

**STATEMENT OF THE**

**JAPAN AUTOMOBILE MANUFACTURERS ASSOCIATION**

**BEFORE THE**

**UNITED STATES TRADE REPRESENTATIVE**

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**“PARTICIPATION OF JAPAN IN THE TRANS-PACIFIC  
PARTNERSHIP NEGOTIATIONS”**

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**Ronald B. Bookbinder**

**General Director, JAMA Washington Office**

## **Introduction**

The Japan Automobile Manufacturers Association, Inc. (JAMA) appreciates the opportunity to present its views in response to the U.S. Trade Representative's May 7, 2013 request for comments regarding "Participation of Japan in the Trans-Pacific Partnership Trade Negotiations."

JAMA is a Tokyo-based, nonprofit industry association that represents Japan's 14 manufacturers of passenger cars, trucks, buses and motorcycles. JAMA's member companies are Daihatsu Motor Co., Ltd.; Fuji Heavy Industries Ltd.; Hino Motors, Ltd.; Honda Motor Co., Ltd.; Isuzu Motors Limited; Kawasaki Heavy Industries, Ltd.; Mazda Motor Corporation; Mitsubishi Motors Corporation; Mitsubishi Fuso Truck & Bus Corporation; Nissan Motor Co., Ltd.; Suzuki Motor Corporation; Toyota Motor Corporation; UD Trucks Corporation; and Yamaha Motor Co., Ltd. Virtually all of our members invest, and most of them produce and sell, automotive products in the United States and are inextricably linked to the U.S. economy.

At the outset, JAMA would like to make clear two basic points. First, JAMA strongly supports the Trans-Pacific Partnership (TPP) with Japan's participation and the efforts of the Governments of Japan and the U.S. to move forward expeditiously. Due to JAMA's and its member companies' deep commitment to open trade and decades of experience demonstrating the overwhelming benefits of trade liberalization and open investment, JAMA shares in the belief that TPP will be an historic agreement that boosts the prosperity of the Asia Pacific region to the benefit of all participants. JAMA also believes that Japan's participation in TPP will add substantially to the already dramatic contributions of the Japanese automakers to the overall U.S. auto industry and the U.S. economy. To accomplish this goal, it is essential that Japan be an equal and active participant in the TPP process and we appreciate the recognition and support of the U.S. Government towards this end.

Second, as part of JAMA's commitment to promoting trade liberalization, JAMA reiterates its historic willingness and support for addressing any specific, Japanese market-related concerns that are identified and continues to seek ways to cooperate with its counterparts around the world towards expanding trade and opportunities in all countries. JAMA believes that the global auto industry is stronger, that technology advances more quickly and that consumers benefit most in market-based economies characterized by more competition, not less.

In January 2012, JAMA submitted Comments in response to USTR's December 7, 2011 Federal Register notice regarding "Japan's Expression of Interest in the Trans-Pacific Partnership Negotiations." In that statement, JAMA welcomed Japan's announcement of its intent to enter into talks aimed at TPP negotiations, corrected unsubstantiated allegations regarding Japan's auto market, and reiterated its continued willingness to work together with worldwide auto and auto parts interests to address any Japan market-related concerns.

On April 12, 2013, JAMA Chairman Akio Toyoda, in a statement recognizing the U.S.-Japan announcement regarding Japan's participation in TPP, reaffirmed the very great positive potential for the TPP with Japan included:

Japan's participation in the TPP will not only be instrumental in the recovery of its economy, but will enable it to make significant contributions to regulatory and other

progress throughout the Asia-Pacific region and to the development of bilateral and multilateral economic partnership agreements in other regions as well. ...

We look forward to the Japanese Government's entering the TPP negotiations on a sure footing of promoting national interests and taking into account the views of our industry. It is furthermore hoped that upcoming negotiations will dispel any unfounded misunderstandings on the U.S. side in regard to the auto market here in Japan and serve the best interests of consumers in both our countries.

JAMA looks forward to the opportunity to assist in achieving the successful conclusion of the TPP negotiations. We hope to be a resource to the Japanese and United States Governments for any needed information. We are prepared to respond to questions or concerns regarding issues appropriate to JAMA.

In these comments, JAMA will describe the benefits that open trade has produced for JAMA member companies in terms of internationalization of the auto industry and multi-billion dollar investment in the United States. We will indicate the contribution those benefits have made to the U.S. economy. We believe that the successful conclusion of TPP with Japan as a member will preserve and enhance that contribution.

We will also review the benefits of TPP with Japanese participation for auto trade, with respect to consumer choice and market access. We will examine unfounded claims regarding Japan's auto market and the key facts supporting the conclusion that there are no tariff or non-tariff restrictions on the sale of imported motor vehicles in Japan. We will review the history of Japan's, and specifically JAMA's, openness and willingness to receive, review, and respond to any identified auto trade concerns.

TPP is a dramatic and transformational moment in the expansion of open trade. It deserves the careful attention and dedication of all the participating member countries. Negotiating TPP will be a challenge, but its success will be historic. It will promote free trade and investment in the Asia-Pacific region and the world in a progressive way, and JAMA is committed to this exciting initiative.

### **Japan's Participation in the TPP Will Benefit the U.S. Economy**

Japanese auto companies have been at the forefront of internationalization of the auto industry. For decades they have subscribed to the concept that vehicles should be built in the markets where significant demand exists, and that when auto production is able to cross borders freely, economies grow, standards of living are raised, and jobs multiply.

JAMA member companies have been engaged in local production in the United States since the early 1980s, and today they are an integral part of the U.S. auto industry. Because of these decades of open trade, the U.S. auto industry has undergone revolutionary changes and now has emerged far stronger and healthier than ever before. Japanese auto companies have led the transition to hybrid vehicles and electric cars, being the first to put alternative-energy vehicles on the road in the United States. About 85 percent of the alternative-energy vehicles on U.S. roads today bear Japanese nameplates.

This is only one exemplary aspect of Japanese investment and contribution to the U.S. auto industry. The basic statistics tell the overall story:

<u>Employment: U.S. Manufacturing, R&amp;D, Distribution:</u>	1995: 52,000	2012: 81,034
<u>Total U.S. Manufacturing Plant Investment:</u>	1993: \$9.915 billion	2012: \$35.444 billion
<u>Percent of U.S. Sales Produced in North America:</u>	1988: 12%	2012: 70%
<u>Exports from Japanese Auto Plants in the U.S.:</u>	1999: 128,113	2012: 335,680
<u>U.S. Parts Purchases:</u>	1986: \$2.49 billion	2011: \$43.24 billion
<u>U.S. Japanese Brand Vehicle Production:</u>	1986: 617,000	2012: 3,295,000

The “direct” employment numbers cited above do not fully demonstrate the economic benefits to the United States of Japanese auto company investment. Based on a recent economic analysis by Professor Thomas Prusa of Rutgers University, sponsored by JAMA, in total JAMA member production facilities and dealer networks contribute to an estimated 1.2 million U.S. jobs. This means that as a result of the interaction of open trade and internationalization of the auto industry, the Japanese-branded automobile companies are among the largest job creators in the United States.

Professor Prusa’s economic analysis determined that the overall jobs multiplier associated with Japanese-branded automakers’ U.S. vehicle production and dealer networks is approximately 2.5. That is, about two and a half additional jobs are associated with each worker directly employed by those companies and their dealers. Professor Prusa further estimated that total annual compensation attributable, directly and indirectly, to Japanese-branded auto production in the United States is over \$76 billion. Personal taxes from these jobs are estimated to exceed \$11 billion.

While there are many factors that drive investment decisions and job creation, JAMA member companies have historically demonstrated that when market conditions create opportunities for investment and expansion, they are prepared to take advantage of those opportunities. Japan’s participation in TPP will, in our view, contribute to bringing about those positive market conditions in all markets of the region.

### **Japan’s Participation in the TPP Will Benefit U.S.-Japan Auto Trade**

Both the United States and Japan have highly competitive auto markets which provide their consumers with a wide range of vehicle choices based on size, price, body style, accessories, engine size, fuel economy, technology, environmental considerations, and other more subjective “drivability” factors. In both countries, consumers can choose freely from domestic and imported nameplates. Due to geographical conditions, fuel prices and other factors, trade and market conditions in each country are different, but in both the United States and Japan, the basic approach is to assure that the consumer has these many choices and that the consumer, not the government, makes the market decisions. That approach, in turn, places the greatest emphasis on both open trade and markets and on commercial decisions and commitments by the auto

companies themselves. This applies to both tariff and non-tariff barriers, both of which JAMA believes should be addressed in the TPP process.

In Japan this approach is reflected in particular in the fact that Japan's tariffs have been at 0% for passenger vehicles, trucks and auto parts since 1978. In comparison, tariffs are imposed in some of the countries that have already joined the TPP initiative as follows: Singapore: 0% on all vehicle types; Vietnam: 83% on passenger cars; Malaysia: 30% on passenger cars; Canada: 6.1% on light vehicles; Mexico: 0%-30% on passenger cars; Peru: 6% on passenger cars; Australia: 5% on passenger cars and trucks; the United States: 2.5% on passenger cars and 25% on trucks.

JAMA welcomes the stated objective of TPP to obtain a "high standards" agreement that is comprehensive and that has at its core market access and mutual market opening initiatives. Accordingly, while we recognize that tariff elimination is a matter to be resolved between the Japanese and United States Governments, JAMA considers any protracted process of automotive tariff elimination, as has already been discussed between the two governments, to be regrettable, as JAMA Chairman Akio Toyoda stated on April 12.

JAMA believes also that Japan's participation in the TPP will contribute constructively to the development of rules that promote free trade, open investment and the protection of intellectual property rights among other benefits, and that Japan's zero tariffs in this sector warrant similar efforts from all TPP participants in the interests of open trade.

### **The Japanese Auto Market Is Fully Open**

JAMA observes that at times in the course of the debate in the United States regarding Japan's TPP participation, misunderstandings have led to statements that Japan's market is closed to imports. In fact, no restrictive customs or other regulations apply to imported vehicles. With regard to dealerships, there is no restriction on the brands or vehicles dealers in Japan can sell and Japanese auto manufacturers cannot intervene in these dealer decisions.

In the 1995 U.S.-Japan Framework Agreement, the Japanese vehicle manufacturers specifically confirmed that:

- a. all dealers are free to sell competing motor vehicles and that a dealer's decision to sell one or more competing motor vehicles should not be a matter of concern to the dealer regarding such dealer's ongoing relationship with a Japanese vehicle manufacturer;
- b. all prior consultation requirement clauses with respect to handling competing motor vehicles that previously existed in dealership agreements have been eliminated; and
- c. they support open and competitive distribution systems for motor vehicles in Japan.

In the same Agreement, the Government of Japan agreed that it would "specifically in writing ... inform dealers which are members of the Japan Automobile Dealers Association that they are

free to sell competing motor vehicles.” The Japanese Government also agreed to provide each dealer those sections of the Japan Fair Trade Commission’s “Antimonopoly Act Guidelines Concerning Distribution Systems and Business Practices” “which describe types of conduct, including direct or indirect restrictions on distributors’ handling of competing products, which may impede free and fair competition and violate the Antimonopoly Act.”

JAMA notes that in recent years, at the same time that the number of dealers in Japan selling European-nameplate vehicles has increased, there has been a significant decrease in the number of dealers in Japan that sell U.S. vehicles. For example, in 1996 there were about 620 dealers selling cars manufactured by U.S.-based auto companies, and 755 dealers selling cars from Europe-based companies. In 2011 there were 160 dealers selling cars made by U.S.-based companies and 1,302 dealers selling European cars. The increase in the number of European dealerships is due to the fact that European auto manufacturers offer models that fit the Japanese market.

Regarding market share, it is essential to note that Japanese consumers overwhelmingly prefer very small cars, which U.S.-based auto companies rarely provide. For example, in 2012, smaller passenger cars, those with up to 2,000cc in engine capacity, had an 89.9 percent market share in Japan. In 2012, the U.S.-based auto companies offered only five models in this segment. European manufacturers offered 87 models in this segment. In the 2,001cc-3,000cc segment, there were five U.S.-based auto company models, and 54 European company models, and in the over-3,000cc segment, there were 10 U.S.-based company models and 103 European company models. Moreover, while small, the large and luxury car segment is one in which import market share has approached or exceeded 20 percent in recent years.

These statistics demonstrate clearly that market share for imports in Japan is a matter of offering the right car for the individual consumer, and providing sufficient choices to be a serious competitor. JAMA believes that TPP will further strengthen the climate for free trade in all participating countries, making it even more attractive for manufacturers to consider making the necessary commitment to success.

Finally with respect to auto trade, JAMA reiterates its historic willingness and support for addressing any specific, Japanese market-related concerns that are identified between the United States and Japan. Since the first interaction between the two countries on auto trade in the 1970s, through the MOSS and Framework negotiations, JAMA has sought to be a positive force in the analysis and resolution of outstanding issues. JAMA has organized or cooperated in the organization of exchanges between U.S. and Japanese auto company CEOs, between the Japanese auto companies and U.S. auto parts companies, and between industry trade associations. For example, JAMA has cooperated with the Motor & Equipment Manufacturers Association and Original Equipment Suppliers Association, to achieve improvements in product quality, delivery time, and innovation, thereby increasing competitiveness.

## **Conclusion**

In conclusion, JAMA strongly supports TPP with Japan’s participation and the Japanese and U.S. Governments’ efforts to move forward expeditiously. Furthermore, as stated above, JAMA reiterates its historic willingness and support for addressing any specific, Japanese

market-related concerns that are identified between the United States and Japan. JAMA believes that, by enabling free trade and the liberalization of investment in the entire Asia Pacific region, the TPP will contribute to the further development of the world economy and will bring major benefits to consumers through more diversified market choices. The participation of Japan, the world's third largest economy, is key to achieving these ambitious objectives for the TPP.

Finally, as demonstrated in these Comments, JAMA believes TPP will add substantially to the already dramatic contribution of the Japanese auto industry to the U.S. auto industry and the U.S. economy. The TPP will further incentivize auto industry investment with its very significant multiplier effect on jobs both direct and indirect.

JAMA appreciates and welcomes the opportunity to work with all parties to achieve the goals and timetable for a final, high-standard TPP.