NOTIFICATION IN PURSUANCE OF PARAGRAPH 3 OF THE UNDERSTANDING REGARDING NOTIFICATION, CONSULTATION, DISPUTE SETTLEMENT AND SURVEILLANCE

Arrangement between the Government of Japan and the Government of the United States of America Concerning Trade in Semiconductor Products

Notification by the United States

The following communication, dated 27 October 1986, has been received from the Office of the United States Trade Representative for circulation to contracting parties.

On 2 September 1986, the Governments of Japan and the United States of America signed the Arrangement Between the Government of Japan and the Government of the United States of America Concerning Trade in Semiconductor Products. The text of that Arrangement, embodied in an exchange of notes, accompanies this notification.

This notification is made pursuant to paragraph 3 of the Understanding Regarding Notification, Consultation, Dispute Settlement and Surveillance.
Sir,

I have the honor to refer to the recent discussions held between the representatives of the Government of Japan and the Government of the United States of America concerning trade in semiconductor products—between Japan and the United States of America and to confirm, on behalf of the Government of Japan, the understanding reached between the two Governments that the Government of Japan will implement the measures provided for in the Arrangement attached hereto (hereinafter called "the Arrangement").

I have further the honor to request you to confirm on behalf of the Government of the United States of America that it will implement its measures provided for in the Arrangement and to confirm that the present Note and your reply shall be regarded as constituting an agreement between the two Governments, which will enter into force on the date of your reply.

I avail myself of this opportunity to renew to you, Sir, the assurances of my highest consideration.

[Signature]

Ambassador Extraordinary and Plenipotentiary of Japan

The Honorable Clayton Yeutter
Arrangement between the Government of Japan and the Government of the United States of America concerning Trade in Semiconductor Products

I. Market Access

1. The Governments of Japan and the United States of America are desirous of enhancing free trade in semiconductors on the basis of market principles and the competitive positions of their respective industries. Both Governments have exchanged views regarding the future size and shape of the global semiconductor market, including, inter alia, the present and prospective situation in their respective domestic markets. These exchanges have been based upon detailed analysis of the economics of various markets, competitiveness of their respective industries, and independent, non-governmental forecasts of anticipated growth in these markets. Their semiconductor industries anticipate substantial market growth both domestically and internationally, and the two Governments strongly support and encourage expanded trade in these products. The Japanese producers and users of semiconductors anticipate substantially increased supply by and usage of foreign-based semiconductors. The United States of America anticipates substantially improved opportunities for foreign semiconductor sales in the Japanese market more reflective of the competitiveness of the U.S. industry.

Based upon such recognitions, the Government of Japan will impress upon the Japanese producers and users of semiconductors
the need to aggressively take advantage of increased market
access opportunities in Japan for foreign-based firms which wish
to improve their actual sales performance and position. In turn,
the Government of the United States of America will impress upon
the U.S. semiconductor producers the need to aggressively pursue
every sales opportunity in the Japanese market.

2. Both Governments agree that the expected improvement in
access should be gradual and steady over the period of this
Arrangement.

3. (1) The Government of Japan will provide further support
for expanded sales of foreign-produced semiconductors in Japan
through:

a. establishment of an organization which will
provide sales assistance for foreign semiconductor
producers as they attempt to penetrate the Japanese
market. This organization will also make quality
assessments of foreign semiconductor products, upon
request, and will organize a research fellowship
program, seminars, exhibitions, etc., for foreign
firms; and

b. promotion of long-term relationships between Japanese
semiconductor purchasers and foreign producers,
including joint product development with Japanese
customers.

(2) The Government of the United States of America will
also provide support for the above activities, to the extent
possible.

States of America reaffirm their determination that there should
be full and equitable access for foreign companies to patents resulting from government-sponsored research and development in this area, and both Governments have every intention to refrain from policies or programs which stimulate inordinate increases in semiconductor production capacity.

II. Prevention of Dumping

1. Suspension of Antidumping Cases

Present antidumping cases on EPROMs and 256k and above DRAMs will be suspended upon mutually agreed completion of the Suspension Agreements between the Department of Commerce of the United States of America (hereinafter called "the Department of Commerce") and the Japanese companies concerned on those products (hereinafter called "the Suspension Agreements").

2. Monitoring (U.S. Market)

(1) Both Governments recognize the need to prevent dumping in accordance with relevant provisions of the General Agreement on Tariffs and Trade (hereinafter called "the GATT").

(2) In order to prevent dumping, the Government of Japan will monitor costs and prices on the products exported from Japan to the United States of America.

(3) The initial products to be monitored are specified in the Annex. These products were identified by agreement of the two Governments from among those semiconductors which Japanese companies produce in substantial volume, are increasingly exported, and meet either of the following criteria: 1) they are standard and general use semiconductors, or 2) there is evidence of a threat of sales at less than fair value. The list of products will be reviewed as necessary. Upon request of either Government, new products can be added when they meet the above
criteria. Products can be deleted from the monitoring list by mutual consent of both Governments.

(4) Company and product-specific cost and export price data on monitored products will be submitted by Japanese semiconductor exporters to the Ministry of International Trade and Industry of Japan (hereinafter called "MITI") in accordance with procedures established by MITI. The format and scope of the data report will be mutually agreed to by the two Governments. The Japanese semiconductor exporters are advised to provide MITI with the data concerning the sales price from their related party in the United States of America to the first unrelated party in the United States of America.

(5) If the Government of the United States of America believes that exports or sales of any monitored product are being made by one or more Japanese firms in the U.S. market at prices less than company-specific fair value and the Government of the United States of America provides the Government of Japan with information to support that belief, immediate consultations may be requested. Consultations shall have a maximum 14 day limit, unless both Governments mutually agree to a longer period.

(6) Based upon monitoring and/or consultation, the Government of Japan will take appropriate actions available under laws and regulations in Japan to prevent exports at prices less than company-specific fair value.

(7) Based upon consultation and with concurrence of the Government of the United States of America, the Government of Japan will take appropriate action through Japanese semiconductor exporters so that their related party in the United States of America will not sell to the first unrelated party in the United
States of America at prices less than company-specific fair value.

(8) The Government of the United States of America, either by self-initiation or in response to petition, retains full rights to initiate antidumping cases based on any information available to it. Prior consultation shall be made in the case of self-initiation.

(9) If an antidumping action is initiated on any monitored product, the Government of Japan shall encourage the affected Japanese semiconductor exporters to provide the Department of Commerce with the data submitted to MITI under paragraph II. 2. (4) within 14 days after a questionnaire is presented. Additional data will be provided in accordance with the normal antidumping procedures.

3. Monitoring (Third Country Markets)

(1) Both Governments recognize the need to prevent dumping in accordance with relevant provisions of the GATT and will encourage respective industries to conform with the above principles.

(2) In order to prevent dumping, the Government of Japan will monitor, as appropriate, costs and export prices on the products exported by Japanese semiconductor firms from Japan.

III. General Provisions

1. Both Governments agree that the terms of this Arrangement shall not be implemented until and unless mutually satisfactory Suspension Agreements on EPROMs and 256k and above DRAMs are worked out on the existing antidumping investigations.

2. In the event that the Government of the United States of
America initiates an antidumping investigation by petition or by administering authority for a monitored product, the two Governments will enter into emergency consultations set forth in paragraph III. 4.

3. The two Governments agree that periodic consultations to measure and evaluate progress, and to deal with any problems or disputes which may arise, are necessary for the achievement of the objectives of this Arrangement. To this end, the two Governments agree to consult not less frequently than three times a year for the first two years of this Arrangement, and at least twice a year thereafter.

4. Emergency consultations can be requested by either Government. Such consultations should begin not later than 14 days from the date of the request unless both Governments mutually agree to a later starting date.

5. Should these consultations identify any problems for foreign-based semiconductor sales in Japan, the problems should be resolved in a timely manner.

6. The provisions of this Arrangement will be implemented or enforced by the two Governments in accordance with the laws and regulations in force in their respective countries.

7. No provision in this Arrangement is intended to undermine the interest of third countries.

8. The two Governments recognize that their rights and obligations under the GATT are not affected by this Arrangement.

9. Should the basis of this Arrangement significantly alter or if the objectives of this Arrangement are not being achieved, emergency consultations shall be held with a view to coping with such circumstances and to correcting such situations, including
possible amendments of this Arrangement. Termination of a Suspension Agreement because of its violation by Japanese companies or because its coverage falls below 85% shall not constitute, in principle, a significant alteration of the basis of this Arrangement or objective of this Arrangement not being achieved. In case of anticipated termination of a Suspension Agreement, the Government of the United States of America shall notify the Government of Japan of its intention and reason.

10. Should the two Governments fail to reach agreement during such emergency consultations under paragraph III. 9., either Government may terminate, in whole or in part, the provisions of this Arrangement by giving sixty days' written notice to the other Government.

11. With respect to the collection of data for the purpose of monitoring defined under paragraphs II. 2.(2) and II. 3.(2) of this Arrangement, it is confirmed that MITI will classify, as necessary, business proprietary data as "confidential" and that strict measures for the protection of such data will be taken, including limited access thereto, in accordance with relevant laws and regulations in Japan. Should any problems arise in relation to the safeguarding of business proprietary data mentioned above, both Governments shall immediately enter into consultations with a view to solving them.

12. The Government of Japan, having in mind paragraphs 4 and 7 of Part 2B of the Recommendations of the U.S.-Japan Work Group on High Technology Industries of February 1983, confirms that research and development programs which it sponsors in whole or in part will be open to foreign capital-affiliated semiconductor companies established in Japan on a full national treatment
basis. The Government of Japan further confirms that plans calling for the development of the semiconductor industry, or any segment thereof, are drawn so that such foreign capital-affiliated semiconductor companies are treated equally with Japanese capital-affiliated companies in terms of the opportunity for inclusion. National treatment will also be given in access to investment promotion programs, concessionary lending, and related assistance programs.

It is understood by the Government of Japan that should the U.S. capital-affiliated semiconductor companies established in Japan believe they are not being accorded national treatment, the Government of the United States of America will request immediate consultations with the Government of Japan. Such consultations will be held within 14 days of the request.

13. The duration of this Arrangement will be five years, ending on July 31, 1991.
ANNEX

1) Memory Devices
   MOS SRAM
   ECL RAM

2) Microprocessors
   8 bit configuration
   16 bit configuration

3) Microcontrollers
   8 bit configuration

4) ASICS
   Gate Arrays
   Standard Cells

5) ECL Logic
Excellency,

I have the honor to acknowledge the receipt of Your Excellency's Note of today's date, enclosing the Arrangement attached thereto (hereinafter called "the Arrangement") concerning trade in semiconductor products between the United States of America and Japan, which reads as follows:

"I have the honor to refer to the recent discussions held between the representatives of the Government of Japan and the Government of the United States of America concerning trade in semiconductor products between Japan and the United States of America and to confirm, on behalf of the Government of Japan, the understanding reached between the two Governments that the Government of Japan will implement the measures provided for in the Arrangement attached hereto (hereinafter called "the Arrangement").

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3. (1) The Government of Japan will provide further support for expanded sales of foreign-produced semiconductors in Japan through:

   a. establishment of an organization which will provide sales assistance for foreign semiconductor producers as they attempt to penetrate the Japanese market. This organization will also make quality assessments of foreign semiconductor products, upon request, and will organize a research fellowship program, seminars, exhibitions, etc., for foreign firms; and

   b. promotion of long-term relationships between Japanese semiconductor purchasers and foreign producers, including joint product development with Japanese customers.

(2) The Government of the United States of America will also provide support for the above activities, to the extent possible.

4. The Government of Japan and the Government of the United States of America reaffirm their determination that there should be full and equitable access for foreign companies to patents resulting from government-sponsored research and development in this area, and both Governments have every intention to refrain from policies or programs which stimulate inordinate increases in semiconductor production capacity.
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It is understood by the Government of Japan that should the U.S. capital-affiliated semiconductor companies established in Japan believe they are not being accorded national treatment, the Government of the United States of America will request immediate consultations with the Government of Japan. Such consultations will be held within 14 days of the request.

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ANNEX

1) Memory Devices

MOS SRAM

ECL RAM
2) **Microprocessors**

- 8 bit configuration
- 16 bit configuration

3) **Microcontrollers**

- 8 bit configuration

4) **ASICs**

- GATE ARRAYS
- STANDARD CELLS

5) **ECL LOGIC**

I have further the honor to confirm on behalf of the Government of the United States of America that it will implement its measures provided for in the Arrangement and to agree that Your Excellency's Note and this reply shall be regarded as constituting an agreement between the two Governments, which will enter into force on the date of this reply.

I avail myself of this opportunity to renew to Your Excellency the assurance of my highest consideration.

United States Trade Representative

His Excellency Nobuo Matsunaga
Ambassador Extraordinary and Plenipotentiary of Japan to the United States of America
Dear Ambassador Yeutter:

In connection with paragraph II. 2.(4) of the Arrangement between the Government of Japan and the Government of the United States of America concerning Trade in Semiconductor Products, I wish to confirm that the two Governments hereby agree that the scope and format of the data report is as attached hereto as the Appendix.

Sincerely yours,

Nobuo Matsunaga
Ambassador of Japan
Appendix

**Monitoring of Sales to the U.S.**

(Sales to Unrelated Purchasers)

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Product Category</td>
<td>SRAM, etc.</td>
</tr>
<tr>
<td>1.1</td>
<td>Density</td>
<td>*Specify</td>
</tr>
<tr>
<td>1.2</td>
<td>Process</td>
<td>*Specify</td>
</tr>
<tr>
<td>1.3</td>
<td>Configuration</td>
<td>*Specify</td>
</tr>
<tr>
<td>1.4</td>
<td>Package Material</td>
<td>*plastic, ceramic, other (specify)</td>
</tr>
<tr>
<td>1.5</td>
<td>Type of Package</td>
<td>*28 pin DIP, other (specify)</td>
</tr>
<tr>
<td>1.6</td>
<td>Speed Grade (Access Time)</td>
<td>*Specify</td>
</tr>
<tr>
<td>1.7</td>
<td>Surface Mounts</td>
<td>*PLCC, LCCC, other (specify)</td>
</tr>
<tr>
<td>1.8</td>
<td>Lead Frame Coating</td>
<td>*solder dip, tin plate, gold, other (specify)</td>
</tr>
<tr>
<td>1.9</td>
<td>Other Product Characteristics</td>
<td>*Show other characteristics using standard identifiers</td>
</tr>
<tr>
<td>2</td>
<td>Sales Invoice Number and Destination</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Date of Sale</td>
<td>Date of Order Confirmation</td>
</tr>
<tr>
<td>4</td>
<td>Terms of Sale</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Date of Shipment</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Customer Code</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Quantity</td>
<td>(using the appropriate lag)</td>
</tr>
<tr>
<td>8</td>
<td>Date of Receipt of Payment</td>
<td>(Time of Sale)</td>
</tr>
<tr>
<td>9</td>
<td>Gross Unit Price</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Brokerage/Handling Charges</td>
<td></td>
</tr>
</tbody>
</table>
11. Foreign Inland Freight
   *Show freight from factory to port of exportation.

12. Foreign Inland Insurance

13. Air Freight
   *Show freight from port of exportation to U.S. port of entry.

14. Air Insurance

15. U.S. Duty

16. U.S. Inland Freight #1
   *Show freight from U.S. port of entry to unrelated U.S. customer or U.S. subsidiary.

17. U.S. Inland Freight #2
   *Show freight from U.S. subsidiary to unrelated U.S. customer.

18. U.S. Inland Insurance

19. U.S. Packing

20. Commission #1
   *Show amount of commission paid.

21. Commissionaire Relationship
   *Show code "1" for unrelated commissionaires.
   Show code "2" for related commissionaires.

22. Commission #2

23. Commissionaire Relationship

24. Expenses Incurred in United States
   Report all expenses incurred in the U.S. in selling the merchandise.

25. Credit Expense
   *The figure reported must be based upon your actual expenses, not a theoretical rate. The figure may only include credit expense attributable to accounts receivable, not inventory or other financial costs.

26. Direct Non-U.S. Selling Expenses
   *Itemize each expense. Show only expenses not reported elsewhere on the tape format.

27. Indirect Non-U.S. Selling Expenses
   *Itemize each expense. Show only expenses not reported elsewhere on the tape format.
28. Warranty Expenses
29. Technical Services Expenses
30. Discounts
31. Rebates
32. Price Protection-Adjustments (using the appropriate lag)
33. Ship and Debit Adjustments (using the appropriate lag)
34. Other Expenses
35. Net Prices
Monitoring of Costs

The purpose of this paper is to provide a framework to be used by the companies, manufacturing the products monitored by MITI, for the development and presentation of their costs in an acceptable manner. The costs should be presented on an average quarterly basis. A single figure should be provided for each cost component every three months. The reporting companies are requested to provide costs information no later than 60 days from the end of the relevant period.

The costs of all the companies which are being monitored by MITI should be consistently reported in accordance with the: scope, methodology, defined classifications and valuation principles, as described in this paper. This paper will describe in general terms the overall concepts to be applied, the broad classifications of the costs elements and the accounting principles. Specifics in these areas will also be noted, when possible.

Since the nature of the companies' production processes and general operations will differ and particular products may vary because of unique characteristics, it is the responsibility of the reporting companies in each situation to provide complete costs information appropriately adopted to the general concepts presented in this paper.

The development of the costs must be: 1) based on a reliable accounting system, 2) representative of the company's
costs incurred for the general class of merchandise, 3) calculated on a weighted-average cost basis of the plants manufacturing the product, 4) based on fully absorbed costs of production, 5) based on generally accepted accounting principles, and 6) reflective of appropriately allocated common costs so that the costs necessary for the manufacturing of the product are not absorbed by other products.

**Accounting System**

The adequate collection, reporting and valuing of the cost information is critical for the summation and reporting of the data required for the monitoring. A system, at the manufacturing stage, which records the inputs and yields for each product being manufactured is necessary to report the data in a sufficient manner. The system should be structured to collect data at the lowest level of manufacturing for each company (the production line) which identifies direct materials and other components as necessary. The costs recorded by the corporation should be comprehensive in nature and based on a well established and reliable cost system.

Variance developed by the system should be specific to cost elements. When the variances resulting from the system are apportioned to the products manufactured, at the conclusion of the accounting period and for the monitoring, the basis for apportioning each variance should account for the differences from the standards in the prices, usage and yields to the actual amounts for each product.

For cost elements not covered by the company's manufacturing accounting system, e.g., selling, research and development, the company should take appropriate measures to
identify in its system such costs with the product.

**Representative Costs of the General Class of Merchandise**

The costs, as developed, should be representative of the company's costs for producing merchandise of that general class of merchandise. For example, the production elements or the manufacturing of the products being monitored should not be arranged to reflect an abnormally low cost resulting from shifting production to facilities with the lowest costs because of lack of depreciation expense, part-time labor rates or otherwise.

**Weighted-Average Costs**

The reported per unit costs should be reflected on a weighted-average cost basis of the plants manufacturing the product.

**Fully Absorbed Costs**

The costs should be calculated to fully absorb all downtime in the product lines manufacturing the product.

**Generally Accepted Accounting Principles**

Generally accepted accounting principles should be applied (financial accounting principles developed to report the company's results for a period of time). When such financial accounting principles do not identify the costs with the product (e.g., period costs like selling expenses and research and development) or when such costs may occur and are recorded outside the period of review (e.g., warranty), the company should be guided by the underlying accounting principle of identification of costs with the sale.
Allocation Methods

The products being monitored will be manufactured by some companies in a plant which also manufactures other kinds of products, by other companies in a plant manufacturing the same general class of products and in a few companies in a plant dedicated to the product. Since costs will be accounted for on the production line basis, the need to allocate manufacturing costs among products of different classes will not be necessary. Only common factory-wide costs would be allocated in this situation.

Common costs of a production line which manufactures products of the same class will usually be absorbed on the basis of the standard cost. Variances resulting from this system should be apportioned recognizing actual differences in prices, yields, etc., from the standard for each product.

Classification and Valuation of Costs

The costs of production must include all direct costs, indirect costs and other costs in any way pertaining to the manufacturing and to the sale and merchandising of the product and a proportional share of all corporate operating expenses. The costs are classified in two broad categories: 1) cost of manufacturing which includes all costs incurred directly and indirectly and other costs in any way pertaining to the manufacturing of the product, and 2) general costs which include all costs incurred directly and indirectly and other costs in any way pertaining to the sales and merchandising of the product and a proportional amount of all corporate operating costs, e.g., general research and development, interest expense.
I. Classification

A. Cost of Manufacturing

1. Wafer Fabrication
   a) Direct Materials - wafers
   b) Direct Labor
   c) Production Overhead
      - Indirect Materials - chemical, gases, mask, others
      - Indirect Labor - supervisor, maintenance, training, others
      - Energy, electric, etc.
      - Depreciation of equipment
      - Others, clean room, rework, etc.
   d) Yield - after completion of wafer fabrication (probe)

2. Assembly
   a) Direct Materials - frame, package, others
   b) Direct Labor
   c) Production Overhead
      - Indirect Materials - adhesive, others
      - Indirect Labor
      - Energy, electric, etc.
      - Depreciation of equipment
      - Others, clean room, rework, etc.
   d) Yield - after completion of assembly

3. Testing
   a) Material
   b) Labor
   c) Overhead
   d) Yield - Final
Note: Testing should be reported separately from assembly when the company records these costs and yields separately for the product.

B. General Expenses

1. Selling - Direct selling expenses for the U.S. market and indirect selling expenses for the home market;
2. Financing - Interest and credit expense for the U.S. market;
3. General and Administrative;
4. General research and development.

C. Profit

II. Valuation

A. Materials should be stated on a fully absorbed and yielded purchase price basis. Materials obtained from related suppliers should be stated at purchase prices, if such prices represent a fair market value.

B. Direct labor should include salary and fringe benefits. Labor provided under contract should reflect the actual costs incurred by any subcontractor when the corporation has influence over that contractor. All other expenses incurred by the corporation related to the contractor, e.g., training, equipment, must be included in the manufacturing costs.

C. Depreciation expense for the equipment used to manufacture the product should be in accordance with GAAP, but should not be based on a useful life which exceeds that life stipulated by the tax code for such equipment. The company's records may be used if such records comply with
the above requirements.

D. Indirect materials, labor and overhead must be fully absorbed.

E. Research and development should include all semiconductor R&D incurred during the period of review and be allocated over the semiconductor sales for that period. These costs should include all material, labor and overhead costs necessary for R&D, and include but not be limited to R&D expenses for processing, pilot production, production improvement, design refinements, and equipment development.

F. Yield - Final testing should account for all criteria, including speed applicable to the current market conditions. The yields should be cumulative.

G. Financing - Interest and credit expense should be a proportional amount of the consolidated corporate interest.

H. General research and development of the corporation should be allocated among all corporate sales.

I. General expenses should not be lower than 10% of the cost of manufacturing.

J. Profit should be 8% of the cost of production, i.e., sum of the cost of manufacturing and general expenses.
His Excellency Nobuo Matsunaga  
Ambassador of Japan to the United States  
Embassy of Japan  
Washington, D.C. 20008

Dear Ambassador Matsunaga:

I acknowledge the receipt of your letter of today's date regarding the scope and format of the data report, and confirm that, in connection with paragraph II.2.(4) of the Arrangement between the Government of Japan and the Government of the United States of America concerning Trade in Semiconductor Products, the two Governments hereby agree that the scope and format of the data report is as attached hereto as the Appendix.

Sincerely,

[Signature]

Clyton Yettter  
United States Trade Representative

Attachment
### APPENDIX

**MONITORING OF SALES TO THE U.S.**

(Sales to Unrelated Purchasers)

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td><strong>Product Category</strong></td>
<td>SRAM, etc.</td>
</tr>
<tr>
<td>1.1</td>
<td><strong>Density</strong></td>
<td>*Specify</td>
</tr>
<tr>
<td>1.2</td>
<td><strong>Process</strong></td>
<td>*Specify</td>
</tr>
<tr>
<td>1.3</td>
<td><strong>Configuration</strong></td>
<td>*Specify</td>
</tr>
<tr>
<td>1.4</td>
<td><strong>Package Material</strong></td>
<td>*plastic, ceramic, other (specify)</td>
</tr>
<tr>
<td>1.5</td>
<td><strong>Type of Package</strong></td>
<td>*28 pin DIP, other (specify)</td>
</tr>
<tr>
<td>1.6</td>
<td><strong>Speed Grade (Access Time)</strong></td>
<td>*Specify</td>
</tr>
<tr>
<td>1.7</td>
<td><strong>Surface Mounts</strong></td>
<td>*PLCC, LCCC, other (specify)</td>
</tr>
<tr>
<td>1.8</td>
<td><strong>Lead Frame Coating</strong></td>
<td>*solder dip, tin plate, gold, other (specify)</td>
</tr>
<tr>
<td>1.9</td>
<td><strong>Other Product Characteristics</strong></td>
<td>*Show other characteristics using standard identifiers.</td>
</tr>
<tr>
<td>2.</td>
<td><strong>Sales Invoice Number and Destination</strong></td>
<td>Date of Order Confirmation</td>
</tr>
<tr>
<td>3.</td>
<td><strong>Date of Sale</strong></td>
<td>(using the appropriate lag)</td>
</tr>
<tr>
<td>4.</td>
<td><strong>Terms of Sale</strong></td>
<td>(Time of Sale)</td>
</tr>
<tr>
<td>5.</td>
<td><strong>Date of Shipment</strong></td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td><strong>Customer Code</strong></td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td><strong>Quantity</strong></td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td><strong>Date of Receipt of Payment</strong></td>
<td></td>
</tr>
<tr>
<td>9.</td>
<td><strong>Gross Unit Price</strong></td>
<td></td>
</tr>
<tr>
<td>10.</td>
<td><strong>Brokerage/Handling Charges</strong></td>
<td></td>
</tr>
<tr>
<td>11.</td>
<td><strong>Foreign Inland Freight</strong></td>
<td>*Show freight from factory to port of exportation</td>
</tr>
</tbody>
</table>
12. Foreign Inland Insurance

13. Air Freight

*Show freight from port of exportation to U.S. port of entry

14. Air Insurance

15. U.S. Duty

16. U.S. Inland Freight #1

*Show freight from U.S. port of entry to unrelated U.S. customer or U.S. subsidiary

17. U.S. Inland Freight #2

*Show freight from U.S. subsidiary to unrelated U.S. customer.

18. U.S. Inland Insurance

19. U.S. Packing

20. Commission #1

*Show amount of commission paid.

21. Commissionaire Relationship

*Show code "1" for unrelated commissionaires. Show code "2" for related commissionaires.

22. Commission #2

23. Commissionaire Relationship

24. Expenses Incurred in United States

*Report all expenses incurred in the U.S. in selling the merchandise.
25. Credit Expense

26. Direct Non-U.S. Selling Expenses

27. Indirect Non-U.S. Selling Expense

28. Warranty Expenses

29. Technical Services Expenses

30. Discounts

31. Rebates

32. Price Protection Adjustments (using the appropriate lag)

33. Ship and Debit Adjustments (using the appropriate lag)

34. Other Expenses

35. Net Prices

*The figure reported must be based upon your actual expenses, not a theoretical rate. The figure may only include credit expenses attributable to accounts receivable, not inventory or other financial costs.

*Itemize each expense.

Show only expenses not reported elsewhere on the tape format.

*Itemize each expense. Show only expenses not reported elsewhere on the tape format.
Monitoring of Costs

The purpose of this paper is to provide a framework to be used by the companies, manufacturing the products monitored by MITI, for the development and presentation of their costs in an acceptable manner. The costs should be presented on an average quarterly basis. A single figure should be provided for each cost component every three months. The reporting companies are requested to provide costs information no later than 60 days from the end of the relevant period.

The costs of all the companies which are being monitored by MITI should be consistently reported in accordance with the: scope, methodology, defined classifications and valuation principles, as described in this paper. This paper will describe in general terms the overall concepts to be applied, the broad classifications of the costs elements and the accounting principles. Specifics in these areas will also be noted, when possible.

Since the nature of the companies' production processes and general operations will differ and particular products may vary because of unique characteristics, it is the responsibility of the reporting companies in each situation to provide complete costs information appropriately adopted to the general concepts presented in this paper.

The development of the costs must be: 1) based on a reliable accounting system, 2) representative of the company's costs
incurred for the general class of merchandise, 3) calculated on a weighted-average cost basis of the plants manufacturing the product, 4) based on fully absorbed costs of production, 5) based on generally accepted accounting principles, and 6) reflective of appropriately allocated common costs so that the costs necessary for the manufacturing of the product are not absorbed by other products.

**Accounting System**

The adequate collection, reporting and valuing of the cost information is critical for the summation and reporting of the data required for the monitoring. A system, at the manufacturing stage, which records the inputs and yields for each product being manufactured is necessary to report the data in a sufficient manner. The system should be structured to collect data at the lowest level of manufacturing for each company (the production line) which identifies direct materials and other components as necessary. The costs recorded by the corporation should be comprehensive in nature and based on a well established and reliable cost system.

Variance developed by the system should be specific to cost elements. When the variances resulting from the system are apportioned to the products manufactured, at the conclusion of the accounting period and for the monitoring, the basis for
apportioning each variance should account for the differences from the standards in the prices, usage and yields to the actual amounts for each product.

For cost elements not covered by the company's manufacturing accounting system, e.g., selling, research and development, the company should take appropriate measures to identify in its system such costs with the product.

**Representative Costs of the General Class of Merchandise**

The costs, as developed, should be representative of the company's costs for producing merchandise of that general class of merchandise. For example, the production elements or the manufacturing of the products being monitored should not be arranged to reflect an abnormally low cost resulting from shifting production to facilities with the lowest costs because of lack of depreciation expense, part-time labor rates or otherwise.

**Weighted-Average Costs**

The reported per unit costs should be reflected on a weighted-average cost basis of the plants manufacturing the product.
Fully Absorbed Costs

The costs should be calculated to fully absorb all down-time in the product lines manufacturing the product.

Generally Accepted Accounting Principles

Generally accepted accounting principles should be applied (financial accounting principles developed to report the company's results for a period of time). When such financial accounting principles do not identify the costs with the product (e.g., period costs like selling expenses and research and development) or when such costs may occur and are recorded outside the period of review (e.g., warranty), the company should be guided by the underlying accounting principle of identification of costs with the sale.

Allocation Methods

The products being monitored will be manufactured by some companies in a plant which also manufactures other kinds of products, by other companies in a plant manufacturing the same general class of products and in a few companies in a plant dedicated to the product. Since costs will be accounted for on the production line basis, the need to allocate manufacturing costs among products
of different classes will not be necessary. Only common factory-wide costs would be allocated in this situation.

Common costs of a production line which manufactures products of the same class will usually be absorbed on the basis of the standard cost. Variances resulting from this system should be apportioned recognizing actual differences in prices, yields, etc., from the standard for each product.

Classification and Valuation of Costs

The costs of production must include all direct costs, indirect costs and other costs in any way pertaining to the manufacturing and to the sale and merchandising of the product and a proportional share of all corporate operating expenses. The costs are classified in two broad categories: 1) cost of manufacturing which includes all costs incurred directly and indirectly and other costs in any way pertaining to the manufacturing of the product, and 2) general costs which include all costs incurred directly and indirectly and other costs in any way pertaining to the sales and merchandising of the product and a proportional amount of all corporate operating costs, e.g., general research and development, interest expense.

I. Classification
   A. Cost of Manufacturing
1. **Wafer Fabrication**
   a) Direct Materials - wafers
   b) Direct Labor
   c) Production Overhead
      - Indirect Materials - chemical, gases, mask, others
      - Indirect Labor - supervisor, maintenance, training, others
      - Energy, electric, etc.
      - Depreciation of equipment
      - Others, clean room, rework, etc.
   d) Yield - after completion of wafer fabrication (probe)

2. **Assembly**
   a) Direct Materials - frame, package, others
   b) Direct Labor
   c) Production Overhead
      - Indirect Materials - adhesive, others
      - Indirect Labor
      - Energy, electric, etc.
      - Depreciation of equipment
      - Others, clean room, rework, etc.
   d) Yield - after completion of assembly

3. **Testing**
   a) Material
   b) Labor
c) Overhead
d) Yield - Final

Note: Testing should be reported separately from assembly when the company records these costs and yields separately for the product.

B. General Expenses

1. Selling - Direct selling expenses for the U.S. market and indirect selling expenses for the home market;

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