

Ir. F. J. Philips

Eindhoven. June 28th 1985.

Dear Fujita

I want to send you this article which appeared in one of the main Dutch newspapers.

It illustrates the danger that threatens world trade and world progress in the years to come. I know that hardly anyone in Japan is informed what is going on. I even think that the big companies are more interested in their
X turnover and their profits than they are aware of this international danger which will effect the future of Japanese industry.

You will understand that my friendship for Japan is main motive of asking you to see what can be done about it.

I thank you for your cooperation and remain,

in loyal friendship

Frits Philips

X which is quite natural

Protection, dumping, theft and blackmail are all part of the strategy by which Japan aims to destroy the electronics industry in Europe and the United States. That is the conclusion of an internal study produced at Philips, on which this newspaper reported last Monday. According to R. Hamersma, the Philips' executive heading the study group, it is not too late to turn the tide.

THE FALSE SMILE OF JAPAN

Philips study: Feared eclipse of Western electronics industry

It sounds like the plot of a cheap science fiction novel: implacable evil genius pursues craft strategy to get the world in his power, smart lads try to stop the villain.

What we are talking about, however, is a cool and businesslike report: an in-house study produced by Philips. The picture that emerges from figures, facts and conclusions only makes it more threatening: Japan is busy disrupting the international economy. Japan lusting for world power.

In the Philips study a key role is assigned to Miti, the Japanese Ministry of Trade and Industry. With its staff numbering 12,000, Miti is a state within a state, a stronghold of power with virtually inexhaustible resources and formidable powers of persuasion. Companies that do what Miti tells them to do can count on abundant support. Companies that refuse to play ball are mercilessly chastised.

Japanese industry consists of zaibatsus - combat groups of companies inclined to destroy each other on the home market unless they can be pointed at a common enemy. Miti provides them with that enemy: the rest of the world.

In that war against the rest of the world, Miti employs the targeting tactic, better known perhaps as the scorched earth policy. First of all Miti takes as the spearhead an advanced product of high added value and low volume. Next, all forces are mobilized. All possible means - permitted and unpermitted - are thrown into the fight to gain a decisive lead. The operation ends with the wiping out of the competition.

The Philips study shows that Miti has already applied this tactic with resounding success to the steel industry, to consumer electronics, to numerically controlled machines and to integrated circuits. The new targets are professional electronics, information technology, the aerospace industry and biotechnology.

According to Philips, Japan has used colour television in the United States as a Trojan horse to break through the defences of the national manufacturers of consumer electronics. A group of companies, including Matsushita, Toshiba and Sanyo - called the "tenth day group" because they met every tenth day of the month - decided at the end of the sixties to launch on the American market a colour television set costing 400 dollars.

In Japan the same set was sold over the counter for 700 dollars. In this way the Japanese consumer financed dumping in the United States. One after the other the American manufacturers threw in the towel.

Conspiracy

For the last fourteen years a lawsuit has been conducted in the United States against the Japanese in which it is alleged that Japanese companies have been conspiring to squeeze American competition out of the market. In 1983 the Japanese came up with an interesting defence. They said that the Japanese Government had forced them into the price war.

After the colour television setback, American industry was wary of venturing into the manufacture of the video cassette recorder. The Japanese had a very easy time making their decision. Thanks to the profits they had earned on colour television, they were able to market their video cassette recorders at rock-bottom prices.

In doing so they introduced a new method of price-fixing. In the past the practice with new products had always been to sell a small volume of products in the initial phase with large profit margins. The Japanese overturned the laws of economics by selling the video cassette recorder in the initial period at less than cost.

R. Hamersma, one of the compilers of the Philips study and a director of Corporate Planning and Marketing Support, speaks almost admiringly about "the great VCR game". That tactic of the Japanese was aimed at being able to produce large quantities as quickly as possible, so that cost would automatically go down. An incidental advantage was that the competition would be left out in the cold.

The Japanese speed-up in the second half of the 'seventies came for Philips at a very bad moment. The Dutch giant, the very inventor of the video cassette recorder, was unable to bring out products that could compete on equal terms with the Japanese products.

When Philips came out years later with the superior V2000 recorder, the world market had long been thoroughly carved up. Last year the Japanese had a share of nearly 95%.

Neck chop

The Philips study reveals that the Japanese, thanks to their victory in the video battle, have achieved a virtual monopoly in the field of consumer electronics. They are now exploiting their position to give the neck chop to their last competitor - Europe. To that end they are using three weapons: the product standard, the market development and the price.

According to Hamersma the Japanese have meanwhile become so powerful that they are able to hold up the acceptance of a new product standard. If Philips wants to have its standard accepted, it has no alternative but to offer the Japanese a licence. That is what happened, for example, with the Compact Disc. "Pure necessity", acknowledged Hamersma, "alone there's not a thing we can do."

Another point is that the Japanese can offer a new product first on their own protected market. Unhampered by competition, they are able in this way to reach high-volume production quickly at low cost. They then turn to other markets on which they then have a head start.

The Japanese are also in the highly privileged position of being able to dictate the prices. Hamersma reckons that the Japanese don't earn a cent on hi-fi equipment and hardly anything on colour television sets. They can permit themselves that freedom because they earn good money with their video cassette recorders. The result is of course that competitors are fleeced.

In a note from Philips it appears that new technological developments no longer first appear in the professional sector or in military production. In the past few years the driving force behind innovation has been consumer electronics. That applies to lasers, it applies to sensors.

It also appears that the dividing lines between consumer electronics and professional electronics are becoming increasingly blurred. Philips conclusion is: if the European consumer electronics industry goes under, so does the basis for innovation. In that case the European producers of professional electronics will also be in mortal danger.

Undermining tactics

In Japan the opposite process is to be observed. Because of their strength in consumer electronics, the Japanese have an excellent starting position from which to join battle with the American producers of professional electronics. Their deliberate approach is the frontal attack. They prefer the gradual undermining of the powerful American industry by aiming first at the interface between consumer electronics and professional electronics: monitors, telephone systems, copying apparatus, home and personal computers.

Hamersma points out that the Japanese are using the same tricks which they used earlier to bring the American manufacturers of consumer electronics to their knees. First of all they supply cheap components, next high-grade subsystems and finally the whole apparatus. The Americans themselves are allowed to do no more than put their brand name on it.

The Japanese use the same bait as they used so successfully for colour televisions: a low price. They don't mind foregoing profits for a while, provided that they can earn more than twice as much later on.

"Once you've taken the bait, you're hooked", says Hamersma. "First your production disappears, next your technology. You sell your soul and your salvation." More and more American manufacturers are falling into the trap. They let their equipment be made in the Far East. Even the personal computer of IBM is only a quarter American. The consequence is that American chip manufacturers go to the wall, because they see their selling market disappear. C. van de Klugt, Vice-President of Philips, warned recently in the American journal Business Week: "You are helping to make the bullets that will kill you in the future."

According to Hamersma, various publications show that the Japanese are using other weapons as well. They are tinkering about with patents, they set up joint ventures with a view to continuing on their own with the information extracted from their partner (optical fibres are a typical example). Nor do they shrink from dumping (cellular radio).

Low interest rates

At the same time the Japanese keep their own market carefully protected against professional equipment from abroad. American telecommunication systems first have to be approved by an institute which is financed by the Japanese electronics companies. high-tech medical systems can't enter the country at all. In a fit of frankness, Japanese industry recently declared in an American advertisement: "Sectors with a high added value, high technology and large growth potential receive as much trade protection as can be arranged."

Meanwhile the Japanese companies count on the unconditional support of Japanese banks and government. Hamersma mentions the low rates of interest, which are extremely important because many Japanese companies have built themselves up with borrowings amounting to 80 to 90% of their total capital. He speaks about loans that are not repaid. About the promotion of innovation by not charging VAT on new products. He also mentions the large-scale research projects that are paid for by the government.

The result speaks for themselves. The Philips note discloses that that in 1983 the Japanese supplied 356 times as many electronic consumer products to Europe as vice versa. About 350 times as many to the United States. In electronic components and professional equipment too, Japanese supremacy over Europe was overwhelming.

America did somewhat better, but still had to recognize the superiority of Japan in both sectors. Since then the gap between Japan and the U.S. has widened even more dramatically. In the third quarter of 1984 America suddenly noticed that it had a trade deficit in electronics of 5 billion dollars, nearly all of which was to the account of telecommunications equipment and integrated circuits.

STAR WARS

The conclusion of the Philips study is that free trade and free market development are at stake. According to Hamersma, there are further indications that European and American Defence are becoming increasingly dependent on Japanese technology. That, in the view of this senior Philips executive, is an enormous danger. He says that the President Reagan's Star Wars Programme therefore only makes sense if the research is directed not only at the missiles but also at the means used to make such missiles, for example the fifth generation computers. Philips takes the view that free trade in the world has got to be restored. That means: away with protectionism, away with trade barriers. That also implies: company versus company, not Philips versus Japan.

Until that is achieved, the Dutch multinational is seeking to strengthen its positions outside Europe. "To make us less vulnerable", explains Hamersma. Philips is also seeking strategic cooperative hook-ups and wants to see unification of the European market. Other corporate aims are aggressive innovation and aggressive marketing.

At the same time Philips considers that the European Community must take action to check the Japanese urge to dominate. Philips management has proposed that European Manufactures of consumer electronics should be allowed a market share of 60% for all vital products, such as video cassette recorders and Compact Disc players.

In addition, Philips wants the restriction that only those articles that have been made for at least 60% in Europe shall be counted as European products. This would exclude the Japanese assembly plants set up here and there on European territory, unless they henceforth buy in more components from Europe.

Philips considers that an appropriate temporary measure would be to raise the import duty on Japanese hi-fi equipment and video cassette recorders from 8 to 14%. This would leave room for the European industry to undertake large-scale restructuring. Philips has in mind here pruning the number of factories, more extensive automation and longer operating hours.

Further, it should be a permanent rule of European Community policy that young high-tech European industries have a right to protection via an import duty of 19%. Philips is also pleading for standardization to be speeded up and for a more flexible attitude to be taken towards industrial cooperation with a view to strategic innovation.

The Dutch Government, says Hamersma, is still studying Philips' proposals, prior to submitting them to the Commission of the European Communities as a plan of action.

The import duty of 19% on Japanese Compact Disc players proves, says Hamersma, that such measures really help. Because of this trade barrier Philips has been able to develop into one of the largest manufacturers of this equipment in the world.

The seven Japanese manufacturers reckon they will together produce about two million players this year. Philips' estimated production this year is 1.2 million players.

According to Hamersma, the Philips group boasts a substantial market share not only in Europe but also in the United States and even in Japan. Philips has learnt from the Japanese VCR game. It accepted considerable starting-up losses on the Compact Disc player in order to produce large quantities quickly. Nevertheless, with the Compact Disc player Philips expects to get beyond the break-even point this year. "As a European citizen I am worried about the threat from Japan", says Hamersma. "As a Philips man I believe that there are definite possibilities of turning the tide."

NRC HANDELSBLAD

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