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JAPAN'S INFLUENCE IN AMERICA

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ITS PHILANTHROPY AND IMAGE-BUILDING

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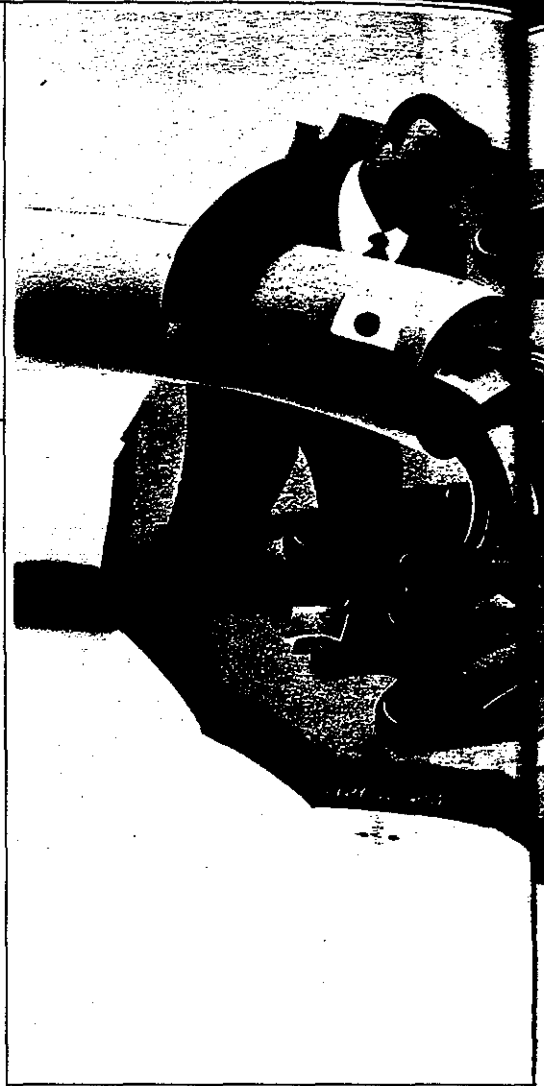


JAPAN'S CLOUT IN THE U.S.

IT'S TRANSLATING ECONOMIC MIGHT INTO INFLUENCE

A new wave of Japanese wealth is washing over America, and it has little to do with government bonds or corporate securities. The new currency is influence. As Japan increases its investment in the U. S., it is also becoming a full-fledged member of the American political, cultural, and intellectual debate in a way—and on a scale—that no other nation has achieved.

Japanese companies are spending heavily to shape the way Americans view them. They are pouring tens of millions of dollars into U. S. education, from Ivy League colleges to elementary schools in Kentucky. Museums, universities, public television stations, and think tanks are competing for—and getting—Japanese money. The Japanese are also wielding political power from the grass roots to the top echelons of Washington. The same words that describe Japan's economic strategy apply to what the Japanese call their "soft-side" activities: Systematic. Coordinated. Long-term.

There is nothing improper about it. America and most larger nations attempt to spread their ideas around the world. For Japan, though, the motive is primarily economic. As Japan's investments overflow from financial assets into real property such as plants and skyscrapers, the Japanese want more than just an open U. S. market for their exports—they want to protect their broad stake here. That means becoming more sophisticated in pulling America's political strings. "They've learned how to play us like a violin," says Lester C. Thurow, dean of the Sloan School of Management at Massachusetts Institute of Technology. "Japan's say in U. S. decision-making will rise as their investments go from passive to active."

Japan's newfound clout came of age this year when Toshiba Corp. defeated efforts to impose harsh sanctions on it in retaliation for a subsidiary's selling of restricted propeller technology to the Soviet Union. Japan's lobbyists also played a key role in stalling major trade bills in Washington and prevailed on other issues as well, including registration of foreign investments. At the state level, they obtained generous incentives to build plants while beating back legislation such as unitary taxes in 12 states.

STATUS QUO. But their effort goes beyond specific political objectives. Japan wants to help shape the American agenda and to reinforce a notion that America's economic problems are mainly homegrown. Most of all, Japan wants to maintain a political and economic status quo to prevent surprises from threatening its economic stake. "They're interested in creating an environment in which they can make money," says Bernard Karsh, director of the Center for East Asian Studies at the University of Illinois and a Japan-watcher for 30 years. "I see this as a major effort to come in and stay, to legitimate their presence."

Although the U. S. and Japan share important economic and security goals, they are also competitors. What is unique about Japan's position is that never before in modern history has an economic adversary wielded so much influence on a rival's home ground.

Overall, BUSINESS WEEK estimates that Japan's government, foundations, and companies will spend at least $310 million this year on soft-side activities, not including advertising. That's still small compared with Japan's direct U. S. foreign investment of at least $35 billion and exports of $85 billion a year. But it allows for an astonishing range of activities. Japanese companies are even coming up with much of the $1 million needed for Children's Television Workshop to film a program called Big Bird in Japan.

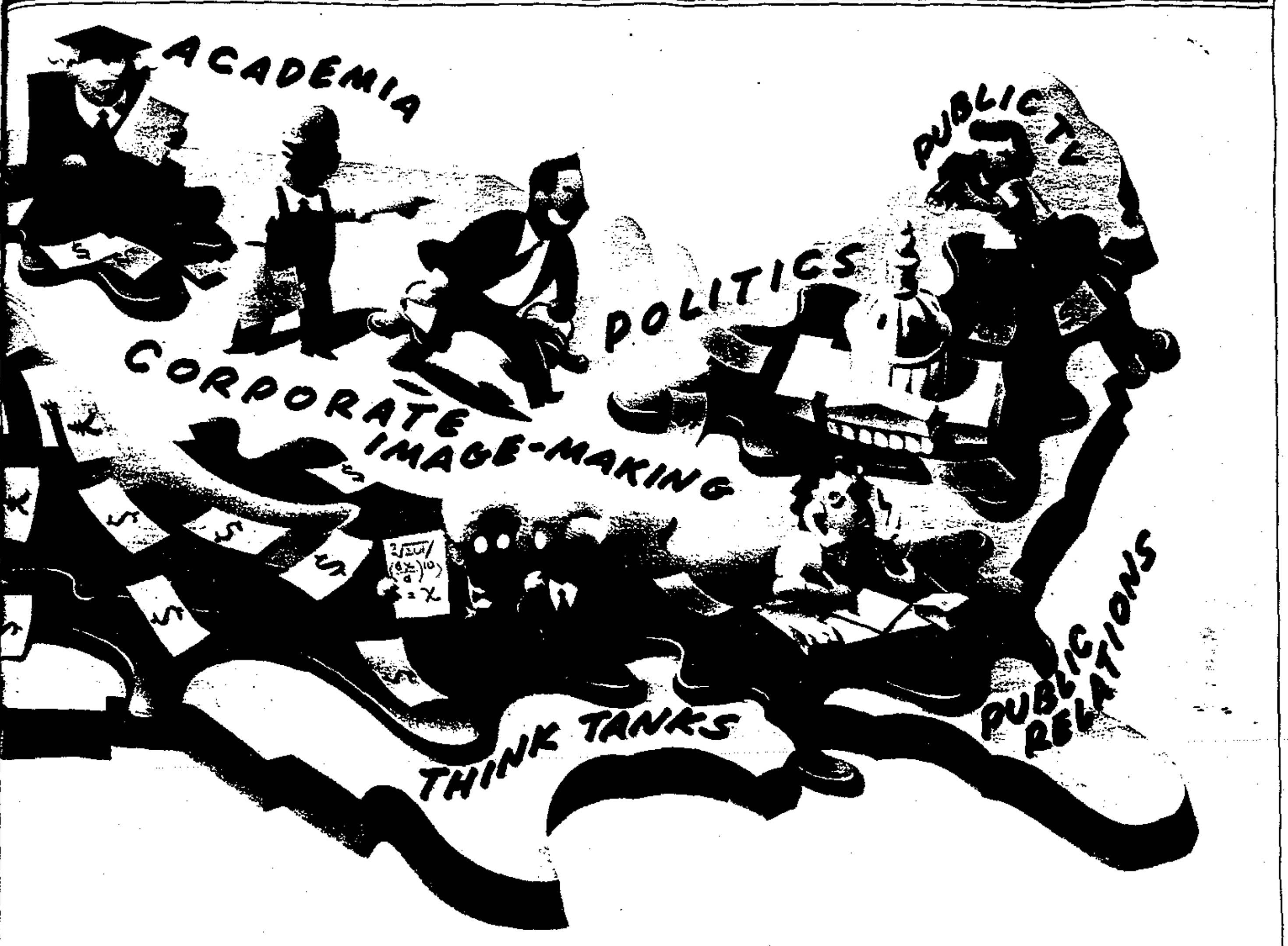
It's not all entertainment. For lawyers, public relations advisers, academics, economists, journalists, and political consultants, Japan's spending is a growth industry, far outstripping OPEC's influence-buying. For the American Enterprise Institute, the Brookings Institution, and other influential think tanks, Japanese money is becoming important. And universities from Massachusetts to California are providing a steady stream of research and information to Japan. "They're investing in the cutting edge of ideas," says Peter G. Peterson, chairman of the Blackstone Group, a Wall Street firm with major Japanese clients, who is also chairman of the Council on Foreign Relations and the Institute for International Economics. "They are getting much more sophisticated."

The Toshiba scandal had a lot to do with spurring Japan's drive for influ-

WHERE THE MONEY GOES

	Millions of dollars, 1988
CORPORATE PHILANTHROPY	$140
WASHINGTON LOBBYING	50
PUBLIC RELATIONS	45
RESEARCH CONTRACTS TO UNIVERSITIES	30
FOREIGN AFFAIRS MINISTRY	17
JETRO	15
JAPAN FOUNDATION	5
PUBLIC TELEVISION	5
U.S.-JAPAN FOUNDATION	3

DATA: *CORPORATE PHILANTHROPY REPORT*, PAT CHOATE, JETRO, BW ESTIMATES



ence. The fear that Washington would impose harsh sanctions helped convince the Japanese that getting inside the American system was essential. That's not necessarily bad, since part of the Japanese effort is designed to improve the U.S. economy and society—if only to protect Japanese interests. "They don't want to see our society go down because we're their biggest customer," says Robert S. Ingersoll, a former ambassador to Japan who is also chairman of the Matsushita Foundation, which donates $1 million a year in the U.S.

WHOSE INTERESTS? Critics argue that basic ethical questions are involved. They say Japan's wealth tempts some of the American elite to accept Japanese funds at the expense of defending broader U.S. interests. "It's a very touchy subject," says Robert C. Angel, who resigned as chief executive of the Japan Economic Institute of America (JEI), a Tokyo-funded think tank, in a dispute over editorial influence from Japan's Ministry of Foreign Affairs. "If you ask an individual if they are taking money from Japan and if that influences their decisions, they may say 'no.' If you call them a liar, they can sue you."

In many cases, Japan is able to gain leverage from its business relationships with American companies. Major Wall Street firms such as Goldman, Sachs & Co. and Shearson Lehman Hutton Inc. have important Japanese shareholders, and it is only prudent for them to consider the impact of public pronouncements on their Japanese partners. Likewise, a host of U.S. manufacturers enjoy joint-venture or marketing agreements with the Japanese. As in the Toshiba case, they go to bat to defend their partners.

Peterson, an influential former Commerce Secretary, benefits from Nikko Securities Co.'s placement of $100 million with his firm and from his role as investment banker for major Japanese purchases of U.S. companies, such as Sony Corp.'s acquisition of CBS Records Group. Peterson says these associations have no impact on his views or on his role as chairman of both the Council on Foreign Relations and Institute for International Economics. "I've been for open trade and open investment since the 1950s, at a time when it hurt my short-term interests," he says.

Many top-echelon Americans who have no financial links with Japan are members of what critics call the "Cherry Blossom Crowd"—people who befriend Japan because of special relationships and favors and for reasons of principle. Some critics argue that Japan's cultural diplomacy—sponsoring Japanese theater tours—also lulls Americans into complacency about Japan's economic challenges. All this leads Chalmers Johnson, a Japan expert at the University of California at San Diego, to conclude that "Japan has undue influence in the U.S."

COMPROMISED JUDGMENT. Some observers even argue that America's long-cherished exchange of ideas is endangered. Argues Pat Choate, Washington vice-president for policy analysis at TRW Inc.: "In the marketplace of ideas, the Japanese seek people who will amplify their views and then they pour in money. They dominate the adviser corps." Most professionals who take grants from the Japanese say there are no strings attached. But a few disagree. "Everyone who gets money from Japan has to worry about not offending Japan," says Ronald A. Morse, formerly head of the Asia program at the Woodrow Wilson International Center for Scholars in Washington and now development officer at the Library of Congress.

Some Japanese attempts to influence America have run into trouble. Telejapan, a media company funded at least in part by Japanese businesses, set off a firestorm for financing a two-part documentary series called *The Faces of Japan*. The documentaries, one of which will be repeated this summer, appeared on hundreds of U. S. public television stations and presented a sugar-coated view of the Japanese. "*The Faces of Japan* was a whitewash," says Craig Smith, a Seattle consultant who monitors Japanese giving. Telejapan's U. S. partners maintain that the shows were balanced.

Similarly, the JEI was embarrassed when Angel quit. "The Ministry was taking heat every time we published something that was unfavorable," says Angel, who now teaches economics at the University of South Carolina. Since Angel's departure in 1984, JEI's publications have tempered their criticism of Japanese policies and actions. JEI executives say they operate independently of Japan's government.

'BIG SCALE.' Despite episodes such as these, "intercultural communications" as the Japanese call them, promise to be expanded. "When the momentum starts, it will be big-scale," says Taizo Watanabe, Japan's No. 2 diplomat in Washington. "These efforts are not only motivated by the need to avoid friction. We feel we are not fully understood."

Japanese companies spend an estimated $45 million a year on public relations—much of it for image-building. There are some 400,000 Japanese on assignment in the U. S., many of whom see it as their job to promote Japan's case. The effort is entirely different than OPEC's efforts to deal with the U. S. in the 1970s. "The Japanese have more wealth, and they have a huge pool of capable people to manage it," says Richard J. Whalen, chairman of a Washington public relations agency that represents several Japanese clients.

'They're investing in the cutting edge of ideas. They're getting much more sophisticated'

PETER G. PETERSON
Chairman, Council on Foreign Relations

The Japanese also have well-established U. S. listening posts, including consuls in 15 cities—Britain is second with 11—who monitor American attitudes for Tokyo. The government also manages the Japan Foundation, which spends $5 million a year in the U. S. on exchange programs, education, and libraries.

Japan's Ministry of International Trade & Industry (MITI) is also becoming a much more active player inside the U. S. In part, the ministry operates through the Japan External Trade Organization (JETRO), which once concentrated exclusively on promoting Japanese exports. Now a major JETRO focus is collecting information in Washington, wooing prominent journalists, and hosting elegant receptions at top-flight hotels. JETRO maintains offices in seven American cities.

'It's a very touchy subject. If you ask an individual if they are taking money from Japan and if that influences their decisions, they may say "no." If you call them a liar, they can sue you'

ROBERT C. ANGEL
Former CEO, Japan Economic Institute of America, who resigned, citing editorial pressure from the Foreign Ministry

Beneath these two governmental bodies is a bewildering array of private and quasi-private organizations, some of which enjoy a combination of Japanese and U. S. financing. There are Japan-America Societies in at least 20 cities and Japanese Chambers of Commerce in dozens more.

A key player in spreading Japan's message has been the U. S.-Japan Foundation. Right-wing philanthropist Ryoichi Sasakawa arranged for the Japanese Shipbuilding Industry Foundation to endow the New York-based U. S.-Japan Foundation with $44.5 million in the early 1980s. Chairman Stephen Bosworth, former U. S. ambassador to the Philippines, says the U. S.-Japan Foundation is an independent, American-run group, but the Japanese still play a major role. Sasakawa's son, for example, is on the board. The foundation gave $3 million in 1987 to education, exchange programs, and policy studies. Japan's funding of U. S. causes is "not nefarious," says Bosworth. "It's the normal way that nations attempt to shape our policies."

Is the U. S. influence in Japan as profound as Japan's is here? The U. S. has persuaded Japan to open its financial, telecommunications, and lately food markets. And the U. S. still has powerful tools, including access to its market and its military umbrella. But overall, the American effort is paltry and disorganized. One reason is a shortage of funds for U. S. government programs. The strong yen also means that U. S. spending goes only half as far as it would have three years ago.

NEW ERA. What's more, Japanese society simply isn't as open. "It's a new era for Japan," says Peter Grilli, director of the Japan Project at New York's public television station, WNET/Thirteen, who coordinates public TV's fund-raising from Japan. "The Japanese are operating here on a scale that no U. S. company does in Japan. We're not as adept or as sophisticated."

The lesson is that Japan's economic prowess, both in imports and investment, does not exist in a vacuum. As it makes itself felt in U. S. social and political agendas, it can have a subtle but important impact on the big policy questions facing the U. S. What is well-founded criticism and what is simply anti-Japanese? What constitutes protectionism? What is dumping? What are the effects of Japanese investment? On issues such as these, the Japanese are learning to shape the debate. And that will test the character and integrity of America's institutions far more than any wave of imports ever did.

By William J. Holstein in New York, with Amy Borrus in Tokyo, and bureau reports

WHEN JAPAN'S LOBBYISTS TALK, WASHINGTON DOESN'T JUST LISTEN

High-profile power brokers are getting results for Tokyo on Capitol Hill

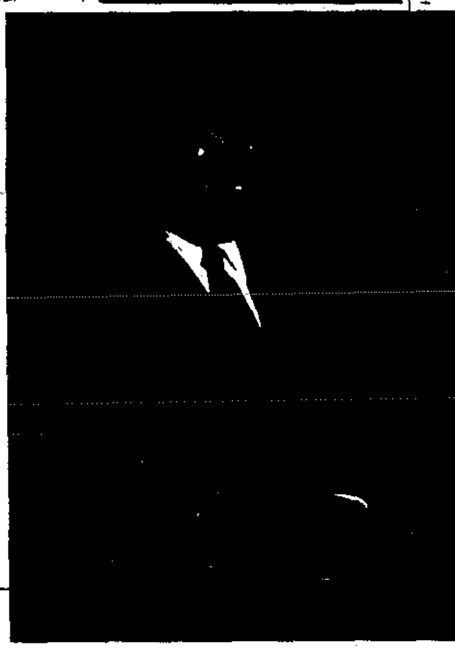
When one of lobbyist James H. Lake's Japanese clients has a problem, Lake knows what to do. He picks up the phone and arranges to break bread with his friend Clayton Yeutter, the U. S. Trade Representative. During a six-month period last year, Lake met or spoke with Yeutter or his deputies 12 times on behalf of Mitsubishi Electric Corp. Just one of Lake's several Japanese clients, Mitsubishi Electric paid more than $129,000 to his firm, Robinson, Lake, Lerer & Montgomery.

So it's not surprising that Democrats reacted with outrage when Lake, a top spokesman for President Reagan's 1980 and 1984 campaigns, signed on as a senior adviser for George Bush's Presidential effort while maintaining his relationship with the Japanese. "It is offensive and disgusting that Bush would take a man who continues to receive large fees" from Japanese companies, huffs United Auto Workers President Owen F. Bieber. Lake dismisses the concerns, saying: "It's a political season."

UNPARALLELED ACCESS. That's the way things are done in Washington these days. Armed with fistfuls of dollars and deeply concerned about anti-Japanese sentiment, Japanese companies, trade associations, and government agencies are snapping up lobbying talent, including many former Administration officials and former congressmen. High-ranking Democrats and Republicans alike have jumped at Tokyo's largesse. In the process, Japan has bought access unparalleled for a foreign power.

The Japanese are also quickly learning how to use that access to get their way. When Congress got down to writing a trade bill last year, a Japan-bashing mood on Capitol Hill seemed certain to produce tough, retaliatory legislation. But by the time the bill made it to President Reagan's desk, most of the provisions Tokyo found offensive had been stripped away or watered down.

Some of the credit goes to the lobbyists representing at least 155 Japanese interests—more than all Canadian and British interests combined. Pat Choate, vice-president of TRW Inc., who is writing a book on the subject, estimates that Washington representatives will receive a staggering $50 million from Japan this year, not counting millions spent for services other than lobbying—for advice, speeches, and background papers. Tokyo



PHOTOGRAPHS BY (LEFT & CENTER) STEINKAMP/PICTURE GROUP, (RIGHT) KATHERINE LAMBERT

A FEW OF TOKYO'S BIG GUNS
Former White House aide Stanton Anderson's lobbying firm boasts many Japanese clients. Former Representative James R. Jones helped calm Congress after a Toshiba unit sold machinery to the Soviets. James Lake, a Bush senior adviser, is still a lobbyist for Japanese companies

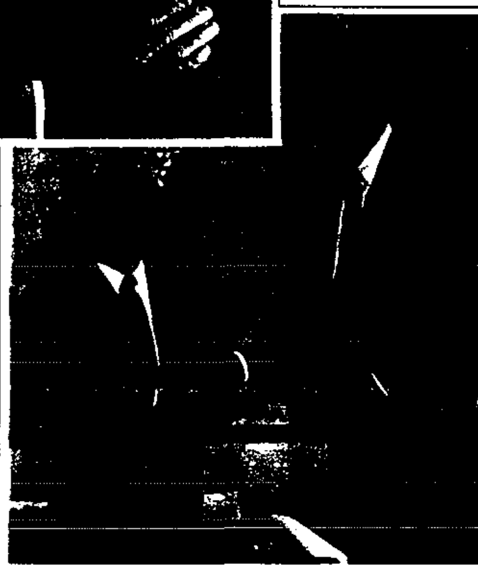
has hired some of the biggest names in town. In addition to Lake, these include former Democratic National Chairman Robert S. Strauss, former House Budget Committee Chairman James R. Jones (D-Okla.), and Stanton Anderson, a former White House aide and Deputy Assistant Secretary of State.

BIG-LEAGUE STAKES. Much of what Japan's lobbyists do is traditional door opening. For example, when Toyota Motor Corp. wanted U. S. approval for a controversial special trade zone in Kentucky where auto parts could be shipped duty-free, it turned to Republican Party Chairman Frank J. Fahrenkopf Jr., whose law firm has a Toyota contract. Fahrenkopf set up a meeting for Toyota executives with the late Commerce Secretary Malcolm Baldrige. Commerce later approved the zone.

Many of Japan's efforts involve beltway battles that are obscure to the average American but that carry high economic stakes. Senators Strom Thurmond (R-S. C.) and Frank H. Murkowski (R-Alaska) have questioned whether Japanese lobbyists—some of whom enjoy ties with top White House officials—blocked the promotion of Commerce Deputy Undersecretary J. Michael Farren to be undersecretary earlier this year. Farren, with several years of negotiating experience, had been tough on opening up Japan's multibillion-dollar construction market. After he found his promotion blocked, Farren resigned and the two governments quickly settled the dispute.

The Toshiba case is perhaps the single most dramatic example of how Japan deployed its political clout. When Toshiba Corp. faced congressional wrath last year over a subsidiary's illegal sale of high-tech milling equipment to the Soviets, it enlisted Jones, former Representative Michael D. Barnes, GOP power lawyer Leonard Garment, former Deputy Trade Representative William Walker, and a host of others. These lobbyists spoke with then-Defense Secretary Caspar W. Weinberger as well as Secretary of State George Shultz and Commerce's Baldrige to discuss the issue. Toshiba's $3 million campaign paid off: House-Senate conferees watered down the sanctions in the final trade bill, which, despite President Reagan's veto, will probably be enacted this summer.

Representative John Bryant (D-Tex.) is clear about what happened on Capitol Hill. "Toshiba was able to purchase access to those who were writing the legislation," says Bryant, whose amendment requiring foreign investors to register was deleted from the final trade bill. "They won, but what they did was very offensive." Bryant's outrage rings a bit hollow on Capitol Hill, where deals and compromises brokered with lobbyists are a way of life. But the Japanese have become skilled at bringing pressure from the states on Washington. Toshiba was able to dodge the sanctions largely because its customers throughout the U. S. deluged their congressmen with warnings that a cutoff of Toshiba components would cripple them.



REGIONAL POWER BASES
Former Georgia Governor George Busbee is a big booster of Japan. Illinois Governor James Thompson greets Prime Minister Takeshita in Chicago. Toshio Nagamura is dean of California's Japanese business community

In fact, across the country, state and local political leaders are fighting to defend their Japanese investors. Governors made 36 visits to Japan in a single year, from mid-1986 to mid-1987, according to the National Governors Assn. Mayors, chamber of commerce presidents, and even rotary clubs have been invited on trips to Japan by Japanese companies and foundations.

From Los Angeles to Boston, networks of Japanese organizations are wooing state and regional political leaders. In Illinois, where Mitsubishi Corp. is opening a $650 million auto plant with Chrysler Corp., Mitsubishi executives became a driving force behind the monthlong Festival of Japan. Working through the Chicago Japanese Chamber of Commerce and the Japan-America Society, in cooperation with the Japanese consul-general, they raised $1.2 million for the festival. The highlight of the event: a visit by Prime Minister Noboru Takeshita to meet Illinois Governor James R. Thompson and other luminaries.

LOCAL CONTACTS. In the Southeast, Japan's regional effort is assisted by former Georgia Governor George Busbee, a founder of the Japan/U. S. Southeast Assn., which groups top Japanese and Southeastern political and business leaders. When a Washington problem arises, these regional networks are in place to help Japan. Says TRW's Choate: "The Japanese government and Japanese companies are infinitely more effective in lobbying in this town [than U. S. companies]."

Japan's lobbyists have also learned how to exploit Washington turf battles. They learn the positions of the various agencies, knowing that a decision often must reflect a consensus among several departments. For example, the knowledge that Commerce was planning to propose a sanction could be relayed to another agency, such as Treasury, known to oppose the action. "Then they sit back and let the interagency process eat itself up," says a former Commerce trade negotiator.

Within the government, Japan's lobbyists often find they are on favorable ground because the Administration tends to place political or military interests above trade. When Prime Minister Takeshita made his first visit to Washington in January, talks between the U. S. and Japan over opening up Japan's construction market were floundering. The U. S. was threatening retaliation. Takeshita brought a new proposal to resolve the issue, but U. S. trade officials found it inadequate. Nevertheless, the State Dept. was determined to create a positive climate and applauded the Japanese proposal. "The State Dept. tends to lose sight of larger U. S. interests," says Alan Wolff, a former U. S. trade negotiator who now represents American semiconductor manufacturers.

The Defense Dept. has also become an important advocate for Japan within the government because of Tokyo's contributions of money and technology to U. S. defense efforts. One key Defense official, James E. Auer, even plans to leave the government in August to set up a center for the study of Japan at Vanderbilt University. At the same time that he has been negotiating with the Japanese government and defense companies on such sensitive issues as the new FSX jet fighter, he has been approaching Japanese companies for funding for his center. Vanderbilt says Auer has won pledges from two Japanese companies. Auer says the grants aren't final yet and that there is nothing inappropriate about his effort.

But such activities exemplify the increasing controversy surrounding Japanese influence-buying. Indeed, some believe the sharp increase in the Japanese presence in the capital could backfire. "The Japanese have far too many lobbyists in Washington," says one senior White House trade official. "They've grossly overdone their presence."

MINORITY VIEW. For their part, some Japanese officials wonder if they're really getting their money's worth. And Japan's diplomats are also warning of a backlash. "Lobbyists are not interested in Japan but in their own careers," says Taizo Watanabe, the No. 2 official at the Japanese embassy in Washington. "This kind of big spending on lobbyists has adverse effects."

That's a minority view, however. Most Washington observers believe deft representation of Japanese interests has helped prevent resentment of Japan's trading practices from coalescing into a policy that could hurt Japan. "The defect in Washington is not so much the presence of lobbyists [as] the absence of a coherent American policy," says Wolff. As long as the policy is confused, Japan's lobbyists won't have trouble finding work.

By Steven J. Dryden and Douglas Harbrecht in Washington

WHY THE SAKE FLOWS AT TOM BRADLEY'S FUND-RAISERS

Not long after paying $620 million to buy the 52-story Arco Plaza in Los Angeles, Shigeru Kobayashi came calling on Mayor Tom Bradley. Following the Japanese tradition of bringing gifts to new neighbors, the head of Shuwa Investment Corp. handed Bradley a $100,000 check for a monument the mayor wants to build welcoming immigrants.

For Bradley, one of Japan's favorite American politicians, money from Shuwa and other Japanese companies is plentiful. Over the past four years, his campaigns have received more than $200,000 from a dozen-plus Japanese real estate companies, banks, and manufacturers. They were major donors to his unsuccessful gubernatorial campaign in 1986 and to his 1989 reelection bid. The sum, while small by national standards, carries much weight locally. Half was pledged in December at a fund-raising dinner attended by Japanese businessmen paying from $350 to $500 a plate.

EXPLOSIVE ISSUE. Bradley's contributions, including a number from donors at Nissan Motor Corp. and Sumitomo Corp., all adhere to campaign finance laws. Bradley has also received major donations from Japanese real estate companies such as Shuwa and Mitsui Fudosan that could help fuel the explosive issue of whether developers are overbuilding Los Angeles.

Japanese companies, which have recently snapped up several high rises and one of the city's most exclusive country clubs, have a keen interest in next spring's primary election. Bradley will face his most serious mayoral challenger yet: a brash young city councilman named Zev Yaroslavsky, who is a champion of the no-growth movement.

There is no indication that Bradley, who declined to discuss his fund-raising efforts, has altered his policies to suit Japanese contributors. But critics argue that he has sided with Japanese and other developers in opposing bans on new construction. The Japanese naturally regard him as a friend and welcome his trips to drum up business in Tokyo. "Bradley, he knows Japan," says Toshio Nagamura, chairman of California First Bank, a subsidiary of Bank of Tokyo Ltd. "He supports various Japanese interests." Nagamura's bank has contributed $3,500 to Bradley.

BRADLEY'S L.A.: THE JAPANESE WANT TO RETAIN HIS PRO-GROWTH POLICIES

Defenders say Bradley has taken steps to slow some development. He proposed a 30% reduction in new development in certain high-growth areas. Aides point out that Japanese contributions represent a fraction of his fund-raising efforts. "Tom Bradley simply doesn't make policy to please the people that send him checks," says mayoral fund-raiser Irene Tritschler. "He's the mayor of a big city. A lot of companies want to see him reelected." Including many well-heeled Japanese ones.

By Ronald Grover, with David Castellon and Pam Ellis-Simons in Los Angeles

PHOTOGRAPHS BY ALAN LEVENSON. (INSET) JAMES CACCAVO

HOBART ROWEN

The Verdict's Still Out on High-Tech Help

Commerce Secretary Robert Mosbacher, sharply criticized by some of his Cabinet-level colleagues for proposing to spoon-feed the high definition television industry, now says he won't single out HDTV for help. Instead, he promises to look at "a range of technologies" to get government assistance to remain or become competitive.

So where does that leave us? Will that still constitute a Bush administration "industrial policy," violating the tenets of the traditional free-market approach, or not? Mosbacher's critics within the administration are claiming victory, but one had better wait and see.

This story of charge and countercharge goes back almost to the start of the Bush administration. Mosbacher, bright-eyed and bushy-tailed, came into office and soon embraced an effort to join hands with the HDTV industry in a special effort to help it meet foreign competition.

HDTV symbolizes the latest frustration of the American electronics industry, which has allowed one lush consumer market after the other to slip away to more proficient foreign companies.

Like some of his predecessors at Commerce, Mosbacher initially seemed to fit the mold of a trade-issue hard-liner, proposing, among other things, that Japan be at the top of the Section 301 trade sanctions "hit list." Unlike some earlier commerce secretaries, however, he is also a close friend of the president and therefore presumed to have unusual clout.

ROBERT MOSBACHER

Increasingly, Mosbacher got under the skin of Budget Director Richard G. Darman and Economic Council Chairman Michael Boskin, chief advocates within the administration of unfettered and open markets.

At this point, let a high administration source pick up one version of the story:

"Mosbacher was summoned to a meeting by White House Chief of Staff John Sununu last spring, and found

See ROWEN, H4, Col. 1

ROWEN, From H1

Darman and Boskin waiting for him, ready to read the riot act.

"They told Mosbacher that in running around town calling for an 'industrial policy' for HDTV, he was selling an idea that President Bush had campaigned against. They told him what he was doing was bad policy as well as bad politics, that he appeared not to understand that Bush had said during the campaign that it's not the government's function to pick winners and losers. If you read somewhere that Boskin and Darman had 'gone ballistic on the issue,' well, that about described it."

According to my sources, when Mosbacher protested that he, too, rejected "industrial policy" as such and instead backed a more palatable "industry-led strategy," Darman and Boskin told him to stop playing semantic games.

Now let's pick up another version of events from Mosbacher aides, who shout: "Fabrication!" Commerce Department counselor Wayne Berman told a reporter 10 days ago in Tokyo that Mosbacher was being sniped at by "anonymous midgets at the seat of the mighty at the White House, commenting on matters to which they were not a party."

Yes, Berman confirmed to me, there had been a meeting in Sununu's office, but not one set up to reprimand Mosbacher. Berman, who also is adviser on high-tech affairs, accompanied Mosbacher. The group included Vice President Dan Quayle (for part of the meeting), Treasury Secretary Nicholas Brady, White House aides Roger Porter and David Bates and a few others in addition to Boskin and Darman.

At a wide-ranging discussion of high-tech problems that ensued, "broad and gentle guidance" was given to the Commerce Department—which had been chairing the HDTV working group—to avoid "industrial policy," Berman said. He insisted that no one was more committed than Mosbacher to the idea that a winners-and-losers policy had to be avoided.

"What we said [at the meeting] was that we need to be able to compete in the businesses and technologies of the future, but we don't know what they're going to be, so we have to figure out what the right macro-economic climate would be."

But Berman acknowledged that Mosbacher's policy had "evolved" away from concentration on HDTV after months of studying the problem and that the change was "an evolution in our own thinking, which we naively thought is what we were supposed to do."

Marion Blakey, speaking for Mosbacher, conceded: "Our error may have been to call [an interagency committee] an HDTV working group." The designation now is being changed to "technologies working group."

Until memoirs are written, no one will know for sure whether Darman and Boskin "read the riot act" to Mosbacher or whether it was "broad and gentle guidance."

The real question, as forces in the administration struggle to evolve a policy, is what happens next.

The sharp criticism of Mosbacher attributed to Boskin and Darman—and the tart rebutting words from Berman—reflect the divisions within the Bush administration on the question: Is there a need to adjust standard Republican free-market principles to political reality?

Has Mosbacher been dissuaded, or has he merely beaten a strategic retreat under fire from Boskin and Darman? Blakey said Commerce is still looking (with Justice Department officials) at the proposition that antitrust laws encumber the high-tech industries, including HDTV, and whether or not such industries need government financial help, including R&D tax credits.

My sources say that after the Economic Policy Committee makes a final report to President Bush—maybe by the end of the year—the administration is likely to support a proposal to relax antitrust laws that are said to inhibit American high-tech industries and to provide other assistance.

In that case, Boskin and Darman might claim that by definition there has been no yielding to "industrial policy" because no specific industries or technologies will have been singled out as "winners." On the other hand, Mosbacher may be seen as having lost a battle last spring but in the end winning the war.

WASHINGTON POST 9-24-89

Mosbacher in Japan: Little Progress Seen

By DAVID E. SANGER

Special to The New York Times

TOKYO, Sept. 14 — Secretary of Commerce Robert A. Mosbacher, ending a three-day trip to Japan today, made little apparent progress on trade questions. He left many Japanese and Americans here wondering about the Bush Administration's goals.

During his visit, Mr. Mosbacher met with Japan's new Prime Minister, Toshiki Kaifu, as well as a number of Cabinet ministers and business leaders who were taking the measure of the Commerce Secretary for the first time.

In this visit, largely ceremonial, Mr. Mosbacher struck two themes: the need for agreements that will start a flow of Japanese technology to the United States, and the need for structural change in the Japanese economy to reduce prices and spur consumer demand for imports.

One Agreement

Mr. Mosbacher did reach one agreement, to extend a cooperative research pact between the United States and the Nippon Telegraph and Telephone Corporation in semiconductors, telecommunications, computers and computer networking and time and frequency measurements. The accord, first signed in 1984, was only slightly enlarged.

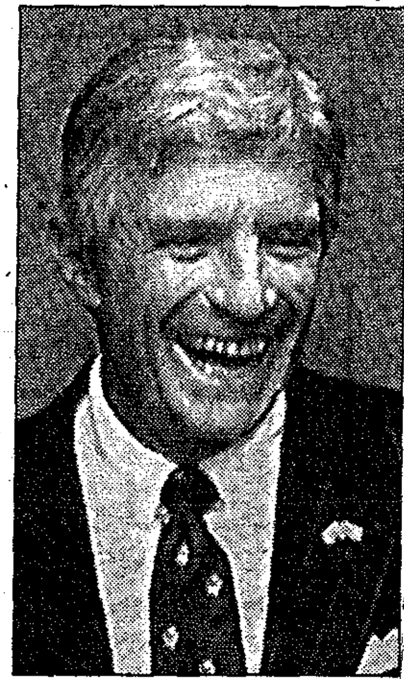
But Mr. Mosbacher got off to a bad start when, while visiting South Korea, he declared that the Korean market was more open than Japan's. Few foreigners in the business community agree with that view because of Korea's outright ban on many types of imports.

In Tokyo, where many American business executives waited to hear about specific goals and more sophisticated strategies to open Japan's markets, Mr. Mosbacher said little about either, at least in public.

Carrot and Stick

Instead, he said the United States would "balance the carrot and the stick" and declared himself a "bottom line kind of guy" who left the "esoterics" of curing America's $50 billion-a-year deficit to others.

"I feel like we are back eight years to the start of the Reagan Administration," said the top official of a major American corporation's Japan subsidiary after Mr. Mosbacher gave an off-the-record speech to the American Chamber of Commerce in Japan. "We keep changing teams and bringing them up to speed, and the Japanese keep the veterans around. Another executive, from a major computer concern involved in disputes with Japan, said after the speech, "We were waiting for a real plan of action, and it never came."



Associated Press

Secretary of Commerce Robert A. Mosbacher yesterday, ending a three-day trip to Japan.

Meanwhile, Mr. Mosbacher and his staff appeared to be backpedaling on American plans to rush into high-definition television research. Although he originally supported a major initiative, Mr. Mosbacher said here this week that while "HDTV is important, you can't look at it in a void," and added that its role in other technologies, from digital switching to fiber optics, needed study. He said the United States had time because "HDTV won't be used until the U.S. market is ready to accept it."

Japan seems to take the opposite view. It has already spent $900 million or more in research and has begun experimental broadcasts of HDTV signals for an hour or so a day. Japan hopes to begin regular broadcasts in a few years, and today NHK, Japan's Government network, said it had licensed Texas Instruments to make semiconductors for HDTV receivers, mostly in Japan.

Disagrees With Verity

Mr. Mosbacher said little about some recurring irritants in trade relations. But he expressed clear disagreement with his predecessor, C. William Verity Jr., who said on a visit to Japan last fall that American construction companies were not putting enough effort or money into cracking the Japanese market. "We don't agree with Verity's perception," Mr. Mosbacher said, complaining that American companies have still landed few contracts.

Mr. Mosbacher also became entangled in one of Japan's thorniest debates: whether the high prices here give American companies a chance to compete.

"The cost of doing business in Japan does ultimately constitute a trade barrier," Mr. Mosbacher said.

Sounding a theme from the newly started "structural initiative" talks to eliminate fundamental trade barriers, Mr. Mosbacher pressed Japan to allow "Japanese consumers to enjoy the same freedom of choice and benefits" as American consumers do. He complained that Japan paid $600 million more than it should have for domestically made satellites, and that it costs three times as much to buy a Sanyo cordless telephone in Tokyo as it does in New York.

But Mr. Mosbacher said he was "optimistic" about the outcome of the current dialogue with Japan on the removal of structural impediments to trade. "My idea of measurable progress," he said, "is something I can show to Congress."

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NEW YORK TIMES 9-15-89

THE SECRETARY OF COMMERCE
Washington, D.C. 20230

14 DEC 1987

Honorable Richard E. Lyng
Secretary of Agriculture
Washington, D. C. 20250

Dear Dick:

On March 18, 1987, this Department published in the Federal Register regulations which set out the patent clauses to be used in funding agreements with small business firms and nonprofit organizations, 37 CFR Part 401 (enclosed). The authority for these regulations is contained in Title 35, Section 206 of the United States Code (enclosed).

The patent clauses contained in these regulations allow small business firms and nonprofit organizations to take title to any inventions arising under a funding agreement. These clauses ease technology transfer as set out in Executive Order 12591.

Subsection 401.1(e) of the regulations states that they shall take precedence over any other inconsistent regulations dealing with ownership of inventions made by small business and nonprofit organizations. Thus, where patent clauses set out in the Federal Acquisition Regulation (FAR) are inconsistent with the 37 CFR Part 401 patent clauses for small business firms and nonprofit organizations, the latter clauses must be used.

Accordingly, your agency should use the patent clauses for small business firms and nonprofit organizations as set out in 37 CFR Part 401. These clauses take precedence over the inconsistent clauses in the FAR.

Sincerely,

/s/
Secretary of Commerce

Enclosures

SUPA Announcement

USET is a start-up company fueled by private funding and incorporated in Delaware but conveniently housed in the Washington, D.C. area.

Our goal is to provide a comprehensive group of services to assist universities, federal laboratories and industry to facilitate their interaction in the management of technology.

One of our first actions has been to acquire two companies that have staffs trained in fostering that interaction. I think you are all aware of Carl Wooten's UTC which is now a component of USET. In addition, USET will shortly acquire the electronic information staff that developed and marketed the Telescan stock analysis program which has 20,000 users.

Initially our focus will be on enhancing the services provided by UTC to its clients, but we would be happy to hear from others who have an interest in that kind of service. In addition, we will be offering consulting services to industry who need assistance in negotiating cooperative R&D arrangements with the federal labs under P.L.99-502.

In the future we will be offering an interactive electronic information system to our UTC client base and to anyone else wishing to manage their own technology and also assistance in new start-ups and further development based on ~~other~~ equity positions.

For more details please pick up one of our folders, but please note we will not be in our McLean, VA offices until after March 15.

We also invite you to an open bar and hors d'oeuvres in the Marlin Club which is shown on the hotel map of their grounds at 7:00 - 9:00 tonight to visit with the USET staff.

Exhibit H

University Science, Engineering
and Technology, Inc.
8000 Westpark Drive, McLean, VA 22102
Tel: 703/821-2030 Fax: 703/821-2049

SMALL BUSINESS INNOVATION RESEARCH PROGRAM

It is predictable that new technology management organizations, such as USET, will eventually profit from the licensing of their client's technology. However, the heavy front-end investment in establishing a technology portfolio and the minimum five-year period required to bring such technology to the marketplace causes understandable uneasiness. The inherently long development phase for products leads to questions of whether the initial investment was wise, clients are being well served, and the morale of operating personnel can be maintained before profitability is reached. We believe that moving a substantial portion of USET's client technology through the Small Business Innovation Research (SBIR) program not only responds to these questions but will lead to an increase in USET technologies reaching the marketplace.

The SBIR program was created in 1982 by Public Law 97-219. The law requires that all federal agencies with extramural R&D programs in excess of $100 million set aside 1.25 percent annually of their extramural R&D budget to fund the development of technology, which could assist in meeting the agency's mission, from small businesses (businesses having under 500 employees). In 1987, the Departments of Defense, Health and Human Services, Energy, Transportation, Agriculture, Education, and Commerce and National Aeronautics and Space Administration, the National Science Foundation, the Nuclear Regulatory Commission, and the Environmental Protection Agency committed $360 million to the SBIR program.

SBIR funding is awarded in two phases. The first phase, which can be up to $50,000 and last six months, is intended to prove the scientific and technical feasibility of the small business proposal. The second phase, which can be up to $500,000 and last for two years, is committed to the development of a prototype of the technology whose scientific and technical feasibility was proven in Phase I. Approximately one-in-eight proposals are awarded Phase I funding, but more importantly, nearly 40 percent of Phase I awards reach Phase II funding.

Since there is nothing in the law that would preclude a USET small business licensee from using USET controlled technology as a core of a SBIR proposal, USET and its clients can be major beneficiaries of the program. While agency solicitations are aimed to solve Agency problems, they have been sufficiently broad to presume that a home could be found for most technology USET controls. Since the agencies have interpreted the law as excluding universities and its investigators as "small businesses", organizations such as USET are in an ideal position to move its university technology through the innovation process by licensing small businesses looking for technology to develop with SBIR funding. Indeed given the continued development of our SBIR database, we could, within short order, identify the small businesses who have been most successful in competing for SBIR. We could further start with those small businesses closest to the university client creating the technology. Further, we could serve a social need by moving USET technology and attaching it to small businesses in those States that have been unable to benefit from the SBIR program.

Even though a university or its investigators cannot be recipients of SBIR awards, one-third of Phase I awards and one-half of a second phase award can be subcontracted by a small business awardee to a university. Indeed USET could condition the licensing of a small business on their subcontracting part of their SBIR award to the university who created the technology. Other factors make undertaking this approach attractive for USET. SBIR awardees can use their funding to file patent applications on USET technology and pay other consultating and service costs provided by USET.

Even the current belief that the inability of small business to obtain product liability insurance makes them unreliable licensees, seems to work to our benefit in the SBIR situation. The university community does not seem to recognize that the small business can be used as a vehicle to obtain SBIR funding for value added research and their marketing of a resulting product conditioned on obtaining product liability insurance. If they cannot, the product can be licensed to a company that can, subject to part of the royalty being shared with the small business.

Attached is a schematic that simplifies what we think USET can do under SBIR. We believe this to be a Win-Win possibility that could give USET a very positive new image with clients and the technology community.

Conclusions -

1. The cost principles identified would appear to enable USET to recover its actual costs from a successful SBIR awardee who USET assisted in gaining the award. The USET costs would be additive and would not therefore reduce the awardee's portion of the award.

2. In addition to recovering costs from a funded award, the cost principles appear to allow the payment of option fees for the technology as an indirect cost.

3. SBIR proposals could be the subject of USET technology

that in the past we made no effort to license because of its early stage of development. Given an award, we will have greatly increased the prospect of commercializing this kind of USET technology.

4. The debriefing statements available from agencies for rejected proposals are of great value in maintaining good relations with our clients.

5. The intent of the SBIR program is to assist small business entrepreneurs. Successfully transferring USET technology to these entrepreneurs as a vehicle for an SBIR award clearly adds to the importance of the program by opening it to technology ideas created anywhere in the world. We could assist in reversing the flow of technology to the U.S. Robert Maxwell may wish to embrace this initiative as the portion of his foundation intended to assist entrepreneurs.

6. Some of the conditions that we believe should be contained in the contract transferring USET technology to a small business licensee in addition to standard royalty or equity returns are:

   a. a promise to pursue Phase I and Phase II SBIR funding;

   b. that if funding is obtained, certain identified USET services will be paid for;

   c. patent protection, if appropriate, will be sought with USET's assistance and paid for out of SBIR funding;

   d. that the small business will have a first option to market the technology within a reasonable time and, if unable, USET will be able to license other manufacturers subject to a portion of the royalty return going to the small business;

   e. that failure to obtain product liability coverage will immediately permit USET to license other manufacturers subject to a portion of the royalty return going to the small business;

   f. that if USET licenses other manufacturers under the circumstances of d) or e) above, inventions, technical data or other know-how created by the small business licensee in performance of the SBIR award may be part of the manufacturing license at USET's discretion;

   g. that there will be an up front option fee from SBIR funding, if permissible;

h. that a percentage of the SBIR research funding shall be subcontracted back to the USET client who created the technology;

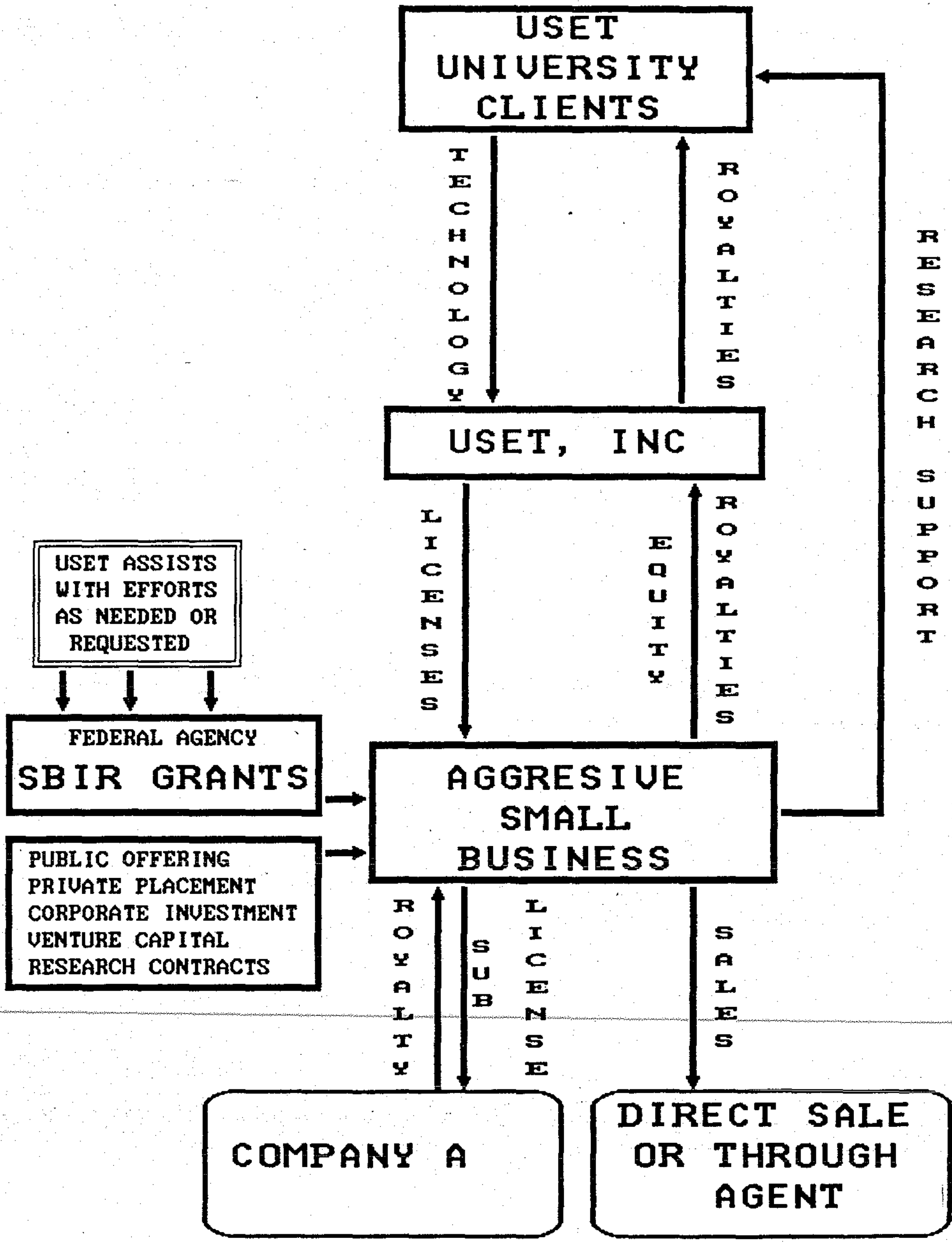
i. that all debriefing information obtained from a federal agency on rejected proposals will be shared with USET and the client creating the technology;

j. that the licensee agrees to disclose in the SBIR proposal to a federal agency that he is consulting with the USET client who originated the technology upon which the proposal is based; and,

k. that the small business will have a first option to further develop the technology if the SBIR proposal is rejected.

NL:k

Attachment


USET UNIVERSITY CLIENTS
TECHNOLOGY
ROYALTIES
RESEARCH SUPPORT
USET, INC
LICENSES
EQUITY
ROYALTIES
USET ASSISTS WITH EFFORTS AS NEEDED OR REQUESTED
FEDERAL AGENCY
SBIR GRANTS
AGGRESIVE SMALL BUSINESS
PUBLIC OFFERING
PRIVATE PLACEMENT
CORPORATE INVESTMENT
VENTURE CAPITAL
RESEARCH CONTRACTS
ROYALTY
SUB LICENSE
SALES
COMPANY A
DIRECT SALE OR THROUGH AGENT

October 13, 1988

MEMORANDUM TO: DONALD L. FRUEHLING
cc: Jack J. Karnowski
cc: Carl B. Wootten
cc: Norman J. Latker
cc: Robert I. Siegel
cc: Kristene Snajder

FROM: L. W. MILES

SUBJECT: Small Business Innovation Research Program

It is predictable that new technology management organizations, such as USET, will eventually profit from the licensing of their client's technology. However, the heavy front-end investment in establishing a technology portfolio and the minimum five-year period required to bring such technology to the marketplace causes understandable uneasiness. We believe that utilization of a well established and well funded existing Federal program not only responds to these questions but will also lead to an increase in USET technologies reaching the marketplace.

One of the most formidable barriers to the conversion of university research into licensable technology is the resource gap which occurs when Federal Agencies will no longer support university research projects because such projects have moved too far along on the innovation curve and, consequently, no longer fall within the agency's research mandate. Unfortunately, since the work is not far enough along to justify the risk investment required, industry will not undertake product development. Thus, "the gap".

Because small businesses have been responsible for the creation of more than 100% of all new jobs in the U.S. since 1981, the Congress established the SBIR program in 1982. It is our plan to utilize this program in conjunction with entrepreneurial small businesses to close the resource gap to the benefit of USET, small business entrepreneurs, our university clients and the public. What we intend is not only legal, but it very directly accomplishes that which Congress clearly intended. In off the record conversations with officials in the Department of Commerce and the National Science Foundation, they wholeheartedly agreed--the response was enthusiastic.

The SBIR program requires that all federal agencies with extramural R&D programs in excess of $100 million spend 1.25 percent annually to fund the development of technology through small businesses (businesses having under 500 employees). As a result, in 1987 $360 million was committed to the SBIR program.

SBIR funding is awarded in two phases. The first phase, which can be up to $50,000 is intended to prove the feasibility of the small business proposal. The second phase, which can be up to $500,000 is committed to the development of a prototype of the technology whose feasibility was proven in Phase I. Approximately one-in-eight proposals are awarded Phase I funding but, more importantly, nearly 40 percent of Phase I awards reach Phase II funding. We believe that the USET "hit ratio" could be substantially higher than the average, particularly in view of the fact that "our" proposals would be based on technology which had previously received government funding during the research phase from the same government agencies selecting the SBIR awardees.

There is nothing in the law that would preclude a USET small business licensee from using USET controlled technology as the core of an SBIR proposal. USET and its clients can be major beneficiaries of the program. While agency solicitations are aimed to solve agency problems, they have been sufficiently broad to presume that a home could be found for most technology USET controls. USET is in an ideal position to move university technology through the innovation process by licensing small businesses looking for technology to develop with SBIR funding. We would enlist the assistance of the various state's agencies charged with business development in identifying potential small business licensees in their states.

Even though a university cannot be a recipient of SBIR awards, one-third of Phase I awards and one-half of a second phase award can be subcontracted by a small business awardee to a university. Indeed USET could condition the licensing of a small business on their subcontracting part of their SBIR award to the university who created the technology. Other factors make undertaking this approach attractive for USET. SBIR awardees can use their funding to pay for patent applications on USET technology and other consulting and service costs provided by USET.

We believe this to be a win-win possibility that would enhance USET's image with clients and the technology community, while reducing our costs by covering some of our up-front expenses.

Conclusions--

1. The cost principles identified would appear to enable USET to recover its actual costs from a successful SBIR awardee who USET assisted in gaining the award. The USET costs would be additive and would not reduce the awardee's portion of the award.

2. In addition to recovering costs from a funded award, the cost principles allow the payment of option fees for the technology as an indirect cost.

3. SBIR proposals could be the subject of USET technology that in the past could not be licensed because of its early stage of development. Given an award, we will have greatly increased the prospect of commercializing this kind of USET technology.

4. The intent of the SBIR program is to assist small business entrepreneurs. Successfully transferring USET technology to these entrepreneurs as a vehicle for an SBIR award clearly adds to the importance of the program. Further, this program can be enlarged by opening it to technology ideas created anywhere in the world. We could help assist in reversing the flow of technology to the U.S., while providing entrepreneurs with substantial assistance in finding needed technology.

One of our longer range plans has been the establishment of a venture capital fund specializing in seed and first round financings of university spawned entrepreneurial new companies. Utilization of the SBIR program would greatly enhance such an activity. First, it would cause the greatest technological risk to be borne by SBIR funds. Second, it would provide a marvelous opportunity for the venture fund to get a first look and perhaps first refusal rights to provide subsequent venture capital to such companies when phase two funding showed encouraging results.

We are meeting with an expert consultant on the SBIR program to explore this matter further. It appears that additional headcount would be required to implement this program; initially, one executive and fairly extensive consulting assistance.

Bill Miles

LWM:sb