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UNITED STATES-JAPAN TRADE NEGOTIATIONS

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

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UNITED STATES-JAPAN TRADE NEGOTIATIONS

MONDAY, NOVEMBER 8, 1993

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 1:34 p.m., in room SD-215, Dirksen Senate Office Building, Hon. Max Baucus (chairman of the subcommittee) presiding.

Also present: Senators Bradley, Pryor, Rockefeller, Roth, and Grassley.

[The press release announcing the hearing follows:]

[Press Release No. H-45-2, November 2, 1993]

INTERNATIONAL TRADE SUBCOMMITTEE HEARING ON U.S.-JAPAN TRADE NEGOTIATIONS TO START EARLIER

WASHINGTON, DC—Senator Max Baucus (D-MT), Chairman of the Senate Finance Committee's Subcommittee on International Trade, announced today that the subcommittee will hold a hearing on United States-Japan trade negotiations one-half hour earlier than previously announced.

The hearing will now begin at *1:30 p.m. on Monday, November 8, 1993,* in room 215 of the Dirksen Senate Office Building.

"After years of failed attempts to open Japan's market, the Clinton Administration rose to this challenge in July by launching a new set of negotiations. The "framework talks" are attempting a two-pronged approach: tackling Japan's $130 billion global current account surplus through macroeconomic means, while pursuing parallel sector-specific talks. In September, those negotiations began in earnest," Sen. Baucus said.

"As the negotiations near their first deadline for action in January 1994, it is essential that the Trade Subcommittee hold a hearing in order to review their progress. This hearing is particularly timely given the upcoming round of negotiations prior to the Asia Pacific Economic Cooperation meeting later this month in Seattle and the ensuing meeting there between President Clinton and Prime Minister Hosokawa," Sen. Baucus added.

On July 10, 1993, President Clinton and Prime Minister Miyazawa issued a joint statement outlining the United States-Japan Framework for a New Economic Partnership. The framework agreement addresses both macroeconomic and sector-specific objectives. Sector and structural negotiations cover five areas: government procurement; regulatory reform and competitiveness; other major sectors, including the automotive industries; economic harmonization; and implementation of existing arrangements and measures.

OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA, CHAIRMAN OF THE SUBCOMMITTEE

Senator BAUCUS. The hearing will come to order. I thank all our distinguished panelists for appearing here today. I look forward to their presentation.

Last August, I had the good fortune to visit Tokyo. During that visit, I discussed our trade differences and the new negotiating framework with a number of senior Japanese officials and government Ministers.

I said I viewed the negotiating framework President Clinton and Prime Minister Miyazawa agreed to last July as our mutual last best chance to resolve our differences in trade and market access.

I used the phrase "mutual last best chance" because I believe that if this framework fails, it will not simply be one more in a long line of failed negotiations. Instead, it will discredit the whole concept of bilateral talks with no explicit enforcement mechanism.

I am sorry to say, in the months since the President and Prime Minister signed onto the negotiating framework, we have seen little evidence that it will succeed.

For the past 15 years, we have tried to address our problems through currency manipulation, the GATT, particularly through bilateral talks without enforcement mechanisms. Throughout this period, we have heard a familiar refrain. Japan's economy is changing. It is opening to the work. It is a gradual process. Be patient.

But we saw no major changes in the trade deficit and no major opening in the Japanese market. This has worn very thin and so, I believe, has the whole concept that bilateral negotiations with no enforcement provision can solve our market access problems.

Over the past 15 years we have tried the market-oriented sector-specific talks, the Major Projects Agreement, the Market Oriented Cooperation Plan, and the Structural Impediments Initiative. They sounded impressive and got a lot of attention. Some very talented people worked on them. But I think it is fair to say that they failed.

I had hoped that this framework would be different. I still have that hope. The framework tackles the right issues and it still has a chance to succeed. Later this week there will be another round of discussions in Seattle. And next week, President Clinton will again meet Prime Minister Hosokawa. I sincerely hope this fall's trend of slow-moving negotiations is not a sure indicator of the result.

Let us review the goals of these talks. First, we agreed that Japan must achieve a highly significant reduction in its current account surplus in the near future. Second, we targeted five particular difficult individual problems. They are: government procurement; regulatory form and competitiveness policy; key industrial sectors like autos and auto parts; economic harmonization, that is ending Japan's investment restrictions, improve its intellectual property laws and improve technology access; and finally, enforcing our existing 28 trade agreements with Japan.

The final essential point was it reserved the right to use Section 301 and Super 301—if the administration keeps its campaign promise to renew it—if we do not see progress.

But what does progress mean? It means results. More exports to Japan; a lower Japanese current account surplus; better protection for American patents; more sales of auto parts. I regret to say that we have seen no results so far. As the deadlines are nearer every day, we need to see them soon.

I would also remind everyone that President Clinton needs all the international prestige and domestic backing possible if he is to succeed in this effort. The House vote on NAFTA will occur just a few days before his meeting with Prime Minister Hosokawa in Seattle. That NAFTA vote becomes a crucial decision, not only for free trade with Mexico, but for fair trade with Japan.

Once again, I believe this framework is the mutual last best chance for bilateral negotiations to succeed. We have tried to negotiate our way out of this imbalance problem for 15 years and it has not worked. If it does not work this time, I will conclude that the approach simply is wrong.

I will advise the administration to concentrate instead on the one method which has been shown to work. That is, of course, using our trade remedy laws and backing them up with the promise of retaliation. Of course, it is the essential reason why we need to extend Super 301. I thank you very much.

I would now like to briefly turn to Senator Rockefeller, if he has a statement.

OPENING STATEMENT OF HON. JOHN D. ROCKEFELLER IV, A U.S. SENATOR FROM WEST VIRGINIA

Senator ROCKEFELLER. I do, Mr. Chairman, and it is a very short one. Then we will get on to the more interesting part with our panelists.

As you had indicated, Mr. Chairman, the purpose is to review the status of the negotiations under the framework agreement. I am not making the assumption that all matters—and I do not think the Chairman was implying that—should be resolved and agreed to at the upcoming first meeting of the Prime Minister and the President under the framework agreement.

But the framework agreement for the first time puts the relationship on what I like, and that is a business-like basis between economic peers and one that acknowledges the tremendous progress that Japan has made in the past 40 years.

Since June, we have begun to put flesh on the bones in the form of specific agreements for particular sectors. With the leaders committed to meet every 6 months, which to me is the touchstone of the whole thing, I for one am confident that we will make regular progress.

To me the biggest obstacle is Japanese resistance to targets, quantitative indicators of progress so to speak, which is, of course, our most important goal. This is not an abstract issue of trade philosophy. We are for targets because we have discovered they work with Japan.

The concept of targets is offensive in many ways to the Japanese. On the other hand, semiconductors is a documented case in point. Neither their government nor their industry took us seriously until, in fact, President Reagan imposed sanctions. And after that, it has been only the 20-percent figure that has made the agreement meaningful. And, in fact, as I have often said here, many Japanese private industrialists told me that it was the sanctions that caused the Japanese to act.

Now Americans may be deservedly criticized for our tendency to insist on very formal, legal structures to deal with our problems, but it is only common sense to be able to measure whether or not agreements that we reach are succeeding.

The best way to do that is to agree on the goals that we want to attain. At the same time it is hard not to conclude that Japan's opposition is based on its desire to avoid accountability on trade disputes, as much as I hope this is not the case or will not be the case.

The administration has not been unreasonable in the kind of targets that it wants and the levels that it sets. If one looks at the past 9 months, I think it is fair to say that the administration has been both patient and reasonable in these matters. So we have made many agreements over the years, as Senator Baucus indicated, that have not, in the end, amounted to very much: Everybody should understand that America's frustration with the process is real and our determination not to repeat mistakes of the past is also real.

I thank the Chair and look forward to the testimony.

Senator BAUCUS. Thank you very much, Senator.

Senator Grassley?

Senator GRASSLEY. I have no statement at this time, Mr. Chairman.

Senator BAUCUS. I would like to now turn to the panelists, who include Secretary Altman, Deputy Secretary of Treasury; Hon. Joan Spero, the Under Secretary of State, who I believe is on her way and is not yet here; Charlene Barshefsky, Deputy U.S. Trade Representative; and Hon. Tim Hauser, Acting Under Secretary of Commerce for International Trade.

Mr. Altman, why don't you proceed? We might all of us, I want to hold each of us to 5 minutes, Senators as well as panelists.

STATEMENT OF HON. ROGER C. ALTMAN, DEPUTY SECRETARY OF THE TREASURY, WASHINGTON, DC

Secretary ALTMAN. Thank you, Mr. Chairman. In that spirit, with your permission, I would like my statement to go into the record and I will summarize it here.

Senator BAUCUS. Without objection. All statements automatically go into the record.

[The prepared statement of Secretary Altman appears in the appendix.]

Secretary ALTMAN. When a group of us, including Under Secretary Spero, Ambassador Barshefsky and I last testified before you, we had just completed the framework agreement. We thought it was a good agreement on the macro economics and a good agreement for ongoing negotiations in the five basket areas and that the time table side of the agreement, which Senator Rockefeller referred to, was particularly helpful.

I think we made clear that day, Mr. Chairman, that the real work, of course, had yet to begin. My purpose here today, and that of my colleagues, is to give you a sense of where it stands.

Regarding economic policy, when we were last here the Hosokawa Government had just entered office. Since that time, there has been a significant deterioration in Japan's economic prospects. The economy has continued to falter, despite the monetary and fiscal actions taken over the past 2 years. And, in fact, the government's public investment programs are providing practically the only source of domestic demand growth.

The fundamental problem which that government faces, Mr. Chairman, is the weakness in private domestic demand. That is the result of sluggish consumption and falling private investment. As a result of the prolonged slump in sales and profits, Japanese firms, after investing so heavily in plant and equipment during the 1980's, have now cut back, and consumption, which is far and away the largest component of domestic demand, has fallen sharply.

Households have felt their wealth eroded by declines in the financial markets which followed the bursting of the bubble economy, and, as those wealth and income effects have taken place, consumption has suffered.

The general consensus on the Japanese economic outlook, Mr. Chairman, is that growth will be negative this year, the first time in two decades, and that weak domestic demand has been one factor in the recent increase in Japan's current account surplus.

That surplus is expected to top $140 billion this year. To put that in perspective, Japan's surpluses have fluctuated quite widely, from 4 percent of GDP in 1986 to less than 1.5 percent in 1990 and now are back above 3 percent this year and next year.

The problem there is that such large surpluses are draining demand from an already weak global economy and, of course, invite pressures for protection. What the world needs is a sustained period of domestic demand-led growth from Japan, a period in which demand for goods exceeds domestic supply, so that Japan will become a net supplier of jobs to the rest of the world, rather than a net drain.

That is why Japan has recognized it needs to make a highly significant reduction, as described in the framework agreement, in its current account surplus. The Japanese Government, of course, has responded to the deteriorating economic situation with a series of fiscal packages. The most recent in September included some new public investment spending, actions to increase the pass-through of the benefits from the strong yen to Japanese consumers and a few deregulation measures.

Then less than a week later the Japanese discount rate was cut to the all time low of 1.75 percent. We, of course, welcomed those measures at the time. But we also were reassured that the government realized that more action would be needed, both to get the economy moving again and to reduce the current account problem.

And the Japanese Government, Mr. Chairman, is now considering a number of important policy actions along those lines. In particular, a stimulative package of tax measures would help to jump-start competition. A tax package designed to put more money in the hands of consumers could help build the kind of confidence that Japanese consumers need in order to start spending again.

Strong fiscal action through a stimulative tax program could be the key to finally reviving growth. And, of course, a growing economy is the best way to reduce a current account surplus.

The size and composition of the tax package will be critical in determining its impact on the economy. The tax package being discussed includes an income tax cut, followed by increase in the consumption tax after some interval.

Many Japanese observers, let alone outsiders, have recognized that the impact of the overall package will have to be substantial to achieve strong growth in domestic demand. Our primary concern is that the overall stance of fiscal policy be supportive of growth. A tax package that was quickly offset by measures to raise new revenues or to cut expenditures just would not provide sufficient stimulus to revive the economy, and that would be a disappointing event.

I would remind everyone that Japan has the strongest fiscal position in the G–7 and the ability to construct a package which works. Of course, public investment also needs to be maintained at current levels if the tax package is to provide net additional support.

A Government Advisory Council in Tokyo is debating the overall tax reform package and will present its recommendations to Prime Minister Hosokawa shortly. I expect that the President and the Prime Minister will spend some time during their upcoming bilateral in Seattle discussing these issues.

There are also important discussions in Tokyo, Mr. Chairman, on economic reform and deregulation. Prime Minister Hosokawa has targeted deregulation as the best way to increase the openness of the Japanese economy, and a report outlining this deregulation coincidentally is being released today.

We anticipate that many of the report's proposals will parallel what we have been suggesting in our own negotiations in the framework.

In addition, Japan's recent commitment to reform the construction industry is reason for optimism that the Hosokawa Government is willing to challenge entrenched interests. By taking that difficult step, which I think surprised many observers, Prime Minister Hosokawa showed that he is serious about economic cooperation with us and about reform.

Mr. Chairman, my statement describes some of the progress or the status, I should say, of the basket talks. But I think I will defer to Ambassador Barshefsky on that.

Let me close by simply saying, since the negotiating kickoff in September, we have held initial meetings of all the negotiating groups and follow-up meetings in the high priority ones. I looked at the schedule last Friday again, and fundamentally one or another of these basket teams is meeting almost every week with its Japanese counterparts.

So far both sides have just laid out initial positions. No changes have been agreed on. I do not think that is surprising, because, as you know, most progress tends to occur just before the deadline, which is one of the reasons why the 6-month deadlines are so helpful.

So, Mr. Chairman, the Japanese Government faces an important decision on fiscal policy.

Senator BAUCUS. I must note your deadline, too.

Secretary ALTMAN. In these next few weeks we will be watching it very keenly. I am sure that the President and Prime Minister will discuss it in Seattle; and it will have an important bearing on whether the commitment Japan made, which you referenced in your opening comments, towards reducing its current account surplus will be met.

Thank you.

Senator BAUCUS. Thank you very much.

I see Deputy Secretary Spero here. Secretary Spero, we would welcome your statement at this time.

Secretary SPERO. Thank you.

Senator BAUCUS. Why don't you proceed?

STATEMENT OF HON. JOAN E. SPERO, UNDER SECRETARY OF STATE FOR ECONOMIC AND AGRICULTURAL AFFAIRS, WASHINGTON, DC

Secretary SPERO. Fine. Thank you for understanding my schedule was tight and I am glad I could be here in time to speak to the committee.

Mr. Chairman, I very much appreciate the offer to testify with my colleagues again before you today. The scope of the administration's approach to our economic relationship with Japan is unprecedented. It is key that we coordinate with Congress every step of the way.

What I would like to do, with your permission, is to submit my statement for the record and then summarize its main points.

Senator BAUCUS. Without objection.

[The prepared statement of Secretary Spero appears in the appendix.]

Secretary SPERO. Our goal under the framework is to achieve reform in Japan's economy and to correct the persistent trade imbalances that adversely affect U.S. economic interests and strain our strategic and political relationship with Japan.

We ask that Japan act now to meet its responsibilities as a major world economy and to integrate the Japanese economy more fully into the international economic system. In the economic harmonization basket, which I chair, we are tackling practices which insulate the Japanese economy and impede foreign participation in it.

The solutions we achieve here will not produce any immediate impact on Japan's trade and current account imbalances. But over the medium to long term, they will better balance the relationship between our economies, eliminating a source of continuing friction.

Under the harmonization basket, we will seek to reduce barriers to investment in Japan, especially in facilities and services which would promote increased exports to the Japanese market. We will build on current efforts to promote long-term relationships between U.S. suppliers and Japanese buyers, with a focus on sectors in which constraints in distribution and design in of high-tech components are key.

We will seek to redress the imbalance in technology flows by enhancing the flow of technical data to the United States from Japan, stimulating private sector technology exchanges and seeking increased U.S. access to Japanese public and private R&D facilities.

We will press for better intellectual property protection through simplification and streamlining of Japan's patent process, faster registration and improved protection for, well-known trademarks and improved sound recording rental rights. We also must ensure that Japan's ongoing computer software protection study does not damage U.S. software suppliers.

Mr. Chairman, we believe the changes in Japanese patterns of investment, buyer supplier relations, technology development and intellectual property protection will better integrate the Japanese economy in the world system and contribute to increased levels of foreign investment and imports.

We are working to achieve our objectives under the framework in a transformed political environment in Japan. The infusion of new leadership has permanently altered the style and substance of Japanese politics. Political life and public attention in Tokyo are now riveted on basic reform of the electoral system and on anti-corruption laws.

Prime Minister Hosokawa enjoys strong public support for his political reform efforts, reflected in approval ratings of about 70 percent. It remains to be seen, however, whether political reform will strengthen the hand of economic reformists in Japan and contribute to economic change.

It would be difficult for any government composed of a coalition of seven parties to take bold decisions. The leadership in Japan is presently intensely focused on its domestic political reform agenda. At the same time, the politics of the Hosokawa Government to date are in many ways consistent with what we are seeking under the framework.

Increasingly, calls for change are emanating from within Japan itself. Business and opinion leaders are more and more vocal about the need for the Government of Japan to reduce the current account imbalance, to improve market access, promote deregulation and further stimulate the economy.

This gives us grounds for hope that the momentous change underway will support our efforts. At the same time, precisely because the current changes are so fundamental, the situation remains uncertain. We must recognize that there may be uncertainty for some time to come. There may be further shifts in the political landscape, particularly if political reform in Japan fails.

In closing, I would like to thank you, Mr. Chairman, for the opportunity to testify. Our relationship with Japan is crucial to the well-being, not only of our two countries, but to the world. We are pressing ahead to achieve meaningful agreements with the Government of Japan. We have an important opportunity to review progress when Prime Minister Hosokawa and the President meet on the fringes of the historic APEC economic leaders meeting in Seattle this month.

Thank you.

Senator BAUCUS. Thank you very much, Secretary.

Ambassador Barshefsky?

STATEMENT OF HON. CHARLENE BARSHEFSKY, DEPUTY U.S. TRADE REPRESENTATIVE, WASHINGTON, DC

Ambassador BARSHEFSKY. Thank you, Mr. Chairman, and members of the subcommittee. It is a pleasure to appear before you again today to discuss the status of negotiations under the framework.

I would ask that my written statement be accepted into the record and I will simply summarize.

[The prepared statement of Ambassador Barshefsky appears in the appendix.]

Ambassador BARSHEFSKY. The timing of this hearing is particularly appropriate. The framework was announced 4 months ago. This week we will be holding the third round of negotiations on the priority areas of government procurement of telecommunications equipment and services, medical equipment and services, the insurance sector, autos and auto parts.

Mr. Chairman, it has long been recognized that the Japanese economy performs in a manner which sets it apart from the economies of the other major industrialized nations. This is evident in looking at the macro-economic dimensions of the problem; and at the sectoral and structural aspects of the Japanese economy.

As Mr. Altman has previously testified, Japan's massive current account surplus constitutes the major asymmetry in the world economy today. Japan imports less than half the manufactured goods of the G–7 countries.

In 1991 U.S. imports of manufactured goods constituted 6.9 percent of U.S. GDP. Imports of manufactured goods in 1991 constituted 7.4 percent of GDP for the G–7 countries, excluding Japan. In Japan, the comparative figure is 3.1 percent of GDP.

Japan also takes little of the world's foreign direct investment. Of the global stock of inward direct investment, 38.5 percent is in Europe, 28.5 percent is in the United States, and 0.7 percent is in Japan. We know that trade follows investment and that where investment is restricted or precluded, trade does not flow. This is precisely the situation we face in Japan today.

These sharp economic disparities are repeated at the sectoral level. Japan has the second largest telecommunications equipment market in the world. While import penetration into the G–7 countries, excluding Japan, of telecommunications equipment averaged 25 percent in 1991, import penetration into Japan was 5 percent.

In insurance, import penetration into the G–7 countries, excluding Japan, ranges from 10 to 33 percent. In Japan, which is the second largest insurance market in the world, import penetration is 2 percent.

There is a persistent and repeated pattern in which competitive United States and foreign goods and services which thrive in the global economy face multiple barriers to access in Japan inhibiting their success.

We, therefore, expect that agreements reached under the framework will result in a prompt, substantial, and continuous increase in access and sales of foreign goods and services in Japan so that foreign global market share in Japan is comparable to the import share in other developed economies over the medium term. This is, in its broadest sense, what we are trying to achieve under the framework.

In each of the priority areas that I have already mentioned, we have presented the Japanese with draft texts delineating our goals. These texts are very complex and lengthy. They differ from sector to sector. But they each reflect two key principles to which we agreed in the framework and which will be essential elements of the agreements we are looking for with Japan.

First, the need to obtain process and procedural reform, including deregulation; and, second, the need to obtain tangible results in access and sales through the use of objective quantitative and qualitative criteria.

If I may, Mr. Chairman, let me turn now from the framework talks to developments in the construction sector and the work of the Hiraiwa Commission. On October 26 the Government of Japan announced an action plan to reform substantially its public sector construction market.

The plan represents a sharp change in the Japanese Government's attitude towards the sector, indicating that for the first time, Japan is determined to bring about the types of reforms we have been urging for years.

For the first time, Japan has stated that it will eliminate its designated bidder system, a very substantial step forward. This is an important instance in which the thrust and goals of our trade policy have found resonance in the desire of the Hosokawa Government and the Japanese people for real change.

We are also looking forward to issuance today of a preliminary draft of the Hiraiwa Commission Report. The Commission was established by the Prime Minister to recommend changes to Japan's regulatory structure. The goals of the Commission appear similar to those of the framework—that is, to make the Japanese market more responsive to market forces than it is at present.

Real changes in the Japanese marketplace, whether as a result of the promising initiatives of the Hosokawa Government or as a result of the implementation of the framework, will allow Japan to confront and correct those aspects of its economy which continue to set it apart from the rest of the industrialized community and which detract so substantially from the positive attributes of its formidable economic achievements.

Mr. Chairman, we look forward to working with you and members of the subcommittee as we move forward under the framework. Thank you.

Senator BAUCUS. Thank you very much, Ambassador.

Mr. Hauser?

STATEMENT OF HON. TIMOTHY J. HAUSER, ACTING UNDER SECRETARY OF COMMERCE FOR INTERNATIONAL TRADE, WASHINGTON, DC

Mr. HAUSER. Thank you, Mr. Chairman. If I may, as well, submit my statement for the record and summarize it here.

Senator BAUCUS. Without objection.

[The prepared statement of Mr. Hauser appears in the appendix.]

Mr. HAUSER. I appreciate the opportunity to appear before the subcommittee today to discuss the status of the automotive talks under the framework. The issues under discussion are not new. They have been around for at least three U.S. administrations and several Japanese Governments.

We view the framework agreement and the new Japanese Government's commitment to change as a major opportunity to resolve these longstanding complex issues.

The importance of the auto sector to our economy is clear—total employment of 6 million persons, manufacturing employment over

1 million persons, production amounting to close to 6 percent of GDP, and the fact that this industry employs the kind of high-skill, high-wage jobs that this administration has placed at the top of its economic agenda.

Given this importance of the industry, our objective in the framework talks is clear—to provide improved market access for United States and other foreign auto and auto parts producers in the Japanese market and for parts producers in the U.S. market.

A cursory examination of the auto market in the major industrialized countries demonstrates the need for greater access in Japan. Import market share in motor vehicles for the industrialized countries ranges from 35 to 56 percent. In Japan, it is about 3 percent. Import market share for auto parts for these same countries ranges from 16 to 60 percent. The comparable share in Japan is 2 percent.

These low import shares have been a longstanding characteristic of the Japanese market and show no sign of improvement. Similarly, the trade deficit in this sector has also shown no real signs of improvement; and, in fact, has deteriorated further in 1993.

To address these market access problems, we have presented the Japanese with a comprehensive proposal that focuses on three main areas—purchases of U.S. auto parts by Japanese transplant vehicle manufacturers; purchases of foreign auto parts in Japan; and imports of foreign vehicles into Japan.

Within these areas we propose the Japanese increase purchases of U.S. autos and automotive parts through measures such as expanding their engineering and technical exchanges with U.S. suppliers, opening their procurement and design-in processes to foreign auto parts suppliers, providing access to their motor vehicle distribution system, providing opportunities for American firms to participate in the replacement parts market in Japan, and expanding their business relationships with parts suppliers in third countries.

The proposal stresses the need to produce prompt, substantial and sustained increases in sales for both parts and vehicles. Consistent with the overall framework, the proposal contains multiple quantitative and qualitative criteria for assessing progress. In addition, our proposal reinforces government-to-government understandings already in place, including the $19 billion parts purchasing goal announced in January 1992.

We have also included proposals to improve data, as well as provisions for stronger enforcement of Japan's anti-trust laws in the auto sector. We developed our proposal in close consultation with the U.S. vehicle manufacturers, the auto parts industry and labor representatives.

We have consulted with congressional staff and have discussed our proposal with the Japanese at two high level and two staff level sessions with additional negotiations planned for next week.

Thus far, the Government of Japan has put forth a number of arguments. One, the Japanese industry cannot make commitments at this time due to its depressed state. Two, that this must be a two-way dialogue which also looks at the sales efforts and product quality of U.S. companies. And, three, that these negotiations be limited to actions within the scope of government.

Let me quickly address each of these. Regarding the state of the Japanese industry, we have responded that business cycles have always existed in the world auto market, including the United States. We pointed out that during 1990 and 1991, vehicle production in the United States declined by 2 million units and employment dropped by 71,000 jobs. The Big Three lost over $12 million.

Nevertheless, our market remained open and, indeed, the Japanese increased their market share in the United States. What this means for these negotiations is that the current condition of the Japanese industry cannot be an excuse for delaying resolution of longstanding market access problems.

Indeed, the current economic situation in Japan is due in part to the stronger yen. This should, in fact, facilitate the opening of the Japanese market by making all foreign vehicles more price competitive in Japan.

With respect to parts, our industry believes they enjoy a 20 to 30 percent price advantage over Japanese producers. We have pointed out that increased sourcing of United States and other foreign-made parts can, in fact, support the Japanese vehicle manufacturers' restructuring and cost-cutting efforts.

Furthermore, much of our proposal relates to parts purchasing for the Japanese transplant operations in the United States, which are expanding. We believe that the transplant manufacturers could benefit from accelerating their sourcing of U.S. parts because of the significant price advantages here.

Similarly, we have rejected Japan's claim that lack of sales efforts or product quality is an explanation for the slow progress in sales to Japanese companies. U.S. companies are clearly making strong efforts to obtain business in Japan. I cite a number of examples in my testimony.

Finally, Mr. Chairman, regarding Japan's argument that resolution of these issues is outside the scope of government, we note that there has been a historical relationship between the Government of Japan and industry. We believe that there is some room for influence there.

Mr. Chairman, my trip to Japan last month to negotiate this agreement coincided with the Tokyo Motor Show. I would note that based on discussions with the U.S. companies, both auto manufacturers and parts manufacturers there, that we have an industry ready, committed to compete, in the Japanese market. It is my hope that this message was heard by the Japanese Government, industry officials, and consumers at the show.

I look forward to working with the committee to expand our proposal.

Senator BAUCUS. Thank you all very much.

As you know, under the timetable the government procurement basket, insurance and auto sector deadline is January. I did not hear any of you voice words of much success in any of these areas, much progress in any of these areas.

What will you gauge your results by in order to determine whether it is successful or not come January with respect to insurance, auto parts and government procurement? Whoever wants to start first. How will you know in January whether you are successful or not? What criteria are you using?

Ambassador BARSHEFSKY. Mr. Chairman, if I can respond to that, the USTR chairs the basket on government procurement as well as the sub-basket on insurance.

First of all, let me say that there has been progress made to date. It is not headline grabbing progress. But the pace of negotiations is dictated in part by the complexity of the proposals we are putting forward, the need to take our Japanese counterparts through those proposals in great detail, the rationale for the provisions we are putting forward, what we hope to accomplish by the language proposed and so on. It is very time consuming.

The Japanese have shown a certain degree of engagement in this process, asking questions, to which we have responded.

Senator BAUCUS. What is your standard going to be? How will you know whether you are successful?

Ambassador BARSHEFSKY. Our standard in January will be several fold. First of all, the extent to which the process and procedural reforms that are envisioned by the proposals we have tabled are agreed to by the Japanese and are promptly put into place. And second of all, the extent to which the qualitative and quantitative indicators that we have proposed, chief among which is movement by Japan to the G–7 norm over the medium term on import penetration is achieved.

Senator BAUCUS. Mr. Altman, on insurance, you are handling insurance; is that correct?

Mr. ALTMAN. No, USTR is handling insurance.

Ambassador BARSHEFSKY. USTR is, yes.

Senator BAUCUS. All right. The same with respect to insurance then?

Ambassador BARSHEFSKY. Precisely the same.

Senator BAUCUS. What about autos?

Ambassador BARSHEFSKY. May I add one additional point on insurance?

Senator BAUCUS. Yes.

Ambassador BARSHEFSKY. Which is, in addition, you know that the Japanese Government is currently looking at ways in which to deregulate its insurance sector. So in the insurance proposed agreement we have also requested substantial input into that deregulatory process.

Senator BAUCUS. We heard Mr. Hauser respond to the Japanese concern that, well, their economy is not humming along as well as they would like it to be. We heard his response that the United States is not concerned about it. Well, they are concerned; but, frankly, that is not an excuse. I heard Mr. Hauser say that is not an excuse with respect to these areas.

Is that the same response that the rest of you are giving in your areas?

Ambassador BARSHEFSKY. Yes.

Mr. ALTMAN. Sure.

Senator BAUCUS. Ms. Spero?

Secretary SPERO. Yes.

Mr. ALTMAN. Mr. Chairman, I would also add to what Ambassador Barshefsky said, simply to say that I do not know whether when we come back in late January we will have good progress to report, or we will not. But I am almost sure that we will not find out until the midnight hour.

Senator BAUCUS. I think that is probably right. The Japanese have a saying, "in all negotiations the last inch is darkness." I think that is somewhat true here.

Now what are your plans if you are unsuccessful? Mr. Altman?

Mr. ALTMAN. Well, as you know, Mr. Chairman, in the framework agreement, we did not relinquish any of our tools and levers under present U.S. trade law. And, of course, had the construction talks not succeeded—I should not say not succeeded, but had they continued to produce nothing—we would have imposed sanctions in keeping with the deadline of early November.

So I think the answer is that the full range of our trade laws remains fully available, and I do not think we will refrain from using any of those in the event that we are stuck.

Senator BAUCUS. Now, would Super 301 extension help you in this effort? I would think that it would.

Ambassador BARSHEFSKY. Let me respond to that. As we have testified before as, of course, Ambassador Kantor has testified, and as the President has stated, we support reenactment of Super 301. The way in which the United States preserved all rights under existing trade laws, as well as under statutes was to ensure that to the extent Super 301 is enacted by the Congress, Super 301 would be explicitly available to the administration to use.

Senator BAUCUS. There are 60 Nobel Laureates or some group of economists who are quite critical of "managed trade." I guess, by inference, somewhat critical of the administration's approach or benchmarks, yardsticks and so forth. What is your reaction to all that, Mr. Altman?

Mr. ALTMAN. Well, we were rather surprised, Mr. Chairman, by their approach. Last week, as a side light to the east room event which the President had on NAFTA, Under Secretary Summers and I met with several of the Nobel Laureate economists to discuss it.

Their own reactions may be different than mine, of course. But I felt that they did not fully understand what we were trying to achieve. And when it comes specifically to managed trade, we reject that completely. What we are trying to do here is to unmanage trade; and it is not unmanaged trade, of course, when the procurement markets in Japan are as closed as Ambassador Barshefsky talked about or other sectors either.

So while I think it is surprising that those economists took that position, a number of them have indicated second thoughts, are having second thoughts, and have made that clear to us; and I think in general it is a process of being sure they understand more fully what our goals are and why a number of the things we are trying to do differ from what they fear.

Senator BAUCUS. As I understand you, what you are saying is, you view your yardsticks and benchmarks as tools to open markets?

Mr. ALTMAN. That is correct.

Senator BAUCUS. Rather than using them to close markets.

Mr. ALTMAN. Well, the entire process is aimed at opening markets and unmanaging trade.

Senator BAUCUS. So their connotation or their understanding of managed trade may have been in a negative sense, that is limiting, rather than opening.

Mr. ALTMAN. Now in fairness to them, and as I sat through that meeting myself, some of them would prefer an entirely laissez faire approach. As one of them put it, just take a consumer point of view and forget this entire framework agenda. Well, that is just an honest difference of view.

Senator BAUCUS. My time has expired. Secretary Altman, I know you are under a strict time schedule. I would like for you to stay as long as you can. But when you have to leave, we understand.

Senator Rockefeller?

Senator ROCKEFELLER. Thank you, Mr. Chairman. Are we going to have two rounds of questions?

Senator BAUCUS. We will, but we may not have Secretary Altman with us for the second round.

Senator ROCKEFELLER. All right.

Mr. ALTMAN. One of my problems is, I remain the interim CEO of the Resolution Trust Corporation, an honor which I would be happy to bestow, probably, on anyone in this room who would take it. But there is the quarterly public meeting of the Oversight Board of the RTC which begins shortly, and I am required to make an opening statement at that meeting as the CEO.

Senator ROCKEFELLER. The construction sanctions and withdrawing or not applying the construction sanctions because of promises made, commitments made, brings up the question of implementation of commitments. I will address this to you, sir, Secretary Altman.

In the past that has been something that we have done quite frequently. We have said we are going to be tough. This time we are going to be sure. Then very earnest promises, commitments, et cetera, are made. We then withdraw the threat or fact of sanctions. Then somehow through some process, through the passage of time, we end up getting less than we wanted.

Obviously, in the past that sent a signal that we talk tough, that we really do mean it, but when it comes right down to it, we did not do the sanctions and then there is always a reason for a delay.

Obviously, you have considered all of these things in terms of not applying the sanction. I would just be interested in your sense of implementation of the commitments and your confidence therein.

Mr. ALTMAN. Let me say a word about it and then turn it over to Ambassador Barshefsky, because after all it is the USTR that administers the trade statutes.

First of all, while I agree a good deal with the spirit of your question, it has not been a disappointment across the board. I think the semiconductor agreement yielded some benefits. I think the construction situation is now a bit more promising, maybe perhaps more than a bit, and I think the role of sanctions or proposed sanctions played a considerable part in each of those.

I can only say in general that we intend to be as resolute as you would expect us to be in terms of enforcement, of course, of existing trade laws which represent the basic enforcement relating to any of the agreements we may strike, or fail to strike, in the baskets. I think in general it is a matter of a very firm, clear-eyed approach and a willingness to use the full panoply of legal tools at our disposal and ensuring that the other side knows that.

Charlene?

Ambassador BARSHEFSKY. Yes. Senator, if I may take issue with one thing you said, we did not withdraw sanctions. We postponed them to January 20.

Senator ROCKEFELLER. Point well taken.

Ambassador BARSHEFSKY. I think that that is an important point because implicit in your question is, we have heard promises before. What are the details, what are the facts that we really know? The details are to be worked out between now and January 20. We have made it quite clear what those details need to be for us to not impose sanctions on January 20.

But if I may, with respect to what the Japanese Government has come forward with, the United States has for the past year raised four critical issues in construction. Each of those issues has been responded to in a manner completely consistent with what the United States has been requesting for the past year. That is, elimination of the designated bidder system, full transparency, a reconstituting of the issue of pre-qualification of bidders and enhanced scope of coverage of procurement changes.

Each of these areas has been responded to by the Hosokawa Government. We felt that the response was so direct in tone even though the detail is not present, that that justified a postponement of sanctions to January 20. But the detail must be there.

Senator ROCKEFELLER. And in view of your answer I can only but fully agree with what you have done, the postponing, not initiating. I think that is an entirely proper and firm course to take.

Just a question, if I might, to Secretary Spero. During the setting up of the framework discussions, the relationship between the MITI Minister and the Foreign Minister was not entirely cooperative. There was some tension and disagreement between them.

My question to you is, does that still exist? And in view of what you said about there being seven parties or coalitions, seven parts to the coalition, what is your understanding as to the Japanese Government acting in sync under a very popular Prime Minister? Part one. And then part two, do you feel that the political direction, which seems to be very clear and very forthright on the part of the Prime Minister, has reached into the bureaucracy or will reach into the bureaucracy and why?

Secretary SPERO. The jury is still out on all of these issues. I do not have any updated information on the relationship between the MITI Minister and the Foreign Minister at this time.

It is our view right now that by and large, there is a receptivity to change and there is a receptivity to deregulation. That is felt more strongly among certain members of the parties, but it is felt particularly by the Prime Minister and by his Chief Cabinet Officer. They have been on the record, in fact, for many years expressing their frustrations in dealing with the central administration as the Governors of local provinces.

So we know that there is a very strong feeling on the part of the Prime Minister and some of his key allies in the political coalition. I think that gives us some hope.

Now, how does that relate to the bureaucracy? There are two questions. One is, how does that relate to the Prime Minister's ability to deliver within his own government; and secondly, how does that relate to the bureaucracy?

I think, again, that this is a moving target. We are working very closely with Ambassador Mondale in Tokyo, trying not only to have the best information, but to try to communicate to the relevant publics in Japan, whether that be the different political parties, the business groups which are indicating support for change, as well as the larger Japanese public, to try to send the message that Charlene Barshefsky has so well described Japan is out of sync with the rest of the OECD countries. It is in the interest not only of United States-Japan relations, but also of the Japanese public, the Japanese consumer, and Japanese business for Japan to become more in sync.

So to the extent that we are in a position to try to influence that process, we are trying to do that.

Senator BAUCUS. Thank you very much, Secretary Spero.

Senator Grassley?

Senator GRASSLEY. Thank you.

Senator BAUCUS. Mr. Chairman, is there a vote at 2:30?

Senator BAUCUS. I understood earlier there was going to be a vote. Then I understood later that that was canceled. So I am not sure. We will double check.

Senator GRASSLEY. It is my understanding that the administration wants the Japanese Government to offer guidance with regard to Japanese buying U.S. auto parts. I applaud that effort. But I have some problems with what they might define as an American firm.

Could any of you spell out for me how you define a U.S. auto parts manufacturer/supplier that is located in the United States? The question is in regard to equity ownership—as an example, Alcoa-USA, has a plant in Davenport, IA and have a joint venture with a Japanese firm.

Mr. HAUSER. Yes, Senator, if I may. There is nothing in the U.S. proposal that would discriminate against any particular set of U.S. auto parts manufacturers. What we are attempting to do in Japan is to open the market for all foreign parts suppliers in Japan.

We have asked the Japanese to track two categories of part suppliers—one, non-Japanese capital affiliated firms, the so-called traditional U.S. suppliers, and here we are talking about companies that are American capitalized—Tenneco Automotive, Monroe Shocks, whatever.

At the same time we are asking that we also obtain data on all U.S. parts manufacturers, including the keiretsu affiliated firms. We are simply asking for data on this. We are not looking for any sort of discrimination. But it is our belief that firms like Toyota-USA, subsidiaries of Japanese firms, do not have a market access problem in Japan.

Monroe Automotive, other traditional U.S. capital-affiliated firms may have a market access problem in Japan. So we are looking at the data to see.

Senator GRASSLEY. And I assume your end goal then is to make sure that neither category of American suppliers would have any problems in Japan.

Mr. HAUSER. Are being discriminated against, exactly.

Senator GRASSLEY. All right.

Mr. HAUSER. Again, sir, the emphasis is on market access. And, in fact, under the terms of the framework we are looking for access for all foreign auto and parts suppliers in Japan.

Senator GRASSLEY. Well, could you tell me how you might define this as it relates to a non-U.S. auto parts manufacturer that produces parts with American workers in U.S. plants? This may punish American workers by having them not qualify if they work for a United States-Japanese joint venture where the American company is the majority partner. Then these American workers might be defined as foreign workers.

Mr. HAUSER. I may have misunderstood something, Senator. But I see nothing in our proposal that would discriminate against any production in the United States.

Senator GRASSLEY. You may have thought you answered it in the first instance and you may have answered it now. But I just wanted to differentiate between American workers in foreign companies as opposed to the equity argument that we thought the Japanese might use in the case of capital.

Mr. HAUSER. Again, as I believe I mentioned in my oral presentation, Senator, our focus on this is this kind of high-skill, high-wage American jobs. I believe that defines our interests.

Senator GRASSLEY. All right. We are getting some indication that the Japanese are beginning to take seriously the enforcement of anti-trust laws. This is going to be a good thing for American exporters if they do it. Has the Japanese Government followed through on its commitment to eliminate legalized cartels? And what is the Clinton administration thinking of doing in regard to making sure that the Japanese follow through on this commitment?

Ambassador BARSHEFSKY. Senator, we have a framework working group on competition policy whose work will be completed in July 1994. I think it is fair to say that the Japanese have stepped up their scrutiny of competition-related issues. But I think it would be an overstatement to say that the Japanese have significantly stepped up enforcement of their anti-monopoly act or anti-monopoly act regulations.

So, for example, the Japan Fair Trade Commission recently issued a report which pointed out, among other things, that the Japanese glass market is cartelized. It has taken note of that. It does not approve of that. But it has not taken enforcement action against that cartel behavior.

So competition policy is an area included in the framework. One of the chief proposals which the United States will make will be the initiation by Japan of a strict enforcement regime with respect to monopoly practices.

Senator BAUCUS. Thank you very much, Ambassador.

Senator Roth?

Senator ROTH. Thank you, Mr. Chairman.

In the prepared testimony it is rightfully pointed out that manufactured goods imported by the U.S. accounts for 6.9 percent of GDP, an average of 7.4 percent for the rest of the G–7, excluding Japan, but only 3.1 percent for Japan. We find somewhat the same picture in respect to investment.

My question is, it is my understanding that the European Community is beginning some discussions much along the lines that we are developing. I wonder, has any consideration been given to joining hands? Would it not be desirable to work together in these areas with the Europeans, particularly since we are blamed for trying to influence so much over there anyway? Has any consideration been given to that? And if not, why not? Why do we not seek joint action?

Secretary SPERO. Perhaps I can answer that question, Senator Roth. As a matter of fact, I just returned from Brussels, where I did have some dialogue with our EC colleagues who are working on this issue. Indeed, they are also engaged in a process, but they are, in a sense, behind us in the process. Theirs is heavily oriented toward analysis, through a fairly complicated model that they put together, to determine to what extent there is effective penetration of the Japanese market.

I think we are far ahead in terms of actually engaging the Japanese in negotiations. So I see us moving along parallel and complimentary tracks. But I do not think it would be appropriate at this time for us to join in a joint negotiation.

At the same time, we are having a dialogue with the Europeans about their approach and about our approach. I see this as being mutually reinforcing. But, frankly, I think the United States is ahead of the curve on this issue. I think we need to proceed with all due speed and not be slowed down by the Europeans.

Senator ROTH. While I can understand that position, at the same time the more unified we are in dealing with them it seems to me the greater opportunity we have of breaking down the barriers.

Ambassador BARSHEFSKY. Senator, if I may say, there is an aspect in which the United States and European positions are quite unified. That is with respect to the identification of the substantial economic asymmetries that exist in sectoral areas between the United States and Japan and between Europe and Japan. So that the European focus, as our focus, is on structural and sectoral disparities between their respective economies and Japan.

To the extent those observations are additive, which they are, it drives home the message to Japan that its economy has not moved in tandem with the other great economies of the world and it needs to move in tandem with those economies.

Senator ROTH. Let me turn to another question. As I understand it, the Japanese Government has a different view of the framework, particularly in respect to qualitative and quantitative objective criteria. For example, there are opposing views of what type of data to use in measuring the openness of Japan's Government procurement market for medical devices.

Now it is my understanding—I am not sure this is correct—but it is my understanding the United States is insisting on using overall market share data, which I gather would include both private and public sector, while the Japanese are insisting on using government procurement data.

I guess my question is, if we are trying to open up government procurement does it not make sense to concentrate on that or why not?

Ambassador BARSHEFSKY. Senator, I think the important point is the standard against which Japanese market access performance needs to be measured. That standard is the G–7 standard or a standard of highly developed countries which participate in that particular sector. And to the extent there is disparity between Japan's economy and those economies, however one wishes to measure them on an apples-to-apples basis, that is a disparity that needs to be rectified.

With respect to the particular data to be used, to define the disparity and to determine a mechanism for bringing those figures closer together, that is obviously a point that needs to be discussed and worked out mutually with the Japanese.

Senator ROTH. I understand we aim at reaching agreements on government procurement for medical devices, telecommunications, autos and auto parts, and insurance within the first 6 month's time frame.

Senator BAUCUS. I am going to ask you to shorten your question, Senator. We have two more to ask questions before the vote expires.

Senator ROTH. Is any consideration being given to extending the deadline?

Ambassador BARSHEFSKY. No.

Senator ROTH. None at all?

Ambassador BARSHEFSKY. No.

Senator ROTH. We stand firm on that?

Ambassador BARSHEFSKY. None.

Senator ROTH. Thank you, Mr. Chairman.

Senator BAUCUS. Thank you very much, Senator.

Senator Pryor?

Senator PRYOR. Mr. Chairman, I am going to put, if I may, my statement in the record. I was going to ask a question about Japan and rice. I know that there are purchases taking place now, but the purchases are basically taking place because of the weather conditions that they have had in Japan. We hope that we will proceed and move forward to make this a permanent, rather than a temporary relationship.

The second is bromine, Mr. Chairman and Madam Ambassador. The Japanese place a duty on our bromine. They do not on our chief competitors. I know that you have met with the officials for the bromine industry.

Ambassador BARSHEFSKY. Yes.

Senator PRYOR. A little bit of history, Mr. Chairman and my colleagues. Arkansas is the only state that produces bromine. We are being penalized and placed at an unfair advantage there. I wonder if you might just for the record supply an answer, because I know that Senator Bradley has a question, too, and we are having a rollcall vote.

Ambassador BARSHEFSKY. Yes.

[The questions and answers referred to above appear in the appendix.]

Senator PRYOR. I thank you, Madam Ambassador.

Ambassador BARSHEFSKY. Thank you, sir.

Senator BAUCUS. Senator Bradley?

Senator BRADLEY. Thank you very much, Mr. Chairman. I would like to thank Senator Pryor.

I would like to address this to Ms. Spero and Ms. Barshefsky. If NAFTA is defeated in the House of Representatives on November 17, what will be the impact on the APEC meeting?

Ambassador BARSHEFSKY. Senator, I am recused from discussions directly or indirectly involving NAFTA.

Senator BRADLEY. Well, let me ask Ms. Spero. Thank you.

Ambassador BARSHEFSKY. Thank you.

Secretary SPERO. Yes. First of all, we hope and expect that NAFTA will be passed. If for some reason NAFTA is not passed, this would give a new sense of urgency in APEC, both to the needs of the APEC countries of opening up among themselves, as well as new emphasis to the Uruguay Round.

The theme of this APEC meeting, the ministerial meeting, is trade and investment; and we expect that there will be a lot of emphasis there on opening markets. So we hope that in any case there will be strong support for the Uruguay Round.

Senator BRADLEY. Do you think the President's hand is stronger coming out of victory or defeat?

Secretary SPERO. I would rather not have to speculate on that, Senator.

Senator BRADLEY. Well, let me assert, I will take silence as an assent with my position. [Laughter.]

That his hand is much stronger coming out of a victory in the House on NAFTA than a defeat.

Secretary SPERO. I agree with you, Senator.

Senator BAUCUS. Just to kind of expand even a little more on that, Ms. Spero. I think it is more than stronger, I think it is much stronger. In fact, I think it is critical.

Secretary SPERO. Senator, I do not like to think about what would happen if we do not have NAFTA. Perhaps I was not communicating that very clearly.

Senator BAUCUS. I understand that you do not like to think about it, but you might have to think about it and in your position must think about it because it is a possibility.

Secretary SPERO. Yes.

Senator BAUCUS. Which should reinforce your determination to make sure that it does not happen.

Secretary SPERO. Absolutely.

Senator BAUCUS. Thank you.

Senator Rockefeller wished to ask this panel a couple more questions. So we will recess for about 10 to 15 minutes and come right back.

[Whereupon, at 2:40 p.m., the hearing recessed, to reconvene at 2:55 p.m.]

Senator BAUCUS. Let's go back on the record.

I would like to ask a question of Ms. Barshefsky and Ms. Spero with respect to software and copyright provisions. In the next panel, we are going to hear a representative of the software industry, who I think will discuss Japanese copyright practices and, it is my understanding, might say that Japan is not moving forward, but backsliding. Is that the case and if so, what is our response?

Ambassador BARSHEFSKY. Mr. Chairman, there is a study group that is looking at what we believe would be a weakening of copyright protection for computer software in Japan.

Tomorrow a letter will be transmitted to the MITI Minister and to the Minister of Education, signed jointly by Ambassador Kantor and Secretary Brown, which first of all registers grave concern at the work of this study commission and the notion that copyright protection would be reduced in Japan with respect to computer software; and second, which indicates that Ambassador Kantor and Secretary Brown fully expect that bilateral consultations will be held before there is any implementation of any recommendation coming out of this study commission, whatever the recommendation may ultimately be.

So there is grave concern about the potential for reverse engineering in Japan of software and the United States is determined to become involved in this issue promptly.

Senator BAUCUS. We have touched briefly on the affect of APEC. What are some of the other uses of APEC with respect to framework and also looking down the road with respect to Asia more generally?

Ambassador BARSHEFSKY. Mr. Chairman, there are four large issues that will be addressed at the APEC Ministerial this year, each of which I think has important ramifications for APEC itself as well as for the U.S. position in the Asia-Pacific community.

The first is the proposed adoption by the APEC Ministers of a declaration on trade and investment framework, which would for the first time solidify APEC's identity as an investment and trade liberalization forum. It would also create for the first time a permanent trade committee. That committee would have the ability to engage in policymaking recommendations for the Ministers.

This is a very substantial step forward for APEC and signals a willingness on the part of all APEC members to engage in a much more meaningful series of discussions than previously with a focus on results.

Second, the ministers will be presented with the report of the eminent persons group, which is chaired by Fred Bergsten. That report proposes that at some point in the future, and the date is not specified, there be the creation of a Pacific economic community.

The report will also go through the building blocks to achieve that kind of open trading environment. While the report is not expected to be adopted, per se, by the Ministers, it will generate debate and will, I think, generate working group activity on APEC's future direction and vision. And, of course, we will be looking at the United States' role in that future direction and vision.

There will also be issues that pertain to new membership within APEC, how quickly to expand the organization and in what order—that, obviously, has ramifications for the United States—as well as discussions on the involvement of the business communities of the respective APEC economies in ensuring that the work program remains very concrete and economically focused.

So we view the forum as an important step in the further economic integration of the United States and its specific trading partners and as a forum for regional cooperation on a variety of trade and investment issues.

Senator BAUCUS. And also it is an opportunity for the President to meet President Ziang Zemin with respect to China and to avoid FMN train wreck possibilities.

Secretary SPERO. We need to think of the APEC meeting as having two parts. One is the ministerial level meeting, which will address all the issues that Ambassador Barshefsky mentioned. In addition, the President has invited leaders of the APEC countries from the Asian and Pacific Basin to meet with him. That will provide the opportunity not only for a dialogue on the economic situation in the Asia-Pacific Region, but also for several bilaterals. It is in that context that he will be able to meet with Prime Minister Hosokawa.

Senator BAUCUS. I strongly very much compliment the administration for this forward reach, looking out across the Pacific. I mean, it is long overdue in my judgment. Prior administrations, I think, did not pay enough attention to the Pacific, a growing part of the world.

It is important to the United States as well as the world interest. And I very, very strongly compliment the administration for its actions in APEC, both the ministerial level as well as the President's efforts looking down the road.

I just very much urge you to keep pushing, keep following up, so that there are solid results.

Senator Rockefeller?

Senator ROCKEFELLER. Just a quick final one. I totally second what you have said, Senator Baucus. I do not think the American people realize it, because I am not sure the American people follow it that closely. But there has been an absolute sea change in attitude in terms of a more mature business-like relationship with our economic co-equal, Japan.

I think it is entirely due to the new administration. I think it is entirely due to several of you who are sitting there—Bo Cutter and others; and obviously starting with the President.

I think Mondale has made a splendid beginning. That needs to be said publicly. He was a factor himself in the construction development.

Ambassador BARSHEFSKY. Absolutely.

Senator ROCKEFELLER. He moved very quickly. He had barely arrived, but instinctively he used his superb political skills and intuition to know how to do it.

But let me just ask this broader question, which will not come out with total clarity. But the question will be, how do we continue to press and get results under the following circumstances?

When Secretary Altman was here he referred to the semiconductor agreement and construction as evidence that we have been doing things. Well, the agreement on semiconductors was in 1985 and the sanctions were in 1986; and construction, if it works, is

1993 or 1994. So that is not exactly a pattern that the Japanese can count on.

That begins to get at the question, how is it that we establish our commitment after years and years of having the Japanese with very good reason understand that at the final mark the chances are we would back away? We did not with the semiconductors.

On the other hand, the sanctions were not applied because of market access; they were applied for dumping in the United States and third countries. People have forgotten that. But that is what the sanctions were applied for. We are not now at 20 percent. We have gone from, you know, 20.2 to 19.6 to 19.2; when, in fact, the agreement was that there should be steady progress forward, not beneath 20 percent.

Then you get the addition of Hosokawa and the difficulty of his coalition, a new type of politician. I think he really means it. A clearly outstanding leader, thoroughly modern person, courageous. And yet on the other hand, he has a terrible economy on his hands.

So that at the time we will be coming at him to try to establish the relationship which we have never established with Japan—we have failed consistently to establish with Japan—it is at a time when he brings in essence less ability to react. And yet we bring the desire of a new administration to finally establish the sense of continuity, that the Japanese will know that they can count on the fact that we are going to do what we say; and that that is so important, almost regardless of the economics.

So the question is, I guess, I will just say it this way, how do we prove our determination to the Japanese and thus, I think, ease and mature the relationship? How do we show them that we really mean it?

Secretary SPERO. I think you can do it in several ways. I think we started by doing it through the framework. In other words, the framework is a message in and of itself. It says that our relationship has to change. It says that it has to change because it is very fundamental to the overall relationship.

If we are going to get it right in other areas, we are going to have to get it right on the economic side. And by building into the framework the fact that it will be dealt with at the highest level—that is, every 6 months there will be a meeting of the President and of the Prime Minister—I think that raises it to a very significant level.

As you know better than many of us in this room, that helps focus and concentrate the mind and we think it will help to drive the decision process. That is why it was deliberately built into the process. I think another way that you try to do it is, as I suggested before, to try to buy into those who want domestic change in Japan.

I believe you are right about Prime Minister Hosokawa. The question is, how do we ally ourselves with those people within the process who would like to make change. But at the end of the day——

Senator ROCKEFELLER. But, Secretary Spero, it also is possible that for domestic political reasons in order to protect his coalition, to keep it going, he might have to be tougher on us. And the only way that he could keep his coalition going is by showing that he is willing to be so. That is more resistant.

Secretary SPERO. It may be, at the end of the day. I think we would like to use all of our political skill to avoid that being the case. I think at the end of the day we have to show, as Roger Altman said before, that we have not eliminated any of our ability to act on the trade front. We have not changed our trade laws. And at the end of the day we will have to make a judgment in the U.S. national interest.

Ambassador BARSHEFSKY. If I may just take one moment to comment.

Senator BAUCUS. Briefly.

Ambassador BARSHEFSKY. That is, that I think it is equally plausible to assume that in both the United States and Japan a political will will form that is born of economic necessity for both countries. In this country the political will is to take prompt action with respect to Japan, and I think we demonstrated this on construction because the economic asymmetries are no longer sustainable.

In Japan I believe the political will will ultimately coalesce around economic deregulation and substantial economic reform, demand-led growth, more choice for the consumer in Japan because at this juncture no one else can see how that economy is going to get off the ground and remain competitive unless that economy becomes open.

So I think what you may have is actually a concordance of interest between the United States and Japan, the United States for opening the Japanese economy and Japan for opening the Japanese economy.

Senator BAUCUS. I might say, Ms. Barshefsky, that sounds nice and I hope it happens. I am not sure that it will. My experience, and this is based only on my personal experience as a member of the Senate with various countries with respect to trade, that no country, underline the word "no," out of the goodness of its heart opens up and knocks down trade barriers. There has to be some leverage.

You have to show this to be in our mutual best interests. I hope that there is a concordance here. I do hope that raising this to the Prime Minister, the presidential administrative level, helps. I hope that you can work on the domestic demand in Japan. But I also know that the ministries in Japan, many of them, do not want change. Many within the ministries in Japan do not want change and they are working hard to prevent change.

As Senator Rockefeller said, there are lots of forces going on in Japan. It is the old thing about fair but firm. We are fair but it has to be backed up with a firmness. Japan let us know that we are resolute and there have been a lot of bilateral talks that have not gone anywhere.

The one talk that did work to a certain degree was the semiconductor agreement and now they do not like that. So I just strongly urge you to be ready, to back up good, well-meaning intentions with firmness. And if Japan does not feel the administration is going to back it up, then I do not think Japan is going to do much. I do not think it is going to do much, period.

Ambassador BARSHEFSKY. Mr. Chairman, if I may, I agree with you, no country will act out of altruistic motives when it comes to economics. I was not hypothesizing that Japan would. I think that it has its own internal economic reasons for moving.

Senator BAUCUS. There are those internal pressures.

Ambassador BARSHEFSKY. But I do believe, and here I agree with you complete, that is that the United States must be immediately responsive to Japan to the extent our goals under the framework are not met.

Senator BAUCUS. Otherwise, our words are not credible.

Ambassador BARSHEFSKY. I agree with that.

Senator BAUCUS. Thank you very much. thank you all very much.

Ambassador BARSHEFSKY. Thank you.

Senator BAUCUS. We will now turn to our panel which consists of Mr. Robert Saldich, president and chief executive officer of Raychem Corp. from Menlo Park, CA on behalf of the American Electronics Association; Mr. Robert Holleyman, president of Business Software Alliance; Mr. Steve Collins, director of economic and international affairs for the American Automobile Manufacturers' Association; and Ms. Maureen Smith, international vice president of American Forest and Paper Association on behalf of the American Forest Products Association.

We do not have a lot of time, so I would urge panelists to quickly take their places; and I will tell you, I will strictly enforce the 5-minute rule. Otherwise, we will not finish on time.

Mr. Saldich, why don't you proceed?

STATEMENT OF ROBERT J. SALDICH, PRESIDENT AND CHIEF EXECUTIVE OFFICER, RAYCHEM CORP., MENLO PARK, CA

Mr. SALDICH. Thank you, Mr. Chairman, and members of the committee. I am Robert Saldich. I am CEO of Raychem Corp., a Fortune 500 company based in California. I am also chairman of the board of the American Electronics Association. So we appreciate this opportunity to testify.

The AEA (American Electronics Association) represents over 3,000 U.S. companies in all segments of the electronics industry. Over 80 percent of our member companies are small companies with fewer than 200 employees. But we also represent many of the largest cornerstone companies in the electronics industry.

I would like to really start by just putting two quick stakes in the ground. We are not an industry that is looking for handouts or looking for government help when we are competing against companies in other countries. We are proud of our companies and we think we can compete successfully and have demonstrated that every place in the world.

We also represent an industry which has a rich and complex series of relationships with companies in Japan. We are their customers. We are their suppliers. We are their competitors. We have alliances with them. We have joint ventures with them. We have a rich tapestry of collective interests with them.

The third point I think I would make is that everything I am going to say will suggest to you that the arrows of our industry are almost totally aligned with all of the testimony that you have already heard. The things that we are asking for are exactly what this administration is pursuing so relentlessly.

A word on electronics. As you know, the electronics sector is the largest manufacturing sector in this country. We have 2.3 million American workers employed directly in this industry in this country and we are proud of that. We are, of course, of strategic importance for the economic strength of our country.

In Japan, we have 470 companies—American companies—operating in Japan. We have been working hard in Japan to earn our right to serve that tough marketplace.

However, the bilateral trade deficit with Japan is really composed of two primary sectors—autos and electronics. And electronics we are afraid represents 45 percent of that total deficit and is increasing. The electronics deficit is now sitting at $22.3 billion in 1992.

The deficit continues to deteriorate, as you have heard, despite many years of trade agreements and as many as 20 bilateral trade agreements focused only in the electronics sector.

What we are seeking from this United States-Japan framework are, quite simply, results. We want truly effective market access negotiations for electronics, which reduce market barriers in Japan and provide measurable, prompt, steady, and substantial increase in our American firms' sales and market share in Japan, which is simply commensurate with our global experience. These are exactly the same objectives I heard earlier from the administration.

Let me describe the problem for you. We compete against Japanese companies in Japan. We compete against Japanese companies all over the world. Worldwide, we have a 50 percent market share. In Japan, we have a 19 percent market share. Our market share is simply totally out of proportion in Japan.

We face a wide array of barriers. This barriers are systemic; they are interrelated; and they are complex. I am going to just wave one document in front of you. This is the Motorola catalog in Japan. These are all the products that Motorola has been able to get permission to sell in Japan.

This is Motorola's international products catalog. In Japan, products and systems which are not specifically allowed by regulation are prohibited. This is what all of us are talking about when we refer to market limiting regulations.

The message we want to leave here is simple. It is that a continuing electronics bilateral trade deficit with Japan represents a direct transfer of wealth from the United States to Japan. We lose sales. We lose profits. We lose jobs. The Japanese must understand the importance that our trade negotiators place, backed up by Congress and the administration, on prompt and substantial progress in the electronics trade.

Senator BAUCUS. I would ask you to summarize, if you can, Mr. Saldich.

Mr. SALDICH. If we learned anything, it is that our commitment to results must be unwavering. I am simply agreeing with everything you have heard before. In our view, no agreement is better than a weak and an unenforceable agreement. Our job is to keep our focus on this objective. Thank you very much.

Senator BAUCUS. Thank you very much.

[The prepared statement of Mr. Saldich appears in the appendix.]

Senator BAUCUS. Mr. Holleyman?

STATEMENT OF ROBERT W. HOLLEYMAN II, PRESIDENT, BUSINESS SOFTWARE ALLIANCE, WASHINGTON, DC

Mr. HOLLEYMAN. Yes, Mr. Chairman, Senator Rockefeller. It is a privilege to have an opportunity to talk to you this afternoon about some of the issues the U.S. software industry faces in Japan.

It is a particularly useful time because of both the context of the upcoming framework negotiations; and secondly, because a series of events are occurring today in Japan which are very troubling for the U.S. software industry.

The U.S. computer software industry is one of the bright stars in this Nation's business community. Our industry has grown by 269 percent over the past decade in contrast with 30-percent growth of the economy as a whole. PC software companies, whose members are represented by the Business Software Alliance, currently hold approximately 75 percent of the world market for personal computer software.

In Japan our number is slightly less than that—55 percent—which in contrast with many other segments of U.S. industry, is a very positive development.

I have recently returned from 5 days in Japan where I met both with business leaders in the U.S. software industry, as well as Japanese Government officials. What I have learned is both encouraging and troubling.

It is encouraging because virtually every single software company official with whom I talked believes that the framework established in Japan by which the 55-percent market share that we currently enjoy will, in fact, grow in the years ahead.

There are two reasons for this. One, U.S. software companies have, in fact, developed innovative products that are sought by consumers and computer users around the world. Secondly, as a result of bilateral trade negotiations, the United States in 1984 and 1985 ensured that Japan passed a copyright law that protected computer software.

The combination of innovative products developed by U.S. companies and a sound copyright law, in keeping with most international levels of protection, have meant a solid framework for the 55-percent market share we currently enjoy and the possibility of future increases.

You have heard testimony this morning from Secretary Spero and Ambassador Barshefsky. Mr. Chairman, you asked these witnesses a question regarding a commission formed in Japan in July of this year, which is looking at possible revisions of the Japanese copyright law. These revisions could make it easier to reverse engineer or disassemble computer programs and to legally use the result of that effort to develop competing products. That is the troubling factor in Japan today.

This problem did not exist in April when the framework agreement was negotiated. It exists today. If that development like this were to occur, we would see a significant derogation in the level of protection that was negotiated in the 1984 agreement with Japan.

We would see a level of protection that is less than in the United States and less than in the international community, and we would see a reduction of protection which could only harm U.S. software companies today doing business in Japan, who are the market leaders.

I am pleased to hear this afternoon that Ambassador Kantor and Secretary Brown are sending a letter to their counterparts at the Ministries of International Trade and Education to highlight this issue. It is, indeed, critical to the U.S. software industry.

All U.S. software companies now obtain more than 50 percent of their revenues from foreign sales. If we lose ground in markets like Japan, then, in fact, it reduces our overall competitiveness. This need not take place in Japan, and hopefully the framework negotiations can be used to ensure that the report of the Japanese Commission will not proceed to legislation in the spring, as we are otherwise led to believe it might.

If that works, then this will prove positively that the framework talks were successful. BSA appreciates the opportunity to testify. Thank you very much, Mr. Chairman.

Senator BAUCUS. Thank you, Mr. Holleyman.

[The prepared statement of Mr. Holleyman appears in the appendix.]

Senator BAUCUS. Mr. Collins?

STATEMENT OF STEPHEN J. COLLINS, DIRECTOR OF ECONOMIC AND INTERNATIONAL AFFAIRS, AMERICAN AUTOMOBILE MANUFACTURERS' ASSOCIATION, WASHINGTON, DC

Mr. COLLINS. Thank you, Mr. Chairman. I am Stephen Collins. I am the director of economics and international affairs for the American Automobile Manufacturers' Association. AAMA is the trade association for the U.S. auto companies—that is Chrysler Corp., Ford Motor Co., and General Motors Corp.

I want to thank you, Mr. Chairman, for extending to us an invitation to testify at the hearing here today; and I also want to commend you for recognizing the importance of these negotiations to the success of the administration in meeting its international economic and trade policy objectives.

AAMA is strongly supporting President Clinton's initiative to engage the Government of Japan in a new and critical effort to address the strains in our economic and trade relationship. We have been working very closely with the administration. All members of the team over the last 6 months have spent many hours with them. I think that it will be shown in the course of the negotiations, that having the government is very well prepared for our industry sector and we are working in close cooperation with each other.

While much of the Congress attention is understandably focused right now on the proposed North American Free Trade Agreement and the upcoming deadline for concluding the GATT, the reality is that the U.S. trade deficit with Japan, the $50 billion figure, remains the most serious unresolved and chronic problem in America's trading relationship with all of its major trading partners.

We believe that the framework agreement or we understand that the framework agreement establishes specific negotiations in five separate categories. Because the majority of the trade imbalance between the two countries is in automotive trade, one-way automotive trade, one of the five negotiations now underway specifically concerns opening Japan's market to substantially increase sales of imported autos and parts.

In doing so the administration has acknowledged that this is a critical component of the framework negotiations because there is no way to restore balance with Japan without a major change in the pattern of trade in autos and auto parts.

The framework negotiations offer an opportunity to change the status quo and America's auto and auto parts producers are accepting the challenge. Chrysler, Ford, and General Motors are competing aggressively and successfully in every other major automotive market in the world. Their cars, vans, sports utility vehicles and pick-up trucks are being universally recognized as a premier high-value, high-quality product in each league.

That fact is being verified in the most competitive consumer driven market in the world, which is here in the United States, where our products are now winning back market share from the Japanese competitors.

Our companies are moving quickly to respond to potential market opening opportunities in Japan. I believe Mr. Hauser highlighted some of those and I wanted to just reenforce those. Our companies have significantly lowered the price of their vehicles in Japan to make them even more cost competitive.

Chrysler is already selling right-hand drive versions of its Jeep and will be introducing four additional right-hand drive vehicles in the next several years. Ford will have a right-hand drive Probe in Japan in next year and follow that with right-hand drive versions of the Mondao, Taurus and Explorer. General Motors has begun selling right-hand drive Opal vehicles in Japan and will offer a right-hand drive Saturn by the mid-1990's.

In addition, the companies have invested millions in establishing new tech centers and expanding their distribution, service and financing operations.

I guess it is time to conclude. I would just say that we have urged the President and the negotiators to hold firm in their statements of policy and principle that were embodied in the framework. The President must make clear that if these negotiations fail, to achieve an immediate reduction and ultimately rebalancing of trade between the two countries, the United States will itself take the actions to ensure that this occurs.

I urge the Congress to support the President in conveying that message at the upcoming APEC ministerial to Japan's Prime Minister in the plainest possible terms. As President Clinton said in announcing the framework last spring, this deserves our high priority from the highest levels of our government. Our auto companies agree and offer our strongest support to him in this effort.

Senator BAUCUS. Thank you, Mr. Collins.

[The prepared statement of Mr. Collins appears in the appendix.]

Senator BAUCUS. Ms. Smith?

STATEMENT OF MAUREEN R. SMITH, INTERNATIONAL VICE PRESIDENT, AMERICAN FOREST AND PAPER ASSOCIATION, WASHINGTON, DC

Ms. SMITH. Thank you, Mr. Chairman. The American Forest and Paper Association, on behalf of America's forest products industry sincerely appreciates the opportunity to testify here today. At the same time, we wish to thank you and the other members of this committee for your past and continuing support for our efforts to open Japanese markets.

The U.S. forest products industry is an important element of the U.S. economy. With shipments of $200 billion annually, it represents 7 percent of U.S. manufacturing output and it employs 1.5 million Americans.

Exports are very important to us. For the last 5 years upwards of 50 percent of the growth in output of both wood and paper industries has been attributable to exports. Japan is a priority among export markets. The total Japanese market for paper and allied products, at approximately $60 billion, ranks second among world markets.

By the same token, the Japanese wood products market, at $27 billion, ranks third in the world. In recognition of both the significance of these potential markets and the substantial barriers to U.S. participation, the United States and Japanese Governments have concluded two specific market access agreements in the forest product sectors—a 1990 wood products agreement and a 1992 paper products agreement.

Our industry had great hopes when these two agreements were concluded. Regrettably, while some progress has been made, significant barriers remain. More to the point, the progress that we have seen has not been translated into measurable increases in U.S. exports.

For the wood products industry, four key problems were addressed in the 1990 agreement. First, Japan tariffs were disproportionately higher on value-added products than on raw materials. Second, Japanese building and fire codes impeded, without technical justification, the use of our wood products in construction. Third, Japanese standards and certification procedures discriminated against U.S. products. And finally, Japanese Government subsidies sustained otherwise uncompetitive wood producers.

Today, nearly 3 years after the conclusion of that agreement, the problems that gave rise to the agreement in the first place remain. In some cases, they have gotten even worse. The share of value-added products in total U.S. wood sales has actually declined, exactly the reverse of the intent of the agreement. Japanese Government subsidies to domestic wood producers have more than doubled. And finally, tariffs on value-added products have not been reduced significantly.

Perhaps most troublesome of all, while the delayed implementation of Japanese tariffs is agreed as part of the 301 settlement, the Government of Japan is now trying to claim credit for these very same tariff cuts in the Uruguay Round.

Mr. Chairman, I wish to draw your attention to this attempt at double counting because Japanese intransigents on this issue of zero tariffs wood products has effectively road-blocked U.S. efforts with our trading partners. As of today, we are in danger of losing a Uruguay Round priority, which would be worth approximately $8.8 billion for wood product exports and an additional $3.1 billion in paper.

For the Japan market alone, that would be over $6.3 billion in wood and $1.5 billion on paper.

Senator BAUCUS. I am going to have to ask you to wrap it up, please.

Ms. SMITH. I would conclude that we strongly support all aspects of the framework agreement. We are currently working on compliance with existing agreements, on buyer supplier relationships and on anti-competitive practices.

Improving access to Japanese markets for U.S. products is critical to our industry. We encourage you and members of the committee to continue to support the work of the administration in the framework talks and to actively encourage the adoption of benchmarks as a means for achieving meaningful progress in the Japanese market.

[The prepared statement of Ms. Smith appears in the appendix.]

Senator BAUCUS. Thank you very much. I regret that I must leave. Senator Rockefeller agreed to take over the rest of this hearing.

A very basic question. Do you have any suggestions for the administration? That is, do all of you agree with their strategy, with their tactics, with the benchmarks and their approach to the framework? Or do any of you have a significant point you want to make that might depart slightly from what the administration is doing? Anybody. Or do you all agree essentially with the administration's approach, efforts and tenacity?

Mr. COLLINS. Senator, I would just say that——

Senator BAUCUS. Very briefly. I have to leave here.

Mr. COLLINS. Right. We agree with the approach. We agree with where the administration has been heading; and in our particular case we do not have the benchmarks established yet. That is still yet to be.

Senator BAUCUS. The benchmark is an approach you agree with?

Mr. COLLINS. Yes.

Senator BAUCUS. Thank you.

Ms. Smith?

Ms. SMITH. We likewise agree with the benchmark approach. And particularly, we agree with the mutually reinforcing structure of the framework so that you are working on benchmarks or measures of trade at the same time you are working on those practices that drive the numbers.

Senator BAUCUS. Good.

Mr. Saldich?

Mr. SALDICH. We agree with the approach. We would urge an increased emphasis on electronics.

Senator BAUCUS. Mr. Holleyman?

Mr. HOLLEYMAN. We agree with the approach. For the software industry, however, the only benchmark that is to ensure that a new law is not passed which would undercut protection for software.

Senator BAUCUS. You heard Mr. Hauser's points that Japan raises a few objections, generic objections. One the economy of

Japan; second, quality. Mr. Saldich, do you want to address either of those two complaints that we tend to hear in Japan? The quality of product.

Mr. SALDICH. I think it is fair to say that in fair and open competition the American electronics products earn a 50-percent market share. I think that speaks for itself. Obviously, the Japanese have taught us a lot about quality. I think we have learned those lessons well and I think our companies are competing fair and square against every place in the world and successfully.

I think just as a quick aside, we are really suggesting the application of quality principles to this whole trade negotiation, dealing with fact, benchmarking, worldwide with fact, and then asking for specific targets in terms of milestones and performance objectives. These are the cornerstones of a quality program and we urge our Japanese friends to observe those lessons in these trade negotiations as well.

Senator BAUCUS. Thank you all very much. I think this hearing has been quite helpful. It is the sort of a taking stock hearing that helps us, too. Thank you very much for the time you have taken.

Senator Rockefeller?

Senator ROCKEFELLER. Lee Iacocca always used to say that the reason he did not put the steering wheel on the right side of automobiles that he was attempting to sell in Japan was because it really was not worth it, because they were not going to be able to get in anyway.

Now I have never been a big fan of Lee Iacocca's, but what has happened to change the view that all of a sudden now after 20 years on a broader scale steering wheels are being put on the right-hand side of the car?

Mr. COLLINS. Senator, first of all, it has been a bit of a myth that you have to put a steering wheel on the right-hand side to sell in Japan. Even the Europeans and ourselves, the Europeans who have to manufacture both right- and left-hand drive to sell in Europe, who sell both in Japan, have traditionally sold more left-hand drive than right-hand drive. That has been the import market.

Senator ROCKEFELLER. That is the prestige factor.

Mr. COLLINS. Right. However, the difference is volume. When you can judge that there is going to be the possibility of moving into relatively high volumes, significant volumes, to justify the high expense of converting a U.S.-built vehicle to right-hand drive, it is in the tens of millions of dollars per vehicle, then you can do the economic calculations and justify perhaps the expense of doing it.

In the case of Chrysler, it was not just export to Japan, but export markets where they did not have production facilities in Britain, in other right-hand drive markets. So it is really the economics of the market that change the calculation.

In the case of the framework, the government is saying to us that we believe that there is an opportunity here to change the fundamentals about the Japanese market. That tell us, that signals to business, this is a market, you know, we operate in every major automotive market in the world.

It is not a coincidence that neither the Europeans or ourselves are not a major presence in Japan. If the premise of the market are going to change, you can be sure that our businesses are going to reflect that change in their own planning, in their product projects, marketing plans for that country.

Senator ROCKEFELLER. All of you basically agreed with what the administration was saying, which is interesting because nothing really has happened yet, except that there is going to be a Prime Minister/Presidential meeting, and that is very significant.

Do you say what you say because you are just so relieved to see the sounds sounding better? What is it that causes you to believe that there is going to be this change, that the 6-month discipline will, in fact, lead to a fatter book there?

Mr. SALDICH. I will comment on our side. I think what is making us feel more hopeful is that the sound bites will convert into real bites here. And that the endless discussions and fruitless negotiations will be replaced by real significant pressure for results. That seems to us to be the only thing in the long run that will work with the Japanese to break down these barriers that they have created.

The barriers are in the capital areas of their system. And to extract those is extremely difficult. We think the Japanese have to commit, along with us, to removing those barriers to letting our companies really operate in Japan. We think it will be good for the Japanese. It will be good for us as well.

Senator ROCKEFELLER. Do you think they will do so?

Mr. SALDICH. We think they will do so ultimately, especially given the determination of this administration to force compliance with those objections and those results that we are shooting for. But we have to say the jury is still out.

Senator ROCKEFELLER. Mr. Holleyman?

Mr. HOLLEYMAN. We are encouraged because since the copyright protection issue has arisen in Japan this summer, the framework agreement provided a context in which it could be placed on the table by U.S. negotiators on October 5 at a working group level, to be followed by the letter that was discussed earlier this afternoon from Ambassador Kantor and Secretary Brown, which hopefully can then be included at a higher level.

This has provided a basis for regular consultation, which, this issue arose in Japan, permitted the U.S. Government to make it a priority very quickly. That we support.

Senator ROCKEFELLER. Have all of you done business in Japan? I mean personally.

Mr. SALDICH. I will speak for myself. I am the CEO of a company which has been active in Japan for 20 years and has been working very hard in Japan. In recent years, I'd say, with increasing levels of success. We are a Fortune 500 company and we have a substantial investment in Japan. We manufacture in Japan as well. We are seeing increasing levels of success.

It is not an easy place to win. They are very demanding. They are tough. They are smart. They are aggressive and they are tough customers. But you can become a part of their club, but it is not easy. And we have become a part of their club in parts of their industry. Other parts remain closed and are very difficult to penetrate.

Senator ROCKEFELLER. The Japanese, when they are trying to explain or answer the criticisms that we traditionally have made about being unable to penetrate their markets have customarily said, well, the Americans do not try hard enough.

We get angry when we hear that because we tend to talk to companies like your own or Motorola or others, automobile companies, and software companies, paper and pulp. Westvaco and others have been at it for years and years.

On the other hand, it does strike me that most of the young people that I know who have made a commitment to learning the Japanese language, and there are a lot of them now, a lot of them who have become virtually bi-lingual, have been employed by Japanese companies in Japan, not by American companies, either here or in Japan. I will just start with that.

Secondly, everybody else around here has heard me say this, but you have not, so I will say it again. The Japanese put out about 10,000 technological journals every single year. Obviously, most of them are written in Japanese.

There was a private business in Ann Arbor, MI, which translated those and made them available to American business. That business went broke. A law was passed here which required the Department of Commerce on a modest scale to translate the most important of those in terms of new technology, new changes.

The reaction to that has been rather modest—you know, the American answer that we know what we are doing and we know how to do it and no thanks to you, Uncle Sam. We do not need your advice or your pamphlets.

What in the years since you have been doing business has changed in the American style or the American determination or the American way of doing business which has lent you hope that together with the framework agreement market share might increase? In other words, what are we doing about it?

Mr. SALDICH. My own view is that that view of American business was not an inaccurate view 20 years ago. It is becoming increasingly less accurate as time has gone on. There are 470 American electronics companies working in Japan today. A large hunk of them are members of an American Electronics Association Council in Japan and meets regularly. It is made up largely of Japanese employees and a large number of Americans who speak Japanese, the kind of people you described.

We have learned, I think, over the years that to do business in Japan is like doing business every place else except more so. They really rely on deep personal and long-lasting personal relationships which have to be patiently built up over a long period of time. But once built, you can become a member of their clubs and a trusted part of their society.

I think we have done that in our company and many companies have done that. It is a steep hill to climb, but it is climbable. I think we are seeing great success in our industry doing that. But there are parts of it that are closed and that is what we are trying to fight against here.

We can do it as companies, but it is when it is governments that we are up against that we need your help.

Ms. SMITH. Senator, I was not in private business, but for 10 years I did the business of the U.S. Government in Japan. From 1980 to 1990, I was Deputy Assistant Secretary of Commerce.

I think what has changed what may have been past bad business practice on the part of U.S. industry is the shifting pattern of trade which I identified in the case of our industry, which you see in industry after industry, that the growing segments of their markets are now export markets.

You see that in the forest products industry. You see it in the medical device industry. You see it in electronics. So that our industries recognize they have to be globally competitive if they are going to be competitive in this market at all. That has induced certain behavioral changes which are making us much more competitive.

I would not leave anything specific to Japan out of the failure of your firm in Ann Arbor or of the failure of the Department of Commerce program to grow very rapidly. We face the same problem in commercializing technology out of U.S. Federal labs, as I know you are aware. It is a little bit of an NIH factor. But it also has to do with our industry's preference for patentable technology, technology in which they have a proprietary interest from the beginning.

To go back to my starting point, American industry has changed and it is based on a recognition that their growth markets, the markets that have kept us through the recent recession, are export markets.

Senator ROCKEFELLER. Yes, sir?

Mr. COLLINS. I just want to add, Senator, that what has changed in our business is the nature of the approach to the U.S. auto companies and other multi-nationals to international business. Not that we were not international before, but certainly up to and through the early post-war era, our multi-nationals tended to invest in local production in the markets where they were present, so that we had European facilities and Latin American facilities for that market, Australian facilities for that market, et cetera, et cetera.

We were in Japan, in fact we dominated the Japanese market until we were expelled in the late 1930's. In the post-war Japan era, the U.S. auto companies were not allowed to come back and invest in that market because there was a policy on the part of the government to foster their own indigenous Japanese market.

So that that was sort of a break, if you will, in the pattern in which our companies had done business. That we would go into the market, establish investment and production to serve that particular market. So Japan was sort of cut out of that.

What is different now is the economics of our industry are different. It is global in nature. So that the planning, designing and marketing now becomes global from the beginning. The concept of the world car and also that everyone in this competitive constrained world is looking for markets. Export markets are way up at the top of the list, above where they were before.

Senator ROCKEFELLER. When you talk with your colleagues in business in the private sector, do they sense, and if they do, do they welcome a more aggressive attitude on the part of the U.S. Government vis-a-vis trade relations with Japan?

Mr. SALDICH. I will speak for the electronics industry with a ringing yes.

Senator ROCKEFELLER. Because you know there are some who just do not want the government to do anything.

Mr. SALDICH. It is not unanimous. It never will be with 3,000 companies.

Senator ROCKEFELLER. But you hear this.

Mr. SALDICH. Some companies are nervous, who have deep roots in Japan and feel as if they do not need any help from any source. But I think if we could—at least the consensus that we have built in our association is exactly the position, I think mirrors exactly the position that is echoed here and we appreciate this subcommittee supporting, of just continuing recognition of the problem and continuing pressure to try to correct this, which is a really structural problem.

Senator ROCKEFELLER. And if you see effort and then you begin to see results, do you think that in turn will mean that American industries who might have held back previously will, in fact, themselves become more apt to try to get into the Japanese market? In other words, there could be a growth of effort.

Mr. SALDICH. Absolutely. We see it in Europe in spades. What started as a trickle after the Second World War is now a flood. American companies permeate the European scene and it is because they have been welcome there and have had a good reception. I think exactly the same thing will happen in Japan. It is happening in South Asia now, in fact; and that is going to be one of the big competitive battle areas.

China and all the rest of Asia is one of the big opportunity areas of the world. We want to protect our opportunities there as well. But Japan is a special case.

Senator ROCKEFELLER. Any other comments that any of you might have?

Mr. COLLINS. I just would add that for software, I think we feel that when the United States put trade pressure on Japan in 1984 and 1985 to pass a copyright law protecting software that that is what we needed to enter that market and to grow to the 55 percent share we are today.

The products that we are making, while we do not rest on our laurels to any extent, are, in fact, the products that are desired. It is important to realize that what actually is at the heart of the possible Japanese proposal to amend their copyright law is one that would allow competitor companies in Japan to disassemble U.S. programs, to legally use that information to develop a competing program.

The Kadonara business group, when they have made their submission to this commission, were very bold in stating that what they wanted to do was to avoid the need to duplicate research and development that had already been done for software where the bulk of the investment is in research and development, less so in production. That is devastating.

So it actually is a case where there has been a sound law. U.S. companies have had the products in demand. We have been successful in the marketplace. But what we now find is that our competitors who have been unable to make competing products on their own want to be able to legally do what they cannot do in Japan currently, which is to disassemble the product and use it.

So it is a case where U.S. companies, I think, have a lot going for them and a lot that we should be proud of because they are the products that our competitors want to imitate.

Ms. SMITH. I would like to add that the process of developing benchmarks or objective criteria gives a good deal of confidence in the ultimate intention to enforce existing agreements.

In the absence of such benchmarks, it is debatable whether Japan or any other trading partner is or is not in compliance with an agreement or whether they have achieved an acceptable level of performance. The development of benchmarks makes both sides aware of what expectations are and certainly increases our confidence that those obligations will be enforced.

So we support very much again the structure of the framework, which is quite sound where the weight of one side reinforces the weight of the other.

Senator ROCKEFELLER. We will end on that note. But I must say that it is good to hear what you have each said. In a couple months from now it is going to be very interesting to see what progress has been made, to see what the chemistry is, what the tenor is, and to find out if we really can make this work with Japan, and that we can, through the process of constant or mandatory 6-month top level negotiations and a new attitude of firmness, hopefully fully sustained and supplemented by American industry willing and able to push harder and harder, begin to open up and establish a much more mature relationship economically with them.

It is long overdue and hopefully it will come. And you all are making it come about. I thank you all very much for coming here today.

Ms. SMITH. Thank you, Senator.

Mr. COLLINS. Thank you, Senator.

Mr. HOLLEYMAN. Thank you, Senator.

Mr. SALDICH. Thank you, Senator.

[Whereupon, at 3:52 p.m., the hearing was adjourned.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED

PREPARED STATEMENT OF ROGER ALTMAN

Thank you, Mr. Chairman. I appreciate the chance to give the Committee an update on progress in our discussions with the Japanese Government under the U.S.-Japan Framework.

When Under Secretary Spero and Ambassador Barshefsky and I last testified before this committee on July 22nd we had just completed the Framework Agreement with the Japanese government. We felt we had a good basic agreement on the macroeconomics, and that we had provided a structure for ongoing negotiations in five areas, or baskets, which would allow us to conclude solid agreements within relatively tight deadlines.

At the time, we tried to make clear that the real work was still to come in the actual negotiations on specific issues. Based on the past few months of negotiations, I can assure you that was no underestimation.

In my testimony today, I would like to outline for you some important economic policy developments in Japan and give you a broad overview of progress in negotiations.

ECONOMIC POLICY DEVELOPMENTS

When we were last here, Prime Minister Hosokawa's coalition government had just entered office, as you may recall. Since then, his government has had to face a significant deterioration in Japan's economic prospects. The economy has continued to falter despite the monetary and fiscal actions taken over the past two years. In fact, the government's public investment programs are providing practically the only source of domestic demand growth.

The fundamental problem Prime Minister Hosokawa faces is the weakness in private domestic demand. This is the result of sluggish consumption and falling private investment. Japanese firms, which invested heavily in plant and equipment in the late 1980s, have cut back their investment spending sharply as a result of the prolonged slump in sales and profits. And, consumption, by far the largest component of domestic demand, has slowed sharply since 1990. Households have felt their wealth eroded by declines in the stock and real estate markets that followed the bursting of the "bubble economy." As wealth and income have fallen, consumption has suffered.

Most economists are projecting that Japanese growth will be negative this year, for the first time in nearly two decades. Weak domestic demand has been one factor in the recent increase in Japan's current account surplus.

Japan's current account surplus is expected to top $140 billion this year. These surpluses have ranged widely in recent years from 4 percent of GDP in 1986 to less than 1.5% in 1990, and are likely remain above 3 percent this year and next.

This is a problem because large surpluses are draining demand from an already-weak global economy and invite pressures for protection. The world needs a sustained period of domestic demand-led growth from Japan—a period in which demand for goods exceeds domestic supply so that Japan will become a net supplier of jobs to the rest of the world instead of a net drain on jobs. This is why Japan has recognized it needs to make a highly significant reduction in its current account surplus.

The Japanese Government has responded to the deteriorating economic situation and growing current account surplus with a series of fiscal packages. The most recent, in September, included: some new public investment spending, actions to increase the pass-through of the benefits from the strong yen to Japanese consumers, and a number of specific deregulation measures. Then, less than a week later, Japan's discount rate was cut to an all-time low of 1.75%.

At that time we welcomed those measures, which would help to offset the worsening economic outlook. However, we also were reassured that the Government realized more action would be needed, both to get the economy moving again and to reduce Japan's current account surpluses. Economic growth is also conducive to economic reform. It is easier to liberalize a growing economy than a shrinking one.

In short, a growing economy will allow the Government to meet the commitments that Japan made to its G–7 partners at the Tokyo Summit, to the U.S. in the Framework Agreement, and to the voters in this summer's elections.

The Japanese government is now considering a number of important policy actions along these lines.

FISCAL MEASURES

Most importantly, a stimulative package of tax measures would help to jumpstart consumption. A tax package designed to put more money in the hands of consumers could help build the kind of confidence that Japanese consumers need in order to start making new expenditures. Strong fiscal action through a stimulative tax program could be the key to reviving growth. And a strong, growing economy is the best way to reduce Japan's current account surplus.

The size and composition of the tax package will be critical in determining the package's impact on the economy. The tax package being discussed includes an income tax cut followed by an increase in the consumption tax after some interval.

Many Japanese observers have recognized that the impact of the overall package will have to be substantial to achieve strong growth in domestic demand and meaningful reduction in Japan's current account imbalance. Our primary concern is that the overall stance of fiscal policy be supportive of growth. A tax package that was quickly offset by measures to raise new revenues or cut expenditures would not provide sufficient stimulus to revive the economy. This would be a disappointing event.

Japan has the strongest fiscal position in the G–7. It has the ability to construct a package that is substantial enough to revive growth. Public investment also needs to be maintained at current levels if the tax package is to provide net additional support for the economy.

A government advisory council is debating the overall tax reform package and will present its recommendations to the Prime Minister on November 16th. I expect that the President and the Prime Minister will spend some time in Seattle talking about these issues.

ECONOMIC REFORM AND DEREGULATION

Aside from its direct economic benefits, economic stimulus is also important because it creates a favorable environment for the Hosokawa Government's other major economic policy initiative—deregulation. Prime Minister Hosokawa has targeted deregulation as the best way to increase the openness of the Japanese economy and create a more consumer-oriented economy. Coincidentally, a report outlining this deregulation program is to be released today.

Based on press reports, we anticipate that many of the report's proposals will parallel what we have been suggesting in our negotiations in the Framework—for example, the idea that economic activity should be free in principle and regulated only by exception. We also expect the recommendations will include a follow-up mechanism, helping to ensure that the deregulation proposals are implemented.

I am encouraged by the new environment in Tokyo. The Hosokawa government seems sincere in its commitment to political and economic liberalization and reform. The Diet is debating a wide-ranging political reform program which could give a new, more effective voice to many who feel left out of the system.

I also see Japan's recent commitment to reform the construction industry as proof that the Hosokawa Government is willing to challenge entrenched interests. By taking this difficult step, which surprised many observers, Prime Minister Hosokawa showed that he is serious about economic cooperation with the United States and reform.

PROGRESS ON FRAMEWORK NEGOTIATIONS

I am hopeful that this same commitment to reform will be reflected in the Framework negotiations. While it is too early to see results, let me give you a brief overview of what is happening in the Framework talks.

As you may recall, there are five different negotiating baskets under the general Framework rubric. In addition, there are two different time frames: "high priority" negotiations, to be completed in time for a meeting between President Clinton and

Prime Minister Hosokawa early next year; and all other negotiations to be finished by next summer.

The "high priority" negotiating sectors are: insurance, autos, and government procurement. In addition, we have agreed to the Japanese request that discussions on U.S. export promotion and competitiveness efforts also be considered a "high priority." Since the insurance and government procurement negotiations are lead by USTR and autos and auto parts by Commerce, Ambassador Barshefsky and Acting Under Secretary Hauser can best describe the status of these talks.

An advantage of the Framework is that we have senior Administration officials heading up the baskets. This means that all negotiations can have the benefit of a high-level "push" if needed—and in my experience that push is always needed.

Since the negotiating kick-off in September, we have held initial meetings on all negotiating groups and follow-up meetings in the high-priority groups. Given the number of negotiating groups, one or another of them is meeting almost every week.

Thus far, both sides have only laid out initial positions—no changes have been agreed upon. This is not surprising. Negotiations have a dynamic of their own, and the most progress comes right before the deadline.

This is not to say that the talks are not animated. We have been adamant in adhering to the fundamental goal of the Framework: there should be substantially increased access for, and sales of, competitive foreign goods and services. We are proposing a number of market opening and macroeconomic measures to accomplish this goal. This is a basic objective of the Framework, and we are holding the Japanese to it.

Let me just say a few words about financial services, because that is an area that is of particular interest to the Treasury Department. In our negotiations, we have laid out the steps that are needed to secure market access in Japan comparable to the access Japanese firms enjoy in the U.S. We are focusing on pension fund management, mutual fund management, and securities areas in which US firms have a demonstrated ability to compete in world markets and are recognized leaders in innovation. In this context, I would like to add that the Treasury Department supports the proposed legislation on Fair Trade in Financial Services because it is a useful lever to open foreign markets and to obtain the same treatment for U.S. firms in foreign markets that foreign firms enjoy in our market.

NEXT STEPS: APEC BILATERAL AND SUB-CABINET MEETINGS

Let me briefly outline where we are headed over the next few months. When President Clinton meets with Prime Minister Hosokawa at the APEC Summit in mid-November, he will stress two key economic issues: the need to revive growth in Japan and to reduce the current account surplus, and the importance we place on getting good agreements in the Framework.

We will also be holding a bilateral sub-Cabinet meeting on the Framework to hammer out the final details of the high-priority agreements and get them into shape for the Heads-of-Government meeting early next year.

Productive meetings at APEC and at sub-Cabinet meeting will be critical steps in the process that was set in train in July when we established the Framework.

SOME MYTHS ABOUT THE FRAMEWORK

Before closing, let me address a myth about the Framework that has cropped up in the press, the economics fraternity and elsewhere, over our Japan policy. I might say that I find it quite remarkable and off the mark.

It is said that we are seeking managed trade with Japan. This is false. We have consistently said that our goal is to unmanage trade in sectors like public procurement where Japanese trade policy has interfered with market forces to the disadvantage of foreign firms. Such interference has been so widespread in the past that we have no interest in encouraging the Japanese Government to take a more active role in its markets.

It is unmanaging trade—not managing it—to monitor purchases by the government of foreign telecommunications equipment relative to what happens in other markets. It is unmanaging trade—not managing it—to compare Japanese public purchases of supercomputers with the share held by U.S. products in other public procurement markets.

I hope I have brought you up to date on the economic situation in Japan and our progress under the Framework. I also hope I have dispel led certain myths about the Framework that have cropped up over the past few months. Thank you.

Prepared Statement of Charlene Barshefsky

I appreciate the opportunity to appear before the subcommittee today to discuss the status of negotiations under the U.S.-Japan Economic Framework, and our trade relations with Japan in general. I would also like to comment on our expectations for the APEC meetings in Seattle, which are upcoming next week. The Seattle Ministerial and Leaders' Conference should be very important steps in the development of this young but promising regional forum.

The timing of today's hearing is particularly appropriate. The Framework was initiated four months ago. We have held two rounds of substantive talks on the priority issues of Japanese Government procurement of telecommunications equipment and services and medical technology; insurance, and autos and auto parts. The third round of negotiations will take place this week. Talks in several other areas of the Framework have begun as well. There have also been important developments outside of the Framework, particularly with regard to the construction issue, which merit discussion. Finally, as you know, the APEC meetings at Seattle will provide a venue for high level bilateral meetings between the U.S. and Japan.

I want to first take this opportunity to put the Framework into context: to outline what makes the Framework a necessary element in redressing Japan's economic imbalances with its trading partners.

It has long been recognized that the Japanese economy performs in a manner which sets it clearly apart from the other major industrialized countries in general and the G–7. This is very evident when looking at the macroeconomic dimensions of the problem; at Japan's massive current account surplus, which now constitutes the major asymmetry in the world economy today; and at its low level of manufactured goods imports and inward flow of foreign direct investment. In 1991, for example, manufactured goods imported by the U.S. accounted for 6.9 percent of GDP, an average of 7.4 percent for the rest of the G–7, excluding Japan, but only 3.1 percent for Japan. Among the OECD countries, Japan has by far the lowest percentage of the global stock of inward direct investment; just 0.7 percent, as compared to 38.5 percent in Europe and 28.6 percent in the United States.

These marked differences are repeated at the sectoral level.

Intra-industry trade, the propensity of countries to import what they also produce for export, is a characteristic of developed economies. Intra-industry trade has a tendency to increase as an economy develops over time. Yet, this has not been the case with Japan. Academic studies of intra-industry trade have placed Japan consistently near the bottom of the scale. We find this trend reflected in the sectors which are singled out in the Framework. With regard to telecommunications products for instance, Japan is the world's second largest market. Yet, Japan's global import share of telecommunications products is 5 percent, while the G–7 average, excluding Japan, is 25 percent. This pattern extends to services as well. Although Japan has the third largest insurance market in the world, foreign access has perennially been limited to 2 percent of the market, while imports of insurance services in the G–7, excluding Japan, range from 10 to 36 percent.

This is the common theme running through the macroeconomic and sectoral and structural areas of the Framework. There is a persistent and repeated pattern under which competitive U.S. and foreign goods and services, which thrive in the global economy, face multiple barriers to access inhibiting their success in Japan. We expect that agreements reached under the Framework will address these barriers, and work to bring Japan's import levels in these important sectors into line, over the medium term, with those of its G–7 partners.

Let me briefly review in more detail the Framework under which we are working, (described to you in some depth in my previous testimony of July 22). Unlike the past, when the U.S. focused on either structural or sectoral issues, we are approaching each market access problem area under the five Framework "baskets" at the intersection of structural and sectoral concerns. Our negotiations are focused on tangible results—process and procedural change is not enough unless it leads to concrete change in the marketplace. We will be using objective criteria, both quantitative and qualitative, to assess these results; as the Framework specifies, tangible progress towards market access and sales must be made. In the priority areas which I cited earlier, agreements must be reached by early 1994. Once these agreements are in place, we will closely monitor progress to assess their impact. Agreements in the other sectoral and structural areas cited under the Framework should be reached by July of 1994.

The Framework also includes macroeconomic commitments. Japan is committed to pursue objectives promoting sustained demand-led growth and increased market access for competitive foreign goods leading to a highly significant decrease in its current account surplus over the medium term, and to promote a significant increase in global imports of goods and services.

Let me turn to the status of the priority Framework issues in which USTR has the lead—government procurement and the insurance sector. While these present very different sectoral issues, our broad goals for each are similar.

In each of these areas, we presented the Japanese with draft texts delineating our goals—both with respect to process and procedural change and with respect to qualitative and quantitative indicators. We discussed these texts in detail, responding to Japanese questions. These texts will form the basis for the third round of talks to be held here this week.

Of course, the draft proposals differ in detail from sector to sector. They all, however, reflect two key principles to which we agreed in the Framework, and which will be necessary elements of the agreements we are looking for by January.

—The need to obtain process and procedural reform; and;
—The need to obtain tangible results in access and sales through the use of objective quantitative and qualitative criteria.

Our proposed telecommunications text contains provisions to ensure that procurement procedures are open, transparent and non-discriminatory. We made it clear to the Japanese that the closed nature of the Japanese market in this key sector was unacceptable, particularly given the global competitiveness of U.S. and other foreign telecommunications companies. We stressed that we expected a "prompt, substantial and continuous" increase in sales and access of telecommunications products and services so that foreign market share in Japan will be comparable to the import share in other developed economies over the next 3–4 years.

In medical equipment, a team led by the Department of Commerce presented a draft agreement which included specific provisions to improve the procurement of medical devices and services by Japanese Government entities. The continued maintenance by Japanese firms of an overwhelming share of their home market, to the detriment of world class industries in the U.S. and elsewhere, despite a poor Japanese showing overseas, suggests that forces other than market factors are limiting foreign penetration into the Japanese medical technology and services market.

In insurance, the paper we tabled directly addressed serious U.S. concerns regarding the closed nature of the Japanese market. Severely limited foreign access is caused by, among other things, a non-transparent regulatory regime which is based on the extensive use of "administrative guidance;" a highly concentrated industry structure, "keiretsu" and cross-shareholding arrangements, and a highly restricted insurance product approval process which limits innovation. The Japanese Government is aware of the need for change and is currently in the process of drafting legislation to reform their insurance industry.

Regulatory change should not be used, however, as a means to further disadvantage competitive foreign insurance providers. As in the telecommunications and medical sectors, we expect a prompt, substantial and continuous increase in foreign access and sales, so that foreign market share is comparable to the import share in other developed economies over the medium term.

Let me turn briefly to another Framework basket—implementation—which encompasses existing trade agreements with Japan. It includes over two dozen such arrangements, among which are arrangements on semiconductors, paper, wood products, glass, legal services and the ongoing efforts to address the medical and pharmaceuticals trade under MOSS.

We initiated discussions under this basket in late September. Our goal is to look first at existing agreements where progress has been made, and to build on that progress in a tangible way. In cases where limited progress has been made, we are determined to move beyond process and procedural change and theoretical opportunities for foreign firms to real improvements which yield sales for competitive foreign goods and services. At present we are focusing on glass, wood, and paper.

Within the Framework, we are also addressing both regulatory impediments to U.S. exports, as well as private restraints of trade, in a sub-basket working group on deregulation and competition policy. We are pushing the Japanese Government to enforce its antimonopoly laws aggressively to eliminate anticompetitive practices and market structures that prevent American firms from competing on a level playing field in Japan. And, we are trying to ensure that the Japanese Government's deregulation efforts result in transparent government procedures and elimination of barriers to the distribution of imported American products in Japan.

Looking outside of the Framework, there have been developments in two areas, the construction sector and the work of the Hiraiwa Commission, on which I would like to comment. On October 26, the Government of Japan announced an "action plan" to reform substantially its public sector construction market. The plan represents a significant change in the Japanese Government's attitude towards this sector, indicating that for the first time, Japan is determined to bring about the type of reforms we have been urging for years. Among the changes to be made by the Japanese Government is the adoption of an open and competitive bidding system to replace the designated bidder system. As a result, USTR recommended to the President that the Title VII sanctions scheduled to take effect on November 1 be postponed until January 20, 1994. We intend to consult closely with the Japanese as details of the plan are developed through the end of the year. This is an important instance in which the thrust and goals of our trade policy, represented by over seven years of discussions and two agreements in the construction sector, found resonance in the desire of the Hosokawa Government and the Japanese people for real change.

USTR is also heartened by the potential of the Hiraiwa Commission, a special body established to recommend to Prime Minister Hosokawa changes to Japan's regulatory structure. The goals of the Commission appear similar to those of the Framework, whether through deregulation or the removal of other barriers to market access, to make the Japanese market more responsive to market forces than it is at present.

The Commission will publish its preliminary report today and its final recommendations on deregulation in December. Prompt action on its recommendations will be needed, and we expect that the Commission's findings will be translated into real change in the marketplace in Japan.

These developments underline our firm belief that the principles established in the Framework are fully compatible with the stated goals of the Hosokawa Government. We welcome the Prime Minister's recent commitment to "redouble" his efforts under the Framework. The successful implementation of the Framework, along the timetable laid out in the agreement, will assist the Japanese Government to achieve its stated goal of real change in Japan. Such change will allow Japan to confront those aspects of its economy which set it apart from the rest of the industrialized community and which detract from the positive attributes of its formidable economic achievements.

With this desire for real change should come a greater will to assume a responsible role in preserving the international trading system, of which Japan has been a major beneficiary. This will be evidenced not only by Japan's implementation of the bilateral Framework, but also in its contribution to a successful conclusion of the Uruguay Round. With a little over a month left to December's deadline, Japan must be prepared to place their best offers on the table. Tokyo continues to protect its financial services and agricultural sectors. And its tariff offer must be widened to include "zero for zero" tariffs on wood and paper, and harmonization in the chemical sector.

Let me now turn briefly to APEC—the Asia Pacific Economic Cooperation Forum. Next week's events in Seattle will mark an a vital step in the development of the promising regional forum APEC. As chair of APEC this year, the U.S. has selected the development of APEC's role in regional trade and investment as its theme. Towards this end, we have proposed a Declaration on an APEC Trade and Investment Framework that would take APEC beyond its current role as a facilitation and cooperation forum to a policymaking role, to be expanded gradually through consultation and consensus among its members. This proposal has been recently approved by APEC Senior Officials and will be presented to the Ministers in Seattle for adoption.

In addition to the Framework Declaration, the Ministerial will be presented with an "eminent persons" report, setting out recommendations on APEC's future direction and role. Trade liberalization and building blocs to a Pacific trade zone will be topics for discussion by the Eminent Person's Group (EPG), and should generate broad discussion among the Ministers. It is hoped that the APEC will spend the next year studying the report and its many recommendations. Finally, the President will hold an unprecedented meeting with the leaders of the APEC economies on November 20. The Leaders are expected to address such issues as the growth in and direction of their domestic economies to the next decade, the growth in and direction of the regional economy, and areas of cooperation among the APEC members. The Leaders' Conference and Ministerial hold long term promise for the country and for global economic growth.

We welcome the opportunity to work closely with you, Mr. Chairman and members of the Committee and the Congress on bringing the Japan Framework to a successful conclusion, and in charting the course for enhanced regional cooperation under APEC. Thank you.

RESPONSES OF AMBASSADOR BARSHEFSKY TO QUESTIONS SUBMITTED BY SENATOR DAVID PRYOR

BROMINE CHEMICALS

Question No. 1. The Japanese seem to question the Administration's commitment to eliminating the Tariff on Bromine Chemical Products.

(A) How would you characterize the Administration's support for the bromine industry's petition to the Japan Tariff Council for a zero tariff?

(B) What actions does the Administration plan to take regarding this commitment?

Answer. (A) The Administration has a very high level commitment to efforts, spearheaded very effectively by the bromine industry, to obtain a favorable finding from the Japan Tariff Council on a suspension of tariffs on bromine chemicals.

(B) The Administration has made a sustained effort on this issue at several levels. It has been pursued at the working level by our Embassy in Tokyo, at the senior official's level in Washington, and has been the subject of two letters from Ambassador Kantor to his counterpart at the Japanese Ministry of International Trade and Industry, which has the responsibility for making recommendations to the Japan Tariff Council. It was recently raised on behalf of Ambassador Kantor in the context of a personal message to the Minister of International Trade and Industry.

Question No. 2. The U.S. Congress in the past has unilaterally given "Temporary Duty Suspension" to chemicals and other products. Many of these expired last year.

—It is reported that U.S. negotiators may offer these zero tariffs in the Uruguay Round talks. Is this true?

Answer. In our latest offer, tabled on November 19 before the GATT, we have offered duty-free treatment on expired duty suspension items that our analysis indicates continue to remain non-controversial.

Question No. 3. If we are considering these zero tariffs in America, why shouldn't we try to get similar treatment for U.S. exports, such as bromine chemicals, first? Why shouldn't we expect the Japanese to unilaterally drop the tariff on bromines?

Answer. For items in the chemical sector on the zero/zero list, which included some bromine items, these are offered contingent on getting zero/zero. The Japanese have agreed to these items, but the EC has not. This zero/zero offer remains on the table. We are interested in an agreement with Japan to mutually eliminate tariffs on bromines, regardless of whether or not the EC participates.

As to our general intention on duty suspensions, the Administration's general view, which has been strongly backed by Congress and the private sector, is to make these permanent in the Round, contingent on a balanced and successful overall conclusion to the round.

RICE

Statement

"The Government of Japan usually bans virtually all rice imports, which as we all know is illegal under the current rules and regulations of GATT. A bad rice crop this year again forced Japan to temporarily lift the ban."

Question No. 4. What can you tell this committee about Japan's intentions after the emergency import program has been completed? Regarding the ban, will it likely be reimposed?

Answer. Japan may import more than one million tons of rice this year. Japanese rice stocks are very low, and many observers believe that Japan will need to import rice for several years to rebuild stocks, as well as for consumption this year.

However, Japan has made no formal commitment to continued imports at this time.

Question No. 5. How does the U.S. view the rice ban relative to the objective of eliminating structural barriers?

Answer. The United States believes that the most productive opportunity for eliminating the Japanese rice ban is the Uruguay Round of trade negotiations. We continue to press Japan to convert its rice import barriers to tariffs and to permit minimum access at zero or low tariffs.

Question No. 6. Although free rice trade between the U.S. and Japan will not correct the huge trade imbalance, it would definitely help. Rice is a $3 billion industry in the U.S. with half our production exported. What consideration has the U.S. given rice as a significant trade policy problem?

Answer. Japanese rice import barriers have been one of the most important components of our Uruguay Round agricultural negotiations with Japan. We have made it clear to the Government of Japan that the rice import ban must be eliminated.

Question No. 7. Does the Administration plan to push for a rice market access agreement with Japan which will allow those who export U.S. rice the opportunity to establish long-term commercial relationships in Japan that will be free of interference by the Japanese government?

Answer. We have encouraged the Japanese negotiators to consider establishing a system that would permit direct relationships between rice exporters and their Japanese customers. The Government of Japan seems to be inclined to favorably consider such a system for a portion of rice imports if rice imports are liberalized.

PREPARED STATEMENT OF STEPHEN J. COLLINS

I am Stephen Collins, Director of Economics and International Affairs for the American Automobile Manufacturers Association. AAMA is the trade association for the U.S. auto companies—Chrysler Corporation, Ford Motor Company and General Motors Corporation, who together directly employ more than 730,000 American men and women in designing and manufacturing 8 million cars and trucks built in the U.S. each year.

I want to thank you Senator Baucus, for extending an invitation to testify at today's hearing on the U.S.-Japan Framework negotiations. I also want to commend you for recognizing the importance of these negotiations to the success of the Administration in meeting its international economic and trade policy objectives.

AAMA strongly supports President Clinton's initiative to engage the Government of Japan in a new and critical effort to address the strains in our economic and trade relationship. The Association and its member companies have worked very closely with the Administration's negotiating team over the past six months to define and support U.S. goals and objectives in these negotiations. We believe that the United States has clearly demonstrated in these negotiations to date that U.S. Government and industry are determined to reverse the grossly imbalanced pattern of our trade relations, and the industry is committed to whatever additional actions are necessary to serve and satisfy Japanese consumers if there is a meaningful opening of Japan's domestic market.

Let me state clearly that our position is not about protectionism. It is, in fact, about greater trade liberalization. The present situation is destabilizing the economic system that has served the world so well for so long. And each nation shares in the responsibility to find a solution. It's not just fair play. It's essential to the preservation of the system, and we must convince each of our trading partners that we all will pay the price if the present trading imbalances are maintained.

While much of the Congress' attention is understandably focused at the moment on the proposed North American Free Trade Agreement, and the December 15 deadline for concluding the Uruguay Round GATT negotiations, the reality is that the U.S. trade deficit with Japan—$50 billion in 1992—remains the most serious, unresolved and chronic problem in America's trading relationship with all of its major partners. Every Administration since President Nixon has recognized and tried to address the growing trade imbalance with Japan. But after twenty years of discussions, studies of the problem, exchange rate adjustments, and endless negotiations, U.S. trade with Japan remains chronically imbalanced at unacceptably high levels, weakening belief in the benefits of the open global trading system, that has brought prosperity to most of the world's economies over the past three decades.

President Clinton understood that a new approach to reducing the persistent trade imbalances between the U.S. and Japan was necessary. He also recognized that, in order to achieve the goal of restoring a reciprocal and balanced trading relationship, American producers must have the same access to the Japanese market that Japanese producers have enjoyed in the U.S.

Last April, in his first meeting with Japan's Prime Minister, then Mr. Miyazawa, President Clinton outlined the major principles which would guide his Administration's policy toward Japan:

1. In the new post-Cold war era, it is economics, not security concerns, which now require the priority attention of the two governments.
2. That Japan's trade surplus with the United States must be significantly and quickly reduced.
3. To ensure that this goal is reached, a new "results oriented" trade policy is needed, to focus on the specific sectors and structural differences in which the bilateral trade imbalance with Japan is concentrated. This new approach was embodied in the Agreement adopted by the two governments in April 1993, entitled a "Framework for a New Economic Partnership."

As you know, in the Framework Agreement, the Government of Japan specifically commits itself to achieve "a high significant decrease in its current account surplus" and "a significant increase in global imports or goods and services." For its part, the United States agreed to actively pursue the objectives of "substantially reducing its fiscal deficit, promoting domestic savings and strengthening its international competitiveness."

The Framework Agreement establishes specific negotiations in five distinct categories, or "baskets." Because the majority of the trade imbalance between the two countries is caused by essentially one-way automotive trade, one of the five negotiations now underway concerns opening Japan's market to substantially increased sales of imported autos and parts. The Administration acknowledged that this is a critical component of the Framework negotiations because there is no way to restore balance with Japan without a major change in the pattern of trade in autos and auto parts.

To understand the nature of the problem, one need only look at the pattern of production and trade in the major automotive markets of the world. In the United States last year, Japanese and European manufacturers held 35% of the U.S. passenger car market, 30% held by Japan alone. In Japan, however, imports from all countries, Europe, America and Asia, represent about 3% of the market.

This extraordinary aberration is not the result of free and open competition among the world's major producers in Japan's market. And it isn't for a lack of interest by U.S. and other automakers in the important Japanese market. In fact, Chrysler, Ford and General Motors were the dominant players in Japan until the late 1930s, when they were expelled from the market and their facilities confiscated. It is, rather, the result of Japanese Government policy, planned and implemented in the post-war period, which seriously restricted the activities of foreign auto producers in Japan in order to encourage and protect the development of a Japanese auto industry. In the late 1940s and 1950s, when foreign manufacturers were in a position to reestablish operations in Japan, either by direct investment or by establishing sales networks, the Japanese Government actively prevented entry.

With the establishment of a successful and prosperous local automotive industry, formal market barriers in the market were relaxed. But by then, of course, it was too late for European and American producers. Japan's auto industry had become a huge production powerhouse, building twice as many cars and trucks as its own economy could consume, and exporting the rest to the major auto markets throughout the world.

Even without formal barriers, foreign auto companies continue to face formidable odds selling in Japan. First, to be a serious presence in any market, an auto company must have access to a dealer network capable of reaching large numbers of the country's consumers. Japanese auto companies, for example, were only able to achieve their rapid increase in market share in the U.S. over the past twenty years because they were allowed to sell their products side by side with Chrysler, Ford and GM's products in our established dealer networks throughout the U.S.

This is not the case in Japan. There, manufacturers have historically required "exclusivity clauses" in their franchise agreements with dealers, which prevents them from selling imported cars. That is why today, even with the recent removal of these legal restrictions, only six percent of all Japanese auto dealerships sell any imported cars.

The Japanese Government also continues to insist on expensive and unnecessary regulatory procedures to approve vehicles for sale in the Japanese market. To this day, every vehicle certified under the regulatory system established for imported manufacturers must be individually inspected by a Japanese Government official.

What these restrictions mean, in plain business terms, is exorbitant marketing costs which are spread across a small volume of products. With those odds stacked against foreign producers, it's been very difficult to justify massive investments in that market. For businesses to undertake such commitments, there must be a reasonable expectation that the market will allow a company to eventually recoup those investments.

In contrast, Japanese automakers have benefited greatly from the extraordinary access to the American auto market. They have been free to invest in production and distribution facilities in America and have received hundreds of millions of dollars in direct financial assistance. Their imports number in the millions. They have enjoyed open and direct access to our customers, our suppliers, our advanced research and technology both in the private sector and in the university campuses, to our vehicle registration and other valuable commercial information, and perhaps most importantly, they have benefited greatly from direct access to our dealers and their facilities, trained personnel, capital resources and customer bases.

In entering these negotiations, however, it is important to remember that one of the strongest international economic policy instruments affecting the U.S.-Japan trade relationship is the yen/dollar exchange rate. However, for the currency relationship to be effective in helping to correct the auto trade imbalance with Japan, the recent strengthening of the yen must be appropriately reflected in the pricing of Japanese vehicles in the United States. In our view, this has not occurred.

The Framework negotiations offer an opportunity to change the status quo and America's auto and auto parts producers accept the challenge.

Chrysler, Ford and General Motors are competing aggressively and successfully in every major automotive market in the world. Their cars, vans, sports-utility vehicles and pick-up trucks are being universally recognized as the premier high value, high quality products in their league. And that fact is being verified in the most competitive consumer-driven market in the world—the United States—where U.S. auto products are winning back market share from their Japanese competitors.

Given the chance to compete fully and fairly in Japan, U.S. automakers believe that Japanese consumers will respond just as enthusiastically as consumers in the United States and around the world, to the value, styling, and technological innovation of America's newest cars and light trucks.

And our companies are moving quickly to respond to potential market-opening opportunities in Japan. Let me just highlight some of the major developments underway:

- U.S. auto makers have significantly lowered the prices of their vehicles in Japan to make them even more competitive;
- American quality is now equal to or better than that of many Japanese vehicles;
- Chrysler is already selling right-hand drive versions of its popular Jeep Cherokee in Japan, specifically tailored for the Japanese consumer, and has now scheduled production of four additional right-hand drive vehicles in the next few years;
- Ford will introduce a right-hand drive Probe in Japan in 1994 and follow it with right-hand drive versions of its highly successful Modeo, Taurus and Explorer;
- General Motors has begun selling right-hand drive Opel vehicles in Japan and will offer a right-hand drive Saturn in Japan by the mid-1990s.

The three U.S. automakers in the past two years have invested millions in establishing new technical centers in Japan and are expanding their distribution, service, and financing networks. And, in a concerted effort to improve Japanese consumer awareness of their products, they have significantly expanded their marketing and advertising programs.

So, there is no question that American automakers are interested and are making the effort to sell in the Japanese market. The competitive economies of the global auto industry and the importance of the Asia-Pacific region as a future growth market, require these commitments. The real question is, will Japan's market be truly opened?

That question still remains very much unanswered. And that's why along with its member companies—Chrysler, Ford and General Motors—believe that the Framework auto negotiations must result in an agreement on concrete and meaningful targets to measure whether Japan's commitment to open its market to imported vehicles and parts is serious.

The Framework Agreement incorporates this goal, by calling for the establishment of "objective criteria, either qualitative or qualitative or both . . . to be used for the purpose of evaluating progress in each sectoral and structural area."

AAMA believes that, for the automotive sector, to achieve the goal of meaningful access to the Japanese market, the Administration must focus on three fundamental measures:

- Increased sales of U.S.-built vehicles in Japan;
- Increased sales of U.S. parts in Japan and to Japanese transplants in the United States;
- Increased U.S. content in vehicles produced in U.S. assembly plants by Japanese transplants.

We firmly believe that only by establishing clear and meaningful targets for each of these three principal objectives will the Japanese government undertake the changes necessary to result in genuine market opportunities in Japan.

To achieve these fundamental changes will require strong actions by Japanese Government and industry including:

- Unlocking the exclusive dealer/distribution network to provide meaningful access for U.S. automakers;

- The Government of Japan's active encouragement and support of foreign franchises that represent reasonable business opportunities;
- Leadership in promoting imports by the Government of Japan;
- Providing U.S. auto makers with Japanese registration and commercial data;
- Eliminating redundant certification and regulatory procedures;
- Increasing sales of U.S. auto parts in Japan and to Japanese automakers' U.S. facilities; and
- Strict enforcement of anti-trust laws.

CONCLUSION

The American Automobile Manufacturers Association commends and strongly supports the Administration in directly challenging the Japanese Government to step up to its responsibility as a major world economic power. The global trading system is already under severe pressure as a result of the competitive winds of change which have swept the world and the painful process of restructuring which has accompanied these changes. That system cannot remain healthy unless trade between nations is open, fair and free. And that means Japan must allow its trading partners the same access to its markets that it has obtained in the United States, Europe and the rest of the world.

We urge the President and his trade negotiators to hold firm to their statements of principle and policy which were embodied in the Framework Agreement last April, and to insist on the adoption of firm targets by which to measure improvements in market access in Japan. Based on statements over the past several months from the Japanese Government and industry leaders, it remains a possibility that these negotiations will not result in an agreement sufficient or broad enough to meet the Administration and industry's objectives.

The President must make clear that, if these negotiations fail to achieve an immediate reduction and ultimate rebalancing of trade between the two countries, the United States will itself take the actions to ensure that this occurs. And I urge the Congress to support the President in conveying that message at the upcoming APEC Ministerial to Japan's Prime Minister in the plainest possible terms.

As President Clinton said in announcing the Framework Agreement last Spring, "this deserves our high priority from the highest levels of our Governments." America's auto manufacturers agree and offer our strongest support to him in this effort.

PREPARED STATEMENT OF SENATOR ORRIN G. HATCH

Mr. Chairman, I appreciate the work of the United States Trade Representative, and Ambassador Charlene Barshefsky, in particular, in steadily chipping away at the appreciable trade barriers that U.S. exporters face in attempting to access the Japanese market along many sectoral fronts, some of which have been already touched upon.

MEDICAL DEVICES IMPORTS HELD AT BAY

Mr. Chairman, along with pharmaceuticals, our medical devices industry is one of our more robust, export-earning sectors. Our world market share is 52 percent, although in Japan, where the sector faces very little real competition in terms of technological equivalence, our share is a rather dismal $1.7 billion of the $39 billion market.

THERE ARE GROUNDS FOR A BREAKTHROUGH

Mr. Chairman, as disappointing as these figures are, there are reasons to believe that progress is at hand. I commend the USTR for proposing—and sticking to—its offer to measure U.S. progress by market share. I regret that our Japanese counterparts reject this offer, insisting instead on government procurement data.

I must reject the Japanese arguments that, first, since the market is government, that data should be sufficient, and second, that U.S. medical device prices are intrinsically too high.

On the first account, Japanese government data is very unreliable, and rarely available in the form that serves trade needs. Most industrialized countries measure performance by market share and Japan, as Ambassador Barshefsky has said, needs to conform.

On the second argument, I do not deny that advanced medical technologies carry a price. Indeed, they are universally targets of pirating. But it costs our society substantial resources to develop and produce the modern miracles of medicine, as some of these advances are called. Investors, persons who risk capital, deserve to have their risks rewarded. Even the Japanese buy that fundamental principle of capitalism, regardless of the minor differences between our variety of this economic doctrine and theirs. The problem is structural in Japan.

The Ministry of Health and Welfare (MHW) has not raised its reimbursement rates to substantial levels to pay for such medical advances. It is the average Japanese citizen that suffers—as Japanese consumers suffer from the absence of competition in still other commodity sectors.

Mr. Chairman, removing this non-tariff barrier is key to the practice of the types of "good import practices" that MHW agreed to in January 1992 and which I had believed that our Market-Oriented Sector-Selective (MOSS) talks resolved later that year. I know my committee colleagues will join me in encouraging the Japanese Government to enter into good faith negotiations once and for all to settle this lingering and unnecessary difference.

PREPARED STATEMENT OF TIMOTHY J. HAUSER

Thank you for the opportunity to appear before the subcommittee this afternoon to discuss the status of the automotive-related talks under the framework agreement. U.S.-Japan automotive trade issues are not new. They have been a subject of discussion over four U.S. administrations and several Japanese Governments. No one on the U.S. side of the table is happy with the lack of resolution of these issues. We do, however, view the framework agreement reached in July and the new Japanese Government's commitment to change Japanese society as a major opportunity for this administration to resolve this longstanding, complex issue.

The importance of the automotive trade issue in our trade relationship is demonstrated by its specific, individual identification under the framework and its selection as a priority, fast track item for these negotiations.

The motor vehicle and parts industries are a large and important segment of the U.S. economy. Estimated total employment in automotive and allied industries is 6 million persons, or 6 percent of non-farm employment in the U.S. economy. Estimated manufacturing employment in automotive and allied industries is 1 million persons, equal to approximately 7 percent of total manufacturing employment in the United States. In 1992, auto industry production represented close to 6 percent of the GDP. These are high skill/high wage jobs that this administration has placed at the top of its economic agenda.

Given the importance of the industry, the objective of the framework negotiations is clear: To provide improved market access for U.S. and other foreign auto and auto parts producers in the Japanese market and for parts producers in the U.S. market. The proposal we tabled in Tokyo last month attempts to achieve that objective. Improved market access and increased sales will lead to more and better jobs in the U.S., especially at a time when the American economy is not producing enough high wage/high skill jobs.

Even a cursory examination of the automotive market in the major industrialized countries demonstrates the need for greater access to the Japanese market. The import market share in motor vehicles for the industrialized countries ranges from approximately 35 to 56 percent. Import market share in Japan is about 3 percent. Import market share for automotive parts for this same group of countries ranges from 16 to 60 percent. The comparable import market share in Japan is 2 percent. Low import market share for both motor vehicles and auto parts has been a long-standing characteristic of the Japanese market and these shares show no sign of improvement.

The trade deficit in this sector has also not shown signs of real improvement. Indeed it has deteriorated further in 1993. During the first half of 1993, the U.S. automotive trade deficit with Japan was 5.6 percent greater than during the same period in the previous year, reaching approximately $32.2 billion dollars on an annual basis. Auto and auto parts have been the major portion of the bilateral trade deficit for many years. The bilateral automotive trade deficit has accounted for more than 50 percent of our total trade deficit with Japan for each of the last eight years. In 1993, it accounts for 60 percent of the total bilateral trade deficit. (See attached charts.)

To address these market access problems, we have presented the Japanese with a comprehensive proposal that focuses on three main areas: Purchases of U.S. auto parts by Japanese transplant vehicle manufacturers, purchases of foreign auto parts in Japan, and imports of foreign vehicles by Japan. Within these main areas we propose the Japanese increase their purchases of U.S. autos and automotive parts through such measures as:

- expanding their engineering and technical exchanges with U.S. parts suppliers;

- opening their procurement and design-in processes to foreign auto parts suppliers;
- providing access to their motor vehicle distribution system;
- providing opportunities for American firms to participate in the replacement parts market in Japan; and
- expanding their business relationships with parts suppliers in third countries.

The proposal stresses the need to produce prompt, substantial and sustained increases in sales for both parts and vehicles. Consistent with the overall framework, the proposal contains multiple quantitative and qualitative criteria for assessing progress in each of the three major areas. We believe it is important that we are able to monitor progress and have the capacity to determine whether the goals of this arrangement are achieved. In addition, our proposal reaffirms the government-to-government understanding under the market oriented sector specific agreement, including the $19 billion parts purchasing goal announced under the global partnership plan of action in January 1992.

We have also included in the proposal an element to improve information on U.S. parts purchases by the Japanese transplants in the U.S. and U.S. parts exports to Japan. The currently available information has fallen short of our needs to accurately assess the growth and development of business relationships between Japanese automakers and U.S. parts suppliers. In addition, the U.S. proposal contains provisions for stronger enforcement of Japan's antitrust laws with respect to the Japanese automotive industry.

We have developed our proposal in close consultation (including 14 meetings over the last three months) with the U.S. vehicle manufacturers, the auto parts industry, and labor representatives. We have also consulted with congressional staff. We have discussed our proposal with the Japanese at two high-level and two staff-level sessions. Additional negotiations are planned for next week.

Thus far in the negotiations, the Government of Japan has put forth a number of arguments with respect to the automotive sector. They have stated that Japanese industry cannot make additional commitments at this time due to the depressed state of the industry. They have called for a two-way dialogue in this initiative which includes looking at the sales efforts and product quality of U.S. companies. They have also stated that these negotiations must be limited to actions within the scope and responsibility of the governments, with the inference that they have no influence over their automotive industry. Let me address each of these points.

Regarding the depressed state of the Japanese automotive industry, we have responded that while we acknowledge the current difficulties being experienced in Japan, business cycles have always existed in the world auto market, certainly in the U.S. we have pointed out that during 1990 and 1991 in the United States, vehicle production declined by 2 million units and employment in the sector dropped by 71,000 jobs. The big three lost $12.1 billion dollars during this period. Nevertheless, the U.S. market remained open. Indeed the Japanese increased their market share in the United States during the last recession.

What this means for these negotiations is that the current condition of the Japanese industry cannot be an excuse for delaying resolution of long-standing market access problems.

The current economic situation in Japan is due in part to the stronger yen. The stronger yen will facilitate the opening of the Japanese market. The stronger yen has made all foreign vehicles more price competitive in the Japanese market. With respect to automotive parts, our industry has told us that they currently enjoy a 20 to 30 percent price advantage over Japanese parts producers. We have pointed out that increased sourcing of U.S. and other foreign-made parts can in fact support the Japanese vehicle manufacturers' restructuring and cost cutting efforts.

Furthermore, much of the U.S. proposal pertains to parts purchasing for the expanding Japanese transplant operations in the United States. The U.S. automotive market is rebounding from the downturn in 1991 and 1992. Total U.S. vehicle production is up 11 percent and transplant production has increased 9 percent. Given these economic conditions, we believe Japanese transplant vehicle manufacturers could benefit from accelerating their sourcing of U.S. parts because of the significant price advantage caused by the strong yen.

We have also explained that the U.S. proposal will create more options and opportunities for vehicle manufacturers and auto dealers in Japan. This will in turn facilitate the Japanese government's efforts to promote deregulation and will help Japanese consumers by providing them with more choices, cheaper products and a more efficient market.

In responding to Japan's second argument, we have rejected the claim that lack of sales efforts or product quality is an explanation for the slow progress in U.S. sales to Japanese companies.

It is clear that U.S. companies are making strong efforts to obtain business in Japan. For example:

- Chrysler introduced a right hand drive Cherokee last January in Japan and sales growth has been impressive.
- Ford has announced the opening of a finance facility in Japan as well as a technical center.
- GM is discussing plans to export passenger cars to Japan under the Toyota nameplate.
- Within three years, Ford will be building, in the U.S., right-hand-drive Tauruses and Explorers for export.

Even Japanese officials have acknowledged the closing of the alleged quality GAP. There is also a great deal of independent analysis to support this view. The buying public's assessment of the quality of big-three brands, as measured by J.D. Power and Associates New Car Customer Satisfaction Index, has risen from an index level of 94 in 1986 to 132 in 1993. This represents an improvement of 40 percent. The index for Japanese-brands increased just 18 percent during the same period. While it remains higher, at 141, many consumers consider the differences to be insignificant and inconsequential given the price advantages of big-three vehicles. Similarly, U.S. automotive suppliers have made and are continuing to make significant efforts to increase their sales to the Japanese market and to the Japanese transplants in the U.S.

Regarding the government of Japan's argument that resolution of these longstanding automotive trade issues is outside of the scope and responsibility of government, our response has been straight forward. It is clearly the responsibility of governments to create and foster an open environment in which competition will flourish. Indeed, we believe we are working toward the same end as the new Government in Japan, which is making a major effort to deregulate its economy. Of course, we are not unaware that the Japanese Government has had an unusually close relationship with its major industries for many decades. This close relationship has resulted in the Japanese Government's ability to exert substantial influence over its industrial structure.

My negotiating trip last month to Japan coincided with the opening of the Tokyo motor show and it brought into clear perspective a number of the issues on the negotiating table. I had the opportunity to visit the show and meet with many of the U.S. auto parts companies and U.S. automakers who were participating. The commitment of these U.S. companies, in terms of their product offerings and sales efforts, was clearly evident to me. Our products are world class. I hope this was evident to the Japanese Government and industry officials and more importantly to Japanese consumers at the show.

In conclusion, this is a complex, long-standing problem. I am hopeful that the new Japanese Government will view the framework negotiations, not only in the automotive sector but all the negotiations under the framework, as benefiting not only the United States, but also the Japanese consumer and the Japanese economy. I appreciate the opportunity to appear before the subcommittee today and look forward to working closely with Congress to bring about a successful conclusion to these negotiations in the coming months.

MOTOR VEHICLE IMPORT SHARE

Country	Import Share %
France	40
Germany	39
Italy	53
U.K.	56
U.S.	35
Japan	3

Import shares for EC member states include vehicles imported from other EC countries. The U.S. import share includes vehicles imported from Canada and Mexico.

Source: World Motor Vehicle Data Book, 1993 Edition

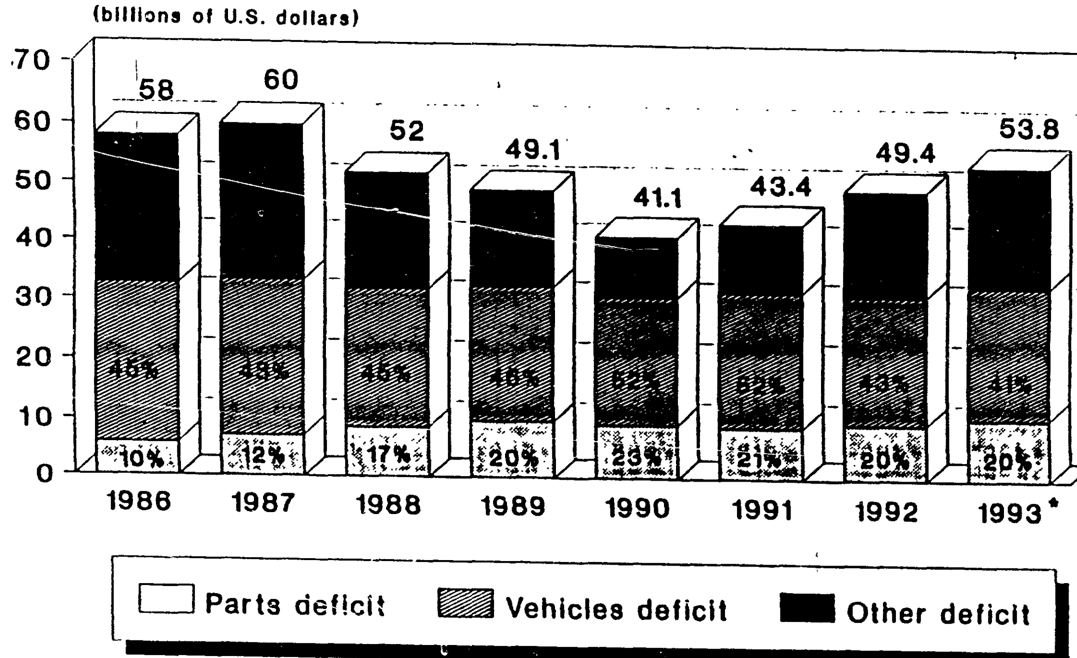
AUTOMOTIVE PARTS IMPORT SHARE

Country	Import Share %
France	49
Germany	25
Italy	16
U.K.	60
U.S.	30
Japan	2

Import shares for EC member states include vehicles imported from other EC countries. The U.S. import share includes vehicles imported from Canada and Mexico.

Source: U.S. Government Reports

Motor Vehicle and Parts Share of the U.S.-Japan Merchandise Trade Deficit



Source: U.S. Census Bureau
•Estimated from January-June 1993 data

PREPARED STATEMENT OF ROBERT HOLLEYMAN

Mr. Chairman and Members of the Subcommittee: My name is Robert Holleyman and I am the President of Business Software Alliance (BSA). The BSA promotes the continued growth of the software industry through its international policy, education, and enforcement programs in more than 50 countries, throughout Europe, Asia, North, and South America. Member companies of the BSA include: Aldus, Apple Computer, Autodesk, Borland International, Computer Associates, Lotus Development, Microsoft, Novell, and WordPerfect. These companies account for nearly three-quarters of the sales of prepackaged PC software published by all U.S. companies.

The computer software industry is one of the nation's greatest business success stories. For the period 1982 to 1992, the software industry grew by 269% in real terms, while the remainder of the U.S. economy grew by about 30%. Larger than all but five manufacturing industries, the core software industry (prepackaged software, custom programming and computer integrated design) accounts for $36.7 billion in value added to the U.S. economy.

It is a privilege to have an opportunity to present the views of the members of the BSA regarding the U.S.-Japan framework talks announced by the Clinton Administration this past July. I would like to address specifically the software industry's concerns with Japan and how these concerns can be addressed through the framework agreement. Total foreign sales now account for more than 50% of the revenues of BSA member companies, making trade issues with Japan and other trading partners fundamental to our industry's economic health.

This hearing comes at a particularly propitious time for two reasons. First, it comes immediately prior to trade talks in Seattle later this month under the rubric of the framework agreement, and a meeting between President Clinton and Prime Minister Hosokawa. Second, it comes at a time when developments within Japan pose a very real threat to the U.S. software industry's presence in that country. Having recently returned to Washington after five days in Tokyo, I would like to comment on the software industry's concerns in light of what I have learned during my most recent visit.

I would like to begin with the positive news. In contrast with other U.S. industries which have faced roadblocks in doing business in Japan, the U.S. software industry has achieved considerable success in penetrating the Japanese marketplace. At present, an estimated 55% of the market for personal computer (prepackaged) software in Japan is held by U.S. software companies. While this is lower than the 75% market share U.S. software companies hold worldwide, it is nonetheless substantial for Japan.

There are two principal reasons for the success U.S. software companies have achieved in Japan to date. First, U.S. companies have been the leaders in developing innovative software for personal computers. Second, there is a copyright law in Japan—one achieved in large part as a result of successful negotiations by the U.S. government in 1984—that provides legal protection for computer programs, thereby protecting the work of innovative U.S. developers. Pioneering products and a sound copyright law, have allowed U.S. software publishers to prosper in Japan.

Software publishers view Japan as a positive market in which to do business. Most of the BSA member companies have shown substantial increases in their sales in Japan over the past decade, which should lead to increases in the U.S. prepackaged software market share in the years ahead, even beyond the current estimated 55% share for U.S. companies.

That is the positive side of the equation. Unfortunately, two sizable negative factors pose the risk of undermining the potential for growth by U.S. software companies in Japan. These are the dual problems of piracy and the prospect of a reduced level of legal protection for software in Japan. If left unchecked, these factors could lead to a reduction in the existing U.S. market share in Japan. These are first and foremost trade issues which need to be addressed through the framework talks. I would like to address the newest and most troubling of these issues first—a new legal initiative in Japan which could substantially weaken existing copyright protection for computer software.

Japan's copyright protection for computer programs came about in 1985, after a protracted struggle within Japan, and only after forceful intervention by the U.S. government. Since 1985, when copyright protection for software was approved in Japan, we have seen evidence in other fora that Japan's support for strong copyright protection remains less than the standard of protection in the U.S. and less than what has increasingly become the prevailing view internationally. When the European Community debated its proposed software directive between 1989 and 1991, the U.S. government and our industry struggled with vocal elements of the Japanese computer hardware and software industry who advocated low standards of protection for software in Europe. These interests sought in the European context, a means of allowing Japanese companies to legally clone the products of their principal competitors—U.S. and European software companies. This debate was concluded successfully by a hard-fought compromise in the European Community which recognized a strong basis for copyright protection for software as a literary work, with a very limited exceptions to permit reverse engineering or decompilation of programs only when necessary to achieve interoperability with hardware and other programs and only when that information is not otherwise available. Even in the very limited instance where reverse engineering or decompilation is permitted, the Directive explicitly maintains protection for the copyrighted expression in a program.

In the context of the Uruguay Round, Japan has also argued for low levels of protection under the proposed Trade Related Intellectual Property (TRIPs) component of the GATT. Fortunately, as a result of U.S. and now European efforts, the draft Dunkel text proposes a standard of protection that is generally consistent with international norms, the law in the U.S. and in the E.C. To be completely clear, I should emphasize that in the context of both the EC Software Directive and the GATT, Japan and Japanese industry have argued for levels of copyright protection for software that are far less than what the U.S. government has sought in virtually every bilateral trade negotiation our country has conducted over the past decade.

As 1994 approaches, it appears that an initiative is gaining momentum which raises again the question of the level of protection for computer software in Japan, similar to the debate nearly a decade ago and which was extended to Europe and the GATT. In July of this year, the Agency for Cultural Affairs of the Japanese Ministry of Education established a committee (the "Collaborator's Council") to review the level of protection for software in Japan. Part of the stated purpose of this committee was to consider implementation of reverse engineering or decompilation provisions in Japan, to specifically permit the disassembly of computer programs.

The Japanese government couches the exercise of the committee as one to harmonize Japanese law with trends in the E.C. and among the U.S. courts. Submissions by Japanese industry and others indicate to the contrary. These submissions have made it clear that leading elements of Japanese industry are proposing statutory changes to permit a very broad right to disassemble computer programs, in otherwise legally impermissible means, in order to prevent "redundant investments" and avoid the necessity to duplicate research and development undertaken by competitors. For software, where the principal investments are in research and development, not production, such a broad right of disassembly poses enormous risks.

My recent trip to Tokyo included meetings with the Ministry of International Trade and Industry (MITI) and the Agency for Cultural Affairs that only confirm our industry's concerns about the forces amassed in Japan and the speed with which revisions are being considered. The committee is scheduled to report its findings by the end of December, and legislation may be considered as early as March of 1994.

The U.S. software industry is treating this issue with the greatest degree of urgency. The issues currently being considered in Japan raise all the issues that were present when the software directive was debated in Europe, but in a manner which permits the competitiveness issues to be debated on the home turf of major Japanese companies which have consistently advocated low levels of legal protection for software, and which support a right of disassembly that would enable the creation and marketing of clone products, utilizing the development efforts of leading U.S. companies.

BSA is working with its members and other companies in the software industry as part of a coalition effort in opposition to any legislation that would weaken protection for software in Japan. In addition to our meetings on the ground in Japan, a software working group has been meeting over the past two weeks with agencies of the U.S. government charged with carrying out the framework talks. We have had positive meetings with representatives of the Patent and Trademark Office of the Department of Commerce, the U.S. Trade Representative's Office, and the State Department. Importantly, the software issue was identified as an item of discussion by the U.S. negotiators in October during intellectual property-related trade talks with Japan pursuant to the framework agreement.

Our industry coalition has sought to reinforce through our meetings the importance of the copyright issue to U.S. companies and the very real threat we face if this matter proceeds beyond the current review of the Collaborator's Council and should it take the form of legislation. This would indeed be a matter of great seriousness and severe potential for adverse economic consequences to the U.S. software companies in Japan. It is our hope that with the growing attention paid to this issue by U.S. negotiators, that this matter can be resolved at the early stages of the framework negotiations between the U.S. and Japan.

I would like to emphasize that our working group has been encouraged by the meetings we have held with the Administration. There is a willingness to address this issue and a growing awareness of the risk posed to U.S. companies. I would ask that this committee monitor this issue as it is raised by the Administration in the framework talks, and that members of this committee be aware of the enormous consequences to U.S. companies should legislation be introduced and approved in Japan to legalize disassembly of computer programs for the development of clone products. Any proposal to weaken copyright protection for software in Japan would be fundamentally contrary to the purpose and text of the framework agreement, which seeks to expand international trade and investment flows. It is the software industry's hope that such an initiative can be stopped through the framework talks before it gains further momentum.

The second issue I would like to address is the problem of piracy of computer software in Japan. Normally this would be the first issue for BSA to address, given the magnitude of the estimated $2.3 billion annual piracy losses in Japan. Only the existence of possible legislation to weaken existing levels of protection in Japan would cause me to identify the piracy problem second.

On a worldwide basis, piracy is the single biggest source of losses to the software industry. Worldwide losses are estimated at $12 billion dollars annually and the largest percentage of losses are borne by U.S. companies, which have a 75% worldwide market share for packaged software.

The software piracy problem in Japan is primarily one of end-user copying within in large organizations. This problem, encountered in every country around the world, involves otherwise legitimate businesses or institutions, which acquire a large number of personal computers, but only limited numbers of original software, which are then duplicated in violation of the law for all the personal computers within an office. This problem occurs to a much greater degree in Japan than in the U.S. and most countries. BSA estimates that as much as 86% of the packaged software in use in Japan is pirated.

Piracy problems such as our industry faces in Japan can be addressed through three means. The first involves an educational effort, which the BSA has launched over the past year, to educate and inform the public of the requirements of the copyright law, the penalties under Japanese law against using and selling copied software, and the benefits of using original software.

Enforcement is the second key aspect of any anti-piracy campaign. BSA member companies have initiated enforcement actions against dealers caught selling hardware loaded with illegal software in Japan, and we intend to supplement this with enforcement actions against end-users over the coming months. Our goal is not to use litigation as a means in and of itself, but rather to use enforcement of the law as a deterrent to piracy.

Finally, the widespread piracy problem can be substantially reduced if the Japanese government makes the reduction of software piracy a priority, and if the U.S. government makes reduction in software piracy a trade issue in the context of our negotiations with Japan. Experience in other countries has shown if these three steps are taken, software piracy can be reduced, and the BSA has every reasons to believe this would result in a much stronger legal software market in Japan for the benefit of all publishers.

In conclusion, BSA is hopeful that the framework agreement negotiated with Japan and announced in April will be a workable mechanism through which the U.S. government can raise and resolve the two principal trade issues of concern to the software industry in Japan: the possible reduction in the level of legal protection for software in Japan and the high rate of piracy. The first of these issues has been put squarely on the table in the context of the initial talks between the U.S. and Japan held at the working level.

Every indication is that there is growing concern about the Japan copyright issue within the Administration and a growing resolved to seek to address this issue before it takes the form of legislation in Japan. If this can be achieved, and if a foundation is established to begin addressing the software piracy problem in Japan, it should be a strong indicator that the framework agreement works. The software copyright issue is an early test of the framework agreement, albeit not one our industry would have sought, nor one that was even anticipated the agreement was announced in April. If the existing level of protection for software in Japan can be preserved and, in fact, strengthened, if should bode well not only for U.S. software companies doing business in Japan and those who would seek to do business there in the future, but for other segments of U.S. industry who have had continued difficulty in entering the Japanese marketplace and who view the framework agreement as the means of eliminating market barriers.

It would be impossible for me to over-emphasize the degree to which recent events in Japan are troubling. BSA and the software industry believe the framework agreement can work as intended. With the support of this committee and the continued support of the Administration, I am confident the U.S. can meet this challenge. The software industry is committed to doing everything we can to provide support for the U.S. government in the framework process and to building allies among other governments and industry. The issues are absolutely critical. The software industry looks forward to continuing to work with this committee as these issues are addressed in the days and months ahead, and I am eager to have an opportunity to report in 1994 that we have seen one of the first successes under the framework agreement by a successful resolution of the problems now facing the U.S. software industry in Japan.

Thank you for this opportunity to testify regarding the software industry's concerns in Japan and the intellectual property components of the framework agreement.

PREPARED STATEMENT OF SENATOR DAVID PRYOR

Mr. Chairman, I want to compliment you on this hearing today. It is perfectly timed, in light of the President's economic meeting next week in Seattle with Asian Pacific leaders.

Today I want to raise two issues in U.S.-Japan trade relations.

The first involves Arkansas rice. Mr. Chairman, Arkansas produces more rice than any other state in the Union. Accordingly, no other state is harmed more by the age-old ban on rice imports to Japan.

I am very hopeful that progress on this front is very possible this year and I will want to hear the witnesses' views on this matter.

The second issue involves the U.S. bromine industry, which is based in Arkansas.

Mr. Chairman, American bromine chemicals get a 4.5 percent import duty in Japan. However, our only foreign competitor, which is a part-government owned company, goes into Japan absolutely duty-free.

How can the U.S. bromine industry compete in Japan, when Japanese tariff law gives its competitor a 4.5 percent advantage? I have asked the Government of Japan to resolve this unfairness unilaterally. So far, they have refused, saying they want it resolved in the GATT.

Now, Mr. Chairman, until recently, the U.S. gave duty-free treatment to an estimated $235 million of Japanese chemicals coming into this country. I think that before we think about renewing these duty suspensions, we should take a close look at how our industries are treated by Japanese tariff laws.

Mr. Chairman, trade in rice and bromine chemicals illustrate two things. First, they show how much hope there is for improved U.S.-Japan trade relations. And second, they demonstrate that we still have quite a long way to go.

Again, thank you, Mr. Chairman, for holding this hearing, and my thanks also to the witnesses who are here today.

PREPARED STATEMENT OF ROBERT J. SALDICH

Mr. Chairman, members of the committee, I am Robert J. Saldich, CEO of Raychem Corporation, a Fortune 500 company with over $1 billion in revenue of which over 60% is generated from international sales. I am also the Chairman of the Board of the American Electronics Association. On behalf of the American Electronics Association, I appreciate the opportunity to testify on the subject of U.S.-Japan trade and economic relations.

The American Electronics Association ("AEA"), represents about 3,000 U.S. companies in all segments of the electronics industry, including telecommunications, medical electronics, computers and peripherals, semiconductors and semiconductor manufacturing equipment, instruments and software. Over 80 percent of AEA's membership is comprised of small entrepreneurial companies with fewer than 200 employees.

Electronics is the nation's largest manufacturing sector with approximately 2.3 million American workers employed directly in the industry. Worldwide sales of electronics firms now total over $400 billion per year. Moreover, as the tool builder for the rest of the economy, the U.S. electronics industry certainly would rank very high, if not number one in strategic importance for the economic well being of the U.S.

One of the more important facts about our industry is that over 4,0 U.S. electronics firms have offices, people and representation in Japan. This i, an industry which has committed significant resources to compete for Japan's lucrative markets. These are not companies that can be criticized for inadequate efforts to sell in Japan.

The overall bilateral trade deficit with Japan is concentrated in two sectors—autos and electronics, with electronics representing about 45% of the deficit. This deficit in electronics has increased despite the appreciation of the yen. It rose 12% in 1992 alone, reaching $22.3 billion Furthermore, the deficit continues to deteriorate despite as many as 20 bilateral trade agreements focused in the electronics sector.

What we seek from the U.S.-Japan framework are results—truly effective market access negotiations for electronics which reduce market barriers in Japan and provide measurable, prompt, steady and substantial increase in American firms' sales and market share in Japan, commensurate with their global competitiveness.

Our relationship with Japan—both as a partner and competitor—is critical to this industry for two reasons: First, Japan is the largest market outside the U.S. for electronics products. Overall, American electronics companies today hold more than 50% of the world market, but our industry's sales in Japan are only 18.8% of that market. *Our market share in Japan defies our global leadership.* Second, our industry is significantly disadvantaged, trying to compete worldwide with a Japanese electronics industry that benefits from a largely sheltered home market. The economic effect of limitation on foreign access to the Japanese electronics market is to provide a significant profit haven—in the form of an assured substantial volume of home market sales to enable Japanese companies to become even stronger.

AEA has provided the Committee with a "Blueprint for Progress" which lays out the electronics issues in the U.S.-Japan Framework and our expected outcome. We have also provided this to the Administration along with numerous specific anecdotes demonstrating the obstacle course non-Japanese companies must run before they even get to the marketplace.

U.S. electronics companies confront a wide array of barriers to access the Japanese market. These practices, which AEA has detailed in a report to the Administration, are interrelated and systemic. The barriers are concentrated in four general areas: government procurement, exclusionary business practices, ineffective intellectual property protection and market limiting regulatory procedures. Let me give a few anecdotes to illustrate the nature of the problems in each of these areas.

MARKET-LIMITING REGULATIONS

In fact, Mr. Chairman, these regulations are so limiting that companies are prohibited from selling products in Japan that are widely sold throughout the world. For example, in July before the House Ways and Means Committee, Amold Brenner, Motorola Executive Vice President and General Manager, Japan, on behalf of AEA, demonstrated the difficulty of penetrating Japan's market due to its restrictive regulatory environment. With his permission, this is a catalog of Motorola's wireless communications products sold in the U.S. and the rest of the world. Contrast that to the catalog for products which Motorola can sell in Japan. The difference represents products and systems not specifically allowed by regulation in Japan, and therefore prohibited. This is what we mean by market limiting regulations.

GOVERNMENT PROCUREMENT

Japan, unlike the U.S., often does not conduct government procurement using open, transparent, non-discriminatory procedures. We cannot expect truly open market access to the Japanese market if the government itself is not setting the example in procurement transactions. For years, U.S. companies have reported that government and quasi-governmental entities have allocated its procurements in several major equipment areas equally among four major Japanese suppliers. After being pressured to make purchases from foreign suppliers, this entity now allocates a small share of its purchases in each of the equipment areas to a single foreign supplier and divides the rest of its purchases in that area equally among the same four Japanese suppliers. Consequently, a foreign supplier is chosen for a single product niche only. Its small share of the product is artificially limited, and it is not awarded contracts for other products, notwithstanding its ability to supply those products on a competitive basis.

Further, despite the recognized quality and competitiveness of U.S. medical electronics, Japanese public sector procurements of these technologies have been disappointing and disproportionate compared to all other market access in this sector. In fact, in some instances, procurement officials have chosen to purchase unproven and even undeveloped domestic products rather than leading-edge, cost-effective and already approved medical technologies from the United States.

For example, earlier this year, an agency under MITI jurisdiction conducted bidding on diagnostic imaging equipment. A U.S. manufacturer of biomagnometers for functional brain imaging entered the bidding, but when the selection was made, it was a Japanese company who collaboratively built a system that was still in development. Furthermore, according to Commerce officials and press reports, the Agency for Industrial Science and Technology had invested over $50 million and joined by a consortium of ten domestic companies who matched this amount to fund the Japanese development of this product. products.

INTELLECTUAL PROPERTY PROTECTION

Japan's intellectual property system effectively deprives a substantial number of U.S. electronics firms of a critical competitive advantage they would otherwise have in their efforts to sell to Japanese industrial customers—an exclusive and enforceable right to their own innovative products. When AEA started an informal survey of our companies, we assumed this would be an issue primarily for small companies—because of the lengthy process and resources required to deal with pre-grant opposition and patent flooding. We also thought that small companies, naturally with small staff and limited core technologies, would feel greater pressure under the Japanese system. While the survey did confirm this, we found that the large multinational firms, well-established in Japan with large patent staffs, were also dissatisfied with the system. In fact, many companies reported that patent applications were still in opposition a decade after they had been filed. All the while, the company is left without any protection in the market.

Copyrights are a concern as well. In 1984, AEA opened its office just after American industry had fought a bruising battle to prevent the Japanese government from weakening software protection. Nearly 10 years later, our Japan office is still working to prevent the weakening software protection again.

EXCLUSIONARY BUSINESS PRACTICES

The most fundamental barrier to access to the Japanese commercial market is the Various manifestations of Japanese industrial consumers' arbitrary allocation of a very limited share of the market to foreign suppliers, despite foreign suppliers' ability to supply a competitive product in terms of price and technology. Many manufacturers often face situations where Japanese standards are different than world standards, with the result that U.S. manufacturers can sell to Japanese companies only in connection with those companies' export sales to third markets.

For example, one U.S. manufacturer reports that a major utility in Japan which should be a major customer for its products, has not purchased from the U.S. supplier for purchases in Japan. However, this utility purchases from this U.S. supplier—in recognition of its quality and technology—for applications in the utility's projects outside Japan, where the products sold by the utility's Japanese suppliers do not meet world standards.

Finally, in 1984, American telecommunications companies were up in arms over mandatory testing procedures of a Japanese telecommunications testing group called JATE. In 1993, the AEA office is still getting complaints because JATE now requires any American company that gets a new distributor to have its products retested, at a cost of thousands of dollars and months of lost market time.

So while we read editorials and news reports about change, Japan's restrictive attitude toward American electronics competition has changed little. For 9 years, we had been told that the USG should not pressure the LDP too much on trade because the government would fall and the Socialists would be in power. Now that the LDP has fallen from power, we are being told that we should not pressure Japan too much on trade, because the current government might fall and put the LDP back in power. We need to disregard short-term political considerations and obtain trade results to sustain U.S. economic growth and global competitiveness.

Mr. Chairman, the message this committee needs to take away from this hearing, is this:

- A continuing electronics bilateral trade deficit with Japan represents a direct transfer of wealth by the U.S. to Japan, lost sales and profits for U.S. companies and lost jobs for American workers. The Japanese must understand the importance our negotiators place on prompt and substantial progress in electronics trade.
- Further, if we have learned anything from the past, it is that any trade negotiations must embody clear measures to indicate progress in our trade with Japan. We must be prepared to act if agreements are not being implemented in a way

that produces the expected results. *Our commitment to results must be unwavering.*

We believe the Administration's framework has the potential for success. First, the Framework recognizes the problem with Japan is not just macroeconomic, it is microeconomic. It recognizes that dealing with individual procedural barriers is less effective than dealing with them as a whole, comprehensive system of barriers. Finally, the Administration is displaying an unprecedented unanimity in its commitment to results-oriented negotiations. This must continue.

We must ensure that our resolve to have effective, results-oriented action will not dissipate in the face of political pressure to have an agreement for agreement's sake, as we move closer to the "Heads of State" meeting in January between President Clinton and Prime Minister Hosokawa. No agreement is better than a weak and unenforceable agreement. Keeping this focus is vital to U.S. competitiveness and American jobs.

Attachments.

Blueprint for Progress

U.S. Electronics Issues in the U.S. - Japan Framework Negotiations

INTRODUCTION

In April, the American Electronics Association provided the Administration a detailed report and set of recommendations based on U.S. electronics companies' experience in Japan. Since that time, AEA has continued to work closely with the Administration in shaping the framework negotiations. AEA was pleased to see that the issues it identified were incorporated into the framework. While we were disappointed that the framework did not have specific focus through an electronics basket, we believe that the framework, with appropriate effort, can offer substantial opportunity to adequately address the interrelated issues facing the U.S. electronics industry in Japan. AEA has identified four priority issues that face the electronics industry: government procurement, intellectual property protection, market-limiting regulations, and exclusionary business practices.

Using the structure of the Framework, this paper will provide a blueprint for the Administration to ensure that the issues facing the U.S. electronics industry are appropriately addressed.

BASIC OBJECTIVES

As the "new mechanism of consultations for United States-Japan economic relations", the framework offers the U.S. electronics industry an opportunity to address the wide array of barriers it faces in accessing the Japanese electronics market. The practices are interrelated, systematic, widespread and affect a wide range of electronics products and sectors.

The companies that AEA represents are technological leaders in their fields and are generally the market leaders in both U.S. and world markets other than Japan. These are not companies that can be criticized for inadequate efforts to sell in Japan. To the contrary, they have been in Japan for extended periods of time and have expended significant resources to enter the market.

The electronics industry's goal must always be clear: a steady and substantial increase in U.S. electronics firms' sales in the public and private markets in Japan, ultimately reaching levels commensurate with the U.S. industry's global competitiveness. The goals of changing Japanese laws, policies and practices, while significant, are important only as means to achieving this basic goal.

The U.S. government must make it clear to Japan that this initiative will not have succeeded, and must be continued, as long as substantial and economically unjustifiable disparities exist between U.S. electronics firms' success in Japan and their much greater success in other markets.

Finally, as the largest manufacturing sector in the United States, with 2.3 million Americans employed directly in electronics manufacturing, the Administration must make it clear to Japan that the U.S. electronics industry is a priority area for the United States.

SECTORAL AND STRUCTURAL CONSULTATIONS AND NEGOTIATIONS: THE 5 BASKETS This section of the paper will place the issues for the U.S. electronics industry in the categories established by the framework. In this section, we identify under the existing baskets, the nature of the problem and, in the "expected outcome" section provide the industry's expectations for a satisfactory result of the negotiations. For further details on the problems and expected outcomes please see AEA documents: Electronics Negotiating Initiative For Japan Market Access; benchmarks paper; and government procurement reforms paper.

It is essential that these issues be addressed comprehensively. Focusing on only one aspect of these barriers will not adequately address the industry's market access barriers. Consequently, AEA strongly supports the recommendations proposed in the July 15, Senate letter requesting the establishment of high-level deputies work group on electronics to ensure that industry's issues are provided sufficient focus and priority as well as the establishment of effective benchmarks. We recommend this blueprint serve as the work program for electronics.

- **GOVERNMENT PROCUREMENT BASKET:** AEA concurs in the Administration's statement that 'measures undertaken in this area should aim at significantly expanding Japanese government procurement of competitive foreign goods", especially telecommunications, medical electronics, supercomputers, satellites, and computers.

  Unlike the U.S., Japan often does not conduct government procurement using open, transparent, non-discriminatory procedures. As a consequence, U.S. companies in the electronics sector often find that their success in selling to governmental purchasers in Japan falls far short of their success in Japanese commercial/industrial markets (even though those markets are also characterized by substantial market access barriers).

  While Japan is a signatory to the GATT Government Procurement Code, it has repeatedly failed to comply with basic principles in the Code and has not met the spirit of openness implicit in that code. Its failure to do so has led to repeated demands for additional commitments by the Japanese Government to change certain procedures in the procurement process. The NTT agreement and the July 1985 'Action Plan," for example, were designed to facilitate market entry by foreign suppliers through the elimination of specific barriers identified in those sub-sectors. These additional commitments have been of little greater value than the GATT Code itself, however, and there has not been any system-wide opening of the procurement market.

  Expected Outcomes:
  - Establish effective benchmarks that lead to steady and substantial increases in U.S. companies sales and market share.
  - Establish mechanisms to force compliance with well established procurement principles, including reforms in procedures that allow for early intervention in the procurement process to address issues of concern to foreign companies.
  - Establish a binational dispute resolution mechanism for post-award dispute review and monitoring designed to enhance accountability and visibility.

- **REGULATORY REFORM AND COMPETITIVENESS BASKET:** As the framework agreement states, this area will "address reform of relevant government laws, regulations and guidance which have the effect of substantially impeding market access for competitive foreign goods and services..." For the electronics industry, we believe that market-limiting regulations should be addressed. In many areas U.S. companies are prohibited from introducing a new product or concept to a market. An example is MPT's overly burdensome regulation of cellular telephone equipment and services. For the last ten years, MPT has prohibited the policy of customer owned and maintained (COAM) for this subscriber equipment, requiring instead that the product be leased from the carrier with excessive tariffs for equipment and services bundled together. As a result, the development of Japan's market for cellular products has been significantly restricted. Although MPT plans to allow COAM for cellular telephones as of April, 1994, it will continue to require high tariffs for the associated services, thereby continuing to restrict the customer base for Japanese and non-Japanese manufacturers.

Expected Outcomes:

- Eliminate regulations that inhibit U.S./foreign sales and development of new markets. This elimination should lead to steady and substantial increase in sales commensurate with their global competitiveness.
- Establish and agree to a specific time frame and procedures for elimination of regulations.
- Develop economic impact/opportunity as result of elimination of regulation.

OTHER MAJOR SECTORS BASKET: While electronics was not specifically identified with a basket, we believe the Administration can use this basket to articulate the importance of electronics as well as automotive, the two sectors that comprise the trade deficit. Additionally, many of the problems facing the auto parts industry are faced by many electronics companies. In fact, many of our companies are major manufacturers and suppliers of auto electronics parts.

Consequently, AEA supports and recommends that electronics issues be addressed to "achieve sales opportunities to result in a significant expansion of purchases of foreign parts by Japanese firms in Japan and through their transplants." AEA, in cooperation with the Electronics Industries Association of Japan (EIAJ), has initiated a project to increase Japanese subsidiary procurement of U.S. goods. In a 1991 study by MITI, it was determined that Japanese-affiliated companies in the U.S. purchased only 23% of their goods locally and obtained 77% from Japan. We will continue to aggressively pursue this market opportunity.

Expected Outcome:

- Identify and publicly state that electronics is a priority for the U.S.
- Establish a high-level electronics work group to ensure that the multiplicity of barriers and interplay of issues facing the sub-sectors of electronics are being adequately addressed.
- Establish specific market access benchmarks for the electronics industry as a whole and for each of the segments within the industry.

ECONOMIC HARMONIZATION BASKET: In addition to foreign investment, this area encompasses two of four AEA priorities: intellectual property protection and long-term, buyer-supplier relationships.

Intellectual Property: Japan's intellectual property system effectively deprives a substantial number of U.S. electronics firms of a critical competitive advantage they would otherwise have in their efforts to sell to Japanese industrial customers -- an exclusive and enforceable right to their own innovative products. The lack of effective patent protection stems from both the delay in the issuance of patents (especially broad patents which American are prone to file) and the failure to provide effective and timely enforcement for the rare patent which issues in time to be a factor in the Japanese marketplace.

Expected Outcomes:

- Establish effective benchmark to ensure that significant patents are issued to foreign applicants in a timely manner.
- Alter the intellectual property protection process from one which deters and frustrates foreign companies to one that is responsive and provides effective protection and enforcement.

- Switch from a pre-grant to post-grant opposition.

- Hire additional, experienced patent examiners at level tenfold higher than the hires in recent years and assure that the hire rate exceeds the attrition rate.

- Create a national patent court staffed with adequate number of judges.

Long-Term Buyer-Supplier Relationships: The most fundamental barriers to access to the Japanese commercial market are the various manifestations of Japanese consumers' refusals to deal with, or their arbitrary allocation of a very limited share of the market to, foreign suppliers, despite foreign suppliers' ability to supply a competitive product in terms of price and technology. Such practices are even applied to foreign suppliers that offer more advanced products than are being produced by Japanese competitors. These refusals to deal and arbitrary allocations are often manifest in purchaser specifications, which depart from international norms and are skewed toward Japanese competitors. Another pervasive barrier is refusal to permit foreign firms to participate in the "design-in" process, by which a Japanese industrial customer will work with one or more Japanese suppliers to design product specifications. These restrictive practices are, on their face, inconsistent with Japan's antitrust and fair competition laws.

Expected Outcomes:

- Establish specific market access benchmarks for the electronics industry as a whole and for each of the segments within the industry.

- Obtain enforceable commitment by the Japanese government to take aggressive action against such unfair practices and adopt measures to correct the exclusionary effects of those practices.

- **IMPLEMENTATION OF EXISTING AGREEMENTS AND MEASURES:** There have been approximately 19 bilateral agreements in specific sectors of electronics such as the supercomputer agreement, the semiconductor agreement, MOSS medical equipment, computer procurement agreement and the NTT agreement. Historically, the agreements have been principle-centered (all extremely valid) and amendments or additional agreements have been further refinements of the principles. What these agreements, with the exception of the semiconductor agreement, have lacked are effective measures and monitoring mechanisms to ensure success. These agreements need to be implemented and strengthened with effective measures for success and procedures establishing accountability and monitoring to ensure effective implementation.

Expected Outcomes:

- Implement the agreements consistent with their intent, resulting in steady and substantial increase in U.S./foreign firms' sales and shares commensurate with their global competitiveness.

- Apply any gains made in the framework, particularly in government procurement, that provide for greater accountability and monitoring to each of the agreements through technical amendments process.

- Vigorously pursue continued focus and enforcement of these agreements.

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American Electronics Association

Blueprint for Progress

	Government Procurement	Regulatory Reform	Other Major Sectors	Economic Harmonization	Existing Agreements
Issue	Japan does not practice open and non-discriminatory procurement	Japan maintains a number of regulations that inhibit market development	Electronics and autos comprise the trade deficit; electronics also a priority	IP: Inadequate protection L-term Buyer-Supplier: exclusionary practices	Inadequate Results; Little accountability
Expected Outcome	Effective Benchmarks; Increase in foreign firms' sales/shares; Early intervention and effective dispute resolution	Elimination of market inhibiting regulations; Growth in market opportunities; Effective benchmarks and increase in foreign firms' sales	Establish Electronics as Priority; Create Electronics Work Group; Effective benchmarks	Benchmarks for patent issuance; Pre-grant to post-grant; Incr. patent staff; End Japanese govt. tolerance of exclusionary practices	Full compliance; Effective Benchmarks; Technical Amendments as appropriate
Affected Sectors	Telecomm; Med. Electronics; Computers; Supercomputers; Satellites	Telecomm; Med. Electronics; Computers; Supercomputers; Satellites	Telecomm; Med. Electronics; Computers; Supercomputers; Satellites	Telecomm; Med. Electronics; Computers; Supercomputers; Satellites	Telecomm; Med. Electronics; Computers; Supercomputers; Satellites

PREPARED STATEMENT OF MAUREEN R. SMITH

Thank you Mr. Chairman for the opportunity to testify on the market access problems of the U.S. forest products industry in Japan. The AFPA is grateful to you and to the Committee for your past and continuing support for our efforts to open Japanese markets to U.S. forest products exports.

I am testifying today on behalf of the American Forest and Paper Association (AFPA), an organization with approximately 550 member companies and related trade associations (whose membership is in the thousands). Our members grow, harvest, and process wood and wood fiber; they manufacture pulp, paper and paperboard products from both virgin and recovered fiber and they produce solid wood products.

With annual shipments of approximately $200 billion annually, the forest products industry accounts for 7 percent of U.S. manufacturing output. With an annual payroll of $46 billion, the industry employs some 1.4 million people, and ranks among the top 10 employers in 46 states. With exports of $17 billion in 1992, the industry makes an important—position—contribution to the U.S. balance of payments.

Exports are vital to the forest and paper industry. For the last five years, upwards of 50 percent of the growth in output for both wood and paper products has been attributable to exports. This, in turn, has enabled us to maintain domestic employment levels, despite the recession in the overall U.S. economy.

In order to maintain strong export growth, our industry is committed to aggressively developing foreign markets, and supporting initiatives by our government to remove trade barriers to our exports.

Japan is a priority export market for our industry. The total Japanese market for paper and allied products, at approximately $60 billion, ranks it second among world markets. By the same token, the Japanese wood products market, at $27 billion, ranks third in the world.

However, tariff and non-tariff barriers, including "invisible" barriers embedded in the Japanese business system, have restricted the ability of U.S. suppliers of paper and wood products to sell in the Japanese market.

In recognition of both the significance of this potential market, and the substantial barriers to U.S. participation, the U.S. and Japanese governments have concluded two specific market access agreements in the forest products sector—a 1990 Wood Products Agreement and a 1992 Paper Products Agreement.

U.S. paper and wood products companies have expended significant time and resources in penetrating the Japanese market. The trade agreements in the forest products sectors are a beginning on the road to improved market access in Japan. However, significant Japanese barriers remain. To date neither the paper nor the wood agreement has yielded measurable results to indicate that Japanese purchasing behavior has changed since the conclusion of the agreements. AFPA strongly supports the Administration's new Framework for Economic Development talks with Japan.

- We strongly support the priority which has been accorded the "compliance with existing agreements" negotiations. Clearly, there are serious difficulties on this score on both the wood and paper side.
- We strongly support the Administration's use of "objective criteria" to measure Japanese performance, as the most effective way to produce the market-driven changes we need.
- We strongly support the discussions on buyer-supplier relationships. Despite well-documented efforts by our companies, we still have not been able to penetrate a system which is not merely benignly complex but which is clearly exclusionary.
- Finally, we strongly support the discussions of anti-competitive practices. Clearly, the continuing existence and arguable toleration of these practices is the foundation of the incredibly low import penetration ratios for paper and wood products in Japan—a country which is clearly deficient in the resource base which would justify reliance on domestic products in these industries.

Following are separate discussions of the wood and paper market access agreements with Japan.

THE WOOD PRODUCTS AGREEMENT

Overview. The United States-Japan Wood Products Agreement was concluded on July 15, 1990. Its goal was to improve substantially U.S. access to the Japanese wood products market by:

- reducing or eliminating Japanese tariff barriers (particularly on value-added wood products), discriminatory standards and certification procedures,
- modifying prescriptive Japanese building and fire codes to increase the use of wood products in construction projects, and
- developing a framework to assure further liberalization of Japan's wood products market.

In the three years since the Agreement was concluded, AFPA has publicly applauded the diligence, speed, and thoroughness with which the Japanese Government has sought to implement the letter of the Agreement. Despite these efforts and some successes, meaningful progress toward fully opening the Japanese wood products market has not been realized.

I. BACKGROUND OF THE UNITED STATES-JAPAN WOOD PRODUCTS AGREEMENT

The U.S. wood products industry is one of the world's most efficient; it is internationally competitive in products, quality and price. Despite this, U.S. industry found itself unable to compete effectively in the Japanese market. For example, although U.S. mills produce value-added wood products more cost-efficiently than their Japanese counterparts, Japan's imports of raw materials from the United States (i.e., logs and chips) were more than double its imports of U.S. value-added products. Also, despite a marked preference among Japanese consumers for the use of wood products in construction, wood product usage was limited.

An investigation into the reasons why Japanese imports of U.S. wood products were lower than free market conditions and consumer preference would dictate revealed that:

- Japanese tariffs were disproportionately higher on value-added products than on raw materials,
- Japanese building and fire codes impeded, without technical justification, the use of wood products in construction,
- Japanese standards and certification procedures discriminated against U.S. products, and
- Japanese Government subsidies sustained otherwise uncompetitive wood products operations.

II. SUBSTANCE OF THE AGREEMENT

The Wood Products Agreement seeks to eliminate Japanese Government practices that distort the market for U.S. wood product imports. It provides for:

- the reduction or elimination of "high tariffs, tariff peaks, and tariff escalation,"
- the correction of tariff misclassifications of several important products,
- the modification of building and fire codes to permit greater usage of wood products,
- the revision of Japanese Agricultural Standards ("JAS") and Japanese Industrial Standards ("JIS") to create performance-based requirements allowing for the use of wood products where their performance is equivalent to other materials,
- the simplification and modification of certification processes in order to permit acceptance of overseas inspection data and timely review of applications,
- a Japanese commitment to make its government subsidies consistent with the General Agreement on Tariffs and Trade ("GATT") and the OECD Statement on Positive Adjustment Policies of 1982, and
- the establishment of a Wood Products Subcommittee to review implementation of the Agreement and progress toward facilitating trade in and the increased use of U.S. wood products.

III. MEASURING PROGRESS UNDER THE AGREEMENT

The Japanese Government appears to be making efforts to implement the specific provisions of the Wood Products Agreement. Unfortunately, the absence of objective standards for measuring progress under the Agreement makes it difficult to demonstrate whether the Agreement is achieving its underlying purpose of reducing trade barriers and improving market access for U.S. wood products.

Specific, objective benchmarks for measuring progress under the Agreement are needed and should be adopted without delay. Seven such benchmarks, and the progress that has been made in terms of each, are summarized below (they are explained in greater detail in Attachment No. 1 to this testimony).

1. *Progress in eliminating the higher tariffs imposed on value-added products.* To date, no progress has been made: Raw materials (logs and chips) continue to enter Japan duty free, while a duty of from 8 to 15 percent is imposed on plywood and certain types of lumber. The Commerce Department calculates that the effective rate of protection (ERP) for plywood resulting from this tariff escalation is the equivalent of a 26.6 percent tariff on value-added products. (Attachment No. 2 provides an expanded explanation of Japanese tariffs).

2. *Progress in bringing into balance imports of raw materials and value-added products.* Progress toward this goal could be measured in several ways. One is to compare the respective amounts of raw material and value-added U.S. imports into Japan. When the Wood Products Agreement was negotiated, raw materials constituted 70 percent of Japanese wood product imports from the United States; value-added products constituted the other 30 percent. Since the Agreement was concluded, the percentage of value-added imports from the United States has declined significantly.

3. *Progress in increasing the consumption of wood products in the context of overall economic activity.* This measure can help identify whether non-tariff barriers, such as standards in the construction industry, continue to discriminate against wood products. At least in the housing industry, the ratio of wood housing starts to all housing starts increased between 1989 and 1992. Unfortunately, during the same period, wood consumption overall declined in Japan.

4. *Progress in limiting and reducing subsidies.* Because government subsidies can be readily identified, progress in limiting them is easily measured and has been very disappointing: In the three years since the Wood Products Agreement was signed, subsidies have more than doubled. Preliminary analyses also show that many of Japan's subsidy programs do not appear to be consistent with the OECD Statement on Positive Adjustment Policies, by which the Japanese Government agreed to be bound.

5. *Progress in improving the efficacy of standards and certification procedures.* An initial review of Japan's efforts to facilitate the introduction and certification of new products, foreign testing organizations (FTO's), and U.S. mills (authorized to apply the "JAS" stamp) reveals mixed results.

- Although some new product certifications have been issued to U.S. firms, other requested certifications have been inexplicably delayed by up to a year or more.
- Both American associations that applied were granted FTO designations by the Japanese Government.
- The number of U.S. mills that are JAS certified increased from 8 in 1989 to 24 in 1992. Unfortunately, the time for receiving certification exceeded that which was spelled out in the Agreement and these certifications have not necessarily resulted in increased exports.

6. *Progress in correction tariff misclassifications.* Although Japan has corrected the classification of certain wood products (i.e., Glulam, laminated veneer lumber, and tongued and grooved glue-laminated lumber), other misclassification problems remain. For example, misclassification of laminated posts results in a 15–20 percent tariff on these products.

7. *Progress in implementing the spirit as well as the letter of the Agreement.* The effectiveness of the Agreement also can be measured in terms of additional actions Japan takes toward furthering the Agreement's goal of opening its market to imports of U.S. wood products. Unfortunately, the Japanese Government has shown little initiative in this respect and has missed several opportunities to illustrate its interest in abiding by the spirit of the Agreement.

IV. CONCLUSION

Japan has made some progress in implementing the letter of the Wood Products Agreement. Regrettably, many of the trade barriers that prompted conclusion of the Agreement in 1990 remain or have worsened:

- tariffs on value-added wood products have not been reduced significantly,
- Japan's imports of U.S. value-added wood products have not increased relative to its imports of U.S. raw materials, and
- subsidies have increased substantially.

A mechanism for measuring progress in these and other areas must be put in place to assure that progress is made.

THE PAPER AGREEMENT

The U.S. is the world's largest producer of pulp, paper and paperboard. With annual sales of $128 billion, it is among the nation's top ten manufacturing industries. As a result of massive capital expenditures devoted to modernization and environmental improvements, the U.S. paper industry today ranks among the most competitive in the world.

Exports have served as the major engine of demand growth in recent years—exports accounted for 60 percent of the growth in paper, paperboard and market pulp production from 1987 through 1992. Measured another way, exports of these products worldwide increased by a total of 56 percent over the same period.

Access to the Japanese market is of crucial importance to the U.S. paper industry. After the U.S., Japan is the world's second largest producer and consumer of paper and paperboard. Japanese paper consumption is expected to grow at twice the U.S. rate into the next decade. Yet, import penetration in Japan is the smallest in the world. In 1992, paper and paper products imports from all sources accounted for 3.7 percent of Japanese paper and paperboard consumption and imports from the U.S. represented 1.8 percent of consumption. Comparable figures for import penetration of Europe and the U.S. are 30 percent and 14 percent, respectively. This situation is especially troublesome considering that Japan clearly does not have the resource base which would justify reliance on domestic products.

Japan's government and its paper industry have argued that imports are low because of Japan's distance from major paper and paperboard exporting countries. However, Australia, which is just as remote, imports some 30 percent of the paper and paperboard it uses.

While Japanese tariffs on most paper products have been sharply reduced in the past decade through bilateral negotiations, the U.S. paper industry seeks the elimination of all remaining Japanese tariffs on paper products. The U.S. industry believes that tariffs send a signal to the market that the Japanese paper industry needs protection.

Beyond tariffs, the U.S. paper industry believes that an array of systemic business practices deter paper imports. Some of these barriers are:

- A complex and largely closed distribution system,
- Interlocking relationships between members of the same keiretsu, or corporate family, which include manufacturers, agents, wholesalers, trading companies, printers, publishers or other end users, and financial institutions. (These relationships result in exclusionary business practices restricting the entry of new suppliers, including imports),
- A promissory notes payment system that extends from the major banks through manufacturers, distributors, to converters and even major end-users,
- Preferential bank financing even of uncompetitive companies, and
- A lack of transparency in corporate purchasing practices and inadequate enforcement of anti-monopoly laws.

On April 23, 1992, culminating a year of intense negotiations, the U.S. and Japanese governments signed an agreement on measures to substantially increase market access for foreign firms exporting paper products to Japan (Paper Agreements). The agreement will run for five years. Without explicitly acknowledging that obstacles to market access exist, the Government of Japan made a commitment to undertake a major effort to eliminate them.

Under the Paper Agreement, the Japanese government committed to encourage Japanese:

- distributors, converters, printers and major corporate users of paper products to (i) increase their use of imported paper products and (ii) adopt and implement open and non-discriminatory purchasing practices, and
- paper and paperboard producers, distributors, converters and printers to establish and implement internal Anti-Monopoly Act compliance programs.

The most difficult part of the negotiations was to secure agreement from the Japanese government that they would go beyond distributors and intermediate users—such as printers and box makers—and encourage purchases of imported paper by end users, e.g. Toshiba, Matsushita, Toyota, which use paper for brochures and packaging paperboard for shipping and selling their products in Japan and around the world.

Concurrent with the Paper Agreement, the Japan Fair Trade Commission (JFTC) undertook a study of the paper distribution system. The JFTC report on the paper industry was released in June. While it does not identify specific, actionable violations of the Anti-Monopoly Act, it does cite certain aspects of the paper distribution system which it found to be problematic. These include:

- capital relationships between manufacturers, distributors and wholesalers that seem to strengthen business ties,
- the use of oral agreements to determine the terms of a transaction,
- traditional after-sales price adjustment.

Considering its traditionally benign relationship with Japanese industry, it is not surprising that the JFTC report does not point to any specific noncompetitive actions by the Japanese paper industry. Moreover, the report glazes over the role of the promissory note payment system which U.S. companies believe provides Japanese paper suppliers an opportunity to exert strong influence on the business decisions of their customers. The report also fails to discuss the issue of intra-keiretsu business relationships and the role of the major Japanese banks in these business groupings.

The Paper Agreement's objective is to increase substantially market access for imported paper and paperboard in Japan. There have been some positive developments since the Agreement was concluded, with several U.S. paper companies reporting somewhat increased contacts with Japanese distributors and end users. However, overall, there has been no meaningful increase in the level of Japanese imports of paper products. Quite the contrary: For the first half of 1993, apparent Japanese consumption of paper products declined by 2 percent. At the same time, however, paper imports declined by 3.9 percent and imports from the U.S. were off by 5 percent.

Looking at the experiences of U.S. paper companies in the past year, it becomes apparent that many of the trade obstacles which were identified prior to the Agreement persist today. In addition to the systemic market access obstacles previously identified by U.S. companies, they report encountering the following specific obstacles:

- In the current depressed business environment, Japanese distributors and users are particularly reluctant to carry or use imported paper so as not to undermine domestic manufacturers,
- Some potential Japanese customers provide vague or unreasonable quality requirements and overly rigid or irrelevant product specifications,
- Paper samples shipped by U.S. suppliers tend to be subject to very long trial periods and, at times, specifications are changed even after paper samples undergo a trial,
- Some companies also report misleading communication about how buying decisions are made and who actually makes them.

The Paper Agreement also calls for U.S. paper producers to make intensive efforts to seek and pursue opportunities to promote their products in the Japanese market. Even before the April 1992 agreement, U.S. companies had expended significant resources and effort to penetrate the Japanese market. About a dozen U.S. paper companies have offices in Japan staffed by experienced local personnel. Sales efforts have been significantly expanded since the agreement.

The Paper Agreement created a semi-annual review process intended to measure progress toward achieving market access commitments made under the agreement. The third such review took place this past September. Since the Japanese government refused to agree to the inclusion in the Paper Agreement of any specific, quantifiable targets for U.S. sales, significant time in these review sessions has been dedicated to such subjects as the number of telephone calls and other performance measures of U.S. paper companies trying to sell in Japan. On the other hand, to our knowledge, the Japanese Government has not provided a specific account of the status of individual company programs to ensure compliance with the Anti-Monopoly Act.

While the Paper Agreement does not call for any specific market share for imported paper and paperboard, the key yardstick for success will be actual performance in the marketplace. For this reason, the industry welcomed the Clinton Administration's June 1993 agreement establishing a new Framework for trade negotiations with Japan, including the development of "objective criteria" or benchmarks to measure progress in expanding access to the Japanese market. We believe that the development of benchmarks for sales performance in the Japanese market represents the best way to meet the goals of the Paper Agreement. Although the paper industry has not developed specific proposals for measurable benchmarks, progress under the Paper Agreement could be measured against such quantitative criteria as:

- Measurable increase in the volume of paper imports,
- Measurable increase in the market share of imported paper.
- Progress toward achievement of import penetration ratios which are more in conformance with norms for other developed, industrialized economies.

In addition, there are certain qualitative criteria that could be set up to measure progress toward improving U.S. access to the Japanese paper market, including:

- Increased number of direct relationships with end-users,
- Creation of a formal mechanism for monitoring progress on paper imports and reporting such information,
- Developing meaningful incentives for distributors, intermediate and end users to use imported paper,
- Developing a program providing importers tax credit to encourage large orders and to help imported products compete on service (just-in-time deliveries),
- Increased number of investigations into pricing, financing and other business activities in the Japanese paper sector with a view of correcting those practices which hinder imports,
- Assisting in establishment of warehousing in port areas dedicated to imports and expanding the number of free storage days provided by Japanese ports.

AFPA believes that the establishment of such benchmarks would reinforce the existing Paper Agreement and lead to measurable improvement in the import penetration of the Japanese paper market. For their part, U.S. paper companies are committed to meet the service, quality and performance requirements of the Japanese paper market.

Attachment.

September 13, 1993 **ATTACHMENT ONE**

MARKET ACCESS FOR WOOD PRODUCTS IN JAPAN:

MONITORING THE
UNITED STATES-JAPAN WOOD PRODUCTS AGREEMENT

I. Introduction

In May 1989, the U.S. Trade Representative identified restrictions on Japan's wood products market as priority practices for trade liberalization under Section 310 of the Trade Act of 1974. As a result, the United States and Japan entered into negotiations to liberalize that market. Those negotiations culminated in the United States-Japan Wood Products Agreement ("Wood Products Agreement" or the "Agreement") on July 15, 1990.

That Agreement aimed to improve substantially access to the Japanese wood products market by (1) the reduction or elimination of: tariff barriers (particularly on value-added wood products), subsidies, and discriminatory standards and certification procedures; (2) the modification of prescriptive building and fire codes to increase the usage of wood products in construction projects; and (3) the development of a framework to ensure further liberalization of Japan's wood products market.

Although progress has been made by Japan in implementing the letter of the Agreement, by evaluating Japan's implementation of the Agreement in terms of objective benchmarks related to the Agreement's goals, it becomes apparent that many of the trade obstacles which led to the identification of barriers to Japan's wood products market as priority practices for trade liberalization persist. Tariff escalation on value-added wood products has not been significantly reduced; the share of value-added wood products imported from the United States has not improved; subsidies have increased substantially, and other barriers remain.

II. Benchmarks to Measure Success of Wood Products Agreement

To evaluate whether Japan is fulfilling its obligations to implement fully the Agreement, benchmarks related to the Agreement's goals and the nature of the barriers should be established and monitored. Benchmarks could include:

- Whether the discrepancy in the effective rate of tariff protection between value-added products and raw materials has been eliminated;

- Whether the ratio of imports of value-added products has increased significantly or is comparable to the ratio in other markets;

- Whether the relative consumption of wood products in construction has increased or is comparable to the ratio in other markets;

- Whether subsidization of the Japanese wood products industry has been significantly reduced;

- Whether the number of certifications and FTO organizations approved have steadily and significantly increased and whether approval has occurred in a timely manner;

- Whether imports from FTO certified mills have steadily and significantly increased; and

- Whether significant restrictions not explicitly covered by the Agreement have been successfully redressed.

III. Background: Barriers to Trade Which Necessitated the 1990 Wood Products Agreement

Although the U.S. wood products industry was and is considered among the world's most efficient and is competitive in products, quality and price, it has been unable to compete fully and fairly in the Japanese wood products market. In 1989, when restrictions in Japan's wood products market were identified as priority practices for liberalization, there were several indicia of the effectiveness of those restrictions:

- While Japan was the leading importer of U.S. wood products, imports were at levels far below what they should have been absent trade barriers.

- Approximately 70 percent of Japan's solid wood product imports from the United States consisted of raw materials (i.e. logs or chips). As U.S. mills were more cost competitive, this strongly suggested that barriers inhibited Japanese imports of value-added products.[1]

- Although there was a marked preference by Japanese consumers for the use of wood products in construction,[2] wood products usage was limited.

These problems were the result of several types of trade barriers, including, inter alia:

- Japanese tariffs and tariff escalation, whereby the GOJ provided disproportionately high protection to Japan's wood processing industry although it was recognized as non-competitive on a cost basis.

- Restrictive and obsolete building and fire codes which impeded, without technical justification, the use of wood products in construction projects.

- Restrictive and discriminatory standards and certification procedures which limited the U.S. industry's access to the Japanese market.

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[1] While U.S. timber costs have increased significantly since that time, such costs fall on both value-added products and raw materials. In fact, on a percentage basis, their effect is greater on raw materials. Thus, this cost increase cannot explain the relative lack of progress in this regard. Increased wood costs do, however, make the elimination of wood products tariffs in the Uruguay Round increasingly important.

[2] For example, a 1986 survey by the Japanese Prime Minister's office showed that over 80 percent of Japanese consumers preferred wood building materials. Japanese Government Survey (1986), published in Recent Situation of Wooden Houses and Buildings, Japanese Ministry of Construction (1988); see also United States Foreign Agricultural Service, The Markets for Lumber and Plywood in Japan (May 1986).

- Subsidization, through which the GOJ maintained and fostered otherwise uncompetitive wood products operations.[3]

In order to mitigate these barriers and increase access to the Japanese wood products market by the U.S. industry, the United States and Japan negotiated the Wood Products Agreement which provided for:

- the reduction or elimination of "high tariffs, tariff peaks, and tariff escalation" through the Uruguay Round;[4]
- the elimination of tariff misclassification on several important product lines;[5]
- the modification of building and fire codes to permit greater usage of wood products;[6]
- the revision of Japanese Agricultural Standards ("JAS") and Japanese Industrial Standards ("JIS") to create performance-based requirements to allow the use of wood products where their performance is equivalent to other materials;[7]
- the simplification and modification of the certification processes to allow the acceptance of oversees inspection data and to ensure timely review of applications;[8]
- the commitment of the GOJ that all existing and future subsidies will be consistent with the General Agreement on Tariffs and Trade ("GATT") and the OECD Statement on Positive Adjustment Policies of 1982;[9] and
- the establishment of the Wood Products Subcommittee to review the implementation of the Agreement and for the purpose of "facilitating trade in wood products as well as the increased use of wood products."[10]

The question at this time is whether these liberalizations have had the desired effects or whether other barriers continue to inhibit wood imports and consumption.

IV. Possible Benchmarks for Measuring Progress in Japanese Imports of Wood Products and a Preliminary Assessment

Although there appears to be progress with respect to Japan's implementation of the specific terms of the Wood Products Agreement, there has been little objective review of whether the underlying goals of the Agreement are being achieved. In order to evaluate the effectiveness of the GOJ's activities in this

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3 For a discussion of the barriers to wood products trade in Japan, see generally U.S. Department of Commerce, The Japanese Solid Wood Products Market: Profile and Outlook (April 1989).

4 Wood Products Agreement, § I ("Tariffs").

5 Id. at § IV ("Classification of Laminated Wood Products").

6 Id. at § II ("Building Standards").

7 Id. at §§ II and III ("Japanese Agricultural Standards").

8 Id.

9 Id. at § VI ("Subsidies").

10 Id. at § V.B.1. ("Establishment of Wood Products Subcommittee").

regard, specific and objective benchmarks should be set and monitored. There are a number of benchmarks that could be used to assess the performance of the Agreement, focusing in particular on the original indicia of a problem, the goals for the Agreement and the specific type of barriers addressed.

A. Effective Rate of Protection on Wood Products Imports

One of the strongest border measures deterring increased value-added wood products exports to Japan is the higher degree of tariff protection afforded value-added wood product production in Japan relative to the degree of protection afforded raw materials (logs and wood chips). This artificially encourages processing in Japan by otherwise less efficient processors. This differential can be seen in the effective rates of protection (ERP) enjoyed by the value-added products.[11]

Eliminating the ERP afforded value-added products -- a goal underlying the Super 301 effort -- would result in an increasing share of such products as a percent of total wood products imports by Japan. This can be achieved by eliminating the tariff on value-added products.

To date, no progress has been made in the elimination of tariffs or of the ERP afforded to value-added wood products.

B. Ratio of Value-Added Wood Products Imports to Various Related Measures of Consumption

To assess progress toward greater value-added wood products imports into Japan, a benchmark could be established requiring that the ratio of such imports to various other indicators increases over time until it reaches a reasonable level. Imports of U.S. value-added wood products could be compared to:

- Total U.S. wood products imports into Japan.
- Japanese gross domestic product (GDP).

Possible objectives against which progress of these ratios are measured could be:

- Comparable ratios for other importers with comparable forest resources (e.g., Korea).
- A specific growth rate in the ratio itself (e.g., 5 percent improvement of the ratio per year).

Japan's value-added wood product imports from the United States decreased between 1989 and 1992. In absolute terms, the value of value-added wood product imports from the United States fell by 13.56 percent. Moreover, and of greater concern in terms of the purpose of the Agreement, such value-added imports fell as a percentage of total U.S. wood product imports into Japan during the same period.

The decline in the ratio of U.S. value-added imports to wood product imports into Japan is in marked contrast to the U.S. industry's performance in the rest of the world where U.S. exports of value-added products as a share of total U.S. wood

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[11] Logs and chips enter duty-free, while plywood and some lumber generally enter under a 8 to 15 percent duty. The ERP on value-added wood products is two to three times the nominal duty. For plywood, the Commerce Department calculated the ERP as the equivalent of a 26.5 percent tariff.

products exports increased 9.58 percent between 1989 and 1992. Moreover, the absolute value of U.S. wood product exports to the rest of the world increased by 38.50 percent during the 1989-1992 period.

These data indicate that no relative progress has been made in actually opening the Japanese market to value-added wood product imports from the United States.

C. Ratio of Wood Products Consumption to Various Measures of Economic Activity

To assess progress on non-border measures such as standards and codes, the ratio of wood products (both domestic and imported) consumption to indicators of economic activity could be tracked. Some potential indicators are:

- Wood consumption as a share of gross domestic product.
- Wood consumption per capita.
- Share of wood housing and commercial construction starts.

Possible objectives against which progress of these ratios are measured could be:

- Comparable ratios for other industrialized economies (such the OECD average).
- A specific growth rate in the ratio itself (e.g., 5 percent improvement of the ratio per year).

A preliminary review of these data show that although wood consumption in Japan has declined since 1989, some progress has been made in increasing relative wood product consumption in at least the housing industry. For example, the ratio of wood housing starts to all housing starts has increased between 1989 and 1992 when measured both in terms of units and square footage of starts.

D. Subsidy Levels

To monitor the Agreement's success in limiting and reducing subsidies, the primary benchmark that could be used is an absolute measure of the level of subsidies provided to the Japanese wood products industry over time to determine whether subsidies have increased, decreased, or effectively remained the same since the signing of the Agreement. On a qualitative basis, this analysis could also include a determination of whether the subsidization is inconsistent with the GATT or the OECD provisions by which the GOJ agreed to abide.

According to official Japanese sources, the Japanese forest industry has received the following level of subsidies from the GOJ since 1985:

Total Subsidies Provided by the Forestry Agency[12]

Year	Total (yen)	Total (dollars)[13]
1985	159,003,090,000	666,568,000
1986	311,748,320,000	1,849,919,000
1987	307,950,144,000	2,129,080,000
1988	301,800,840,000	2,355,059,000
1989	N/A	N/A
1990	167,176,109,000	1,154,611,000
1991	306,003,380,000	2,271,571,000
1992	356,757,452,000	2,854,060,000

Based on this information, the GOJ has not reduced the level of subsidies offered to the wood products industry since the signing of the Agreement. In fact, GOJ has substantially increased its subsidization of that industry. A preliminary analysis of Japan's subsidy programs indicates that many do not appear to be consistent with the OECD Statement on Positive Adjustment Policies of 1982 by which the GOJ agreed to be bound.

E. Standards and Certification

In addition to reviewing whether specific standards have been modified as required by the terms of the Agreement, the efficacy of the standards and certification terms of the Agreement can be evaluated by asking:

- whether significant numbers of certification of new products, mills (the ability to apply the JAS stamp), and foreign testing organizations ("FTOs") have been granted;
- whether certifications and FTO status have been granted within the time limits specified in the Agreement; and
- whether JAS mill certifications have indeed increased imports from certified companies.

A preliminary review of Japan's efforts to facilitate the introduction and certification of new products, FTO's and U.S. mills reveals mixed results.

Although some new product certifications have been approved, other requested certifications by U.S. firms have been delayed up to a year or more without adequate explanations. Wooden I beams, for example, have been certified at the request of a U.S. company. The time frame for certification was, however, greater than specified by the Agreement. Certification of fire doors was also delayed, as has been the certification of wooden windows.

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12 Source: Ministry of Finance Budget Bureau, Government of Japan, Hojokin Soran 296-317, 454-55, 466-67, 522-24 (1986); Hojokin Soran 286-307, 482-83, 494, 547-48 (1987); Hojokin Soran 326-51, 554-57, 571, 635-38 (year not reported) (translated from Japanese). Note that subsidy figures for 1989 were not available at the time of this writing.

13 U.S. dollar equivalents based on the following annual exchange rates: ¥238.53/$1 (1985); ¥168.52/$1 (1986); ¥144.64/$1 (1987); ¥128.15/$1 (1988); ¥144.79/$1 (1990); ¥134.71/$1 (1991). International Financial Statistics, Japan - Average Period Market Rates (Nov. 1992). An estimated average of ¥125/$1 was used for 1992.

With respect to FTO's, the GOJ has granted approval to both American associations which applied for designation as a FTO's for a variety of products: American Plywood Association ("APA") and Western Wood Products Association ("WWPA").[14]

Additionally, there has been a marked increase in the number of JAS certified mills in the United States since 1989. At the end of 1989, only 8 U.S. mills were JAS certified. By 1992, this number had increased to a total of 24 mills. Yet, the certifications granted have not been as effective as expected. For example, while 11 U.S. plywood mills have been JAS certified as of August 1993, plywood exports to Japan are relatively stagnant and account for only .07 percent of U.S. wood products exports. Moreover, the time for certification of new mills still exceeds that envisioned by the Agreement.

In sum, Japan has made some progress in this area, although this progress should continue.

F. Tariff Misclassification

An evaluation of the Agreement should also encompass review of Japan's classification of wood products imports for tariff purposes. Under the Agreement, Japan agreed to reclassify certain wood products that had been misclassified (i.e., Glulam, laminated veneer lumber, and tongued and grooved glue-laminated lumber). Although these products have apparently been properly classified, there still remain other tariff misclassification problems that were not specifically covered by the Agreement.

Japan has not, for example, modified its laws to reclassify at least two products: laminated posts remain misclassified at a 15-20 percent tariff; we are also question the classification of non-structural laminated products which carry a 20 percent tariff.

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[14] The APA is designated as an FTO for the following types of forest products:

Approval Date	Type of Product
July 25, 1989	Structural Panel, Plywood (only structural)
April 26, 1991	Structural Glued Laminated Timber (only Structural Glued with Large Dimension)
March 31, 1993	Flooring, Structural Finger Jointed Lumber for Platform Construction, Plywood (regular), LVL, Glue-Laminated Timber

The WWPA is designated as an FTO for the following types of forest products:

Approval Date	Type of Product
Nov. 29, 1991	Sawn Lumber (only Machine Stress Rated Structural Lumber for Wood-Frame Construction)
Mar. 2, 1992	Sawn Lumber (only Structural Lumber for Wood-Frame Construction)

G. Other Efforts to Liberalize Market Access

Finally, monitoring should encompass a review of additional actions by the GOJ toward the opening of its wood products market which are not specifically required under the Agreement. Modification of JAS and JIS standards and building and fire codes not expressly covered by the Agreement which would permit increased usage of wood products, for example, would evidence Japan's implementation of the Agreement's goal of promoting other efforts to improve market access.

A cursory review of Japan's other actions with regard to its wood products market preliminarily indicates that little progress outside the express language of the Agreement has been made. For example, while modifying codes to permit the construction of three-story, multi-family wood frame structures, as required under the Agreement, the Japanese Ministry of Construction ("MOC") rejected U.S. industry proposals to permit the construction of parking garages under such three-story structures and serious negotiations on four-story structures have not occurred.

Additionally, after modifying some of its building and fire codes as required under the express terms of the Agreement, the MOC, established a special fire proof category, subdividing wood frame construction and other types of construction. As yet, there is no guarantee that wood frame construction will receive equivalent treatment based on an evaluation of performance-based factors alone.

Moreover, there remain high distribution and construction management-related costs for wood products in Japan which reduce the competitiveness of wood frame structures in general and further impede market access by the U.S. industry. This issue has not been addressed by the GOJ.

These examples suggest that additional efforts to foster market access are not being made to an appropriate degree and, in fact, that significant restrictions are being placed on the efforts expressly required under the terms of the Agreement.

V. Action Necessary to Ensure Effective Implementation of the Wood Products Agreement

The Japanese wood products market has not been fully opened when measured against the goals of the Agreement and the types of barriers identified.

Access to the Japanese wood products market should, therefore, be highlighted within the context of the recently established United States-Japan Framework for a New Economic Partnership.

Specifically, the monitoring of this Agreement should be named as a priority area on which the USG and GOJ meet to discuss benchmarks to ensure its successful implementation.

As supplemental analysis demonstrates, the benchmarks discussed above provide an objective and realistic basis to evaluate Japan's current and future progress in its implementation of this Agreement and demonstrate the need for further liberalization.

PREPARED STATEMENT OF JOAN E. SPERO

Thank you Mr. Chairman. I appreciate this opportunity to testify with my colleagues before you again today. I believe it is crucial that we maintain close consultations with the Congress as we pursue our economic objectives with Japan. The scope of this Administration's approach to our economic relationship with Japan is unprecedented. It is key that we coordinate each step of the way.

FRAMEWORK OBJECTIVES

Our goal under the Framework for a New Economic Partnership is to achieve reform in Japan's economy and correct the persistent trade imbalances that strain our vital strategic and political relationship. Our approach is comprehensive, aimed at addressing macroeconomic imbalances; reducing sectoral and structural barriers; and cooperating on important global issues such as environmental protection and AIDS prevention. It is GATT-consistent, and will be implemented on an MFN basis. And it will, I assure you, be implemented so as to produce results.

We have insisted on measurable progress, and will develop qualitative and quantitative indicators for this purpose. We do not seek to manage trade. We seek to open opportunities for trade. In many areas of the Japanese economy, with its legacy of government involvement, increasing trade opportunities requires government action.

Our primary objective under the Framework is to integrate Japan more fully into the international economic system, so that it will meet its responsibility to contribute to, and not just benefit from, open global markets. As you know, Japan's mix of policies and trade barriers produces a persistently high current account surplus, which serves as a drag on world economic growth and impedes improvements in the lifestyle of Japan's citizens. Japan has a strikingly low level of manufactured imports to GNP. And Japan also has by far the lowest level of inward direct investment of the OECD countries.

MACROECONOMIC REFORM

To remedy this situation, Japan needs to undertake a broad range of reforms at both the macro and micro level. Under the Framework, Japan has committed to promote strong and sustainable domestic demand-led growth intended to contribute to world growth and achieve a significant decrease in its current account surplus. Deputy Secretary Altman has described to you the macroeconomic situation in Japan, including weak private domestic demand due to falling consumption and private investment. Weak domestic demand will limit the reduction of the current account surplus that should have resulted from yen appreciation. The Hosokawa Government's macro stimulus efforts were a good step, but it is our opinion that Japan should implement a tax reform package that will stimulate consumption and boost economic growth.

DEREGULATION

At the micro, or sectoral level, Japan has also committed to significant market-opening measures under the Framework. Ambassador Barshefsky has commented already on our goals in this area, which address problems that in many cases are longstanding and corrosive. Much of what we seek is consistent with the Hosokawa Government's commitment to deregulation and improved market access for imports. The scope for reform is enormous. Even the new MITI Minister has publicly acknowledged that "invisible" barriers and collusive business practices keep Japan's markets relatively closed.

The Hosokawa government has stated that it is committed to reducing regulation in the Japanese economy in the interest of Japanese business and consumers. A Keidanren report stated that "Japan has considerably more regulations on business than most other countries." In September, the Japanese Government announced a package of 94 deregulation initiatives. While the large number of proposals was impressive, we found that most of them cater to domestic interests. Few would improve foreign market access or stimulate domestic consumption. Of course, this process is not over.

The Japanese Prime Minister has asked an independent committee, the Hiraiwa Commission, to recommend by the end of the year more sweeping reforms. Its interim report was due out today; I have not yet learned of its contents. We hope the recommendations of the Hiraiwa Commission will address structural problems in the Japanese economy, especially those which affect international trade. We also hope the Hiraiwa Commission recommendations will be specific and detailed, and that they will lead to action on the part of the Government of Japan. Previous efforts of this type such as the Maekawa Commission have accurately pointed to structural problems and have pointed out the importance of change for the Japanese economy and society. Unfortunately, they have not led to significant change.

It is too early to predict whether the Hiraiwa Commission will make recommendations that advance our Framework goals. However, their recommendations are likely to be implemented over a time period that goes far beyond our Framework time horizon. Since the Framework aims to resolve chronic economic imbalances and market access problems, we cannot wait five years for results. Therefore, achieving meaningful progress under the Framework remains as crucial as ever. The qualitative and quantitative indicators we develop will reflect the progress we achieve, and help to avoid the friction that comes from ambiguity and differing interpretations of our trade agreements.

ECONOMIC HARMONIZATION BASKET

I would like to make some specific comments about the work we intend to pursue under the Harmonization Basket, which I chair. This basket of topics examines broader issues relating to investment, technology and intellectual property flows, and inter-corporate relationships, that affect foreign participation in the Japanese economy.

While our micro and sectoral initiatives should produce results in the near term, increased investment in Japan, more balanced technology flows, improved intellectual property protection, and closer buyer-supplier relationships between U.S. and Japanese firms should improve economic relations over the longer term. The resulting integration will benefit both of our economies, our companies, workers and consumers. I would like to address briefly each of the four areas for which I am responsible, beginning with investment.

INVESTMENT

Although the Japanese Government has removed many of its official restrictions, inward foreign direct investment, or FDI, remains at the lowest level of any OECD country—below one percent of Japan's GNP. By any measure, foreign participation in or "internationalization" of Japan's domestic economy is unusually low by OECD standards. We want to enhance the access of foreign firms into the Japanese business system via investment, and promote foreign participation by making the Japanese system more transparent and open to newcomers.

In today's world, the low level of majority-owned FDI appears to be a significant factor in the low penetration of exports in Japan's market. Intracompany trade is an important channel for manufactured exports among industrialized economies. Increasingly, exporters need a local presence to maintain distribution channels, to make market-specific product adaptations, and to conduct research and development. Thus, the low level of FDI in Japan helps to explain the low level of manufactured imports. Without a greater U.S. business presence in Japan, our exports are unlikely to achieve their full potential.

While Japanese firms have invested heavily in the U.S., resulting in many benefits to our economy, we are disturbed that comparable opportunities are not available in Japan's market. Our main objective is to overcome obstacles to foreign investment, particularly investment to build business infrastructure that will support increased exports to Japan. This includes warehousing and transportation facilities, sales and servicing centers, and research and development facilities to develop components to be designed into Japanese products. We plan to tackle a wide range of questions including tax measures, deregulation and removal of formal barriers, government measures to facilitate foreign mergers and acquisition activity, financing, government investment promotion, and measures to mitigate the high cost of investment, for example, reduction of artificially high land prices.

BUYER-SUPPLIER

Turning to the issue of buyer-supplier relationships, we believe that unique features of Japan's market restrain imports and contribute to its unusually low import penetration ratio, especially in the manufacturing sector. Extensive consultations with U.S. firms in a wide range of sectors has revealed that ingrained buyer-supplier relationships are at the crux of many U.S. firms' inability to break into the Japanese market.

Our principal goal is to facilitate the establishment of durable, commercially viable relationships between foreign suppliers and Japanese firms. Exclusionary buying patterns and other private procurement practices relating to product standards and design-ins hinder foreign firms from developing such relationships. Private procurement practices also inhibit U.S. firms from supplying services such as insurance.

These characteristics of Japan's system may insulate Japan's market from the rest of the world, resulting in higher prices in Japan than in other countries. In principle, such price differentials should enable foreign producers to capitalize on their price competitiveness and sell directly to retailers. In practice, however, the value placed on long-term relationships by Japanese distributors and retailers, combined with a reluctance to offend existing suppliers by carrying competing products, greatly reduces the attractiveness of carrying a new supplier's products solely because they are price competitive.

We have negotiated and worked cooperatively with the Japanese government through the Business Global Partnership and under bilateral sectoral agreements, such as those on semiconductors and paper, to facilitate long-term relationships between U.S. suppliers and Japanese buyers. Japan has undertaken several helpful programs, including providing a list of contact points for foreign suppliers at Japanese companies—which pursue voluntary action plans to increase corporate purchases of imports; establishing foreign access zones for imports; intensifying the work of the Import Board; establishing a debt-guarantee system and credit line to promote imports, and fulfilling sectoral commitments relating to buyer-supplier relations. We want to build further on such efforts.

We intend to monitor and invigorate programs now underway, such as the Business Global Partnership and voluntary corporate procurement action plans. We will ask Japan's Trade Ministry to encourage foreign participation in design-ins and industry-to-industry meetings aimed at fostering buyer-supplier relationships. We have also come to the conclusion, however, that to achieve best results we need to address buyer-supplier relationships in certain specific sectors. We intend to propose to Japan that we choose sectors that will give us an opportunity to address both distribution constraints and design-in of high-tech components.

ACCESS TO TECHNOLOGY

Our approach to technology access begins from the fact that technology flow between the U.S. and Japan is unbalanced. By almost any measure, Japan's private sector enjoys greater technological benefits from our bilateral interaction than does the U.S. private sector. Our goal in these negotiations is to accelerate changes in the U.S.-Japan technology relationship that will move it towards better balance.

Our governments will need to work together to create opportunities and stimulate greater contact between our technology communities. In the past, technology-related discussions between the U.S. and Japanese governments have generally focused on government programs. We may want to take further steps of that sort together. But access to technology is mainly a private sector problem in Japan. We therefore especially want to discuss ways that the U.S. and Japanese governments can work together with our private sectors to address the technology problem.

We are looking at the possibility of pursuing steps such as enhancing the U.S. private sector technology-related R&D presence on the ground in Japan; improving the flow of open-source technical data from Japan to the U.S.; involving the U.S. and Japanese private sectors in stimulating bilateral technology exchanges in critical sectors; increasing access to Japanese technological facilities (both public and private) for U.S. engineers and other members of the U.S. technology community; and seeking changes in Japan's science and technology system that will serve to enhance openness and U.S. access.

INTELLECTUAL PROPERTY

On intellectual property, the fourth and final component of the Economic Harmonization basket, we believe that Japanese intellectual property laws and practices do not provide an adequate level of protection for inventors, creators and innovators, and their assignees.

We are focusing on simplifying the patent application process for foreign firms, reducing the time required by the government of Japan to examine a patent application, increasing the number of examiners employed by the Japanese Patent Office, and helping to reinforce the rights of those seeking patents while they wait for patent application approval. We also want to see broader rights for patent holders in Japan once they have received their patent.

On trademarks, we are working to reduce delays in trademark registration and improve protection for well-known marks. On copyrights, we are working to ensure that the ongoing Japanese computer software protection study does not make recommendations that would reduce protection for our competitive U.S. software suppliers, and to strengthen sound recording rental rights.

As we pursue these four components of the Harmonization basket, we intend to exploit their interlinkages. For example, increased investment opportunities in

Japan could help foster a more balanced, two-way flow of technology. Improved intellectual property protection in Japan would promote cooperation between foreign and Japanese high-tech firms. A greater willingness on the part of Japanese high-tech firms to integrate foreign suppliers into their procurement networks through design-ins would further enhance private cooperation in high-tech sectors.

PROSPECTS FOR PROGRESS

I would like to turn now to an assessment of our prospects for progress under the Framework as we work with a new, reform-oriented Japanese Administration. As you know, by early next year, when the President and Prime Minister are scheduled to meet, we intend to have finished discussions and concluded agreements on autos and auto parts, insurance, and government procurement. Although time is short, we intend to achieve agreements that will lead to results. However, we are negotiating at a time when domestic issues in Japan are commanding the full attention of the political leadership.

POLITICAL REFORM

Japan's political landscape today would have been unimaginable a year ago, or even when I was confirmed in this position seven months ago. The Liberal Democratic Party dropped below a majority in the Lower House of the Diet for the first time since its creation in 1955. Prime Minister Hosokawa comes from a political party he founded just over a year ago. His closest coalition partners are two even newer parties that split off from the LDP this summer.

The infusion of new leadership has changed the style and substance of Japanese politics. This fall, the focus of political life in Tokyo has been political reform; specifically, reform of the electoral system and anti-corruption laws. Under current proposals for the electoral system, the Lower House of the Diet would have 500 seats—composed of a mixture of single seat constituencies and proportional representation. Proposed anti-corruption measures include limiting corporate political contributions, expanding candidates' financial disclosure requirements, and increasing penalties for violation of ethics standards.

Public support for political reform is strong, and all elements of the Japanese political spectrum are now committed, at least publicly, to it. While we are optimistic that some measure of reform will be achieved, we must expect that it will entail political compromise. It remains to be seen whether political reform will strengthen the hand of economic reform-oriented players in Japan and contribute to economic change. There is still the possibility of further change in the political landscape if political reform fails. The resulting absence of strong political leadership could complicate some of our Framework efforts. One positive note, though, is that Prime Minister Hosokawa's approval ratings register about 70 per cent. There seems to be growing press and popular scrutiny of the status quo, increasing demands for change, and in particular, a resentment against corruption and excessive regulation.

DOMESTIC SUPPORT FOR CHANGE

And in this new environment, it is clear that calls for change are growing within Japan itself. There is an increasing realization among business and opinion leaders in Japan of the need for the Government of Japan to reduce the nation's current account imbalance, improve market access, promote deregulation, and take additional steps to stimulate the economy. In the past year, we've seen more and more Japanese opinion leaders make the point that deregulation and greater access for foreigners to Japan's market will be good for Japan.

As we continue to negotiate on the Framework between now and next year, we will endeavor to support those in Japan who are advocating the kind of changes we want, and we will welcome their support for our efforts. We are working closely with Ambassador Mondale and his staff to ensure our message reaches key Japanese audiences. We are pleased by some positive developments, such as steps towards tax reform and the action plan on construction announced October 28.

Still, none of these hopeful signs amounts to concrete results. There have been encouraging reports in the past by influential Japanese organizations, yet these reports often produced little action. We will be resolute in our Framework goals. Our market access and macroeconomic concerns are legitimate, and are shared by all of Japan's trading partners. We are simply asking Japan to meet its responsibilities as a leader of an international trading system that has benefited Japan so handsomely.

APEC SUMMIT

Our efforts under the Framework are consistent with our efforts with Japan as a regional partner in the Asian-Pacific Economic Cooperation forum (APEC) to build the infrastructures of the Pacific economies, promote trade and investment liberalization and economic growth. In conjunction with the annual APEC Ministerial next week in Seattle, we have invited the leaders of the other 14 APEC economies for an APEC Leaders Meeting. The President and Prime Minister Hosokawa will have the opportunity to discuss our vision of the Pacific community, and to address the broad range of issues in our bilateral relationship, including some of the difficult issues under the Framework which need to be resolved by January.

CONCLUSION

I would like to thank you, Mr. Chairman, for the opportunity to testify. Our relationship with Japan is crucial to the well-being not only of our two countries, but to the world. We are optimistic that we will achieve meaningful market-opening agreements with the government of Japan that will provide substantial opportunities for U.S. and other foreign exporters. Our success with the Framework will help to restore the balance in our economic relations with Japan, expand trade opportunities globally, and reinvigorate what the President has called our most important bilateral relationship in the world.

COMMUNICATIONS

STATEMENT OF THE AMERICAN INTERNATIONAL AUTOMOBILE DEALERS ASSOCIATION

This statement, submitted by the American International Automobile Dealers Association (AIADA), analyses and comments on the U.S.-Japan Framework Trade Negotiations for the United States Senate Finance Committee, International Trade Subcommittee. AIADA represents the nation's 10,300 franchised dealerships that sell and service international nameplate cars and trucks and employ more than 280,000 Americans.

ASSUMPTIONS AND METHODS USED TO ADDRESS THE "TRADE IMBALANCE"

AIADA supports trade negotiations between the U.S. and Japanese governments that are intended to open markets to foreign trade in both countries. The association is concerned, however, that the assumptions and methods used by the U.S. government negotiators are faulty and could lead to trade restrictions and, possibly, trade retaliation between the two countries.

AIADA does not claim that access to the Japanese market for automobile or automobile parts has been completely free and open. There was substantial progress made during President Bush's trade mission to Japan in 1992 to lower the certification and inspection hurdles for foreign automobiles sales in Japan. In fact, then-Chrysler Chairman Lee Iacocca strongly defended the accomplishments of President Bush's trip to Japan. And there may be other informal automotive trade barriers between the two countries that can be addressed as part of the Framework trade talks.

However, AIADA believes that the Clinton Administration's developing automobile trade policy with Japan, which places the blame on Japan for its automotive trade surplus with the U.S., is based on faulty assumptions about the efforts and commitment of the Big Three auto makers (General Motors, Ford and Chrysler) to market and sell their vehicles in Japan. By placing blame on Japan for the small volume of Big Three automobile sales in Japan, the Administration is accepting the rationale that the Big Three have been using to restrict access of the Japanese auto makers to the U.S. market.

EFFORTS BY THE BIG THREE TO MARKET AND SELL IN THE JAPANESE MARKET

It is telling to note the testimony of the Big Three auto makers' trade association, the American Automobile Manufacturers Association (AAMA), at the hearing on the U.S.-Japan Framework trade negotiations before the International Trade Subcommittee. At the hearing, an AAMA spokesman stated that U.S. auto makers have significantly lowered prices, that the quality of "American" automobiles has risen, and that the Big Three are selling right-hand drive versions of their U.S. models in Japan and plan to build more for the Japanese market.

All of these developments by the Big Three automakers have been recent ones. The fact that the Big Three automakers have only recently made a serious attempt to increase market share in the Japanese market points to their lack of commitment to that market. As has been publicly noted, the vehicles that the Big Three auto makers typically export for sale in Japan are left-hand drive vehicles that are too big and cost too much. It is no wonder that the Big Three do not sell many vehicles in Japan when they do not offer the vehicles that Japanese consumers want and can afford. In fact, the October 22, 1993, edition of the *New York Times* reported under the headline, "Missing in Tokyo: Chrysler's Japan-Fighter" that:

> "As the United States presented demands this week for Japan to open its market to foreign automobiles, the American car considered to have one of the best chances of succeeding here was conspicuously absent from the Tokyo auto show. The Chrysler Corporation is not exhibiting its new Neon

subcompact, a vehicle specifically intended to compete with small Japanese cars, because the company has no immediate plans to sell the model in Japan."

Instead, the AAMA states to the Senate Finance Committee, International Trade Subcommittee that its members plan to sell new right-hand drive versions of vehicles such as the Ford Taurus and Ford Explorer in Japan. These are fine cars, but they are not the type of vehicles that will provide the Big Three significant market share gains in the Japanese market.

In contrast to the efforts of the Big Three, the Japanese automobile industry has made substantial investments and commitments to break into and succeed in the U.S. market, where significant barriers to automobile sales have also existed. It is a popular misconception that sales of Japanese automobiles in the U.S. accelerated dramatically from the moment the first Japanese car arrived in the U.S. In reality, it took many years of hard work, trial and error and significant financial investments before sales truly began to rise. In the face of tariff and non-tariff barriers expressly limiting sales of Japanese automobiles in the U.S., the Japanese auto makers have succeeded in marketing and selling to American consumers the automobile quality, features and value that they desire.

A SHIFTING RATIONALE FOR PROTECTION OF BIG THREE NAMEPLATES

The chorus of ambiguous and ever-shifting complaints about the barriers to the Japanese automobile market have not been backed by the Big Three's commitment to selling automobiles there. Rather, the complaints are just part of the shifting rationale used to limit the access of the Japanese auto makers to the U.S. market. First, the Big Three auto makers demanded that if the Japanese auto makers wanted to sell vehicles in the U.S., they would have to build these vehicles in the U.S.

Then, when the Japanese auto makers did shift vehicle production to the U.S., marking one of the largest industrial migrations in the history of industrial manufacturing, the Big Three and their affiliated parts makers claimed that Japanese automakers were not using enough American-made parts in their U.S. automobile manufacturing.

Over the past several years, the Big Three automakers, their unions and parts manufacturers have argued for restrictions on sales of Japanese nameplate vehicles in the U.S. based on their U.S. parts content and the argument that Japan's market is closed to U.S. automobiles. Yet, the Big Three seek to exclude their own substantial imports from Canada, Mexico, Japan and Europe from these restrictions. The Big Three, in effect, have not been seeking to protect American jobs as much as they have been seeking to protect their own nameplates.

Now that the U.S. manufacturing facilities of Japanese manufacturers are using a high percentage of American parts and vehicle exports from Japan have dropped dramatically (and eliminated in the case of some Japanese-nameplate models), the Big Three and some U.S. parts makers have seized upon another rationale for limiting sales of Japanese nameplate vehicles in the U.S.: Japanese equity.

A POLICY OF ECONOMIC DISCRIMINATION

In an alarming development that runs contrary to long-standing U.S. and international trade policy, the Clinton Administration, with encouragement from the Big Three automakers, appears to be backing the concept of economic discrimination, based on the Japanese equity of an automobile or automobile parts manufacturer. From an analysis of the U.S. proposal for the auto and auto parts "basket" in the framework trade negotiations, it is clear that the negotiators are demanding that Japanese auto makers increase their purchases of finished automobiles and automobile parts made by companies with non-Japanese equity, regardless of their quality or price.

For example, in the proposal offered by the U.S. negotiators (as published by "Inside U.S. Trade"), the U.S. demands the Japanese Government issue "guidance encouraging . . . Japanese transplant vehicle manufacturers to increase their purchases of U.S. parts, with *special consideration for non-Japanese U.S. auto parts.*" (Emphasis added.) Furthermore, the U.S. proposal demands that data for purchases of "foreign motor vehicles; non-Japanese foreign motor vehicles; U.S. motor vehicles; and *non-Japanese* U.S. motor vehicles" in Japan be "used in assessing whether the quantitative and quantitative criteria set out below have been met." (Emphasis added.)

What reason exists for encouraging sales of and collecting data on "non-Japanese" autos and auto parts, other than to ensure that sales of non-Japanese manufacturers get preferential treatment over the automobiles and automobile parts manufactured by companies with Japanese equity?

DISCRIMINATING AGAINST SOME AMERICAN WORKERS

In short, this is a policy of economic discrimination. This policy discriminates against any auto or auto parts company with Japanese equity, including the more than 35,000 Americans that work in the American factories building Japanese nameplate cars and trucks and the tens of thousands of American workers building automobile parts for companies with Japanese equity. Such discrimination pits one American worker against another and sends a message to Americans working for Japanese-equity companies that their hard work is less valuable than the work of other Americans.

This policy would violate the international trade principle of national treatment, whereby companies are treated equally regardless of the nationality of their ownership. National treatment is a policy that has greatly benefited U.S. companies operating overseas and has drawn needed foreign investment to U.S. manufacturing. In fact, the Bureau of Labor Statistics recently released a study which shows that over 1.7 million U.S. manufacturing jobs have been created with foreign equity since 1989, nearly 1 in every 11 manufacturing jobs. If adopted, the U.S. proposal to discriminate against companies with non-Japanese equity would send a chilling message about foreign investment in the U.S.

In conclusion, AIADA believes that the Clinton Administration should reject trade policies which are based on false assumptions about the automotive trade imbalance with Japan and which discriminate against U.S. companies and their workers based solely on the nationality of the company's ownership. This policy is bound to lead to frustration with the results of the Framework trade talks, and possibly trade retaliation, and would set a dangerous principle of economic discrimination that would be harmful to American workers and the American economy.

STATEMENT OF THE ASSOCIATION OF INTERNATIONAL AUTOMOBILE MANUFACTURERS

The Association of International Automobile Manufacturers (AIAM) represents the U.S. subsidiaries of international automobile companies that manufacture and distribute passenger cars and trucks in the United States. AIAM's member companies have invested over $10 billion in the United States, employing thousands of Americans in manufacturing, sales, research and development, transportation, and distribution operations. The international automobile industry, including dealers, suppliers and port workers in the United States, provides jobs to more than 500,000 Americans. Taken together, AIAM members produce one of every four cars built in the United States, which is more than either Ford or Chrysler and second only to General Motors in American automobile factory production. These investments have created a new and more dynamic American automobile industry which has resulted in a dramatic drop in import volume from overseas into the United States over the last five years.

On July 10, 1993, President Clinton and former Japanese Prime Minister Miyazawa agreed on a new "framework" to guide trade talks between their two countries. One of the most important sectors in which the two nations agreed to hold negotiations involves automobiles and automobile parts. U.S. officials want these framework negotiations to be "results-oriented" and have made a very specific proposal for measuring results in the sale of U.S.-made automobiles in Japan, as well as the sale of U.S.-made parts to Japanese-owned manufacturers in both Japan and the United States. A target date of January, 1994, has been set for reaching an agreement.

Three aspects of the U.S. proposal raise particular concerns for AIAM, prompting us to present these comments for the Subcommittee record:

(1) a change in the historic application of the principle of national treatment;

(2) the discriminatory nature of the proposal as it affects our members' factories, their employees, and their parts suppliers; and

(3) the extraordinary burden of recordkeeping which the proposal would impose on our members.

The proposal repudiates the principles of national treatment and open investment which have served the United States so well for decades. National treatment assures that all companies operating in a country are treated equally. This protects American companies operating overseas as well as the Americans who work for U.S. subsidiaries of international companies. Foreign-owned U.S. companies contribute substantially to the productivity of the U.S. economy. According to a recent Bureau of Labor Statistics study, over 1.7 million U.S. manufacturing jobs had been created with foreign equity by 1989, nearly 1 in every 11 manufacturing jobs. The U.S.

framework position sends these workers a chilling message that they are second-class citizens.

Any U.S. policy that favors Detroit-based automobile companies over other U.S. automobile companies would violate the fundamental principle of national treatment. Under treaties of friendship, commerce, and navigation, the United States is committed to treating U.S. subsidiaries of foreign companies on the same terms as U.S.-owned companies. This extends to the full range of their activities. The national treatment principle should prevent the United States from supporting measures—either its own or by a foreign country—that would favor some U.S. plants over other U.S. plants. The Commerce Department and the rest of the Administration should not discriminate against our members' plants in trade and domestic economic policy.

National treatment is central to the GATT and the world trading system. The United States is the world's greatest exporting country. American companies rely on this principle more than anyone else. For decades, companies headquartered in this country have built plants around the world. The Ford Motor Company was one of the first automobile manufacturers to build a plant in another country. Today, all Detroit-based manufacturers produce outside the United States. These companies doing business in other countries have been treated on an equal footing with their domestic competitors in those markets, as well they should be. Many such plants produce primarily for the local market, as do those of our members, but the opportunity to export to other countries is vital to them and their workers, as it is to our members and their employees here in the United States. In fact, AIAM members today export more cars overseas than General Motors, Ford and Chrysler combined. The U.S. government should not succumb to pressure applied by one part of an industry to insist on discriminatory quotas which jeopardizes the greater economic interest of the United States.

On its face, the U.S. framework proposal establishes a new government-sanctioned form of discrimination against the thousands of American workers employed by the U.S. subsidiaries of Japanese automobile manufacturers and parts suppliers. One part of the proposal concerning purchases of foreign vehicles in Japan singles out "non-Japanese foreign motor vehicles" and "non-Japanese U.S. motor vehicles." These workers are being targeted for unequal treatment simply because the equity that created their jobs is from Japan. The U.S. proposal pits one American worker against another and brands U.S. workers at Japanese-owned plants as less valuable than other American workers.

Attempts to "open a market" should not result in a quota of guaranteed sales for certain companies selected by the government of one country. We strongly oppose any action by the U.S. Government to insist that the products of some American factories employing American workers are segregated from the products of other American factories employing American workers and are treated differently. To discriminate based on location of corporate world headquarters or on the apparent predominant (though not exclusive) nationality of shareholders is not an appropriate policy for the United States to pursue.

Like automobile manufacturers, parts production facilities located in this country—even if built with foreign capital—employ thousands of American workers, use input parts from other American parts makers, and use American raw materials. They make a substantial contribution to the U.S. economy.

The proposal made by the United States calls on the Japanese government to pressure Japanese-owned factories in this country to increase their purchases of U.S. auto parts, "with special consideration for non-Japanese U.S. auto parts."

We believe it is wrong to force our member companies to purchase parts based on reasons other than business related considerations such as quality, price and delivery. A motor vehicle is the sum of its parts. The approach advocated in the U.S. framework position will hurt American consumers by removing the competition that helps keep the price of parts lower and the quality higher. We would further suggest that the U.S. government would not approve of a foreign government's intervention into the business affairs of U.S. companies under any circumstances.

Recordkeeping and reporting requirements under the proposal would be onerous and discriminatory. A number of our member companies would be required to submit parts purchasing projections for 1995 and later years, and report past parts sourcing data as well—including the name of any supplier providing over $50,000 in parts and the approximate dollar amount of the purchase. These requirements would not apply to General Motors, Ford and Chrysler, and therefore are discriminatory on their face.

In his statement to the Subcommittee, Acting Undersecretary of Commerce Timothy J. Hauser expressed concern about the United States' trade deficit with Japan and, in particular, the size of the deficit in the automotive sector. What is not made clear, because it cannot be, is how that deficit is helped by a government requirement of discrimination to be practiced against automobile manufacturing plants and parts suppliers producing in this country.

In Mr. Hauser's assertion on page 8 of his statement that the Big Three have made a strong effort to sell their products in Japan, two of his examples refer to efforts which have just occurred this year and two refer to future plans. Our member companies have been building cars in this country for eleven years and have shown a commitment—$10 billion worth—to design and manufacture products for the American market.

Stephen J. Collins, speaking on behalf of the American Automobile Manufacturers Association, endorsed the U.S. framework proposal in his statement at this hearing; Like Mr. Hauser, he failed to explain how requiring discriminatory parts procurement within this country will do anything but raise the price of our members' products, giving an' advantage to the companies he represents. Mr. Collins also has to resort to very recent examples and to promises for the future in trying to convince the Subcommittee that the Big Three have truly made an effort to sell their products in Japan.

That U.S.-built cars exported to Japan by our members should be treated differently from U.S.-built cars exported by General Motors, Ford and Chrysler raises the basic question of whether U.S. automobile manufacturing plants owned by companies headquartered outside the United States are actually making a positive contribution to the American economy. The answer to this question is an emphatic—"yes." Over $10 billion has been invested in the communities where these plants are located. More than 34,000 Americans work at these plants, supporting families and contributing to their communities. Hundreds of thousands of jobs beyond the factories are created by this manufacturing. These include jobs with parts suppliers, suppliers of other goods, and providers of services. The plants also pay federal, state, and local taxes, as do their employees.

These plants represent huge investments in eight (soon to be ten) American states to build some of the most advanced and efficient factories in the world. They are a transfer *into* the United States of improved manufacturing technology. Our member companies employ large numbers of American designers, engineers and scientists to improve the technology of motor vehicles themselves as well as the technology of the manufacturing process.

It is in the best interest of American workers and American consumers for the United States to apply the national treatment standard to imported products and internationally-owned businesses in this country and to treat them no less favorably than U.S. products and domestically-owned businesses. If the United States should not do so, it would immediately jeopardize U.S. exports and foreign enterprises owned by U.S. companies. Other countries would be tempted to disregard the national treatment standard and begin to discriminate in favor of their own products and companies. As a great exporting nation and as the largest national economy in the world trading system, the United States has the most to lose from legislation and regulation that takes an "anti-foreign investment" approach and flouts the national treatment standard.

STATEMENT OF THE INTERNATIONAL INSURANCE COUNCIL

[H. Edward Hanway is President of CIGNA International Property & Casualty and is Chairman of the International Insurance Council].

INTRODUCTION

This statement is to provide the Subcommittee with background on the insurance sector consultations undertaken by the United States with Japan under the United States—Japan Framework for a New Economic Partnership.

The International Insurance Council is the principal private organization through which the U.S. international insurance industry addresses international trade issues. The Council is generally considered to be the "voice" of the U.S. insurance industry on international trade matters. The bulk of U.S. international insurance business is done by members of the Council.

Created almost 50 years ago to provide an institution where U.S. life insurers, property-casualty insurers, reinsurers and providers of insurance-related services could meet to coordinate their thinking and efforts in support of international insurance trade, the Council works for open, competitive insurance markets, opposes discrimination against foreign insurers everywhere, and welcomes foreign companies in the U.S. to membership.

The Council pioneered the U.S. effort to develop a U.S. trade policy for services, starting in the late 1960s. It supports the current GATT service trade negotiations, and it provided most of the industry input relative to insurance in the NAFTA negotiations.

JAPAN—THE PRESENT SITUATION FOR U.S. INSURERS

The Japanese insurance market is the second largest in the world after the U.S., with a premium volume of $308 billion in 1991. Of this, $82 billion came from property and casualty insurance and $226 billion from life insurance.

U.S. insurers have operated in Japan since the late 1940s. Eleven companies do so at present. U.S. companies respect the Japanese market and value the business they have been able to do. Many U.S. insurers have longstanding friendships with Japanese insurers.

However, for many years, U.S. insurers have been commercially frustrated by a system of traditional, excessively strict, but vague and largely unwritten insurance regulation that virtually eliminates true innovation. In addition, local market practices, including market arrangements between local insurers and their affiliated client companies, severely limit our horizons.

These conditions effectively confine foreign insurance operations to a number of niches (often collectively called the "third area") within the larger Japanese market. Thus, after almost 50 years, the foreign share of the Japanese property and casualty market (the "second area") is only 2.9% and, of this, almost half comes from the third sector. This contrasts with foreign penetration in the U.S. in the range of 8% to 10%, depending on definitional variations.

For 1991, the foreign share of Japanese life insurance premiums totaled approximately 0.5%, of which one half came from the third sector. The Japanese life insurance market (the "first area") produces $20 billion more in annual premium than the U.S. Japanese per capita life insurance consumption is twice that in the U.S. For this reason, Japanese life insurers are among the largest and most powerful financial institutions in the world.

American insurers now in Japan would welcome an expanded range of opportunities there. Many who are not now there would like to enter the market if real commercial opportunity were perceived to exist and they were permitted by the Japanese regulators to introduce new and innovative products in a timely fashion.

JAPAN—THE NEED FOR BILATERAL INSURANCE NEGOTIATIONS

The consensus among the International Insurance Council membership is that bilateral trade negotiations are necessary to create the conditions where our member companies can achieve a greater market share in Japan.

For some years, we had reason to hope that the Japanese system would be modernized from within. We viewed with optimism the 1992 study by Japanese experts which was announced as leading to insurance market deregulation and modernization.

Regrettably, the promising conclusions of that study seem not to have been accepted by the Japanese authorities. The initial Japanese reaction to the study was to propose that large local companies be allowed to operate much more freely in those niche areas where foreign companies, and a few of the smaller Japanese firms, had achieved some measure of success. The bulk of the market (some 97%) would have remained unchanged.

By their proposals, the Japanese officials appeared to be targeting the area held by foreign companies for unfettered competition from massive domestic firms rather than seeking to deregulate and modernize the insurance market as a whole.

Fortunately, the Japanese proposals came just as the U.S./Japan Framework Agreement was reached and insurance trade was named as a priority item.

We strongly support the Framework Agreement discussions as a reasoned forum where officials from the two countries, acting upon a base of equal strength, can clarify and resolve the trade problems that the Japanese approach has created for U.S. insurers.

From the outset, our USTR officials, leading an inter-agency team, have proceeded in a positive, balanced manner that reflects their keen understanding of the issues involved and their sensitivity to the business goals of participants in our industry. Through the Council, our industry has provided enthusiastic support to the process, and we believe that similar support from this Subcommittee would go a long way toward ensuring the success of the negotiations.

JAPAN—REASONED OBJECTIVES FOR BILATERAL INSURANCE RELATIONS

The International Insurance Council believes that from the perspective of its members, and of insurance consumers, many current insurance trade barriers in Japan can be addressed and eliminated as part of the Framework Agreement through a comprehensive, carefully thought out process that is not trade distorting. The Council has agreed upon the most pressing and most realistic reform measures, and they have been communicated to USTR.

With respect to the principles underlying our proposals, the most important prerequisite for effective opening of the Japanese market is **"transparency."** Under this heading, we support law-reform proposals which would establish clear lines and limits of regulatory authority, and would provide knowable and meetable standards for entry and new product development.

The Council believes that many of the market access difficulties our Members experience in Japan are traceable to the fact that current law is not adequate to modern commercial reality, that foreign companies do not have the benefit of the de facto "self regulation" which is available to large Japanese companies, and that under the name of "administrative guidance" the Japanese regulators have developed a body of unacceptably non-transparent processes that have the effect of protecting local-company interests to the detriment of foreign entrants.

The existing regulatory structure, lacking clear and relevant legislative guidance, has created the present situation; and it would be overly optimistic to expect that it would radically and effectively reform itself from within. Thus, we believe that a fully debated law reform process, in which the interests of foreign companies are vigorously represented, is required.

We know that regulators have an important role to play in the Japanese system, but we believe that for the future regulation has to be firmly grounded in responsive legislation in ways that are not now the case.

The second major goal that should be pursued is **consistency in deregulation policy** for all product areas together with **protection of the progress made by foreign companies to date.** Through patience, persistence and imaginative marketing approaches, foreign companies have established a significant market presence with important specialty products.

Unfortunately, the Japanese authorities, under the name of proposed deregulation, now appear to be targeting Third Area products for expansion by the largest local companies. It is therefore vitally important that the Framework Agreement secure foreign companies against the overwhelming advantages that large local companies would otherwise have if allowed to operate unrestrained in the Third Area.

In particular, it must be recognized that entry by the larger Japanese companies into the Third Area will inevitably decrease the market share of foreign companies. Thus, the Framework Agreement must ensure that foreign companies have the time and opportunity to make significant progress in increasing their First and Second Area market shares before those inevitable Third Area decreases take place. Without such time and opportunity, the foreign companies' position will be worse after Japanese deregulation than before.

The Council's third goal is of special importance to our industry as a whole and goes to the heart of the Framework Agreement itself: **increased market access and participation for all foreign companies.**

In that context, one point of general concern is that the Japanese government apparently believes that questions of market access and corporate procurement policy are private sector matters and not appropriate subjects of regulatory concern at all. As a result, Japanese liberalization efforts to date have not adequately addressed fundamental market issues like corporate interrelationships (*keiretsu*) and industry association purchasing of insurance.

Thus, while foreign insurers have made gains in certain specialty areas, the local companies continue to exercise almost total control over the larger life and property/casualty and personal lines markets. This control has been perpetuated through market entry and product licensing procedures which are inappropriately drawn-out, and which in effect require new applicants to disclose their strategic plans and unique product ideas to the local market in time for the local companies to take defensive action.

In addition, the ability to file and use rates and policy forms without undue delay is very important. For existing foreign participants, it is difficult to bring new products to the market because the approval process is geared to producing product uniformity, thus eliminating the market advantage which should result (and does in other appropriately open markets) from innovative and imaginative product introduction. Finally, new applicants as well as existing participants are hampered in their efforts by the continuation of a restrictive distribution system which makes it very difficult for foreign companies to have broad access to potential customers, whether individuals or corporations.

With respect to criteria that can be used to judge whether, over time, our goals are actually being met, we know that benchmarks in terms of specific actions or market shares are difficult to decide upon and determine, but we are prepared to work closely with the U.S. negotiators for the timely establishment of effective and realistic criteria.

We will be counting on a spirit of good will and commitment from the representatives of Japan as the negotiators work to reach a speedy and mutually beneficial agreement in this area, and we have every reason to hope that a positive result, in terms of increased market share for foreign companies, will result within a not-too-extended time frame.

STATEMENT OF NISSAN NORTH AMERICA, INC.

INTRODUCTION

Nissan North America, Inc. is a wholly-owned subsidiary of Nissan Motor Co., Ltd. of Japan. We submit this statement for ourselves and on behalf of three affiliated companies: Nissan Motor Manufacturing Corporation U.S.A., Nissan Motor Corporation in U.S.A., and Nissan Research and Development, Inc. These companies are, respectively, our manufacturing, marketing and sales, and R&D arms in the United States.

Nissan today is a fully integrated American motor vehicle manufacturer. We build in the United States more than 60 percent of all the vehicles Nissan sells here. Nissan companies employ over 10,000 Americans, including 5,800 in manufacturing. Our parts procurement from more than 450 American suppliers in FY92 totaled $2.35 billion for production of motor vehicles in the United States and Japan. These purchases, and the suppliers who provide these parts, create American jobs for thousands more. Nationwide, more than 55,000 people are employed in our more than 1,200 Nissan and Infiniti dealerships. Nissan has contributed over $2 billion to the U.S. economy through our closely integrated design, R&D, manufacturing, importing, marketing, and sales operations. Nissan continues to grow as our American roots stretch deeper and wider.

We appreciate this opportunity to submit our views on the status of the "Framework" deliberations between the U.S. and Japanese Governments. We direct our comments toward the deliberations over the Framework's "automotive basket," and specifically to those aspects of the Framework dialogue that address the operations of our company and other American motor vehicle manufacturers that are Japanese-owned.

A "GLASS" MORE THAN "HALF FULL"

The following developments highlight some of the dramatic changes that have taken place during the last several years with respect to automotive trade between the United States and Japan:

- Japanese vehicle exports to the U.S. have dropped by almost half since FY86, a decline of more than 1.6 million units.
- U.S. production of motor vehicles by Nissan and other Japanese-owned American manufacturers has more than doubled since FY86 to 1.689 million units in FY92.
- The number of American suppliers doing business with Japanese-owned American manufacturers and their Japanese parent companies has risen from fewer than 300 in FY86 to nearly 1200 in FY92. Sales by these suppliers have grown from less than $2.5 billion to $ 13.62 billion during the same period.

By any standard, this is a record of remarkable change.

It has not been easy for Japanese-owned companies to overcome their skepticism about doing business with U.S. supplier firms. After all, the competitive woes of the U.S. Big Three automakers in the 1970s and 1980s were not unrelated to competitive problems in the U.S. supplier industry. It also has not been easy for many American supplier firms to step up to the demanding standards of what are undeniably the world's most competitive automakers and radically change the way they do business in the process. Nevertheless, with great effort and difficult adjustments on both sides, these things are happening.

Over the past seven years, scores of meetings and conferences—some government sponsored and others organized at the initiative of industry—have brought manufacturers and suppliers together. Japanese-owned American manufacturers and their parent companies have dramatically increased their ability to work with American suppliers—increasing the work force in their U.S. R&D operations from 300 in 1988 to 1,700 by the end of this year and doubling the number of people working in international purchasing to 1,200 since 1988. As a result, "design-in" projects bringing American suppliers into the earliest stages of new product development have expanded dramatically. In addition, every year more American suppliers are benefiting from "hands on" assistance provided by engineering/management teams dispatched by Japanese-owned manufacturers whose mission is to strengthen the competitiveness of suppliers.

The momentum of these efforts is strong. Just this month Nissan itself hosted 230 supplier firms at our Tennessee manufacturing facilities for programs on strengthening competitiveness. And this year Nissan supplier development teams will be working "hands on" with 24 supplier firms toward that same end.

As a result of all these efforts, Japanese-owned U.S. manufacturers and American parts suppliers have come a long way. They have overcome barriers of language, dramatically different corporate cultures, and fundamentally different ways of building cars. The pace of progress has frustrated both sides at times, and there has been a lot of finger-pointing and friction along the way. But these difficulties cannot obscure the real success that has been achieved and the solid foundation that has been built for today and the future.

The sometimes awkward "MOSS" talks between the U.S. and Japanese governments have on balance provided a constructive environment for this change to occur. No one should be deluded into thinking that governments caused the change, however. Certainly neither we vehicle manufacturers nor the suppliers who have been deeply involved in this process do. No doubt governments helped to facilitate change. They may even deserve credit for accelerating the pace of change. The cause, however, was irresistible market forces—the changing balance of production costs and the dynamics of shifting production from Japan to the United States. The response of companies in both countries to those forces was inevitable and brought the change about. These are the key lessons of our experience across the past seven years: governments can facilitate but markets determine both the direction and size of change. These are lessons the Administration needs fully to comprehend as it works with the Japanese Government to fill in the outline of its Framework concept over the coming months.

U.S. PROPOSAL FOR AN AUTOMOTIVE "ARRANGEMENT"

Against this background we were surprised, disappointed and even "shocked" to learn what the U.S. Government has proposed to the Government of Japan as a starting point for the "automotive basket" of the Framework. Here we are not referring to the description in Acting Under Secretary Hauser's testimony regarding U.S. goals for improved "market access" in the automotive sector, but rather to the unprecedented "managed trade" scheme that was tabled in discussions with Japanese officials last month, a proposal that was published in the November 1, 1993 edition of Inside U.S. Trade.

In the name of "market access," the Administration proposes to:

- set arbitrary, government-mandated "targets"—"specific expectations" is what the Administration euphemistically calls them in its proposal—for our company's purchases of auto parts;
- abandon the principles of "national treatment" and "non-discrimination" that have long served as the foundation of U.S. policy toward foreign investment and that have given our company the confidence to invest more than $2 billion in the United States over the past 15 years;
- establish *de facto* "performance standards" of the kind the U.S. Government has vigorously opposed for decades when aimed at the foreign affiliates of U.S. firms; and
- invite the Government of Japan to interfere in our business decisions that are of absolutely no legitimate concern to it and intervene in our business operations in a highly intrusive manner.

These proposals are unjustified and unwise. We consider them intolerable. We also believe they are unnecessary.

By contending that its proposals would make the Japanese Government and Japanese-owned American companies—rather than the U.S. Government—directly responsible for the consequences that will flow from these proposals, the Administration seeks to reassure itself that the integrity of U.S. policy and of U.S. international obligations has been maintained. Such reasoning is clearly deceptive, however.

Successful companies set "*sales* targets" and strive to achieve a level of competitiveness that will enable them to achieve those targets. Companies that can be assured government mandates for customer "purchasing targets" will bring them business have little motivation to make the hard decisions that are necessary to achieve world class competitiveness. And as the recent McKinsey & Co. study of productivity in major industry sectors—that showed the productivity of U.S. automotive parts suppliers lag their Japanese competitors by 24 percent—made clear, the U.S. suppliers, though improving, have yet to achieve that status. Saddled with arbitrary purchasing targets set by individuals who have little or no understanding of the automobile business, *our* company's competitiveness will be jeopardized. By what right, Nissan respectfully would like to ask, does the U.S. Government presume to choose which American companies and which American workers to advantage?

By insisting upon preferential treatment for "non-Japanese owned" companies in the United States, the U.S. proposal abandons the principles of "national treatment" and "non-discrimination" upon which foreign investors like Nissan relied in commiting billions of dollars to U.S. production facilities. These principles are not favors magnanimously bestowed by an altruistic U.S. Government. Rather they are a policy that is the product of a hard-headed assessment which takes into account both the benefits of foreign investment to the U.S. economy and U.S. interests promoting a "level playing field" for U.S. firms doing business abroad. The U.S. proposal tramples not only these principles but also the "Most Favored Nation (MFN)" principle by treating Japanese-owned American companies less favorably even than other foreign-owned firms. Adding insult to injury, the U.S. proposal demands that Nissan, among other companies, act as the agent of its discriminatory intent.

In addition, the U.S. proposal indicates the Administration intends to monitor, utilizing a number of different formulas, the local content of vehicles built by Japanese-owned auto manufacturers. The practical effect of this proposal, of course, is to pressure companies—on a discriminatory basis—to raise their local content. In other words, the U.S. Government is proposing to impose *de facto* performance requirements—the very same kind of requirements that the United States insisted Mexico eliminate in the NAFTA and that other countries abandon through GATT obligations. It would seem that "do as I say, not as I do" has become the new guiding principle of U.S. international economic policy.

Last but not least is the Administration's plan to intrude—and to invite the Government of Japan to intrude—deeply into our business operations. The Administration has designed an invasive reporting scheme—discriminatory in its application—that demands we turn over to it company-confidential data for our own firm and our suppliers. It also proposes that the Japanese Ministry of International Trade and Industry issue orders to our company concerning our operations in the United States. It is hard to believe that the Administration has given full consideration at all to the implications of these proposals.

These proposals are all terrible ideas. They are also all unnecessary because substantial progress continues to be made in expanding sales by American supplier firms to "new entrant" manufactures like Nissan. The Framework has potential to build on the MOSS and advance this process further but *not* on the terms now being advocated. Indeed the current approach jeopardizes the market-based, cooperative foundation upon which the progress that has been achieved to date has been built. It is time for the Administration to take a more careful look at the direction in which it is headed and to make a significant course correction.

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