extent to meet the low-priced offensive of the European makers.

The increase of the Japanese makers' international competitiveness generally is reflected in the growing ratio of contracts concluded on a yen basis. The share of yen-denominated contracts for the plant industry up to now had been low as compared to that for the shipbuilding industry whose international competitiveness is strong.

MITI's recent checkup, however, showed that in the April-December period of last year, the yen-based contract ratio for deferred payment plant exports reached 70.1 per cent, or rose 24.4 percentage points higher than the 45.7 per cent for fiscal 1979.

As for a director of Chiyoda Chemical Engineering & Construction Co., a major plant

builder, he says that over 90 per cent of his company's contracts are being concluded on a multi-currency basis, indicating that the plant makers are switching to a contract formula having less possibility of being adversely affected by foreign exchange fluctuations.

The export drives of the industrially-advanced nations appear due to assume added intensity in the future as exemplified in British moves lately to offer a mixed loan of official development assistance including gratis aid, and general export financing.

However, the Japanese plant makers do not believe that expanding exports of plants directly will become a factor for aggravating trade frictions since Japan's share in the world plant exports still is low and orders won by the Japanese on the basis of participating in international consortiums are increasing.

Owing to such a situation, the vice president of Ishikawajima-Harima Heavy Industries Co., for instance, feels that while not much hope can be pinned on exports to the Communist Bloc because of the U.S.-Soviet confrontation on the Polish problem, plant exports in next fiscal year can be maintained at a level for the current fiscal year.

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SCIENCE AND TECHNOLOGY

HIGHLY EFFICIENT PHOTOELECTRONIC SWITCH DEVELOPED

Tokyo JAPAN ECONOMIC JOURNAL in Japanese Vol 20 No 993, 16 Feb 82 p 17

[Text]

An extremely sophisticated photoelectronic switch for future question-answer information systems for providing information in sounds and images in response to button-push inquiries has been developed by the Musashino Electric Communication Laboratory of Nippon Telegraph and Telephone Public Corp.

Believed to be without precedent it is for sending any information retrieved from a file to a subscriber at an incomparably greater speed and accuracy than the existing CATV (cable television) service. Its creation according to the laboratory appears to have cleared the way for introduction of such a futuristic information service now under NTT's development.

Very wide demands for such service are visualized, such as for golf, language, and cooking lessons as well as for more important purposes, but a big technological problem in developing such a switch had been the very broad frequency band needed for transmitting high-quality color television image signals.

The laboratory said its latest test of its switch involving three kinds of information and

three assumed "subscribers" has proved the switch to be capable of handling any information up to 30 megahertz in band in less than one-billionth of a second. The laboratory is sure the switch's capacity may be raised to at least 10 kinds of information and 10 subscribers. By using a plurality of such a switch, a large number of subscribers could be covered.

The switch consists of one semiconductor laser, three photodiodes (the number increasable), and an electronic circuitry to impart a certain fixed (applied or impressed) voltage to a given photodiode. Electric signals representing a given piece of information picked out of the file are converted into light signals by the laser and sent to all the photodiodes by a light-branching circuitry. But only a single diode given the fixed voltage according to a given subscriber's order responds to the signals and transmits the information to the subscriber. Each diode is a sophisticated avalanche photodiode, a chemical compound semiconductor made up of an indium-phosphorous substrate covered with layers of indium-phosphorous, and indium-gallium-arsenic.

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SCIENCE AND TECHNOLOGY

1,000-HOUR OPERATION OF MHD GENERATOR RESEARCH TO CONTINUE

Tokyo JAPAN ECONOMIC JOURNAL in Japanese Vol 20 No 992, 9 Feb 82 p 13

[Text]

Japan's 15-year-old research product to develop MHD (magnetohydrodynamic) electric power generators to save fuel and generate power more efficiently through direct conversion of heat to electricity will be continued for another year. The decision was taken in view of the latest promising research findings.

The Agency of Industrial Science and Technology of the Ministry of International Trade & Industry reports that the service lives of the electrodes before renewal of the experimental MHD generating model were found to average between 850 and 1,000 hours.

The ¥ 2.5 billion model, Mark 7, was completed by Mitsubishi Heavy Industries, Ltd. of Tokyo and installed at its Takasago factory complex research

laboratory in Hyogo Prefecture at the end of 1980.

Operated by the institute's Electrotechnical Laboratory, it had worked well through its first trial run in July, 1981 and its second in October that year.

Follow-up continuous running tests of last October and December resulted in a total of 227 hours of continuous operation, interrupted once, with a total power output of 2,083 kilowatts per hour. More significantly, one-third of Mark II's 60 pairs of electrodes, made of platinum and subjected to hot gas of more than 2,000 degrees C lost only 1.328 grams of their structural materials, while the remaining stainless portion lost 6.8 grams. Plans call for reducing the nickel content of the stainless electrodes and replacing oil with coal.

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## SCIENCE AND TECHNOLOGY

## BRIEFS

SERVOMOTOR FOR ROBOT--Industrial robots with an alternating-current servomotor just developed by Fujitsu Fanuc Ltd. of Tokyo cost less to produce and are freer from functional and maintenance troubles than the now common direct-current servomotor equivalents so far produced, it was recently learned. According to the Japanese machine tool numerical control (NC) system maker, Japan's industrial robot industry, already the world's largest, has been witnessing the domestic market growing since 1980 at an annual rate of 40 to 50 percent in value. It promises to grow into ¥ 1,000 billion annually by 1990. Many local industrial robot client enterprises have been calling for more reliable robots because the current models often have functional and maintenance troubles requiring time-consuming repair. To be sold from April next year, the company's "S series" industrial robots will answer the demand from users of direct-current servomotor type. The alternating-current servomotor type is known to be superior, its complex electronic circuitry and higher costs had been a problem. Beginning in August, the company will switch its manufacture of such motors to the alternating current type. [Text] [Tokyo JAPAN ECONOMIC JOURNAL in Japanese Vol 20 No 993, 16 Feb 82 p 7] [COPYRIGHT: 1982, the Nihon Keizai Shimbun, Inc.]

URANIUM ENRICHMENT CONSORTIUM STUDIED--The electric power industry will take up the question of industry's uranium enrichment venture by promoting a unit at the Federation of Electric Power Companies into one for preparing a consortium formation. The uranium enrichment consortium concept will be studied by the nine electric utilities, Japan Atomic Power Co., heavy equipment makers and banks. The existing FEPC unit was launched in March, 1981 by the nine utilities and JAPCO. Its upgrading is aimed at forming a consortium in light of the enormous cost requirement for constructing a commercial enrichment plant with annual capacity of about 3,000 tons separative work units. An existing consortium for spent fuel reprocessing, Japan Nuclear Fuel Service Co., is also a consortium of 100 companies, including the utilities and heavy equipment vendors, steel mills and shipbuilders. [Text] [Tokyo JAPAN ECONOMIC JOURNAL in Japanese Vol 20 No 992, 9 Feb 82 p 6] [COPYRIGHT: 1982, the Nihon Keizai Shimbun, Inc.]

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