



**Submission of the American Automotive Policy Council  
in Response to the United States International Trade Commission’s  
Investigation on the “U.S.-Trans Pacific Partnership Free Trade  
Agreement Including Japan: Advice on the Probable Economic Effect  
of Providing Duty-Free Treatment for Importers”**

Investigation Nos. TA-131-038 and TA-2104-030

**I. Introduction**

The American Automotive Policy Council (AAPC) appreciates the opportunity to provide its views and input to the United States International Trade Commission (ITC), and submits the following comments in response to request for comments regarding “*Negotiating Objectives with Respect to the “U.S.-Trans Pacific Partnership Free Trade Agreement Including Japan: Advice on the Probable Economic Effect of Providing Duty-Free Treatment for Importers”*”, Investigation Nos. TA-131-038 and TA-2104-030.

This submission’s content is in large part based on the input provided by AAPC on June 9, 2013 in response to USTR’s Federal Register Notice, “*Request for Comments on Negotiating Objectives with Respect to Japan’s Participation in the Proposed Trans-Pacific Partnership Trade Agreement.*”<sup>1</sup>

AAPC is the association representing the common public policy interests of its member companies – Chrysler Group LLC (Chrysler), Ford Motor Company (Ford), and General Motors Company (General Motors).

**II. AAPC Position**

AAPC’s member companies have supported every free trade agreement the United States Congress has ratified, and see liberalized global trade as key to their business model. These three companies welcome new export opportunities, especially in the growing Pan-Pacific region and strongly supported the Trans-Pacific Partnership (TPP) negotiations among the original nine countries, and the two NAFTA partners<sup>2</sup> as a significant opportunity to export more American vehicles and auto parts, and to grow the number of high-quality American jobs supported by such exports.

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<sup>1</sup> Request for Comments on Negotiating Objectives with Respect to Japan’s Participation in the Proposed Trans-Pacific Partnership Trade Agreement, 78 Fed. Reg. 2,6682 (May 7, 2013).

<sup>2</sup> Australia, Brunei, Canada, Chile, Mexico, Malaysia, New Zealand, Peru, Singapore, United States and Vietnam.

However, AAPC opposes Japan's participation in the TPP Agreement. Allowing Japan, the most closed auto market among the world's developed countries and a perennial currency manipulator, to become a TPP member threatens the Obama Administration's efforts to use the agreement to catalyze increased U.S. economic growth and support the creation and retention of high-quality American jobs.

As the United States has nevertheless invited Japan to participate, it is essential that the Obama administration include the following provisions in the TPP, which are essential to creating the foundation for free and open trade between the United States and Japan in automotive goods:

- Strong, enforceable currency disciplines that will prevent Japan from manipulating the value of the yen;
- U.S. tariffs on imports of Japanese motor vehicles will be phased out over a sufficient length of time, no less than 25-30 years, which we understand the United States has already secured from Japan, in order to allow Japan to demonstrate that Japan is fulfilling its TPP commitments and has opened its market to U.S. auto imports;
- The elimination of all current non-tariff barriers (NTBs) that Japan uses to shut out foreign auto imports and maintain the most closed auto market in the developed world;
- A meaningful, accelerated auto dispute settlement mechanism to address new NTBs when they arise and dispute settlement penalties, including reinstatement of U.S. motor vehicle tariffs;
- Competition law and international business practice commitments; and
- The creation of an Auto Oversight Body.

U.S. automakers and the workers that they employ have made huge sacrifices to turn the industry around and the sector is now driving U.S. economic growth and job creation.

Unless the United States secures all of the foregoing commitments from Japan, this economic momentum could be put in jeopardy. As such, unless all of these commitments are secured, it will be impossible for AAPC to support the TPP Agreement.

Additional detail on AAPC's position concerning Japan's participation in the proposed TPP Agreement can be found below.

### **III. Background**

#### **A. Economic and Trade Contribution to the United States**

America's automakers—Chrysler, Ford and General Motors—remain the heart of the industrial base of the United States and an engine of the American industrial economy. These three companies are committed to investing in the United States, growing U.S. exports, and leading the nation's economic recovery.

With nearly 200,000 direct company employees (two out of three auto manufacturing jobs nationwide), Chrysler, Ford and General Motors support hundreds of thousands of additional jobs in all 50 states—from high-tech research labs, to the suppliers that ship thousands of parts to manufacturing shop floors, to the more than 10,000 U.S. dealerships that deliver high quality products to their customers.

Over the past several years, Chrysler, Ford and General Motors, with our United Auto Workers (UAW) partners, have undergone a dramatic restructuring, but at a tremendous sacrifice in closed plants and lost jobs. In the process, we have emerged stronger and even more globally competitive. Today, as a result of these sacrifices, we are at the forefront of the United States' economic recovery, adding billions of dollars in American manufacturing investments and creating thousands of new American jobs every year.

The aggressive pace of product introductions by Chrysler, Ford and General Motors is expected to create thousands of new American jobs this year in areas ranging from product development to manufacturing to information technology. This builds on the creation of over 40,000 new American jobs, a 25 percent increase between 2009 and 2012.

The renewed American automotive industry is also America's number one export sector. In 2012, U.S. automotive exports totaled \$132.7 billion – \$27 billion more than the next best performing manufacturing sector (aerospace).<sup>3</sup> Exported to over 100 countries, American automotive goods are one of most competitive U.S. exports and a key contributor to the President's goal of doubling exports in five years.

## **B. The Importance of “Scale” in the Auto Industry**

Manufacturing in the auto sector involves enormous capital and operating costs associated with the design, development, production, marketing and distribution of cars and trucks. As a result, achieving “scale” – the savings associated with high-volume production of a product – is critical. Producing and selling more cars can help an automaker achieve scale, especially if those cars are built on the same “architecture.”

Different vehicle models and even types of vehicles built with the same architecture share design, engineering, and production planning, as well as major components. For instance, Chrysler builds both the Dodge Dart and the Jeep Cherokee on the same architecture. Similarly, Ford builds the Taurus and the Explorer on the same architecture. And General Motor's Chevrolet Cruze and the Buick Verano share the same architecture.

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<sup>3</sup> U.S. Exports by Industry Group (NAICS-4 digit basis)

Building vehicles off a common architecture enables automakers to significantly cut not just manufacturing costs, but also product development and “changeover times” – the period of time necessary to overhaul a production line to build a new vehicle.

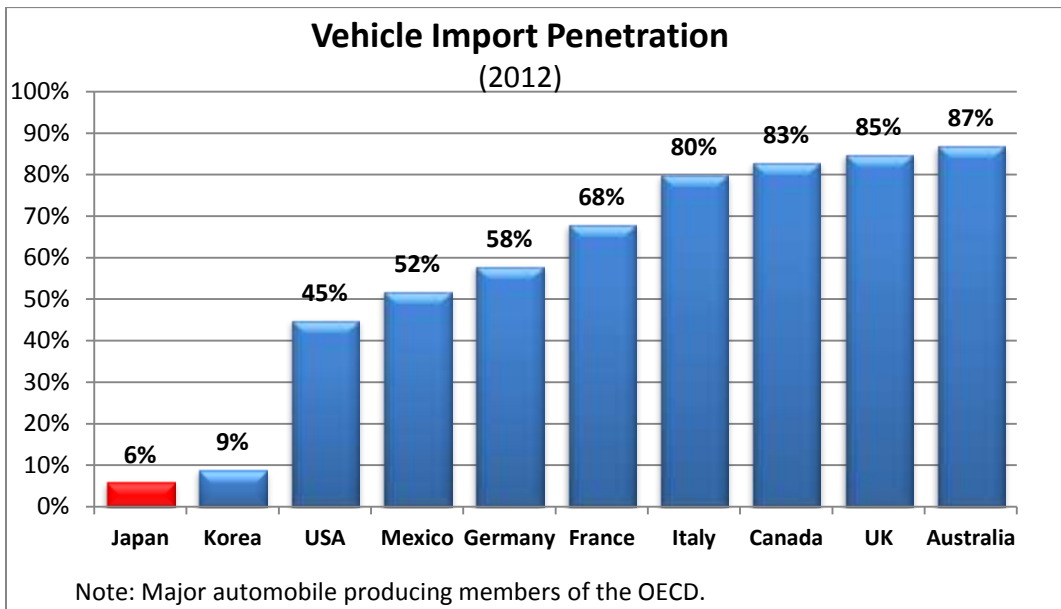
Over the past decade, there has been greater and greater pressure on automakers to rely on fewer, more flexible vehicle architectures to maximize potential scale opportunities. However, developing a new auto architecture is extremely expensive, exceeding \$2 billion. Implementing a new auto architecture across multiple manufacturing facilities can cost even more.

Additional challenges are created by the fact that, because the industry is so capital intensive, automakers must avoid building more capacity than they need. Idle plants and underperforming models can significantly reduce profits for the entire enterprise.

Thus, anything that makes it easier for an automaker to achieve scale and that insulates them from the risks associated with production overcapacity, would give the automaker a significant advantage over the competition.

### **C. Japan’s Closed Market Gives Japanese Automakers an Enormous Advantage in Achieving Scale.**

Japan represents the third largest auto market in the world. Five million vehicles are purchased in Japan every year. At six percent import penetration, it is also the most closed auto market among the Organization of Economic Cooperation and Development (OECD) countries. In contrast, all the other OECD member countries with domestic auto manufacturing (except Korea), have an import penetration rate of 45 percent or more—making Japan’s six percent import penetration rate 34<sup>th</sup> out of the 34 OECD member countries.



The closed nature of the Japanese market is hugely advantageous to Japanese automakers, and the Japanese government has played an active role in creating, and protecting, these market conditions. While Japan's tariff on imported autos is zero, the Japanese rely on a range of NTBs to shut out foreign auto imports, including unique auto safety and environmental regulations, excessive auto-related taxes, zoning laws and other obstacles to the establishment of dealerships/service/repair centers, and lax enforcement of antitrust laws in the auto sector.<sup>4</sup>

There is little debate as to whether Japan relies on such NTBs to shut out foreign auto imports. Regarding U.S. automakers' concerns about Japan's closed market, Deputy National Security Advisor for International Economic Affairs, Michael Froman recently stated, "We think they are well founded."<sup>5</sup>

The existence of a closed market in Japan means that Japanese automakers do not face the same competition as other automakers in seeking to achieve scale. In other words, it costs them less to attain scale and they can use this additional savings to maximize profits and their global market share.

Japanese automakers have used their advantage to the fullest extent possible. Their investments in vehicle architectures were simultaneously possible because of the scale they are guaranteed in Japan and less risky because of that scale. In other words, the savings generated by scale created the revenues necessary to make the auto architecture investment possible. That scale also provided the assurance that these companies could sell a significant number of vehicles built on the new architectures, guaranteeing a certain level of return on those investments.<sup>6</sup>

If Japan's auto market was like other OECD markets in terms of foreign auto import market penetration, Japanese automakers' shares of the domestic market would drop by half. Thus, but for the existence of a closed market, it is questionable whether they would have been able to achieve the scale necessary to drive down the costs associated with the development and implementation of new, flexible vehicle architectures.

**D. Japan's Currency Manipulation, which Acts as an NTB and Subsidizes Japanese Automakers' Exports, Provides the Domestic Auto Industry with a Huge Advantage in Achieving Scale – and Combatting Production Overcapacity.**

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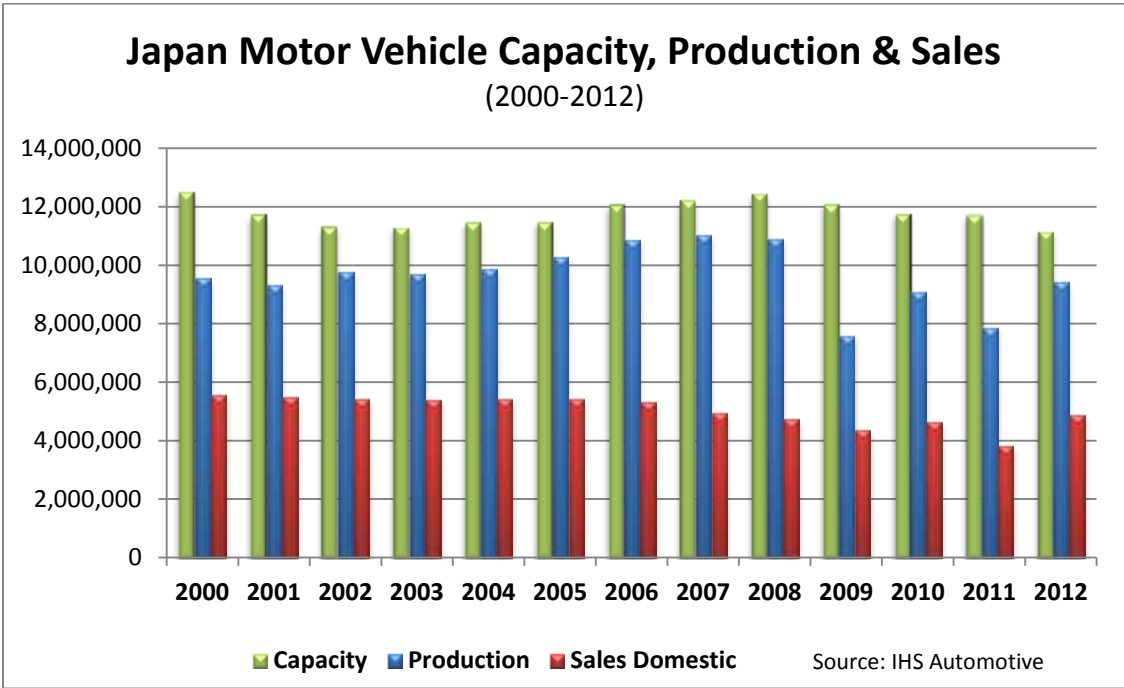
<sup>4</sup> *Exhibit 1* to this submission contains specific examples of current Japanese NTBs.

<sup>5</sup> *Transcript of On-The-Record Conference Call by Deputy National Security Advisor for International Economic Affairs Michael Froman and Acting United States Trade Representative Demetrios Marantis on "Toward The Trans Pacific Partnership: U.S. Consultations With Japan (April 12, 2013)*, <http://www.ustr.gov/about-us/press-office/speeches/transcripts/2013/april/dep-nsa-froman-amb-marantis-cc-tpp>. (Hereinafter "April 12, 2013 Transcript".)

<sup>6</sup> Stuart Pearson, et al., *Global Auto Clash of the Titans: The Race for Global Leadership*, MORGAN STANLEY BLUE PAPER, January 22, 2013.

The auto industry has been a key element in Japan’s export-led economic growth strategy in the post-World War II period. The Japanese Government has shown little hesitancy in doing whatever is necessary to support its auto industry, doing so via the NTBs discussed above and in *Exhibit 1*, as well as through currency weakening initiatives.

While the U.S. automotive industry has made the tough choices to be more competitive, the Japanese auto sector has adopted a far different strategy, maintaining production overcapacity in the face of declining domestic demand, closing its market to imports and calling on government manipulation of exchange rates to provide a competitive advantage for Japanese auto exports. In 2012, Japanese automobile production capacity exceeded 11 million vehicles in a domestic market with only five million customers.



These figures reflect the fact that Japanese automakers are increasingly facing the costs of idled plants and the prospect of selling too few cars to pay for the vehicle architectures on which they are based, putting even greater pressure on the automakers to export their products. With a shrinking domestic market, the Japanese auto industry is under competitive pressure to address its unsustainable overcapacity. Japanese automakers have gone so far as to seek government action to weaken the yen and threatened to cut their domestic production if the government did not comply:

Toshiyuki Shiga, Chief Operating Officer of Nissan Motor Co. Ltd: “The yen’s (current) strength has exceeded the expectations of the automotive industry so we strongly urge the government to take immediate action to rein in the yen’s rise.”<sup>7</sup> (June 20, 2011)

<sup>7</sup> *Japan Auto Industry Warns On Strong Yen’s Impact*, WALL STREET JOURNAL, June 20, 2011.

Fumihiko Ike, Honda Chief Financial Officer: “Protecting Japanese manufacturing and building cars here is becoming more and more difficult... At these exchange rates we lose competitiveness on these exports, and that leads to a fall in sales, triggering a vicious cycle. And when that happens, the natural consequence is for that production (in Japan) to disappear.”<sup>8</sup> (August 9, 2011)

Carlos Ghosn, CEO of Nissan: “I have spoken to the prime minister about this directly... If Japan wants employment, you’re going to have to do something about establishing a normal exchange rate.”<sup>9</sup> (October 7, 2011)

Akio Toyoda, President of Toyota Motor Corp.: “The Japanese auto industry won't give up on Japan-based manufacturing and will appeal to the government for help in defending this last bastion of the country's industrial base.”<sup>10</sup> (June 18, 2012)

Japan Automobile Manufacturers Association (JAMA) statement: “JAMA strongly advocates continued measures aimed at correcting the excessive strength of the yen, as well as decisive steps to advance, on an equal footing, the Trans-Pacific Partnership and other free trade-promoting economic accords. JAMA stands ready to cooperate fully with the new administration in the mission to achieve economic recovery in Japan.”<sup>11</sup> (December 26, 2012)

Responding to these growing threats of off-shoring by Japanese manufacturers, the Japanese government and Bank of Japan have actively engaged in efforts to weaken the yen in order to stimulate exports. Despite multiple commitments in the G-20, IMF and WTO to the contrary, the Japanese government has made explicit statements of its intention to weaken the yen to a targeted exchange rate for the announced purpose of aiding Japanese exports (primarily automobiles).

As a result of these actions, the yen has depreciated nearly 30 percent since October 2012.

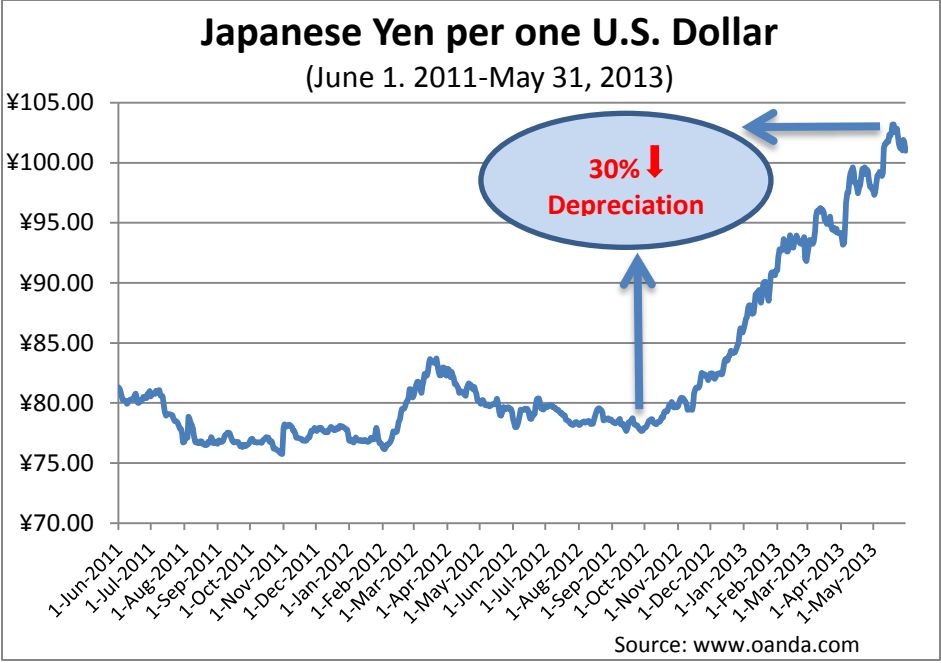
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<sup>8</sup> *Honda Says Studying Shift Overseas to Avoid Yen Effect*, REUTERS, August 9, 2011.

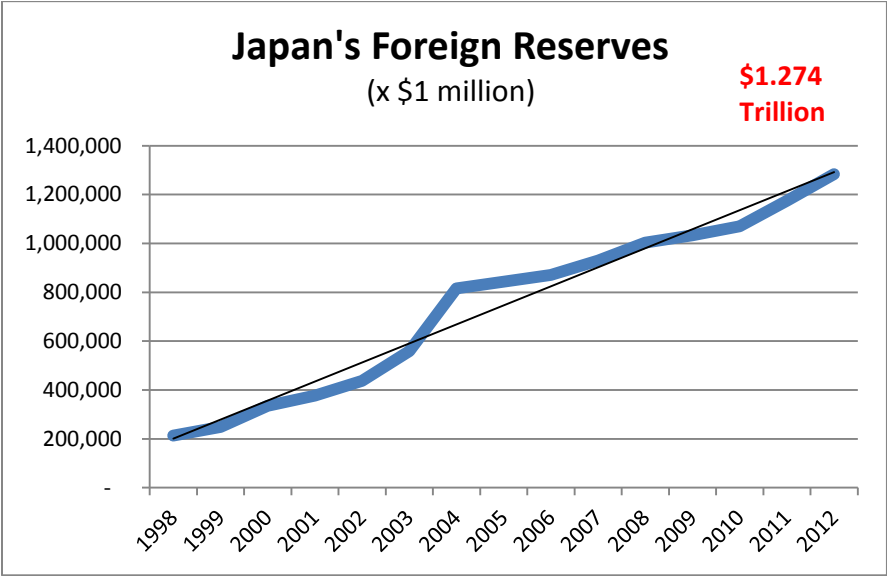
<sup>9</sup> *Nissan's Ghosn Warns of Japan 'Hollowing Out' on Yen's Surge*, BLOOMBERG NEWS, October 7, 2011.

<sup>10</sup> *Toyota Stays Committed to Output in Japan*, WALL STREET JOURNAL, June 18, 2012.

<sup>11</sup> *JAMA Comments on Announcement of New Abe Cabinet*, JAPAN AUTOMOTIVE MANUFACTURERS ASSOCIATION, INC., (Dec. 26, 2012), <http://www.jama-english.jp/release/comment/2012/121226.html>.



A clear sign that a country is intervening in currency markets is an increase in its foreign currency reserves, which occurs as it buys and holds foreign currencies. The following chart shows Japan’s accumulation of foreign currency reserves from 1998 through 2012—topping off at nearly \$1.3 trillion dollars, the second largest reserves in the world. This level of reserves far exceeds the prudent levels suggested by the IMF and far exceeds those of other developed economies that allow markets to determine the value of their currencies.



As a candidate, and now as Japan’s Prime Minister, Shinzo Abe has been vocal in his willingness to intervene to depress the value of the yen. In an article entitled, *A Yen for*



*Japan Inc.* Nissan reports that Prime Minister Abe stated, “Even though we’ve tried our best and put our hearts into our efforts, the strong yen makes us unable to be competitive.”<sup>12</sup>

Even before he took office, the expectation was that his stance on the yen would be beneficial to the Japanese auto industry. For instance, In November 2012, Bloomberg News reported:

“Shinzo Abe, leader of the opposition Liberal Democratic Party expected to win a Dec. 16 election, has vowed to weaken the nation’s currency and boost government spending to stimulate the economy. That has spurred speculation carmakers will see rising profit from exports and increased sales at home.”<sup>13</sup>

By appointing Haruhiko Kuroda as the Bank of Japan Governor, Mr. Abe also sent a clear signal to currency markets that he was determined to weaken the value of the yen. Mr. Kuroda had been the Vice Minister of Finance for International Affairs from 1999-2003, a period during which Japan intervened massively in currency markets.<sup>14</sup>

In its April 2013 semi-annual currency report the U.S. Department of the Treasury highlighted the intent of Japan’s economic policies was to weaken the yen:

“In Japan, economic performance and continuing deflation were key issues in last year’s election, and the Abe Administration came to office committed to reinvigorating growth and escaping deflation. Early statements by Japanese officials suggested that policies would, in part, be directed towards “correcting” yen strength...”<sup>15</sup>

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<sup>12</sup> *A Yen for Japan Inc.*, NISSAN MOTOR COMPANY, (Jan. 11, 2013), <http://reports.nissan-global.com/EN/?p=9334>.

<sup>13</sup> *Japan Automakers Jump on Bets Abe Will Weaken Yen: Cars*, BLOOMBERG NEWS, November 27, 2012.

<sup>14</sup> Beyond the recent actions by the Abe government, in 2011, in addition to making two public efforts to rein in the value of the yen, Japan made stealth interventions in the market to do so. (*Japan Confirms Its On-the-Sly Yen Intervention*, WALL STREET JOURNAL, February 8, 2012.) In total, it sold at least 14.3 trillion yen (\$183 billion). (*Yen Intervention Failing Means World’s Best Currency Poised to Strengthen*, BLOOMBERG NEWS, December 27, 2011.) Concerning these interventions, in its semi-annual currency report, the U.S. Department of the Treasury stated: “...the United States did not support these interventions... Rather than reacting to domestic “strong yen” concerns by intervening to try to influence the exchange rate, Japan should take fundamental and thoroughgoing steps to increase the dynamism of the domestic economy.” (*Report to Congress on International Economic and Exchange Rate Policies*, U.S. DEPARTMENT OF THE TREASURY OFFICE OF INTERNATIONAL AFFAIRS, December 27, 2011, p. 21.) Despite this admonition, Japanese Minister of Finance, Jun Azumi, subsequently indicated Japan’s intent to intervene as necessary, stating, “I will act when I find it necessary, and I mean it.” (*Official Warns of Action on the Yen*, WALL STREET JOURNAL, July 24, 2012.)

<sup>15</sup> *Report to Congress on International Economic and Exchange Rate Policies*, U.S. DEPARTMENT OF THE TREASURY OFFICE OF INTERNATIONAL AFFAIRS, (Apr. 12, 2013), <http://www.treasury.gov/resource-center/international/exchange-rate-policies/Documents/Foreign%20Exchange%20Report%20April%202013.pdf>.

In the same report, U.S. Department of the Treasury acknowledges the ongoing need to press Japan not to intervene to gain a competitive advantage.

“We will continue to press Japan to adhere to the commitments agreed to in the G-7 and G-20, to remain oriented towards meeting respective domestic objectives using domestic instruments and to refrain from competitive devaluation and targeting its exchange rate for competitive purposes.”<sup>16</sup>

The words and actions of the Japanese government to weaken the yen by almost 30 percent since October 2012 have had their intended effect and Japanese automakers have applauded the results:

Carlos Ghosn, CEO of Nissan Motor Co.: "We've been begging to remove the headwinds of the exchange rate since 2008. Five years later, it's happening so we applaud it."<sup>17</sup> (May 10, 2013)

Takahiko Ijichi, Toyota Senior Managing Officer: “Some say that they can’t feel any real substance in the whole ‘Abenomics’ phenomenon, but as a result, it’s weakened the yen and boosted stock prices.”<sup>18</sup> (Feb 5, 2013)

Underscoring the significance of these efforts to depress the value of the yen and the enormous benefit it has afforded Japanese automakers, Adam Jonas, industry analyst for Morgan Stanley recently stated that:

**Japanese Prime Minister Shinzo Abe...“Will go down as the greatest car salesman in Japanese history.”**<sup>19</sup>

Abe’s efforts to depress the value of the yen, has led to a massive windfall gain for Japanese automakers. At 101 yen/dollar and using 78 yen/dollar from October 1, 2012 as the base, on a per car basis, this windfall benefit is estimated to be up to \$5,700 per car imported into the United States from Japan.

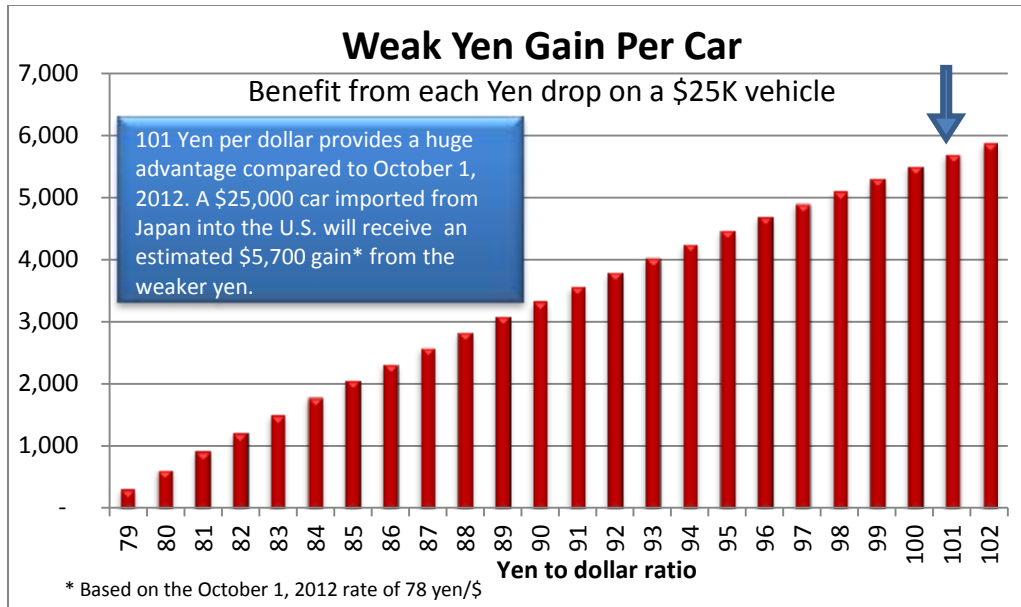
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<sup>16</sup> *Report to Congress on International Economic and Exchange Rate Policies, U.S. DEPARTMENT OF THE TREASURY OFFICE OF INTERNATIONAL AFFAIRS, (Apr. 12, 2013),* <http://www.treasury.gov/resource-center/international/exchange-rate-policies/Documents/Foreign%20Exchange%20Report%20April%202013.pdf>.

<sup>17</sup> *Nissan Earnings: After Flat Year, Car Maker Aims High*, WALL STREET JOURNAL, May 10, 2013.

<sup>18</sup> *Abe Euphoria Lifts Toyota, Weaker Yen Revives Japan Inc.*, BLOOMBERG BUSINESSWEEK, February 5, 2013.

<sup>19</sup> *Yen Skews U.S.Pricing, Data Show*, AUTOMOTIVE NEWS, June 3, 2013. (Emphasis added)



This translates into huge windfall operating profit gain for Japanese automakers exporting to the United States.<sup>20</sup> When looking at operating profits by Japanese automaker per one yen change,<sup>21</sup> the shift from 78 yen/dollar in October 1, 2012 to 101 yen/dollar in May 31, 2013 boosts Japanese automakers' (Nissan, Toyota Honda, and Mazda) combined annual profits by \$20.6 billion.

Japanese Automakers' Operating Profit Sensitivity to 1 Yen Change Against the U.S. Dollar			
U.S. Market			
	Yen	Dollars	Yen Gain (\$ Bills)
OEM	(Bills) 1/	(\$ Mill) 2/	(Oct 01 - May 31) 3/
Nissan	¥18	\$231	\$5.3
Toyota	¥34	\$436	\$10.0
Honda	¥15	\$192	\$4.4
Mazda	¥3	\$38	\$0.9
<b>Total</b>	<b>¥70</b>	<b>\$897</b>	<b>\$20.6</b>

1/100 Yen: *Global Auto Implications*, Morgan Stanley Research Global, (April 18, 2013)

2/Yen gain converted at 78 Yen/\$ (October, 1 2012)

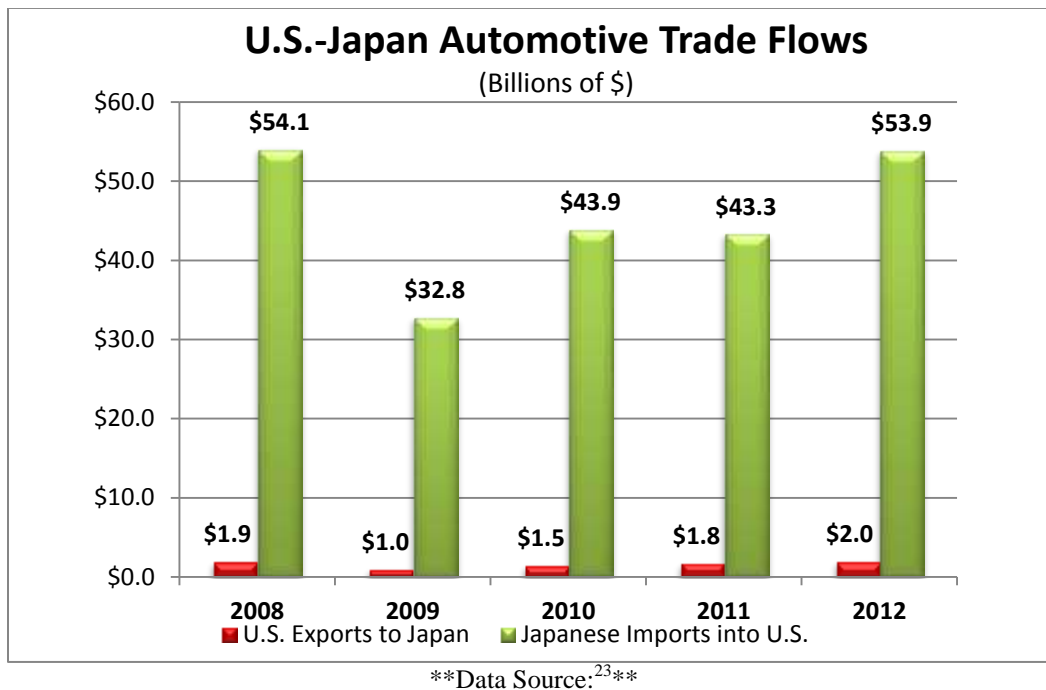
3/Effect of 23 Yen depreciation (78 Yen/\$ - 101 Yen/\$) versus the dollar since October 1, 2012

<sup>20</sup>Adam Jonas, et al., *Global Auto 100 Yen: Global Auto Implications*, MORGAN STANLEY RESEARCH GLOBAL, April 18, 2013 "...we anticipate there will be a very significant [U.S.] share shift as the currency [weakening of the yen] has a material impact on the value of the completed vehicles and components/sub-assemblies exported from the Japanese market."

<sup>21</sup> *Id.*

The weaker yen also provides a massive competitive advantage for Japanese automakers' exports to third markets (e.g., Middle East) where U.S. automakers also compete head-to-head with Japanese automakers. This will lead to fewer U.S. auto exports, undermining the contribution U.S. automakers are making to meet the President's goal of doubling U.S. exports in five years.

Unsurprisingly, the U.S. government data on trade with Japan illustrates that while Japan's closed market and currency manipulation may benefit its economy and exports, it has troubling consequences for the U.S. trade deficit and the overall U.S. economy. In 2012, the portion of the United States' trade deficit with Japan attributable to autos was \$52 billion, almost 70 percent of the overall bilateral trade deficit. Moreover, the most recent five year total U.S. trade deficit with Japan attributable to autos was approximately \$220 billion. And for every vehicle exported to Japan from the United States, Japan exported 130 vehicles to the United States.<sup>22</sup>



**E. Repeatedly, the U.S. Has Attempted to Open the Japanese Market to U.S. Autos and Each Time that Effort has Failed.**

During the 1970s and 1980s, Japanese automakers took advantage of the open U.S. and European auto markets while benefiting from a closed and protected domestic auto market in Japan. This sparked U.S. trade action and the initiation of U.S. bilateral negotiations with Japan on automotive trade and market access.

<sup>22</sup> United States Department of Commerce, Bureau of the Census and the International Trade Commission database.

<sup>23</sup> United States Department of Commerce, Bureau of the Census and the International Trade Commission database (motor vehicle & auto parts).

During the 10 years between 1985 and 1995, four different U.S. initiatives were pursued to open Japan's auto market:

- The 1985 Market Oriented Sector-Specific (MOSS) talks;
- The 1990 Market Oriented Cooperation Plan (MOCP);
- The 1992 Global Partnership Plan of Action (GPPA); and
- The 1995 U.S.-Japan Auto Agreement, "Measures by the Government of Japan and the Government of the United States of America Regarding Autos and Auto Parts." ("The 1995 Agreement")

None of these actions, supported at the highest levels of the U.S. government from both Democratic and Republican Administrations, resulted in meaningful improvements in access to Japan's auto market for American automakers.

The U.S. automakers' experience relating to The 1995 Agreement is illustrative. Following the conclusion of this agreement, U.S. automakers made large investments in the U.S. to develop products specifically for the Japanese market and invested in Japan to increase their dealer presence, in order to take advantage of Japan's market access commitments. Shortly thereafter, sales of U.S.-built autos began to improve. However, this increase did not last long – U.S. sales of imported autos soon languished, and even dropped to below pre-agreement levels.

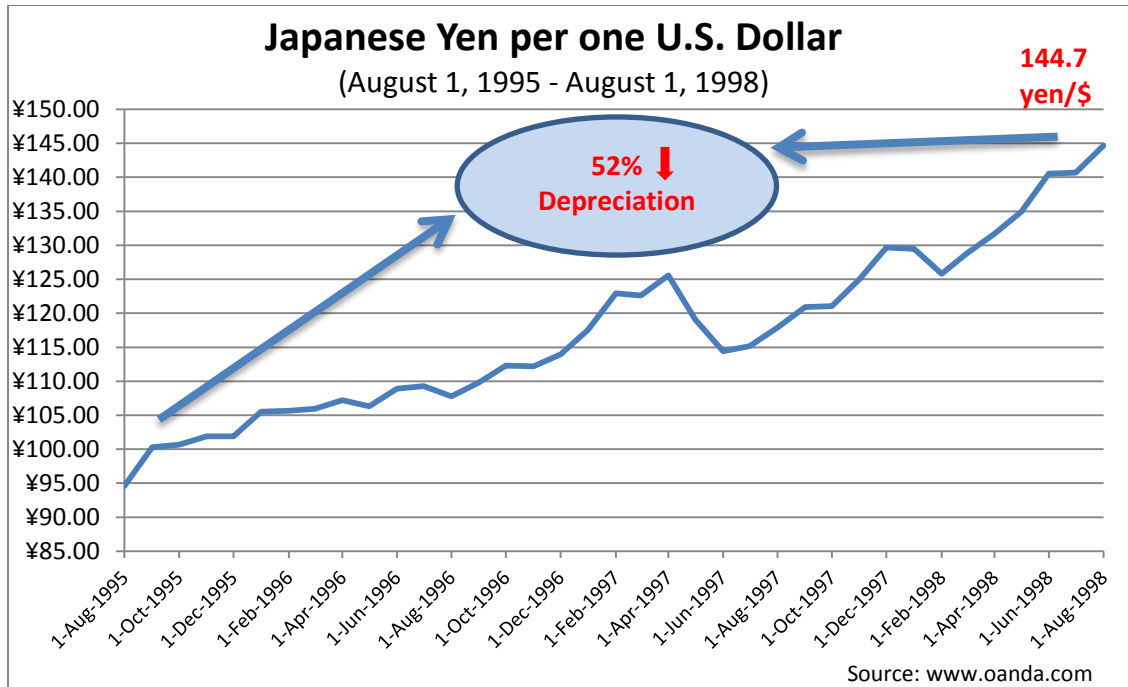
A primary cause of this downturn in U.S. sales was the substantial weakening of the yen against the U.S. dollar. The yen/dollar exchange rate averaged 94.6 in August 1995. Following the conclusion of The 1995 Agreement, the yen began to weaken, declining all the way to 144.69 yen/dollar by August 1998. This significant depreciation was more than sufficient to offset any market access benefits that U.S. automakers might have secured through The 1995 Agreement.<sup>24</sup>

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<sup>24</sup> However, even if the value of the yen had not declined, it is questionable whether U.S. automakers would have seen meaningful increased market access as a result of the 1995 Agreement. As the press release accompanying the 2000 annual review of the 1995 U.S.-Japan Automotive Framework Agreement states

**We have not fully realized the objectives of the 1995 U.S.-Japan Automotive Framework Agreement.** Despite the closer integration of the global auto industry over the past several years, **barriers continue to exist in the Japanese market which restrict access by competitive U.S., and other foreign, vehicle and parts manufacturers.** We hope to continue, and improve upon, the progress made under the current agreement. We must intensify our cooperative efforts to address remaining issues with the goal of increasing market access and U.S. exports in the future," said Commerce Under Secretary for International Trade, Robert LaRussa.

*U.S. and Japan Complete Annual Review of Automotive Framework Agreement, U.S. Emphasizes Need for Improved Market Access and Competition in Japan*, UNITED STATES DEPARTMENT OF COMMERCE, (Nov. 29, 2000), <http://www.ita.doc.gov/media/CommerceNews/japan1129.html>. (Emphasis added.)



If a similar approach is taken to open the Japanese market in the context of the TPP and currency is not addressed, there is no reason to believe that the outcome will be any different from past experience for U.S. automakers.

**F. The TPP must Include Strong, Enforceable Commitments Requiring Japan to Fully Open Its Domestic Auto Market to Foreign Competition and Refrain from Manipulating Its Currency.**

AAPC opposes Japan’s participation in the TPP Trade Agreement. However, as the United States has nevertheless invited Japan to participate, the Obama Administration must include the following provisions in the TPP Agreement, which are essential to creating the foundation for free and open trade between the United States and Japan in automotive goods.

1. The TPP Must Include Meaningful, Enforceable Currency Provisions.

It is critical that the TPP Agreement include strong and enforceable provisions to prevent Japan from intervening in currency markets to depress the value of the yen.

AAPC was very concerned that the package of actions and agreements<sup>25</sup> reflected in USTR’s Motor Vehicle Trade Terms of Reference<sup>26</sup> (hereinafter Terms of Reference)

<sup>25</sup> *Toward the Trans-Pacific Partnership: U.S. Consultations With Japan*, UNITED STATES TRADE REPRESENTATIVE, (Apr.13, 2013), [http://www.ustr.gov/sites/default/files/04132013%20Japan%20OVERVIEW%20factsheet%20FINAL\\_1.pdf](http://www.ustr.gov/sites/default/files/04132013%20Japan%20OVERVIEW%20factsheet%20FINAL_1.pdf) (hereinafter “U.S. Consultations With Japan”)

failed to secure any currency-related commitments from Japan. As illustrated above by the 1995 Agreement experience, an undervalued yen could undermine any new market access commitments Japan might make in the TPP Agreement.

Currency manipulation can also be used to nullify a tariff phase-out commitment. While the United States may secure a lengthy back-ended tariff phase out commitment from Japan, absent the inclusion of meaningful currency provisions, Japan could unilaterally give itself an advantage commensurate with the elimination of the tariff by intervening in the markets to depress the yen.

There is widespread, Congressional, business and academic support for the inclusion of currency disciplines in the TPP Agreement.

Just this week, a bipartisan letter sent by 230 Republican and Democratic Members of the U.S. Congress to President Obama urging him to ensure that the TPP Agreement included provisions governing currency. The letter states:

“Including currency disciplines in the TPP is consistent with and will bolster our ongoing efforts to respond to... trade-distorting policies. It will also raise TPP to the 21<sup>st</sup> century agreement standard set by the Administration. More importantly, it will create a level playing field for American businesses and workers and prevent more U.S. jobs from being shipped overseas.”<sup>27</sup>

On May 16, 2013, Fred C. Bergsten, Senior Fellow and President Emeritus, Peterson Institute for International Economics made the following remarks:

“Another tactic would be to begin including such mechanisms in bilateral or regional trade agreements, rather than or in addition to the WTO itself, that would suspend the benefits of the agreement to countries that were found to be manipulating their currencies; the United States should seek to add such chapters to the Trans-Pacific Partnership, which already includes several current and former manipulators...”<sup>28</sup>

On November 30, 2012, 24 U.S. Senators sent a letter to President Obama where they emphasized that:

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<sup>26</sup> *Motor Vehicle Trade Terms of Reference*, UNITED STATES TRADE REPRESENTATIVE, (Apr. 12, 2013), <http://www.ustr.gov/sites/default/files/Motor%20Vehicle%20TOR%20-%20Attachment%20to%20Amb%20Sasae%20Letter%204-12-13.pdf>.

<sup>27</sup> United States House of Representatives to President Barack Obama about currency disciplines, (June 6, 2013), <http://michaud.house.gov/sites/michaud.house.gov/files/TPPCurrencyLetter%20June%206%202013.pdf>.

<sup>28</sup> C. Fred Bergsten, *Currency Wars, The Economy of the United States and Reform of the International Monetary System*, Stavros Niarchos Foundation Lecture, PETERSON INSTITUTE FOR INTERNATIONAL ECONOMICS, (May 16, 2013), <http://www.piie.com/publications/papers/bergsten201305.pdf>.

“To prevent the artificial suppression of job-creating American exports, the TPP should explicitly allow countries to respond to and offset currency manipulation.”<sup>29</sup>

On May 22, 2012, 10 U.S. business associations sent a letter to U.S. Treasury Secretary Geithner and United States Trade Representative, Kirk, where they:

“...strongly recommend that the United States government pursue, as a leading priority, inclusion of strong currency disciplines in all future free trade agreements, including the Trans-Pacific Partnership (TPP) agreement.”<sup>30</sup>

(AAPC has included as *Exhibit 2* these and additional excerpts from letters to the Administration, remarks and reports calling for the inclusion of currency disciplines in the TPP Agreement.)

In summary, there is broad bipartisan support for the inclusion of meaningful, enforceable currency provisions in the TPP Agreement. Failure to include such provisions could erase any additional access to Japan’s automotive market otherwise secured by the United States through the TPP negotiations and subject U.S. automakers to increased, unfair competition in the United States and in third country markets around the world.

2. U.S. Tariffs on Imports of Japanese Motor Vehicles Must be Phased Out Over a Sufficient Length of Time to Demonstrate that Japan is Fulfilling its TPP Commitments and Has Opened Its Market to U.S. Auto Imports.

U.S. tariffs on imports of Japanese motor vehicles will be phased out over a sufficient length of time, no less than 25-30 years, which we understand the United States has already secured from Japan, in order to allow Japan to demonstrate that it is fulfilling its TPP commitments and has opened its market to U.S. auto imports.

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<sup>29</sup> United States Senate letter to President Barack Obama about the Trans-Pacific Partnership signed Senators Blumenthal, Boxer, Brown, Casey, Coons, Franken, Gillibrand, Harkin, Klobuchar, Lautenberg, Leahy, Manchin, Merkley, Mikulski, B. Nelson, Reed, Rockefeller, Sanders, Snowe, Stabenow, Tester, Udall, Whitehouse and Wyden, (November 30, 2012), <http://cwafiles.org/national/News/12-3-12%20Senate%20letter%20to%20President%20re%20TPP.pdf>.

<sup>30</sup> *TPP Currency Coalition Letter from 10 Trade Associations to USTR Kirk and Treasury Secretary Geithner*, ALLIANCE FOR AMERICAN MANUFACTURING (AAM); AMERICAN AUTOMOTIVE POLICY COUNCIL (AAPC); AMERICAN FIBER MANUFACTURERS ASSOCIATION (AFMA); AMERICAN IRON AND STEEL INSTITUTE (AISI); AMERICAN MOLD BUILDERS ASSOCIATION (AMBA); ASSOCIATION FOR MANUFACTURING TECHNOLOGY (AMT); INFORMATION TECHNOLOGY AND INNOVATION FOUNDATION (ITIF); MOTOR & EQUIPMENT MANUFACTURERS ASSOCIATION (MEMA); NATIONAL COUNCIL OF TEXTILE ORGANIZATIONS (NCTO); STEEL MANUFACTURERS ASSOCIATION (SMA), (May 22, 2012), <http://s3.amazonaws.com/assets.clients/aapc/aapc/media/240/TPP%20Currency%20Letter%20Final%20PD F%20final.pdf?1337692718>.



Given the fact that the Japanese market has been closed for almost 50 years, AAPC suggests that it may take 25 years for Japan to demonstrate that it has overcome, once and for all, its protectionist tendencies.<sup>31</sup>

However, AAPC is troubled by the language in the Terms of Reference linking the staging of the U.S. motor vehicle tariffs to the staging periods for other products, which implies that the tariff phase out could be less than 25-30 years. Given the implications for the U.S. auto industry and the U.S. economy as a whole associated with the phase out of these tariffs and increased competition from Japanese imports, the phase out of the U.S. motor vehicle tariffs should not be linked to the potentially competing priorities of other U.S. sectors.

### 3. Japan Must Eliminate all Non-Tariff Barriers.

Before it becomes a signatory to the TPP and is permitted to avail itself of the trade pact's benefits, Japan must clearly demonstrate that it has eliminated each of these NTBs included in *Exhibit 1* to this submission, which contains a non-exhaustive list of the current NTBs that U.S. automakers face in Japan, as well as any other barriers that are identified in this document or subsequently identified during the TPP negotiations.

AAPC is concerned that the Terms of Reference do not require Japan to eliminate all of the NTBs identified by AAPC. While the document generally states that NTBs in a number of areas will be "addressed", no detail is provided as to what specific NTBs Japan has agreed to address, nor how they will do so. Additionally, in the section discussing financial incentives, the Terms of Reference appear to exclude from elimination NTBs in the Japanese tax code. As the tax code is a source of multiple barriers to U.S. auto imports, it is critical that Japan eliminate them.

AAPC also has serious concerns about the metrics that will be used to confirm that Japan has eliminated all current NTBs. AAPC has long held the view that before Japan should be invited to participate in the TPP Agreement, it needed to establish definitively over several years that its domestic market was open to foreign auto imports. In AAPC's opinion, this is the only way to ensure that Japan is committed to the high ambition of the TPP.

As the Administration has decided to proceed ahead and invite Japan to join TPP without first requiring Japan to establish this track record of market openness, it will be more difficult to ascertain whether Japan has fulfilled its commitment to open its domestic auto market and is truly serious about liberalization. It is therefore requested that the

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<sup>31</sup> If, at the time the motor vehicle tariff phase outs are scheduled to commence, the Japanese domestic market is not open to U.S. auto imports, the U.S. government will use the dispute settlement snap back penalty (discussed below) to delay those tariff phase outs.

Administration consult closely with the AAPC in making determinations as to whether Japan has eliminated each NTB.<sup>32</sup>

4. The TPP Must Include a Meaningful, Accelerated Auto Dispute Settlement Mechanism to Address New NTBs When They Arise And Dispute Settlement Penalties That Include The Reinstatement of the U.S. Auto Tariff.

Due to the long history of Japanese government support for its domestic automakers and in the lack of success in past agreements in dealing with auto non-tariff barriers in Japan, the TPP Agreement would need to include effective mechanisms to avoid the adoption of new non-tariff barriers, and provide an expedited dispute settlement process to immediately address any that arise.

The agreement should also provide all stakeholders (government, industry, etc.) to object to a new proposed measure and provide evidence that the measure is either inconsistent with the TPP Agreement or nullifies or impairs any benefit to the United States under the agreement. In this context, Japan would not implement the measure until it was resolved either through negotiations or after the dispute settlement process is completed.

The agreement must include an accelerated dispute settlement mechanism for all key issues, including currency manipulation. The remedy would allow for the reinstatement of the current MFN tariff (also known as “snap back”). If the tariff reinstatement cannot be implemented because the U.S. tariff has not yet been eliminated, the period of time before the tariff is eliminated would be extended for a period equivalent to the duration of non-compliance, nullification or impairment.

Furthermore, if a proposed measure is implemented and, although not inconsistent with the agreement, results in the nullification or impairment of the benefits of the agreement, the United States would be authorized to suspend its concessions in an amount equivalent to the level of nullification or impairment, or to utilize the tariff reinstatement provision (or, if that provision cannot be implemented because the U.S. tariff has not been eliminated, to extend the period of time before the tariff is eliminated).

While the Terms of Reference indicate that Japan has agreed to accelerated, dispute settlement and a snap back penalty, it does not appear that USTR secured commitments from Japan on many of the dispute settlement mechanism-related provisions proposed by AAPC. Without these proposed tools, based on the U.S. auto sector’s experience in Korea since entry into force of the United States – South Korea FTA, it will be extremely difficult, if not impossible, to satisfactorily address future Japanese NTBs. As such, AAPC urges the Administration to include these proposed provisions in TPP.

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<sup>32</sup> With specific regard to standards based NTBs, if it becomes apparent during the course of the negotiations that Japan is not committed to eliminate all standards-related NTBs, AAPC requests that USTR seek acceptance by the Japanese of vehicles built to U.S. safety and environmental regulations.

5. The TPP Must Include Commitments on A Number of Other Issues that Impact U.S. Automakers Ability to Compete In the United States, Japan and Third Country Markets.

USTR has not yet secured commitments from Japan on a host of other issues adversely affecting U.S. automakers' ability to compete fairly against their Japanese competitors, including competition policy and global business practices.

i. *Competition and Restructuring.*

The failure of Japan to enforce antitrust policies to a standard equivalent to that of the United States or Europe has been an irritant in trade relations for many years. Government tolerance of collusive business practices has significantly raised the cost of distribution of foreign automakers' motor vehicles in Japan by allowing domestic automakers to pressure the existing dealership network not to also offer competing vehicle brands. This, combined with non-tariff trade barriers, creates a highly protected Japanese market, and is a key contributor to why nearly 95 percent of the Japanese automotive market is held by Japanese brands.

American negotiators have sought improved Japanese enforcement against anti-competitive practices, and have encountered Japanese resistance, literally for decades: since the time of U.S. involvement in the drafting of Japan's competition laws in the 1940s through the Structural Impediments Initiative of the early 1990s. Entry into a free trade agreement demands that Japan finally enforce effective competition laws and end the long isolation of the Japanese market.

ii. *Compliance with Global Business Practices.*

The United States has led the world in establishing strong anti-corruption and anti-bribery laws, and enforces them rigorously. This policy is reflected in free trade agreement negotiations, where the United States regularly seeks provisions that require trading partners also to enact and enforce strong anti-corruption laws.

This issue is of critical importance with respect to a developed export economy like Japan. Lack of enforcement by such an important economic power can perpetuate corruption in third countries, despite the best efforts of governments and companies in the United States.

Japan has accepted anti-bribery obligations as a member of the OECD, but has been found to be deficient in fulfilling these obligations. In December 2011, the OECD Working Group on Bribery completed its "Phase 3 Report on the Implementation of the OECD Anti-Bribery Convention in Japan" citing "serious concerns that Japan still does not appear to be actively enforcing its foreign bribery offence."<sup>33</sup> Japan must become a

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<sup>33</sup>Phase 3 Report on Implementing the OECD Anti-Bribery Convention in Japan, ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT, OECD Working Group on Bribery, (December 2011), at pg. 5, <http://www.oecd.org/daf/anti-bribery/anti-briberyconvention/Japanphase3reportEN.pdf>.

full participant in the international effort to combat bribery and corruption. Any agreement should require Japan to enact a law that is equivalent to the U.S. Foreign Corrupt Practices Act.

#### 6. The TPP Must Create an Auto Oversight Body.

With more automotive products traded between the United States and Japan than any other product and the systemic imbalance in auto trade, an agreement with Japan should include the establishment of a bi-national oversight body that would ensure the enactment and enforcement of key commitments, including currency manipulation, auto tariffs, technical barriers (with its own working group), auto taxes and tax incentives, distribution outlets and service centers, competition policy enforcement, and compliance with global business practices.

#### IV. Conclusion

Deputy National Security Advisor Michael Froman recently stated that the TPP is “an agreement that seeks to set high standards for 21<sup>st</sup> century issues as a way of raising the overall bar for the multilateral trading system.”<sup>34</sup> AACP and its member companies endorse this aim.

However, if the Terms of Reference announced by USTR earlier this year reflects the extent of the auto-related commitments that the United States secures from Japan through the TPP negotiations, the agreement will fall well-short of this laudable goal.

Instead, when fully implemented, it will reward Japan with nearly \$1 billion in annual tariff savings in U.S. auto tariffs. Simultaneously, TPP will lock in one-way trade in Japan’s favor, at a huge cost to the U.S. auto industry and the U.S. economy as a whole. Japan has 0% tariff on the importation of automotive products (vehicles and parts). The United States has a 2.5% tariff on passenger cars and light trucks (25% tariff on commercial trucks including pick-up trucks), and an average of 2.5% tariff on automotive parts. In 2012, Japan exported \$37.7 billion in passenger vehicles to the United States and \$16.1 billion in auto parts (totaling \$54 billion), with an average of a 2.5% tariff on parts, the tariff benefit for a FTA with Japan is not worth anything for the U.S. automakers and would be worth over \$1.3 billion per year for Japanese automakers (\$943 million for vehicles and \$403 million for parts in 2012) for passenger vehicles, and auto parts.

Although the tariff reduction benefit to Japan’s automakers is significant, as noted above currency manipulation can play an even greater role and have a much larger impact than tariffs. For example, the recent weakening of the yen by 30%, worth billions to Japanese

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<sup>34</sup> *Transcript of On-The-Record Conference Call by Deputy National Security Advisor for International Economic Affairs Michael Froman and Acting United States Trade Representative Demetrios Marantis on “Toward The Trans Pacific Partnership: U.S. Consultations With Japan,* (April 12, 2013), <http://www.ustr.gov/about-us/press-office/speeches/transcripts/2013/april/dep-nsa-froman-amb-marantis-cc-tpa>.

automakers, is worth much more than the U.S. auto tariff reductions that would be part of a TPP agreement. This makes including strong and enforceable currency manipulation in the TPP agreement essential to achieving the TPP agreement's objectives, and closing a means to undermine the agreement potential.

The extent of the potential economic impact is reflected in a recent study by the well-respected Center for Automotive Research. The study estimates that including Japan in the TPP, combined with the impact of currency intervention by Japan to weaken the yen to 100 yen/dollar, would reduce U.S. vehicle production by 225,000 units and eliminate almost 100,000 American jobs.<sup>35</sup>

The U.S. auto industry remains committed to driving a manufacturing renaissance here in America, increasing productivity, creating jobs and building world class products for the global marketplace. We simply ask that public policy continue to create the conditions under which this can happen.

As such, unless the final text of the TPP Agreement include the provisions proposed in this submission, which are designed to ensure that the trade pact results in liberalized auto sector trade with Japan and raises the bar for the multilateral trading system, it will be impossible for the AAPC to support the TPP Agreement.

Thank you for your consideration of AAPC's views and input.

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<sup>35</sup> *The Effects of a U.S.-Japan Free Trade Agreements would have on the U.S. Automotive Industry*, CENTER FOR AUTOMOTIVE RESEARCH, (August 21, 2012), <http://www.cargroup.org/?module=Publications&event=View&pubID=88>.

## **Exhibit I: Examples of Japan's Current Non-Tariff Barriers**<sup>36</sup>

### **Regulatory Barriers**

- **RKE and TPMS Radio Frequency/Power:** The Japanese Ministry of Internal Affairs and Communications (MIAC) governs radio usage and frequency bands in Japan. U.S. Remote Keyless Entry (RKE) and Tire Pressure Monitoring System (TPMS) signal strength exceeds MIAC allowable level and requires certification by the supplier as well as a required ID marking, which is costly and burdensome. Accepting U.S. RKE and TPMS systems without supplier certification and ID marking should be allowed.
- **Daytime Running Lamps (DRL):** DRL is not allowed in Japan. Japan has adopted ECE R48 as a general lighting installation requirement, but has not adopted ECE R87 requirement for DRL. This has resulted in an automotive lighting configuration unique to Japan, requiring manufacturers to redesign the lighting systems of vehicles (i.e., disable DRL) for sale in Japan. There is no clear rationale provided by the regulatory authorities as to why DRL is not permitted while DRL has been adopted in overseas markets as a safety device. Japanese authorities should accept vehicles that have DRL as part of their lighting systems.
- **Exterior Noise:** Japan maintains a unique set of exterior noise requirements. These include Acceleration, Proximity and Cruise-by noise tests and standards. There is no need for a unique noise test in Japan. The United States does not have a national noise control act. There are ECE technical regulations (ECE R51 & ECE R117). Japan should harmonize its regulations to the ECE requirements.
- **Exhaust Emissions and Fuel Economy:** Japan has a unique emission and fuel economy test mode requirement (Japan Mode JC08). There are two major exhaust test modes accepted around the world [NEDC and FTP75 (LA4-CH)]. Japan's unnecessarily unique requirement adds significant cost to certifying vehicles for sale in Japan. Japan should abandon its unique test mode and accept either of the two other widely accepted exhaust test modes, until the WLTP (World Light duty Test Procedure) is finalized, at which time it should adopt it.
- **Occupant Protection:** A complete set of collision safety performance tests (crash tests) for FMVSS-only tested vehicles is required. This is expensive by its nature due to the destroying of the vehicles as part of the tests. For Japan there are three types of crash tests required (Full frontal – FMVSS, offset frontal – ECE R94 and lateral – ECE R95). This is unique since it is similar, but not identical to FMVSS 208 frontal crash (both full and offset) and FMVSS 214 (lateral) requirements. Acceptance of

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<sup>36</sup> This list does not include currency manipulation, which is also an NTB. As discussed in the body of AAPC's submission, a weak currency tilts the playing field in favor of domestic producers by making imports more expensive.

U.S. FMVSS-only frontal and lateral crash tests should be considered sufficient to meet Japan's requirements.

- **Explosives Law:** Japan's explosives law governs pyrotechnical devices on the automobile. Air bag gas generator and seat belt pre-tensioner are exempted inclusively from the law regardless of the amount of explosive and gun powder. Per the latest revision in 2012, the category for other device has been simplified but amount limitation on explosive and gun powder for other devices (i.e. pop-up hood actuator) still exist. Additional improvements to the law governing these remaining devices should be made.
- **High Pressure Gas Safety Law:** Japan's high pressure gas safety law restricts the import of several components and devices, such as the hydrogen inflator for airbags, the hydrogen tank for fuel cell vehicles FCV, and air conditioners with HFO-1234yf refrigerant. In fact, the importation of the hydrogen inflator and the hydrogen tank is virtually impossible due to strict import inspection and the fact that the Japanese law governing high pressure gas tanks is unique. To enhance the introduction of eco-friendly technologies, Japan should recognize U.S. and EU rules governing these products until such time as the GTR is finalized, at which time Japan should adopt it.

### **Auto Taxes and Tax Incentives**

Japan applies nine auto-related taxes on the acquisition, ownership and running of a passenger vehicle. The "grossly excessive" tax burden is several times higher than other developed countries. Taxes include: Acquisition (Automobile Acquisition Tax, Vehicle Consumption Tax); Ownership (Tonnage Tax, Annual Automobile Tax, Mini-vehicle Tax); Running stage (Gasoline Tax, local Gasoline Tax, Diesel Handling Tax, Consumption Tax). The AAPC joins the Japan Automobile Importers Association (JAIA) call for the "abolition of the Automobile Acquisition Tax and the Tonnage Tax," and that the remaining "...complex and overloaded taxes on automobiles must be immediately reviewed, streamlined and reduced..."<sup>37</sup>

Several of these taxes disproportionality impact imported vehicles. A specific example of auto tax issues that have an adverse impact on import automakers is the Annual Automobile Tax, which places a disproportionately heavier burden on vehicles with larger engine displacement (mostly imports). Eliminating the engine displacement aspect of the tax by adopting a single tax level equivalent to the current *Kei* car Annual Automobile Tax level would eliminate the added burden that this tax places on imported vehicles vis-à-vis their domestic competitors.

Additionally, auto related tax incentives, including those based on fuel efficiency and emissions (including the ongoing Eco-car tax incentives) need to be offered on a fair and equitable basis, so that most imports are not excluded. This includes tax incentives that exclude vehicles certified under Japan's Preferential Handling Procedure, the low-volume

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<sup>37</sup> *Import Car Market of Japan 2013*, JAPAN AUTOMOBILE IMPORTERS ASSOCIATION (JAIA), (May 10, 2013), [http://www.jaia-jp.org/english/wp-content/uploads/pdf\\_data\\_2013icmj.pdf](http://www.jaia-jp.org/english/wp-content/uploads/pdf_data_2013icmj.pdf).

import exception to Japan's onerous type approval certification requirements, which is frequently relied upon by U.S. automakers.<sup>38</sup>

### **Distribution Outlets and Service Centers**

Another issue faced by importers in Japan is gaining adequate access to dealerships, service and repair centers. One important hurdle for establishing new dealerships is to get land within approved zoning areas, and receiving Ministry of Land, Infrastructure, Transport and Tourism certification to have a new service/repair center established. Even if approval is granted, the facility can be significantly limited in its sq. ft. size. An agreement with Japan should include measures easing the zoning requirements and streamlining and accelerating the certification and approval process to allow for the opening of many more U.S. import sales and service outlets in Japan.

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<sup>38</sup> For instance, under Japanese law, the imposition of the acquisition and consumption taxes, among others, may be reduced or even eliminated depending on a vehicle's fuel economy. However, vehicles certified through the Preferential Handling Procedure are not eligible for such tax relief, regardless of their fuel efficiency.



## **Exhibit II: Examples of Support for the Inclusion of Currency Disciplines in the TPP Agreement**

June 6, 2013 Letter from 230 Members of Congress to President Obama: *“Including currency disciplines in the TPP is consistent with and will bolster our ongoing efforts to respond to... trade-distorting policies. It will also raise TPP to the 21<sup>st</sup> century agreement standard set by the Administration. More importantly, it will create a level playing field for American businesses and workers and prevent more U.S. jobs from being shipped overseas.”*<sup>39</sup>

May 16, 2013 Excerpt from Remarks of Fred Bergsten, Senior Fellow and President Emeritus, Peterson Institute for International Economics: *“Another tactic would be to begin including such mechanisms in bilateral or regional trade agreements, rather than or in addition to the WTO itself, that would suspend the benefits of the agreement to countries that were found to be manipulating their currencies; the United States should seek to add such chapters to the Trans-Pacific Partnership, which already includes several current and former manipulators...”*<sup>40</sup>

February 2013 Excerpt from a Wilson Center Report entitled “Negotiations for a Trans-Pacific Partnership”: *“If the TPP negotiations are to fulfill this promise, however, it is critical that the rules be right. This means that they must deal with the major gaps in the World Trade Organization rules, such as...addressing currency manipulation, an issue that is not currently on the TPP negotiating table.”*<sup>41</sup>

November 30, 2012 Letter from 24 U.S. Senators to President Obama: *“To prevent the artificial suppression of job-creating American exports, the TPP should explicitly allow countries to respond to and offset currency manipulation.”*<sup>42</sup>

August 2012 Excerpt from Economic Strategy Institute Report entitled “The Trans-Pacific Partnership and Japan”: *“Although the TPP is being touted as a “Twenty First Century” agreement, it is, in fact, nothing of the sort in terms of substance....In order to*

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<sup>39</sup> United States House of Representatives to President Barack Obama about currency disciplines, (June 6, 2013),

<http://michaud.house.gov/sites/michaud.house.gov/files/TPPCurrencyLetter%20June%206%202013.pdf>.

<sup>40</sup> C. Fred Bergsten, *Currency Wars, The Economy of the United States and Reform of the International Monetary System*, Stavros Niarchos Foundation Lecture, PETERSON INSTITUTE FOR INTERNATIONAL ECONOMICS, (May 16, 2013),

<http://www.piie.com/publications/papers/bergsten201305.pdf>.

<sup>41</sup> William Krist, Senior Policy Scholar, *Negotiations for a Trans-Pacific Partnership*, WOODROW WILSON INTERNATIONAL CENTER FOR SCHOLARS, (February 2013),

[http://www.wilsoncenter.org/sites/default/files/PAGE\\_TPP\\_REPORT.pdf](http://www.wilsoncenter.org/sites/default/files/PAGE_TPP_REPORT.pdf).

<sup>42</sup> United States Senate letter to President Barack Obama about the Trans-Pacific Partnership signed Senators Blumenthal, Boxer, Brown, Casey, Coons, Franken, Gillibrand, Harkin, Klobuchar, Lautenberg, Leahy, Manchin, Merkley, Mikulski, B. Nelson, Reed, Rockefeller, Sanders, Snowe, Stabenow, Tester, Udall, Whitehouse and Wyden, (November 30, 2012), <http://cwafiles.org/national/News/12-3-12%20Senate%20letter%20to%20President%20re%20TPP.pdf>.

*become a truly 21st century trade agreement, the TPP must be expanded to include provisions barring currency manipulation...*<sup>43</sup>

May 22, 2012 letter from 10 U.S. business associations to Treasury Secretary Geithner and the United States Trade Representative Kirk: “...*We strongly recommend that the United States government pursue, as a leading priority, inclusion of strong currency disciplines in all future free trade agreements, including the Trans-Pacific Partnership (TPP) agreement.*”<sup>44</sup>

January 18, 2012 Letter from U.S. Senator Hatch, Ranking Member of Finance to Treasury Secretary Geithner and United States Trade Representative Kirk: “*Addressing currency manipulation in the TPP becomes particularly important as the Administration considers the possibility of new TPP participants, such as Japan, who have demonstrated a pattern of currency interventions.*”<sup>45</sup>

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<sup>43</sup> *The Trans-Pacific Partnership and Japan*, ECONOMIC STRATEGY INSTITUTE, (August 2012), [http://www.econstrat.org/index.php?option=com\\_content&task=view&id=564&Itemid=59](http://www.econstrat.org/index.php?option=com_content&task=view&id=564&Itemid=59).

<sup>44</sup> *TPP Currency Coalition Letter from 10 Trade Associations to USTR Kirk and Treasury Secretary Geithner*, ALLIANCE FOR AMERICAN MANUFACTURING (AAM); AMERICAN AUTOMOTIVE POLICY COUNCIL (AAPC); AMERICAN FIBER MANUFACTURERS ASSOCIATION (AFMA); AMERICAN IRON AND STEEL INSTITUTE (AISI); AMERICAN MOLD BUILDERS ASSOCIATION (AMBA); ASSOCIATION FOR MANUFACTURING TECHNOLOGY (AMT); INFORMATION TECHNOLOGY AND INNOVATION FOUNDATION (ITIF); MOTOR & EQUIPMENT MANUFACTURERS ASSOCIATION (MEMA); NATIONAL COUNCIL OF TEXTILE ORGANIZATIONS (NCTO); STEEL MANUFACTURERS ASSOCIATION (SMA), (May 22, 2012), <http://s3.amazonaws.com/assets.clients/aapc/aapc/media/240/TPP%20Currency%20Letter%20Final%20PDF%20final.pdf?1337692718>.

<sup>45</sup> U.S. Senate letter to U.S. Treasury Secretary Geithner and United States Trade Representative Kirk from Senator Orin Hatch, Ranking member of the U.S. Senate Financial Services Committee, (January 18, 2012), <http://s3.amazonaws.com/assets.clients/aapc/aapc/media/191/Sen%20Hatch%20currency%20letter%20to%20Geithner%20and%20Kirk.pdf?1328634289>.