

NUTSHELL FACT SHEET
U.S. - Japan Negotiations on Autos and Auto Parts
April 14, 1995

What are the talks about?

The talks currently underway involve three areas -- automobiles themselves, original equipment or original parts installed at the factory, and the aftermarket, or secondary market, for replacement parts. The United States is seeking fair access to the Japanese market for its products in these three areas. We'll explain more about our concerns in each area below.

We are also asking Japanese companies in the United States and Japan to renew their voluntary plans for expanding the use of U.S. auto parts.

In general, can you explain the problem?

For many years the automotive sector has accounted for the largest share of the trade imbalance between the U.S. and Japan. In 1994 this imbalance was nearly \$37 billion, or 56%, of our total trade deficit with Japan.

Several factors are at work here. First, Japan has increased its exports of component parts to support its growing transplant assembly operations in the U.S., and U.S.-based automotive suppliers have been excluded from fair competition with entrenched Japanese suppliers, even though the U.S. suppliers offer high quality and very competitive pricing.

Second, higher-value vehicles have been imported from Japan to the United States.

Third, and in marked contrast, while the share of the U.S. market held by Japanese auto makers is 22.5%, the share of the Japanese market held by the Big Three is less than 1%.

An independent study released about a year ago, known as the MOSS Motor Vehicle Study, reaffirmed that access to the Japanese market was highly restricted. It also identified a level of demand among the Japanese public for imported vehicles significantly higher than present sales levels.

And Fourth, Japanese government regulations prevent foreign firms from developing any significant business in the auto parts replacement market in Japan.

Why is this so important to the United States? We have many competitive industries.

Motor vehicle and equipment manufacturing is the largest of all our manufacturing industries, and a the cornerstone of our nation's industrial base. No other industry has a bigger impact on America's economy. Car and truck sales have averaged 4.4% of our nation's Gross Domestic Product over the past three decades.

The Big Three -- Chrysler, Ford and General Motors -- with total U.S. employment of 696,000 and a payroll of \$31 billion, are the nation's largest manufacturing industry.

With about 90% of the content of our vehicles obtained from the U.S. and Canada, America's car companies also have a very large multiplier effect on employment throughout the auto-supply industry. Together with suppliers and dealers, they employ more than 2.3 million Americans in more than 4,000 facilities and 18,000 dealerships across the country.

Our auto companies are essential to the nation's manufacturing infrastructure and many of its most basic and strategic industrial sectors. The Big Three purchase large proportions of our total output of natural and synthetic rubber, machine tools, glass, semiconductors, aluminum, iron and steel. Over the past five years, they have invested more than \$73 billion in plants, equipment and workforce training. Since 1990, they have spent more than \$44 billion on research and development, and are among the largest employers of research engineers and scientists.

Going back to the talks. Let's start with vehicles. How do we see the problem and what are we asking the Japanese to do about it?

The global auto industry has experienced revolutionary change over the past decade - all the world's major auto makers are now in tight competition: in offering new products, in quality, performance, price, and so on.

Our market is the most open in the world. The European auto market is beginning to open also, and the same holds true of the Eastern bloc, Mexico, and Latin America.

While Japanese companies have gained the most from the opening of the world's markets over past decade, *the Japanese market remains closed.* Compare Japan to the rest of the industrial world: imports into the US market are over 30%, and that number reaches the 35%-59% range in the other G-7 countries. *But vehicle imports into Japan from every country in the world last year totaled only 4.6%.*

If a meaningful agreement can be achieved, and access to high quality dealer outlets is significantly increased, Chrysler, Ford, and GM expect to sell a minimum 200,000 autos and trucks in Japan by 1998 -- compared to about 40,000 in 1994. And, the overall import share could rise to 10% of Japan's market over the medium term.

What about the second area of concern -- original equipment, or parts installed at the factory?

The quality of Japanese vehicles made in the U.S. is a testament to the quality and competitiveness of U.S. parts -- many of which are contained in these vehicles.

But the export of component parts from Japan to support the rapid growth of vehicle assembly by these transplants in the U.S. remains a key factor in the continuing automotive trade imbalance.

Japanese companies' longstanding reluctance to deal with foreign suppliers of original parts at home or in their U.S. operations has made progress very slow -- access to Japanese auto makers remains exceedingly restricted for many foreign companies.

Voluntary purchasing plans have provided a valuable tool, and have demonstrated that bringing US-made parts into the Japanese auto manufacturing system can be accomplished while maintaining the highest quality and tight cost standards.

The Japanese have inaccurately interpreted voluntary plans as "obligations" or "commitments" by Japan's automakers. This does not serve a constructive purpose. In fact, the Japanese companies have agreed to such arrangements at their European transplants.

And the third area, the aftermarket for parts?

The Japanese government heavily regulates the market for automotive service and repair. Repair regulations in Japan combine to extend the Ministry of Transportation's reach well beyond ensuring compliance with safety and environmental standards.

Many governments maintain vehicle inspection systems, including our states, to ensure safety standards are met. However, the government of Japan has taken its vehicle inspection and quality assurance system -- the "shaken" -- to lengths that result not only in excessively high costs to consumers, but in impenetrable barriers to foreign exports and a virtual "authorized monopoly" for certain dealers and garages in Japan. Ties to Japanese auto manufacturers ensure that these repairs do not use parts made by their competitors.

At 2.6%, foreign import penetration of the Japanese aftermarket lags far behind that of the other major automotive aftermarkets. Imports represent 21.8% and 17.5% of the EU and U.S. aftermarkets, respectively.

A final note.

Innovation and competitiveness do not belong to any one nation, as the recovery of the U.S. auto industry and the rapid appreciation of the yen amply demonstrate. Japan's long-term competitiveness and economic success, and incidentally, relief from constant disputes with its trading partners, lies in the further internationalization of its domestic economy.

IMPACT OF AMERICA'S CAR COMPANIES ON THE U.S. ECONOMY

The resurgence of America's car companies is good economic news for the nation. Motor vehicle and equipment manufacturing is the largest of all manufacturing industries, and is the cornerstone of our nation's industrial base. No other industry has a bigger impact on America's economy. Car and truck sales have averaged 4.4% of our nation's Gross Domestic Product over the past three decades.

Chrysler, Ford and General Motors, with total U.S. employment of 696,000 and a total payroll of \$31 billion, are the nation's largest manufacturing employer. With about 90% of the content of our vehicles obtained from the U.S. and Canada, America's car companies also have a very large multiplier effect on employment throughout the auto-supply industry. In fact, Chrysler, Ford and General Motors support 19 out of every 20 jobs related to the production of cars and trucks in the United States. Together with suppliers and dealers, they employ more than 2.3 million Americans in more than 4,000 facilities and 18,000 dealerships across the country.

America's car companies are also essential to the nation's manufacturing infrastructure and many of its most basic and strategic industrial sectors. Chrysler, Ford and General Motors purchase large proportions of the nation's total output of natural and synthetic rubber, machine tools, glass, semiconductors, aluminum, iron and steel. Over the past five years, they have invested more than \$73 million in plants, equipment and workforce training. Since 1990, they have spent more than \$44 billion on research and development, and are among the largest employers of research engineers and scientists.

America's car companies are rapidly expanding exports to help America compete in the global marketplace and to restore a favorable trade balance. In just the last three years, our exports increased by 40%, and we expect continued rapid growth in exports of both vehicles and components as we introduce an impressive line-up of right-hand-drive vehicles, and the technical, marketing and service support needed to penetrate foreign markets.

America's car companies are the nation's number one customer of small business and have contributed significantly to the growth and rising employment in this important sector of the economy. They are also one of the nation's leading employers of minorities and one of the largest customers for minority-owned small businesses throughout America. The hundreds of millions of dollars they pay in local, state and federal taxes and make in philanthropic contributions help meet our nation's educational, social and cultural needs.

Source: AAMA

EXAMPLES OF PROBLEMS IN JAPAN'S AUTO MARKET AND AUTO PARTS AFTERMARKET

Japan's motor vehicle inspection and repair requirements restrict foreign access to the Japanese market by excessively regulating well beyond any reasonable safety needs.

Simply by purchasing front brush guards and adding them to an RV vehicle (adding considerable safety by providing stronger resistance on impact) requires complete reinspection that may cost up to \$3000.

Potential aftermarket auto parts customers call U.S. suppliers and ask if desired modifications require inspection. If they do, 60-70% of the customers immediately lose interest. Because of this, in some cases, vehicle owners will have illegal modifications done sometimes leading to unsafe conditions.

Following are additional problems as reported by U.S. businesses:

- o Replacing springs and shocks requires reinspection when it lowers or raises the vehicle by more than 1 centimeter. In order to pass annual inspection without this change being noticed, vehicle owners will add roof racks so that the overall height is not changed and then remove the racks after inspection.
- o The MOT restrictions on replacing critical parts severely limit the sale of brake pads, brake rotors, bearings, bushings, rubber parts, shock absorbers, etc. According to one U.S. businessman, certified shops "look on non-Original Equipment (OE) parts as outcasts and won't even talk to potential suppliers". *Typically, these certified garages are controlled by Japanese auto companies and stock only Japanese auto parts.* The U.S. has been accused by the Japanese Government of trying to weaken Japanese vehicle safety regulations by requesting that certified garages no longer be required. At no time has the U.S. requested changes from the Japanese that would make their vehicles less safe.
- o Even adding specially illuminated license plates, which are popular in Japan, can make the plates as much as 4 centimeters thicker. In many models of vehicles, this will extend the length of the vehicle past the 1 centimeter change limit that requires inspection. This kind of inspection can cost between \$500-\$600 - just to add license plate lighting!
- o Adding special wider wheels to a vehicle requires reinspection because it changes the width of the car by more than one centimeter.
- o When adding a trailer hitch to a car, MOT requires that both the hitch and the trailer be brought in for inspection. This is extremely inconvenient and costly. Hitches must pass a series of requirements for strength and pull weight. The rapid growth in the leisure market including jet skiing, camping, and a variety of

new sports has created great potential demand for these hitches, but MOT regulations have constrained the market. As a result, many users are attaching special hitches that swing into place and get around the regulations because they do not change the dimensions of the vehicle. However, the hitches are considerably less secure than normal hitches.

- o MOT does not recognize US vehicle identification numbers. Instead it requires a new number, with the date of import, be added to all vehicles upon entry to the country. MOT also verifies, during regular inspection that certain critical parts are the correct model year for the car. Here, imports face a special problem because the inspectors go by the year of the import vehicle identification number - which may be a different year than the actual model of the car. In these cases, US cars have faced rejection during inspection.
- o Some parts require highly stringent inspection tests. US mufflers have encountered problems passing the series of five tests that are required under MOT regulations. Part of this is because inspection stations can be very inconsistent and will end up passing vehicles with parts from garages with which they already have a "cozy" established relationship. This adds up to discrimination against imports.

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SOURCE:	CLIENT TAPE	STATION:	----
PROGRAM:	PRESS CONFERENCE	TIME:	12:47
REFERENCE:	FA0509.T1	LENGTH:	50:00
DATE:	MAY 5, 1995		

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NOTE:

JAPANESE
TRANSLATION
TO FOLLOW

QUADRILATERAL TRADE MINISTERS' PRESS CONFERENCE, WHISTLER

(TAPE 1, SIDE 1 12:47 - 13:19)

ROY MACLAREN (International Trade Minister): Good afternoon.
I'm Roy MacLaren, the Minister of Trade for Canada. I'm sorry that
I've... we've kept you waiting. I... we were unavoidably delayed
and I apologize for the... for keeping you waiting. In accordance
with our practices, I'll read a statement and then I'll read it as
rapidly as possible. And then we'll begin the questions and
comments.

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It has been less than six months since the coming into force
of the Uruguay Round agreements and the establishment of the World
Trade Organization. Our discussions over the past two days have
been motivated by a collective commitment to the full
implementation of the agreements, to the consolidation of this new
institution and to the conclusion of ongoing negotiations. We have
looked beyond this agenda to how we might make progress on the new
generation of issues that must be addressed if we are to maintain
the momentum of trade liberalization. We have also looked beyond
this meeting to the G-7 meeting summit in Halifax and future
multilateral meetings including the 1996 WTO ministerial meeting.

We have discussed the actions necessary to build the WTO as a

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economic growth. We reviewed current negotiations in the services sector, financial services, telecommunications, movement of persons, maritime transport services. We emphasized the need for substantial further progress in the financial services negotiations before the end of June. We reaffirmed our strong shared commitment to a successful completion of the process and urged all countries to make necessary and specific efforts to improve their offers so as to create the conditions for a liberal MFN, most favoured nation regime for financial services under the WTO. We took note of the significant offers made in the negotiations for movement of persons and would consider additions to them in response to improved offers in other areas. We will work closely together in the weeks remaining to June 30th and are actively considering appropriate actions to bring these negotiations to a successful conclusion.

We recognize the importance of completing the negotiations on basic telecommunication services by April 1996. We agree that the early liberalization within this sector of services infrastructure and investment is the most effective way to promote a global information infrastructure. This would help achieve the objectives jointly agreed at the February G-7 ministerial conference on the information society. To provide impetus to the negotiations, we have asked our officials to meet in the autumn to review the status of negotiations and to examine obstacles to their completion. We welcome the consensus to launch ambitious negotiations in the OECD on our multilateral agreement in investment.

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the World Trade Organization on the relationship between rules in the areas of trade and environment. We are satisfied that progress is being made towards the objective of making rules in these areas complementary while not jeopardizing the goal of continued trade liberalization. We also took note of work under way in the OECD and the ILO to examine the current mechanisms for the promotion of labour standards. We support this analytical work. We welcome the progress being made in the OECD on the issues at stake and believe that they deserve broader debate among world players. The orientation of our discussions over the past two days reflects the emergence of new challenges for the trading system and new opportunities for trade liberalization. We do not intend to limit our future discussions to these sectors and issues, important as they may be, we will actively pursue elimination of remaining barriers and senior officials of the quad will study how this can best be done. As we look towards the future agenda for trade negotiations, the first WTO ministerial meeting in 1996 presents an opportunity to maintain momentum of trade liberalization.

I would now invite questions. As you know, Minister Hashimoto is on my far right, Sir Leon Brittan on my immediate right and Ambassador Kantor on my left. If you'd identify to whom you're addressing your questions, please, I'd appreciate it.

Q: For Mr. Hashimoto and Mr. Kantor, do you look forward now to some sort of trade war, now that your negotiators seem to have failed or call wars, perhaps?

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not surprised that you should be puzzled because I made no public statements after either those two meetings and you are therefore feeding on unreliable material. The position of the European Union is quite clear. We do think that the Japanese market in these sectors is not sufficiently open. We strongly support any efforts to open it and we think that there's plenty of room for movement on that score. On the other hand, we are naturally anxious that any agreement should... that is made should not encourage the purchase of American cars or parts at the expense of European ones and we would have to be very vigilant about any agreements to ensure that it did not have that effect. Also, we are not in favour of agreements which have any of the aspects of managed trade by which I mean agreements which determine purchases on the basis of administrative agreement rather than the operation of the market. I'm assured that there is an intention that there should be anything that's being called managed trade. I hope that that will indeed be the case. And if an agreement can be reached, which opens the Japanese market further, which does not have the effect of discriminating against the European Union, and which does not savour administrative trade, we would very much welcome that, but I don't think I should comment further unless and until we see what the outcome is.

Q: Minister MacLaren, I understand one of the issues that you were talking about informally was transatlantic trade. I'm wondering what kind of a priority that is for Canada to have some

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the excellent way in which we have been looked after and the admirable chairmanship of Mr. MacLaren which has certainly played an enormous part in achieving the outcome that we have.

The relationship between the multilateral trading system and any regional free trade agreements or removal of obstacles is a complex one which deserves a great deal of further study. We are in favour of removing obstacles to trade. We are also strongly committed to the multilateral trading system. I made a speech last week about the relationship between the European Union and the United States in which I said that we were looking at ways of removing obstacles. And that one of the things that we were looking at was the possibility of freeing trade further on a bilateral basis. There are many problems, legal, economic, and political. We are in the earliest stages of examining all that. And that really is all I can say at this stage.

KANTOR: We're of course all committed to growing jobs and raising wages and raising standards of living. The progressive elimination of trade barriers, both tariff and non-tariff, contributes mightily to that cause. We will work and continue to work with our trading partners, in the quad and outside the quad, bilaterally, regionally and multilaterally in order to achieve that purpose.

[TAPE INTERRUPTION]

Q: My question is to Mr. Hashimoto. Do you believe you're receiving a lot of international support for your position in the

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the Chinese economy that would be needed for Chinese membership of the WTO is something which the Chinese leadership is in any event committed to and membership of the WTO would reinforce and strengthen the movement towards the liberalization of the Chinese economy. It would be the interest of the world economy because I cannot believe that an economy the size of China and with the growth, further growth potential that China has should be left out of the world trading system provided it is prepared to accept the proper conditions for entry to it. Obviously, China has to be prepared to accept the fundamental rules. But I think it isn't as simple as that. It's not a question only of accepting the rules but of accepting them when and I think that the essence of flexibility is really a question of looking very carefully at each of the commitments that China does have to accept and ask is it necessary for that to be accepted at the outset? Can it be phased in? Can they be broken up in different ways so that some are agreed now and some it is agreed will be accepted later. It's a complex question. We, in the talks had up to now, all of us, it's fair to say that last year, we ended in an impasse because it seemed that China was so far away from accepting the bare minimum that we weren't getting anywhere. After the talks that I have had in China a couple of weeks ago, I very much hope that China will realize that we are prepared to show understanding of the transitional nature of the Chinese economy, of the fact that China can't be expected to do everything immediately. But I hope that

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Canadian government as represented at this table but also with representatives of Aboriginal peoples yesterday here. And the situation is that we have nothing against the fur trade as such. The problem is presented by the neck hold trap and on the European legislation, products that derive in the case of I think fourteen animals from the use of the neck hold trap will not be allowed from the 1st of January 1996. That is a date that is already being extended from the original date when the legislation will come into force. Because the legislation also says that if there is an international agreement on alternative method of trapping which meets animal welfare concerns, then the ban will not apply. In the context of the ISO, the international body concerned, talks have gone on that alas, it is quite clear that there's no prospect of reaching an agreement on an alternative in the time scale required to disapply the legislation. On the other hand, we are anxious, if at all possible, to find a solution to this problem, which meets both animal welfare concerns and the very real concerns of the communities who are so dependent on this particular economic activity.

That is why I've explained to both the governments and the individuals concerned that we are ready on an informal basis to talk with the United States, Canada and perhaps even Russia, in order to see whether within a narrower context it is possible to reach an agreement.

We've got to work very hard to do that and very quickly.

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in the individual stances of countries should have no effect upon this kind of proceeding, and so therefore that is not a concern.

What is a concern, of course, for all of us, is opening the second largest automobile market in the world. It has a negative effect, the closed market has a negative effect on the economies of Europe and North America, and we need to address that question effectively.

I think both Sir Leon Brittan and Roy MacLaren have expressed their concerns quite eloquently in that respect. I think we ought to reserve judgement as to the...what solutions are found, if any, and what reactions there might be, regardless of the solutions. I think that that would be...it would be unfortunate if we began to speculate at 1:30, or whatever it is, in the afternoon today, before we'd have a chance to meet this afternoon, or what may subsequently occur over the next number of days.

Q: Good afternoon, I just have a couple of quick follow-up questions to Mr. Kantor and Mr. Hashimoto. You said you're going to meet with your experts later on today to discuss the auto. What time...I'm trying to establish a time frame for deadlines and whatnot. Where are you going to be meeting here in Whistler, and when do you expect them to be over?

If they are going to be over, when do you expect them to be over?

KANTOR: In answer to your second question, they'll be over when we're finished.

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Q: I wanted to ask Ambassador Kantor and Minister MacLaren, what do the short term prospects look like for additional tariff initiatives, further tariff cuts, or elimination of nuisance tariffs or tariff acceleration in the Uruguay round. Did anything come out of this meeting regarding that issues?

MACLAREN: As I understand your question you're referring to the elimination of the so-called nuisance tariffs that are below a certain percentage point. We've identified a number of activities, we think, should go forward as ways in which further trade liberalization can be enhanced. It remains for our officials to return to us with recommendations about the most promising routes to take, which may or may not include the possibility of elimination of some or all so-called nuisance tariffs.

KANTOR: I would only make one remark. It would seem rather interesting that the first thing we would look at is those tariffs which are the lowest, rather than those tariffs which are the highest. And I would suggest that what we ought to do is begin at the top and go down, rather than the bottom and move up. It would have a certain logic to it that we would support, but I'll leave that up to the senior officials who are going to be assigned this task and we'll work closely with them as a group.

BRITTAN: Could I just say that it's understandable that there should be a focus on tariffs, but in the world economy today, particularly after the Uruguay Round, which has seen such a significant reduction in tariffs, if we are looking at the next

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when you've got this kind of a dispute dividing two of you?

MACLAREN: We go left? (Laughs) Go ahead, if you like.

HASHIMOTO: [SPEAKS IN JAPANESE]

BRITTAN: On the specific question of the Japanese market it is true that the European Union car manufacturers have shown increasing success in selling cars to Japan, but they've had to, in many cases, set up their own distribution systems, which has been extremely expensive. I think there are obstacles and barriers and there. It would be reasonable for the distribution system to be more open, for it to be possible for dealers to stock both European and Japanese cars, or American ones as well, if it comes to that. And there are real obstacles to that happening and there are many other real obstacles.

So the fact that we have been able to sell more cars doesn't mean that there are now obstacles, or that there are now obstacles in the car parts market, in particular. We share American concern about many aspects of that, but I've expressed the reservations.

But the question was a different one. The question that was actually asked was whether the disagreement between, or the failure as yet to reach agreement between the United States and Japan was an obstacle to us giving leadership? The answer is emphatically no. If you actually look at the statement that Minister MacLaren has read out, you will see it covers a very wide range of issues in which we have been able to give leadership. The problem of cars and car parts and the disagreement up to now between Japan and the

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substantial degree, at least in my view, trade and investment are becoming indistinguishable, and a principal generator of additional trade in the future will be the achievement of a binding and universal agreement on investment.

I don't see any hindrance...and any obstacle in our discussions at this quad, or indeed, I'm sure at any future quad, that would result from any bilateral problems or problems such as you've raised.

KANTOR: Thank you. First of all, I think the media is doing a fabulous job. I want that noted in the record.

MACLAREN: What about the editors?

KANTOR: When you have large trading relationships, such as we all have between ourselves, it should not surprise anyone that you have trade disputes. We try to manage those disputes in the best way possible. Each of us is representing our governments in the best way possible, in order to make sure we try to resolve these matters. But it shouldn't be shocking that from time to time we have bilateral issues that are raised that we have to deal with, and this is just one of them, but it in no way hinders our ability to move forward, either in the quad or on the regional context, or even in a multilateral context.

Let me just say that the European car makers have done so well in Japan they now have 2.8 per cent of the market. America, U.S. car makers have now reached the grandiose total of 1.9 per cent of the Japanese market. That's 4.7 per cent. We would hope that we

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first of all, clarify what those stumbling blocks might be if they exist, and what significance there would be if you don't meet the June deadline to the process for the other types of service sector agreements?

BRITTAN: Well, it's very simple. We think that there are quite a few countries that ought to make stronger commitments to liberalization of their financial services market than they have so far made, and we, I think, certainly the United States and the European Union, and I'm sure Japan and others as well, will seek to persuade them to do so in a way that I hope will enable the EU... the U.S.-Japan agreement on financial services to be multilateralized and for an agreement to be concluded.

MACLAREN: Thank you very much.

(END OF TAPE 2, SIDE 2)

**TESTIMONY BEFORE THE
WAYS AND MEANS COMMITTEE
AND RULES COMMITTEE JOINT HEARING**

**AMBASSADOR MICHAEL KANTOR
MAY 17, 1995**

Introduction

Mr. Chairman, it is a pleasure to appear here today to discuss the opportunities and responsibilities we face in the coming years in trade policy. We have a unique opportunity to work together to build on the historic accomplishments President Clinton, with bipartisan support in Congress, has already made in trade.

In just over two years, President Clinton and his administration, with bipartisan support in Congress, advanced and then ensured the passage of the North American Free Trade Agreement; set our negotiations with Japan on a new course under the Framework Agreement and are now working diligently to open Japan's closed autos and auto parts market; concluded and obtained approval of the broadest trade agreement in history, the Uruguay Round; set the stage for trade expansion in Asia through the Asia Pacific Economic Cooperation forum with the Bogor Declaration; and announced creation of a Free Trade Area of the Americas by 2005 at the historic Summit of the Americas. We concluded the largest procurement agreement in history with the European Union, 14 agreements with Japan, an agreement covering 80 percent of global shipbuilding, and an historic intellectual property rights agreement with China. In addition, his Administration completed scores of other bilateral trade agreements, including textile agreements.

It is important that we don't rest on our laurels, however. We must move forward in the effort to open markets and expand trade, especially in Latin America. This is a critical part of the effort to create jobs and raise standards of living in the United States, foster growth, and build global stability. Today, I want to talk about how important this is to the country as we approach a new century; and the importance of working together to establish an effective fast track procedure that ensures we can negotiate and implement trade agreements that fully benefit American workers and companies.

It is important to first emphasize the importance of trade to our future prosperity. President Clinton's trade policy is part of an economic strategy to keep the American dream alive as we move into the 21st century. President Clinton understands that future prosperity in the United States depends on our ability to compete and win in the global economy. He has based his trade policy on three basic truths about the era in which we live.

1) Trade is increasingly important to the U.S. economy.

Where our economy was once largely self contained, now we are increasingly interdependent with the rest of the world. This change began decades ago, but has accelerated in recent years. Twenty-seven percent of our economy is now dependent on trade.

This global economy offers tremendous opportunities for American workers. Over 11 million workers in this country owe their jobs to exports. These jobs pay higher wages, on average, than jobs not related to trade. Every billion dollars of exports supports 17,000 jobs. Clearly, expanding trade is critical to our effort to create good, high-wage jobs.

The United States has a mature economy and we have only four percent of the world's population. Future opportunities for growth here at home lie in providing goods and services to the other 96 percent. Given this fact, opening markets, expanding trade and enforcing our trade agreements are more important than ever to fostering growth here at home.

2) Trade is increasingly central to our foreign policy.

With the end of the Cold War, and the growing importance of trade to our economy, economic concerns are now as evident in our foreign policy as strategic, or political concerns.

After World War II and during the Cold War, the United States used trade policy as part of the strategy to help rebuild the economies of Europe and Japan and resist communist expansionism. We led the world in global efforts to dismantle trade barriers and create institutions that would foster global growth.

During that period, we often opened our market to the products of the world without obtaining comparable commitments from others. As the dominant economic power in the world, we could afford to do so. And as part of a strategy in the Cold War, we needed to do so.

Despite the uneven commitments, the resulting expansion of trade fueled growth, stability and ultimately proved to be the winning card in the Cold War. But now we are no longer the sole dominant economic power in the world. We are the world's largest economy -- and largest trading nation -- but our economy, which represented 40 percent of the world's output following World War II, now represents 20 percent.

Although we welcome the products, services and investment of other nations here in the United States, now we insist that the markets of our trading partners be open to the products, services and investment of the United States. We insist on reciprocity in our trade agreements.

In addition, it is critical to fostering global stability that we expand economic ties with other countries. Fostering growth in other countries through expanded trade is in our interest because it builds the middle class and helps democracies take root.

3) Our nation's economic strength begins at home.

Trade negotiations and trade agreements open new opportunities for American workers and firms. All of us, in turn, must accept the responsibility to make the most of those opportunities. And government -- at the local, state, and federal level -- must work as a partner with the American people to give them the tools to prosper in the new economy.

Getting our own domestic policies in order, expanding education, and investing in the future has taken on a new urgency as we compete in the global economy.

American workers compete against highly educated, high-wage workers in other countries as well as low-skill, low-wage workers. We must make sure everyone achieves their full potential.

Together, President Clinton and the bipartisan coalition in Congress have ensured American leadership in the global economy. We have opened doors of opportunity that have led and will continue to lead to the creation of jobs. Our efforts to open markets and expand trade will particularly benefit small and medium sized businesses, who often lack the means or resources to overcome foreign obstacles to trade. Despite the temptation to turn inward and cut ourselves off from the world, the United States has renewed its commitment to remain engaged in the world and continue the U.S. leadership role in the global economy.

Fast Track

Our trade agenda is now entering a new phase. We must get down to the hard work of reaping the benefits of those trade agreements that we have negotiated over the past two years for the good of U.S. workers and companies. We must forge new agreements to continue to reduce trade barriers to U.S. exports and expand economic opportunity here. To do that the President and the Congress will need to work in close partnership. Essential to that partnership -- and to opening foreign markets for American goods and services -- is a renewal of trade negotiating authority in fast track.

Mr. Chairman, there are strong reasons why the Congress created fast-track -- and then renewed and extended it over the past 20 years. And why Congress has made fast track procedures available for both Democratic and Republican Presidents. First, fast track confers a very powerful advantage on America's trade negotiators. Just consider the astonishing list of trade-opening agreements we negotiated under fast track during the past two decades -- including the GATT Tokyo Round, our free-trade pacts with Israel and Canada, the NAFTA, and, most recently, the Uruguay Round agreements. Fast track was vital to each one of those accomplishments. I can tell you first hand that we simply could not have brought home the Uruguay Round agreement or the NAFTA if I did not have the fast-track to rely on.

Fast-track allows the United States to set the pace and timing of our most trade important negotiations. More importantly, fast-track gives us credibility and clout at the negotiating table. It tells other countries that the Administration and the Congress stand together in negotiating the best possible agreement for the United States. That means American negotiators can make tough demands, and our negotiating partners know that Congress will back up those demands. And it allows our trading partners to make hard decisions with the assurance that the United States will not reopen the deal it strikes.

Fast track isn't just a vital negotiating tool. It provides important, indirect trade advantages as well. Fast track sends a powerful signal to those countries hoping for special trade arrangements with us. It says that the Congress and the Administration are serious about

moving forward. That creates a strong incentive for countries to make *unilateral* economic reforms and market openings -- just to qualify for free and fair trade negotiations with us.

We can already see the power of this incentive in Latin America, where numerous countries are reforming their economies and lowering trade barriers based in part on the hope of entering into a free and fair trade arrangement with us.

Conversely, if we fail to renew fast-track -- and thus signal that America's trade agenda is "on hold" -- countries in the region are likely to procrastinate in making the changes we seek. Moreover, other countries that are prepared to negotiate will set the terms of integration in the region -- terms that are not likely to coincide with U.S. objectives or standards of fair trade.

Holding out the possibility of privileged access to the U.S. market acts as a powerful "carrot," which complements the "stick" of U.S. trade remedies. That gives the President, working with bipartisan leadership in the Congress, the full array of economic policy tools to further this nation's trade interests.

Mr. Chairman, you know just how much importance I attach to our trade laws. I have not been reluctant to enforce those laws when other countries have unfairly closed their markets to our workers and companies. Our trade laws are very important tools to open those markets and level the playing field. To fully benefit American workers and promote economic growth, we must complement use of our trade laws with the economic opportunities created by trade-opening agreements such as the Uruguay Round and the NAFTA. Agreements fostered by fast track authority mean hundreds of thousands of high-wage, high-skilled jobs for Americans across this country. Fast-track renewal is critical if we want to continue expanding economic and job growth in this country by opening key foreign markets for our firms and workers.

In sum, fast-track represents a joint undertaking by the President and Congress to accomplish the best possible results for the United States in international trade negotiations. That is why Congress has provided fast-track procedures for every President over two decades -- and why fast track has always enjoyed wide bipartisan support.

Fast track is also an issue that has united the Congress and the Executive Branch. Fast track creates a partnership establishing a clear channel for the Congress to be consulted, make its voice heard, and have its specific concerns addressed both before and after negotiations get underway. And fast track ensures that the Administration and the Congress draft implementing legislation together.

Mr. Chairman, I would like to note that trade policy has become much more complex in the last fifteen years. When the GATT was founded after World War II, it began with lowering tariffs. Later, we began to address non-tariff barriers. In the Uruguay Round, we established rules for agriculture, services and protecting intellectual property for the first time. This fifty-year record of tariff reductions and trade rules have sparked tremendous interdependence among nations. The prosperity of the United States, as well as many countries around the globe is now increasingly dependent on fostering free and fair trade.

Our focus on non-tariff barriers has now led to issues that have been considered "out of bounds" because they address a nation's internal policies, not at the border. We look at these policies because they distort or inhibit trade. These policies include, but are not limited to, a nation's actions -- or inactions -- regarding anticompetitive business practices; lack of regulatory transparency; corrupt practices such as bribery; environmental protection; and adherence to internationally recognized labor standards. In addition, there is a clear need, as demonstrated by the creation of the Committee on Trade and Environment in the WTO, to clarify the relationship between trade disciplines and environmental policies.

President Clinton has long understood the importance of these issues and firmly believes we must move forward in addressing them. As a candidate, he spoke at North Carolina State University to endorse the NAFTA, but insisted that we negotiate agreements on labor and environment as they intersect and interact with trade. As President, he has spoken frequently on these issues and worked hard to address them with our trading partners. President Clinton understands that this is an important part of working towards more open markets, fostering global growth and maintaining U.S. leadership in the global economy.

At the historic Summit of the Americas last December, the nations of this hemisphere agreed to recognize the link between trade and the environment, as well as trade and improving working conditions. The Declaration of Principles says, "Free trade and increased economic integration are key factors for raising standards of living, improving the working conditions of people in the Americas and better protecting the environment." In the Plan of Action, the 34 heads of state pledged to make trade and environment mutually supportive, and to "further secure the observance and promotion of worker rights."

We should view the current debate over whether fast track should include labor and environment in this context. We are beginning to reach international consensus on the importance of addressing these issues.

There are, of course, differences of opinion in the Congress about the relationship of trade and labor and the environment. This is a very difficult issue both substantively and politically. However, we should not run away from this challenge: we should seek to find a solution that enjoys broad bipartisan support.

The President needs to have the flexibility to act to take quick advantage of opportunities to conclude agreements that will benefit American companies and workers. The President -- as well as future administrations -- should have the freedom and flexibility to address whatever issues that arise in trade negotiations. Thus, to ensure the President can seize the tremendous opportunities in the global economy, we need to have fast track, reflecting our trade priorities in several areas:

Extended Uruguay Round Negotiations. We are poised to move forward within the next year to complete extended negotiations, as called for in the Uruguay Round agreements that the Congress approved last year. For example, we now have talks underway in the WTO to open markets around the world in financial services and basic telecommunications services. Agreements in those two dynamic sectors could be of tremendous benefits to our firms and workers. We also expect to negotiate a further lowering of trade barriers in the agriculture

sector, where the United States leads the world; in investment; and to establish new, universally applicable rules of origin to streamline customs procedures world-wide. Congress can improve our chances of success in each of these areas by renewing fast track for these talks.

In addition, we should begin to study areas in which we can progressively expand economic ties and remove trade barriers with the European Union, already our largest trading partner.

Latin America. An issue of great importance for this administration is to build on the commitments of the Summit of the Americas and expand trade in this hemisphere. Allow me to explain why the U.S. must move forward with concrete action to expand trade and negotiate trade agreements in the Western Hemisphere and why we seek fast track to do so.

The history of our economic relations with Latin America and the Caribbean was based for much of the last 20 years on a preoccupation with official development assistance and other politically driven initiatives in our effort to encourage democracy. Many countries in the region were non-democratic regimes. The region was viewed as devoid of market based competitive economic policies or significant opportunity. Not surprisingly, our trade with the region was viewed as having little promise. U.S. trade policy towards the region was focused almost entirely on a limited set of issues with only a few countries in South America and on tariff preferences for sub-regional groups.

This old thinking has been buried in recent years by a revolution in economic policy coupled with a dramatic strengthening of democracy. This Administration, or any astute observer of this hemisphere, does not believe this region should be ignored. Accordingly, numerous initiatives to strengthen ties in the hemisphere have been launched or strengthened.

We have an historic opportunity now to take major steps toward hemispheric prosperity -- and expand U.S. economic opportunities. Strengthening the economic ties among the nations of the Americas will cement recent economic reforms, foster growth, build the middle classes and strengthen democracy. This is not time to sit back and hope for the best, or lose sight of the need to act on our hemispheric objectives. There will inevitably be some difficulties as we proceed, but to not proceed will only increase the prospect of the U.S. losing out on substantial economic opportunity and the chances of having to face unnecessary economic turbulence.

The Summit of the Americas was a watershed in hemispheric relations. It placed the United States squarely in the center of the hemisphere's economic integration and renewed our leadership position. Our economic fortunes, and our leadership in this hemisphere, however, will be determined in large part by the success we have in implementing the Summit trade and integration action plan. This Administration is determined to move forward to begin building the Free Trade Area of the Americas (FTAA). The negotiation of Chile's accession to the NAFTA is a necessary strategic step in this endeavor. If we are not able to complete Chile's accession to the NAFTA expeditiously, others in the Hemisphere will ask if we are able to lead the hemisphere's integration and market opening.

The absence of a timely Congressional fast-track procedure to review and implement

comprehensive trade agreements will:

- undermine the U.S. ability to open vibrant new and growing markets in the hemisphere and significantly influence the critical initial stages of the FTAA process;
- - cripple our ability to build more fairness and openness into the hemisphere's trade regimes;
- weaken the hemispheric commitment to market based economic policies and open economies; and
- most importantly harm our ability to increase the higher paying U.S. job base that results from the expansion of U.S. trade and the stimulation of investment.

This is an issue on which the Administration and Congress should come together for the national economic interests.

Let's consider what is at stake from an economic standpoint for the United States:

- Latin America and the Caribbean is now the second fastest growing region in the world;
- U.S. exports to this region exploded from nearly \$31 billion in 1985 to nearly \$93 billion in 1994, supporting over 600,000 new U.S. jobs;
- U.S. exports to Latin America, including Mexico, increased 71 percent from 1990 to 1994;
- U.S. exports to Latin America and the Caribbean now approximate our exports to the European Union (E.U.). If trends continue, U.S. exports may reach \$232 billion by 2010, greater than our combined exports to the E.U. and Japan;
- Latin Americans spend an average of 40 cents of every dollar spent on trade on U.S. goods. We supply over 70 percent of some Latin countries' imports and often three to four times as much as a country's next largest trading partner: and
- U.S. exports of capital goods, which account for over half of U.S. exports to Latin America and the Caribbean, in just the 1992 to 1994 period increased dramatically. For example:
 - electrical machinery exports increased from \$6.8 billion to \$9.7 billion, or 42 percent; and
 - office machines and computer equipment increased from \$3.4 billion to \$5 billion, or 47 percent.

We must also bear in mind that the region is not waiting for us. The world recognizes the

new vibrancy of this region. The region is embarked on its own agenda, easily the most active of any developing region in the world. The E.U. is seeking preferential trade agreements with the Southern Common Market (Argentina, Brazil, Paraguay and Uruguay) -- which comprises over half the economic output of Latin America -- and others that have the potential to leave U.S. exporters, investors and service providers at a relative disadvantage. The average tariff in the region is still four times the U.S. average. It is in our interest to undertake efforts to gain tariff free access to these important markets as our competitors are doing while U.S. exporters continue to face significant tariffs.

The competition to seek out new economic and trade opportunities must be faced with a decisive commitment to comprehensively open markets on the basis of reciprocity in this hemisphere. The constant search for new economic opportunity is something this country was built on, but one that has taken on ever more challenging dimensions in this hemisphere.

The first critical step is Chile's accession to the NAFTA. It is important for the United States to forge a partnership with the leader of economic reform in Latin America and its most dynamic economy over the last 10 years. Chile is one of our fastest growing export markets in Latin America. U.S. exports have grown from \$682 million in 1985 to \$2.8 billion in 1994 -- quadrupling. We ran a trade surplus with Chile of nearly \$1 billion in 1994. Since 1985, Chile's economy has grown at an average rate of six percent rivaling the dynamic Pacific Rim economies. In the first quarter of this year Chile's economic growth has been 7.4 percent and has shown declining single digit inflation. Chile is an economy that has thrived on increased trade and investment and on prudent growth-sustaining economic policies.

Chile is not just a symbol of reform, but an activist in opening markets, having negotiated free-trade areas with Venezuela, Colombia, Ecuador and Mexico. It is pursuing an agreement with the Southern Common Market and has proposed a free-trade area with the E.U. Chile was the first developing country to bind all its tariffs in the GATT during the Tokyo Round, was an active player in the Uruguay Round, and is a new member of APEC.

Chile's accession to the NAFTA is its number one trade priority. Two successive Presidents have committed the United States to the pursuit of a free trade area with Chile. On December 11, 1994 in Miami the President, along with the leaders of Chile, Mexico and Canada, committed to pursue Chile's accession to the NAFTA in what is viewed in the region as a near term test of the U.S. commitment to trade and economic integration in the hemisphere. Ensuring that happens will encourage similar economic and trade policies through this hemisphere -- a goal we can all view as enormously beneficial to our economic future.

For the United States, Chile's accession to the NAFTA, because it will need to address a comprehensive set of U.S. inspired disciplines, is the most important concrete step we can now take to ensure we are shaping the trade and integration effort in Latin America in a realm of fast-moving and competing trade agreement paradigms. Chile, the region, and our European and Asian partners, are measuring the U.S. commitment to lead.

Asia

Finally, it is important to build on the Bogor Declaration, the commitment by the Asia Pacific nations to eliminate barriers to trade by 2010 or 2020, depending on each country's level of development.

The Asia Pacific region is critical to future U.S. prospects for trade expansion. It has the fastest growth in the world -- three times the rate of the established industrial countries. Over the past three decades, Asia's share of the world's GDP has grown from eight percent to more than 25 percent. By the year 2000, if current trends continue, the East Asian economies will form the largest market in the world, surpassing Western Europe and North America.

This growth has led to an explosion of trade with the United States. East Asia is the number one export market for U.S. products. US merchandise exports to Asia have grown nearly 60 percent over the last five years. U.S. trans-Pacific trade was 50 percent more than our trans-Atlantic trade in 1992. Our exports to Asia account for over two million jobs in the United States. One projection shows that Asia, excluding Japan, will be our largest export market by the year 2010, amounting to \$248 billion.

Following the APEC summit last year, APEC leaders directed ministers to develop a plan for implementing the Bogor Declaration. Work is underway to develop an APEC Action Agenda for consideration at the next Leader's meeting in Osaka, Japan, in November. All APEC members are working constructively and pragmatically to prepare this agenda, to define issues for APEC work, and to outline the business facilitation, cooperation and liberalization steps APEC should take to implement this important goal. The Osaka meeting also will be a critical next step to realizing the Seattle Summit's vision of an Asia-Pacific Community of nations which ensures U.S. presence in the region's economy in the future.

Conclusion

Mr. Chairman, President Clinton, with the support of a bipartisan coalition in Congress, is doing everything possible to raise standards of living and improve the lives of working Americans as they compete in the new economy. Together, we must continue to fight to open markets and expand trade, because it will foster new opportunities for working Americans, create jobs and raise standards of living.

The President put it best in a speech last November: "The center, the heart of our economic policy must be an unbreakable link between what we do to open the global marketplace and what we do to empower American workers to deal with that marketplace."

Americans need not hide behind their fears, but must boldly build a new country of peace, growing prosperity, and economic security. I look forward to working with you to achieve that goal. Thank you very much.

**ADDRESS BY
U.S. TRADE REPRESENTATIVE
AMBASSADOR MICKEY KANTOR
BRUSSELS
MAY 22, 1995**

Thank you, Bill [Seddon Brown, Chairman of the EU Committee], very much and thanks to the [American] Chamber [of Commerce of Belgium] for organizing this event on fairly short notice. Two and half years--time flies when you are having fun! (Laughter.) Yes, Bill, I do not know about high gear, but I am going to drive very carefully in what I say here today, especially about autos. I think we would all be well served by that. I would like also to acknowledge that Heidi [Shulman] is with me today; it is a delight to most people to travel with someone who is your best advisor and chief partner in life. I would like to also recognize our Ambassador to Belgium, Alan Blinken, who is an old friend and is doing such a wonderful job here, and even older--I am not sure chronologically--but certainly older as a friend, Stu Eizenstat. He does a marvellous job as our Ambassador. Stu is right here in front of me. We have known each other for too many years now, and he has done a magnificent job representing his country here at the EU. He has also done a magnificent job generally not only for trade but for international relations as well. And Fran [Eizenstat] is here, both old friends. It is always a delight to come and feel so welcome, not only by all of you but by your friends for either your deeds or your misdeeds of the past. (Laughter.) And do not ask Stu about them; he knows too much about me already. Also with me is our newest Ambassador and my deputy, Jeff Lang, sitting at table 3. My chief of staff, Peter Scher, and Ann Luzzatto are here as well, as are Chris Marcich, Don Abelson, and Bennett Harman; so we are well represented here from the Office of the United States Trade Representative.

I thought I would start today by describing what happened just an hour ago. I think you deserve to have a report on our meetings with Commissioner Brittan and Commissioner Fischler. I was at the Breydel building; I have mixed feelings going back there, time after time. (Laughter.) There were days I did not leave the Breydel building in 1993, and as I go back in there, my stomach does begin to hurt just a bit (laughter). But the meeting this morning was friendly, business-like, and very productive. We exchanged views on automobiles, and our positions on bananas were exchanged as well. (Laughter.) We made real progress in a number of areas including procurement, and I welcomed the decision by the European Parliament in that area; as you know, that is the largest procurement agreement in history between the EU and the United States, 100 billion dollars in opportunities on each side. Now I see Hugo Paemen [European Commission Deputy Director General, External Economic Affairs] who had so much to do with this; Hugo, you deserve great credit for that agreement. We also made great progress in the area of investment and mutual recognition agreements in enlargement and in leghold traps. On financial services, we agreed to continue to work together towards having third countries make their commitments stronger. And we had helpful discussions on seven or eight other issues; so you can see this morning we did not waste a lot of time. Again I appreciate all the fine work done

by Commissioner Brittan and Commissioner Fischler and their colleagues. It is always delightful to work with such thorough professionals.

My first speech to this group was at the opening of another hotel in this great city. I think it had not even opened yet; I had to wear a hard hat as I walked through. (Laughter.) Some at that point were hoping something would fall on my head, as I recall. (Laughter.) But I think we have gotten by that. I would like to say that we had many challenges during that period of time--the greatest of which, of course, to reengage the Uruguay Round and to finish it by December 15. I remember a conversation with President Clinton when we came into office and after I was sworn in. He called and said, "I want you to finish the Uruguay Round by December 15." Of course, I was well aware it had been going on for seven and a half years, as many of you know. And I said, "December 15 of which year?" (Laughter.) He said, "This year [1993]!" I said, "That is ten and a half months." He said, "I know you can do it." Well, with the great help of Leon Brittan and people here in the European Union, we were able to do that, but that was not all. We completed in 1993 the North American Free Trade Agreement, the largest free trade agreement in the world. We were able to reinvigorate the Asia Pacific Economic Cooperation Forum in Seattle during November. November was very interesting: we passed the NAFTA, reengaged the APEC, and then went right on and finished the Uruguay Round by December 15. You can imagine I did not get much sleep during that period of time. And December the ninth through eleventh of 1994, we had a Summit of the Americas where we agreed to establish a Free Trade Agreement of the Americas, bringing together the 34 democracies of the Western hemisphere. In addition to that, we reached a procurement agreement and an IPR (intellectual property rights) agreement with China, one of which I am glad to see the European Union has also been able to take advantage of. And besides that, we had 77 other agreements as well in the first 28 months in office. Clearly, President Clinton understands the necessity of trade and international economics and how it relates to our future.

However, we cannot forget where we have been, what the challenges we have faced, and where we are going in the future. During WWII, our uncles and aunts, our mothers and our fathers joined together across the pond, as they say, to put down fascism and to make the world safe and to try to build a new world of prosperity and stability and strength and purpose. At the end of the Second World War, we joined together and did not do what was done after the First World War; we did not, as Chancellor Kohl has said, "hide behind our fears." With the Bretton Woods agreements, we instituted the IMF and the World Bank, and of course the General Agreement on Tariffs and Trade. Clearly, the people who instituted those conferences looked to a new world, ushering in the greatest era of prosperity humankind has ever known; they had vision, had purpose, were dedicated, and were bold. But clearly the challenges we face in this new phase beyond the Cold War frankly are just as great, maybe more difficult than those we faced after WWII, certainly more complicated. Let me indicate that you need some perspective as we see the glue that used to hold us together--that is the strategic and political concerns about the Soviet Union and its threats to the West--has dissolved. We now have Russia and the CIS states; we have Central Europe; we see only three

real communist nations left in the entire world. But that creates all kinds of new challenges and all kinds of difficulties. Clearly now, rather than putting aside our disagreements in deference to a much larger strategic purpose, we today have to address those issues that have long faced us.

What are we going to do and how are going to face them? First, of course, is to make sure we maintain a strong and prosperous economy at home for all of us. We have to address issues such as education and training, crime, debt, deficits, all the things we all face mutually, the environment, structural problems with labor. We have had conferences between the EU and the United States on a number of these issues; we need to continue to do so. As we strengthen our economies at home as certainly we are doing, we need to be engaged abroad. You cannot hide from the reality that we are globalized, we are interdependent, and we must in fact depend on each other for our future. Much of that of course is going to depend on lowering barriers to trade. We need to build on the last two amazing years in trade in this world, where trade between nations and exports have increased 22%. I was just telling Bill, in the last three months in the United States, our exports have increased 18% over the quarter. That is the greatest increase in exports probably in American history; certainly by dollar volume it dwarfs any other increase. But it is only a manifestation of the explosion in the world economy. We want to take advantage of that in the United States, and you want to take advantage of that, our European friends here. But the world needs to take advantage of it as we try to build stability and growth.

What are the next steps? What do we need to do to make sure we take advantage of the opportunities that we face? We need first of all to cooperate--cooperate in globalization and exports, cooperate and make sure we continue to build these economies. Second, we need to implement the Uruguay Round in the best way possible. We are faced with some real challenges: one is how we deal with labor rights in the World Trade Organization. Since 1919 and the Treaty of Versailles, when we intersected labor and trade, and in the 1947 Havana Charter, every U.S. President since 1953, since Dwight Eisenhower, has supported intersecting labor and trade. We need to have that discussion in the World Trade Organization. Nothing is more important than addressing issues such as child labor, slave labor, prison labor, the right to bargain collectively, freedom of association, and working conditions. Those are legitimate, they have purpose, they have meaning, and they are critical to our future. In addition to that, we have to finish our discussions on financial services by June 30 and basic telecom next year. We also need to have more transparency in Geneva, in the World Trade Organization. For too long international organizations, including the GATT, have been secretive. We need to let the public see what we are doing; that is the way to build credibility, that is the way to build an organization, that is the way to ensure fairness. And the United States will continue to work with the European Union in that regard. Last, but certainly not least, we need to make sure the dispute settlement understanding--one of the most critical parts of the Uruguay Round--works and works well. And the United States is committed to that and will continue to be.

In addition, there are other things that need to be addressed, including competition policy not covered by the Uruguay Round. Too many countries around the world either leave competition laws or any other monopoly acts unenforced or fail to have the acts themselves or effective laws in place. We cannot have a situation where discrimination occurs in a market place, which locks our products out because of failure to enforce competition laws. It should be the next thing we take up in the WTO in addition to those other items I have just mentioned.

Last, I would like to mention something that has been on my mind since I took this job. I think if I talked to any business person in this room, all of you and your colleagues not only here in Europe but around the globe would tell me this is a problem you face every day and one which is not hidden, but is not talked about in polite company. Well, no one ever accused me of being polite; so let me talk about it here today just for a moment. It is bribery and corruption. Nothing has a more pernicious effect on trade than our continued tolerance of bribery and corruption in international trade. We must address this issue. It is not fair to those companies who will not participate, it is not fair to the countries or the people who are subject to those concerns, and it inhibits trade around the globe. What we need is less government regulation, number one. That will help. Second, more transparency! Let me suggest that others begin to adopt laws like the United States has under the Corrupt Practices Act, that we have everyone sign on to the Procurement Code, and that we have WTO involvement in this issue. I cannot tell you how many business people have talked to me day after day, week after week, month after month, about our failure to address this issue. We in the United States have had a Foreign Corrupt Practices Act now for years: it is working and works well. But American businessmen will tell you--and many of you represent companies--that we have problems competing because of it. Just since 1994 alone we have a hundred instances of U.S. companies losing out in contracts because of bribery or corruption. We must address that issue.

Let me address now the next issue, which is one that comes out of my concern about barriers to trade and discrimination, one which is in the news very much today, one I think all of you may have differing opinions about how it should be addressed, but none of us should doubt that it is a problem that must be discussed and must be remedied. No country in the world has benefited more from open trade than Japan. No country among developed countries in the world has a more closed market in manufactured goods. Today Japan imports in proportion to gross product less manufactured goods than any other developed nation in the world. In autos and auto parts, the Japanese market imports about 4.6% of its consumption of autos and trucks, 3.1% from the European Union, 1.5% from the United States. In the United States of America imports total 33%; in Europe the percentage goes up as high as 60%. In auto parts, the disparity is even greater. The Japanese market imported last year about 2.6% of foreign competitive auto parts. This kind of discrimination against foreign competitive goods made in Europe or the United States or Brazil or Australia cannot continue if we are going to maintain an open trading system. Japan is the second largest economy on earth. It is the second largest auto market on earth: 6.5 million vehicles sold last year. In July 1993, President Clinton reached a framework agreement with the Japanese Prime

Minister which indicated in the priority basket we should have a significant increase in opportunities, access, and sales of autos and auto parts in the Japanese market. It was a result-oriented agreement, not targets, not market shares, not managed trade; so you get rid of that quickly. It was a result-oriented agreement; in May 1994, another Japanese Prime Minister on May 23 agreed to reiterate that commitment on behalf of Japan. For 20 months the United States and Japanese negotiators, starting at the ministerial level and working their way through, have negotiated these agreements. Let me say today, not in the aftermarket, not in terms of auto sales, not in terms of the original equipment market, are we even close to agreements. The United States has decided to take two steps in order to try to open up this market. President Clinton has made it clear time and again that we are going to open the Japanese market on an MFN basis for auto and auto parts one way or the other. One step we have taken, we have given pre-filing notification to the Director General of the World Trade Organization that we will be filing a case. Now it is less than 45 days from the day we notified; so there are probably only 39 days left. This case will be filed under the articles of the WTO which cover certain acts, practices, and policies of Japan in this area. In addition to that, there are acts, practices, and policies which have an adverse effect upon U.S. economic interests and which are not covered by the Uruguay Round--and there are some, as we know. Here, we will exercise our trade laws--as we are allowed to do under the Uruguay Round--and bring sanctions against the Japanese government, if by June 28 there is no agreement. None of this has been done lightly; none of these decisions has been taken with great haste or with great joy.

But let me say we do not have an open trading system and cannot expand in the most vital market in the world--namely, autos and auto parts. Let me give you an example in the United States: two and a half million Americans are directly employed in the auto industry--in the manufacturing sector, in the dealerships, and in the suppliers. The auto industry represents 5% of a 7 trillion dollar gross product. The auto industry is the largest purchaser of steel, iron, aluminum, platinum, flat glass, rubber, natural rubber, and almost the largest purchaser of semiconductors of any industry in the United States of America. The failure to be able to be treated fairly in the Japanese market, not to be discriminated against, to be able to have the opportunity, let me say it again, **the opportunity** to sell our parts and cars in that market is critical to our future, and frankly it is critical to Japan as well. It should not escape our attention that Japanese workers are the second highest paid workers in the world, yet their standard of living is one of the lowest. The reason their prices in their markets are so high is that competition is so low. If more foreign competitive goods were allowed into Japan, there would be lower prices and a raised standard of living; there would also be increased global growth. The right signals would be sent to the rest of Asia to open their markets as well. That is globalization and interdependence acting in the way that they should. So I would call upon my Japanese friends with whom we have worked so well over 28 months. We have had 14 agreements during that period in trade--the most ever in American-Japanese relations. We cooperated on the Uruguay Round; we cooperated in APEC (Japan is the chair of APEC this year); and we are working closely with our Japanese friends in that regard. It is time we open the Japanese

market on a MFN basis for Europe, for Brazil, for the United States; it is in the interest of Japan; it is in the interest of the rest of the world.

There are many who have talked about our transatlantic initiative as the next step in trade. We are committed to progressively eliminating barriers to trade with the European Union on a constant basis. The United States and the EU do have trade barriers, but let's look at the positive side: in terms of investment, the European Union has 232 billion dollars invested in the United States of America. The United States of America has 247 billion dollars invested in Europe--nearly equal. Our total trade in goods, services, and investment is about 300 billion dollars, the second largest trading relationship on earth; only the U.S.-Canada relationship is bigger today. It is in both of our interests that we expand our economic ties: it will promote stability; it will strengthen our ties, it will enhance our strong relationship. Let me put this in a little larger context: we need to do this for many reasons, but the biggest reason is the United States and the EU, the two largest economies in the world, need to show leadership. We have strengthened our strategic ties. When we have lost the glue that held us together at one end in terms of the Cold War, we now need to grow the connective tissue in trade at this end in order to continue this relationship which has been so important to both sides. I have assigned Ambassador Lang--and Ambassador Eizenstat has agreed also to work with us--to work with our European friends in this regard. There are four steps we would suggest be taken as soon as possible: one has already started here in the European Union, that is the study of which barriers are the most difficult and what we need to address--services, investment, telecommunications, IPR, and agriculture. Second, we should promote immediately, as I said before, progressive elimination of trade barriers between us; standards, investment, and financial services would be three places to start, and mutual recognition agreements as well, which we talked about this morning. Third, we should look at how we can, with a building block approach, move further in the future towards eliminating all trade barriers. Fourth, let me suggest that we ought to build a major and purposeful transatlantic dialogue among our businesses. Those are the four steps: studying the barriers, promoting immediate progressive elimination of trade barriers, developing possible steps to the complete elimination of barriers, and a transatlantic business dialogue which should help this entire process. We cannot move without you and your colleagues, the people in this room, and be successful in doing this.

When WWII ended, the old world was shattered; the architects of the post-WWII world made a number of choices, very smart ones which framed our relations to this day. Chief among these was a decision to build the world based on engagement--not containment, not withdrawal and isolationism. One thing that interests me is that we used to have an acronym called MAD. MAD was mutual assured destruction. Where we are today, my friends, is MAP, a guide to the future--mutual assured prosperity. And it is what we need to work on together. We stand again at the brink of a new world, but we face the same choice that we faced in the past, and our answer must be the same. We must choose engagement and cooperation over withdrawal and isolationism. Words cannot pay our debt of gratitude for the sacrifices of the heroes of the WWII generation and those who

came after, who engaged to build a new and prosperous world starting with Bretton Woods. Only our deeds, our hard-working, continued cooperation in shaping our world today will stand as an appropriate tribute. Thank you very much.

TELEFAX

DATE/TIME 23 MAY

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TO/DIA/DIA Diane WILDMAN

FROM/DIA Steve Dubrow

SUBJECT: Kantor Speech +
Q&As, Brussels, 22 May

001 341 311 3533

Ambassador Mickey Kantor
United States Trade Representative

Brussels, May 22, 1995

AMBASSADOR KANTOR: I have no opening statement. I will be happy to answer your questions.

Q: Tom Buerkle of the *Herald Tribune*. Sir Leon [Brittan] criticized you very sharply last week, saying that what you were doing on sanctions was effectively illegal. Has he maintained that stance this morning, or have we managed to [inaudible] of differences? And, belatedly, how do you reconcile the sanctions, which almost everyone outside of the U.S. considers violates the WTO, with your other declared aim of enhancing the credibility of this organization?

AMBASSADOR KANTOR. Let me take the first question first. As important as the U.S.-EU relationship is in its own right--and it's critical, of course; it's the second largest trading relationship in the world between any two entities--it's more than that. It's also how we deal together with third parties. We cooperated in leading the closing of the Uruguay Round, the largest trade agreement in history. We also reached a procurement agreement on April 15, 1994, which is the largest procurement agreement in history.

However, occasionally we have differences of approach. But I believe we share a fundamental objective in bringing down barriers and establishing a level playing field. I think it's important when we differ in third party relations--as, frankly, we will from time to time--[that] we manage those differences in private, diplomatic channels; rather than through public headlines. This is the way we've dealt with the European Union in many other disputes, and trading practices with other countries. We certainly can expect the same from the European Union. This is how friends relate to each other. Where we agree, as we most often do, we need to work together; and where we disagree, we need to handle these privately. I believe, in that spirit, we will be working together on many important issues in the next number of weeks.

Now, on your second question: first, of all, let me make it clear that when the President authorized me to make an announcement in terms of our approach to Japan, it was after 20 months of negotiation; a framework agreement where Japan committed itself to significantly increasing opportunities, access, and sales of foreign competitive parts and autos; reiterated that commitment on May 23, 1994; and after 20 months and two commitments and 35 years of discrimination in their market with regard to foreign competitive parts and autos; the President decided to act. And he acted in two ways. One, we filed a pre-filing notification with the Director-General of the WTO, indicating we'd file a case there in 45 days, which we

will, challenging those acts, practices, and policies of Japan, which are covered by the Uruguay Round agreements in the context of the dispute settlement understanding. That's appropriate.

However, there are acts, practices, and policies carried out by Japan in the after-market, where we had brought a 301 trade action, not covered by the Uruguay Round understanding, where we retained the right as did every nation of the world, to exercise our own laws, which we did. What we did was to invoke, not impose--I want to make a clear distinction--invoke sanctions, published in the *Federal Register*, 100 percent tariff on thirteen luxury models of Japanese automobiles. However, the imposition of those sanctions, if necessary, will go into effect on June 28, and has not gone into effect as of now. Next question.

Q: The Japanese government seems to wait for the U.S. to make some moves on the car issue. On the other hand, what we heard from people from the department of Mr. Brown seems to indicate that the negotiations will happen in the first two or three days ... With what type of mind are you going to Paris?

AMBASSADOR KANTOR: I always enjoy going to Paris, even though I flew all night. First of all, there are no meetings scheduled in Paris, as of now. Clearly, the ball is in--as we've said, time and time again--in Japan's court, after 20 months, and a Framework Agreement, and 35 years of discrimination, the lowest percentage-to-GDP of the import of manufactured goods of any developed country in the world, the lowest importation of autos and auto parts of any developed country in the world--it's time for Japan to react and to act soon. Japan knows exactly what she needs to do in order to satisfy these legitimate concerns: to make the rules fair, to level the playing field, to get rid of the over-regulation, to open up their markets to U.S. and other foreign and competitive autos, and to make sure in the original equipment market there is true competition. All of those things are within the responsibility of the Japanese government, and we look forward to hearing from them at their convenience.

Q: Elizabeth Wise, Associated Press. This afternoon you're going to meet Commissioner Oreja, the audio-visual Commissioner. Can you tell us what you have in mind as far as the discussion of television in Europe?

AMBASSADOR KANTOR: Well, I never negotiate in public, but I can tell you that will come up, obviously, the Broadcast Directive in the new iteration; and I'll ask the Commissioner to give me just a briefing as to where that stands, which I would hope and trust that he will do. We'll discuss it, we'll discuss other follow-ups to the G-7 conference that we had on telecommunications, as well as other items on our agenda. We had good meetings this morning, as I announced in there, with regard to many different areas. They were helpful. We made progress. They were very, very positive. We covered about 15 issues this morning with Commissioner Brittan and Commissioner Fischler, and I would expect this afternoon's meetings will be just as productive.

Q: Julie Wolf, from *The Wall Street Journal*. You said you made progress. Do you think it will be possible to settle the compensation issue by the end-of-June deadline, and also to settle the financial services question by the end of June?

AMBASSADOR KANTOR: Well, on compensation--you mean, enlargement, the enlargement issue--we made progress. Whether or not we settle by the end of June is not as critical as the fact that we made substantial progress; and I think great work has been done on both sides. As far as financial services, of course, we are looking for a critical mass. We need to make sure we don't usher in a new era of the free rider system--those who take advantage of open markets without committing their own markets to be open to other countries as well. We'll continue to work on that critical mass. We've had meetings lately with Korea--I know Ambassador Lang has just met with Korea. We'll be meeting with Brazil, ASEAN countries and others, in hopes that we can open these markets. We also hope that Japan will multilateralize the very good agreement on financial services Japan and the United States reached just a few months ago. That would be very helpful.

Q: On those two issues you just mentioned, I take it if there is not satisfactory agreement by the end of June, that the United States would seek to extend the six-month compensation or enlargement agreement. And what about financial services? Would the United States want to continue those negotiations somehow beyond June 30?

AMBASSADOR KANTOR: June 30, on financial services, is the deadline. As far as the compensation or enlargement is concerned, there are a number of ways to approach that issue, and we'll be talking to our European Union colleagues about that. But I can say we made progress this morning. It is not critical, of course, as long as we can continue the interim agreement, that we have a full agreement by June 30.

Q: Jonathan Charles, BBC. Could I ask you, Ambassador Kantor--you said a few minutes ago, and obviously you didn't think you were breaching WTO rules on the Japan dispute--but is there not a danger you could damage the WTO in its infancy by pursuing this policy of threatening?

AMBASSADOR KANTOR: Well, number one, we're bringing a case to the WTO and using the dispute settlement understanding in those areas where there is a rule to cover the policy, practices or acts of Japan. That's strengthening the system itself. In those areas where there is no Uruguay Round coverage, every country--all 123 who signed in Marrakesh, or entities--have a right to exercise their own trade laws. Nothing could be clearer. And so we'll continue to pursue that policy. We made it clear during seven-and-a-half years of negotiations--eight-and-a-half years of negotiations, 3 administrations--President Reagan, President Bush, and President Clinton--that would be the policy of the United States. This president, President Clinton, reengaged the Uruguay Round, talked to leaders around the world, committed himself to finishing it in ten-and-a-half months, was successful in doing so, has been able to lead the United States to 81 trade agreements in 27

months. No one can doubt his commitment to open and expanded trade. And so when we act in the way that we did, we're doing so, not to create barriers, but to break them down.

And that's the difference between the U.S. position and the Japanese position. We're great allies and friends. For 28 months, we've reached 14 trade agreements with this Administration, the most between Japan and the United States in history. We cooperated on the Uruguay Round. We're cooperating in the Asian-Pacific Economic Cooperation forum. We cooperated on the Framework. It's time now to cooperate on autos and auto parts--not just for the United States, but to open the Japanese market to foreign competitive autos and auto parts from all over the world.

Q: Jay Branegan, from *Time Magazine*. Isn't the risk, though, if you succeed in opening up the Japanese market with this unilateral action that that will encourage the Congress and other political forces in the States to seek more unilateral actions by the U.S. instead of relying on the WTO?

AMBASSADOR KANTOR: The greatest mistake we could make is allow a situation that has persisted for 35 years, which has created great frustration among the American people, to continue. The way to build credibility for world trade, for the WTO, for the North American Free Trade Agreement, for the free trade agreement of the Americas, for the Asian Pacific Economic Cooperation Forum, for the IPR agreements like we just reached with China--is to enforce your trade agreements and trade laws in a vigorous manner, in order to build credibility for trade. That's what we haven't done in the past in our country, and what we need to do today. Let me say it again: what we are doing is trying to open markets, not close them. We have not said we'll close our market to your automobiles and your parts. We want you to open your markets. That's what we are trying to accomplish. That is in the best interest of trade, it's in the best interests of the American people, it's in the best interests of Japanese consumers, in the best interests of global growth.

Q: In this issue, do you see any role for the European Union in helping you solving this dispute, as a mediator or something like that? Have you discussed it with Sir Leon Brittan this morning?

AMBASSADOR KANTOR: It's not up to me to give advice to the European Union, but I thought no one would ever ask (laughter). The European Union and the United States worked together to reach the largest trade agreement in history, the Uruguay Round. The spirit of that is opening markets and expanding trade, breaking down barriers, setting up rules, levelling the playing field. Remember this: the Uruguay Round is a single undertaking. What does that mean? Eventually, everyone plays by the same rules. That's all we're asking Japan to do: play by the same rules. I would hope, in that spirit, that the European Union, who have recognized--Sir Leon has said it--that the Japanese car market and parts market is closed, would be opened up. That's up to Japan, and I would hope that Japan will respond to those entreaties on behalf of both the European Union and the United States.

Q: Apart from the cars and car parts, do you have in mind to act in a similar way [inaudible] vis-a-vis Japan?

AMBASSADOR KANTOR: Would you be more specific? I'm sorry. I may or may not be following you, but I'm going to try to be careful here (laughter). I know that's uncharacteristic, but I will be (laughter).

Q: ...most negotiations for a couple of years--not you, but the previous Administration--but do you have any mind to try to open up markets, apart from cars and car parts, do you think [inaudible].

AMBASSADOR KANTOR: Of course, we'd like Japan to operate on its own and to open its own markets, without the U.S. or anyone else having to bring any pressure upon Japan. That would be the most productive way to proceed. I would note just the other day a 301 filing was made, filing by a private corporation in the United States, Kodak, with regard to Japan. I have 45 days to make a decision whether I will accept that filing. And, of course, I'm not going to comment on that today. I would also note there is a very important discussion going on between Japan and the United States over civil air rules and rights. That's being carried on by the U.S. Department of Transportation and our Department of State. Those are two areas, I think, which we might pay some attention to. Obviously, to the extent the Japanese market is closed in certain areas, we would like to address it. But we've made great progress--let me say it again--in glass, in telecommunications, in medical equipment, in insurance, in financial services, in rice, in apples. There has been agreement after agreement, 14 in 28 months, that we've been able to arrange, 14 including the Framework. And so therefore we shouldn't be discouraged, frankly, as we look to the future.

I am deeply grateful to my Japanese colleagues for the kinds of agreements we have reached, because they're working, and they're working well. I would note, in February for the first time in American history, we had over 5 billion dollars in exports into the Japanese market. That's an all-time record, and it's continuing to increase. So therefore I think we should see--you know, I tend to be a person, I see the glass half full, not half empty--we can make progress, as long as both countries are willing to act in good faith.

Q: You mentioned that in Paris, no meetings were planned with the Japanese. Does this mean to say that you anticipate any possibilities there of contacts that could lead to a breakthrough or to advancement of the [inaudible].

AMBASSADOR KANTOR: I think the Japanese ministers know my phone number (laughter).

Q: Could you be a little bit specific about the area which has not been covered by the Uruguay Round?

AMBASSADOR KANTOR: There are a number of acts, practices, and policies in the secondary market, is what you are talking about--because that's where we

brought the 301 action--not covered, which involve the relationships between--for instance, I'll give you one example: relations between the repair shops, the certified repair shops where you are inspected and you have to repair your cars there, under the Japanese law; and Japanese dealerships--many of those, as you know, are not dealerships--and Japanese manufacturers. That kind of relationship--and I won't characterize it--is not covered by the Uruguay Round. That would be one area. Another would be, frankly, the whole critical parts or disassembly list. It's called both, and I have to be careful; I'll call it both. There are seven different systems on that list. That list should be deregulated. The Japanese negotiators on behalf of Japan--this is not a criticism; this is their position--refused to do that. Those are two areas. I could go on. There are at least 10 different major areas in our discussion, not including the discussion of voluntary plans, 10 different [ones] we never reached agreement on. And so, therefore, we were not close to an agreement, unfortunately, either in [inaudible] or over the last 20 months.

Q: ...You mentioned bribery and corruption as the one of the worst dangers to face, and you also said you want to enlarge the WTO competence in this field. Can you elaborate?

AMBASSADOR KANTOR: I would like to. I think it's a very important item. If you talk to business people, whether European or U.S. or Japanese or others, they will tell you that the proliferation of bribery and corruption--especially in areas where there is over-regulation, lack of transparency, those are, tremendous government involvement in the economy--has a pernicious or negative effect upon trade. That means certain companies who will engage in those practices are advantaged over those who won't. If you are a U.S. corporation and you have to live by the Foreign Corrupt Practices Act, you are put at a competitive disadvantage. But the U.S. corporations aren't the only corporations who are disadvantaged. There are many, many corporations around the globe, many, many businesses or individual business people who will not engage in those kinds of practices. Therefore, to the degree it is carried out--and it is, frankly, all too prevalent around the globe--it adversely affects trade. It's a trade barrier. I believe those kinds of internal concern are ripe for discussion at the WTO.

Q: [inaudible] of Canadian Broadcasting. I wonder, you said you made progress on the leghold trap issue. What kind of progress, and do you share the European assessment that an interim agreement can be reached within the next three months?

AMBASSADOR KANTOR: Since we're in the middle of negotiations, let me not give you any specifics, because I think that would be unfortunate. We did make progress. I believe that there is an understanding of how we can proceed. Whether we reach agreement or not is another question. This discussion has been going on for quite a while. The European Union has indicated that if we don't reach agreement, they will implement their policy on 1/1/96, if I am not mistaken; and we have made it quite clear--Canada and the United States and others--that would not be acceptable. However, I will say today it was a promising discussion. There was flexibility shown, and I think we made progress.

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Q: Back on the bribery stuff. Discussion in the WTO--would you hope that perhaps an exploratory committee could be set up with an eye to adding this type of stuff to WTO rules?

AMBASSADOR KANTOR: I would think so. There are a number of things that in WTO, as you know, we have advocated. We have a trade and environment committee, already. We'd like a discussion on the nexus between trade and labor. We need more transparency. We'd like to see a discussion on bribery and competition policy as well. The WTO is a very important organization. It is going to be even more important in the future. We have great confidence in the leadership there. We will continue to work with them. And we would hope that these will be taken up very soon. I want to recognize Ambassador Kobayashi.

AMBASSADOR KOBAYASHI: Thank you, Ambassador Kantor. I would like to ask a few questions (laughter). Well, do you anticipate the erroneous understanding that [inaudible] after your explanation on the closedness of the Japanese markets [inaudible]. So I will ask three questions. First, do you think the dealers' system in Europe and in Japan are different or very similar? Because we believe it's almost the same system prevailing here in Europe. And secondly, we have the European cars market share in Japan, as of this year, with probably 5 point something, or nearly 6 percent, of the Japanese market. And the European cars' share in the U.S. market is a little more than 3 point something. So, do you think that in that case, we can conclude that the U.S. market for European cars is more close than the Japanese market? The third question is...

AMBASSADOR KANTOR: Why don't we take one at a time, because I'm older than you, and I'll never remember the questions as you go on. Your first question was what, now? Let's start with question one. Dealership system.

AMBASSADOR KOBAYASHI: The dealership system.

AMBASSADOR KANTOR: The dealership system. Well let me just talk about the dealership system. First of all, most Japanese dealers are either owned by or financed by the manufacturers. Until 1991 they were forbidden--forbidden, by contract--from carrying any foreign cars. Since 1991, intimidation has taken place, which just kept--may I finish, please? You asked a question, and I appreciate it, I appreciate it very much; let me answer it--have been kept out of those dealerships, even though, in the last five years U.S. manufacturers have invested 117 billion dollars in plant, equipment, training, research and development, have developed 101 products for the Japanese market, 60 right hand drive, 51 with engines of 2000 ccs or less, 10 right hand drive models in the 60 products, and 16 models in all. Now that's number one.

Now, number two. In the U.S., foreign competitive cars have 33 percent of the market. In Japan, that figure is 4.6 percent by numbers of automobiles, not by value. See, you're trying to confuse our friends, here. Now, by value, if you take BMW's and Mercedes and Jaguars--which I can't afford, now that I'm in public life (laughter), that raises your percentage. But, if you are right about the number of

cars sold, if you take 6 percent times 3-- 6.5 million--the Europeans would have sold 400,000 in Japan last year. Not even close. So you're wrong about that, too. With all due respect--and I respect you very, very much, we're friends and allies--but you've got to get your numbers correct. Now, the third question.

AMBASSADOR KOBAYASHI: The third question...

AMBASSADOR KANTOR: My numbers, in fact, are very precise.

AMBASSADOR KOBAYASHI: Ours, too (laughter).

AMBASSADOR KANTOR: Do you know how many cars Americans sold in your market last year?

AMBASSADOR KOBAYASHI: Well, two-thirds of 270,000.

AMBASSADOR KANTOR: That's 180,000 on 6.5 million, and I don't have a calculator, but that's not 6 percent. In fact, it's what I said it was, it's about 3 percent. Just what I said, 3.1 percent. If you take a calculator, I think you'll find that's just about exactly correct. Anyway, go ahead with your third question. In fact, I think it was 186,000, but that's...

AMBASSADOR KOBAYASHI: The third question is that foreign cars' market share in Japan is 8.4 percent, that I have told you, while in France and Italy, for example, 5 percent, if you exclude intra-EU trade. So, what do you think about this situation?

AMBASSADOR KANTOR: Well, first of all, it's not as to numbers of cars it's 4.6 percent. I can tell you that. Just take 6.5 million cars and trucks, divide it into 380,000, and I think you'll get 4.6 percent, or 320,000. My numbers are correct. I got these from, in fact, the Japan Automobile Manufacturers' Association, so I know they're correct. Number two, I think there's no European country who has less foreign car imports than--what, 16 or 18 percent, someone can help me...

AMBASSADOR KOBAYASHI: As a whole, the EU as a whole...

AMBASSADOR KANTOR: Well, they're separate countries. I'm not sure we're going to start counting, you want to start counting Mexico and Canada as part of the United States...

AMBASSADOR KOBAYASHI: NAFTA trade should be excluded, in my sense, because you have a special free trade area agreement with Canada, and...

AMBASSADOR KANTOR: So maybe we ought to take the Hondas made in the United States, the 47,000 that were shipped to Japan, and take those out of the numbers. Should we do that as well?

AMBASSADOR KOBAYASHI: ...from the United States.

AMBASSADOR KANTOR: Well, if--right. They were made in the United States by U.S. workers. We'd count those as U.S. products shipped to Japan. Those are part of the figures. And so, you can't have it both ways. The fact is, we all know: in 1953, the U.S. had 57 percent of the Japanese car market. Now, we agreed, with Japan, close the market to foreign competitive products. Why? We wanted Japan to build its economy, to become strong, to be a bulwark in Asia, to be a friend and ally and be strong. That was in both countries' interest. By 1960, there was zero foreign cars, as you know, imported into Japan. It's now up to 4.6 percent. At this rate, we'll get back to 57 percent in 462 years (laughter). Neither you nor I are going to be around then to watch that happen.

What we need to do is to work together. I respect you greatly. Japan is a great ally and friend. We have an interest in opening our markets to each other, as do the Europeans with the United States, as do the Europeans to Japan. What we all need to do is to play by the same rules: build our economies, support global growth, make sure we have open markets and expanded trade, raise standards of living--that's how you make trade agreements. So we're willing to work with you at any time, as you know, as we have and will continue to--but we need to solve this problem. I appreciate your questions. They were very good ones, and I thank you for it.

**TALKING POINTS
AMERICAN CHAMBER OF COMMERCE
BRUSSELS
AMBASSADOR MICHAEL KANTOR
MAY 22, 1995**

INTRODUCTION

- This spring we have commemorated the end of World War II in numerous ceremonies. It is an opportunity to reflect on the tremendous sacrifices of those who fought -- and on the incredible miracles that have occurred since the end of the war. Europe has rebuilt. The Cold War has ended. Those who were our friends, remain so. Those who were our enemies, are now our friends.
- With the end of the Cold War, it sometimes seems like every pundit, on both sides of the Atlantic, is eager to declare the U.S.-E.U. partnership dead. It's certainly true that the end of the Cold War has changed -- for the better -- the foreign policy calculations that shape the world. And it's true that without the overriding struggle against communism, we are less restrained in our attention to areas of disagreement.
- But it's important to keep a sense of perspective. The foundation of cooperation and common enterprise in U.S.-E.U. relations is alive and well.
- The end of the Cold War has changed foreign policy equations in the world. Our united struggle against communism gave us a broader context within which our differences were not seen as a threat to our relationship. Now, with the Cold War won, it seems as if we have differences of opinion on many issues.
- As we move into the future, we should focus on the values we share, the common challenges we face, and how we can strengthen our ties.
- All of us remain strong and prosperous at home, by remaining engaged abroad.
- All of us face the same challenges of improving education, fighting crime, investing in the future, and raising standards of living for our people. Every nation's economic strength begins at home.
- All of us know that lowering barriers to trade and investment is critical to creating high wage jobs and fostering global growth.
- We share a common future, and we must move forward together.

- We will begin by building on the historic accomplishments of the last two years. We are witnessing a firm march forward toward free and fair trade around the world. Cooperation between the European Union and the United States was critical to that effort. Specifically, U.S.-EU cooperation ensured conclusion of the Uruguay Round, the broadest trade agreement in history, and the procurement agreement, the largest in history.
- President Clinton has fought hard to expand trade in all corners of the globe. President Clinton and his administration advanced and then ensured the passage of the North American Free Trade Agreement; set our negotiations with Japan on a new course under the Framework Agreement; set the stage for trade expansion in Asia through the Asia Pacific Economic Cooperation forum with the Bogor Declaration; and announced creation of a Free Trade Area of the Americas by 2005 at the historic Summit of the Americas. We concluded 14 agreements with Japan, an historic intellectual property rights agreement with China, and an agreement covering 80 percent of global shipbuilding. In addition, his Administration completed scores of other bilateral trade agreements, including textile agreements.
- All of these efforts complement each other. They do not benefit the United States at the expense of other nations. They strengthen the global trade system to the benefit of all people. Regional and multilateral trade liberalization have gone hand in hand in the past, and will continue to do so in the future.
- Of course, regional agreements must meet WTO standards. They must not raise barriers to non-participants and they must not exclude any economic sector.
- President Clinton believes that expanding economic ties will benefit all people. This record will lead to an explosion of global trade that will foster global growth and prosperity and create jobs and economic opportunities around the world.

TRADE POLICY: A NEW PHASE

- Now, trade policy is entering a new phase. We must work together and build on the historic accomplishments we have worked together to achieve. Cooperation was critical to those accomplishments in the last two years and cooperation will be critical as we move into the future:
- Our first priority must be to implement the Uruguay Round and enforce this new system. The EU and the United States have both played leadership roles in the multilateral system and should continue to do so as WTO gets under way.
- In addition, we must complete the unfinished business of the Uruguay Round in financial services and basic telecommunications.
- We should continue to work together to resolve our differences over the Broadcast

Directive. The free flow of ideas is critical to any nation's strength. We want to see a healthy European film industry, but quotas, which isolate film producers from the demand of their public, are not the way to develop a healthy domestic film industry.

- We must also work hard and begin to seriously address the issues that comprise the future multilateral agenda.
- In the last five years, global exports have increased 32 percent. The prosperity of countries around the globe is dependent on fostering free and fair trade. This increasing interdependence among nations means we will begin to discuss issues which have been considered "out of bounds" because they go to the heart of a nation's internal domestic policies, when they distort or inhibit trade. These policies include a nation's actions -- or inactions -- regarding anticompetitive business practices; lack of transparency; environmental protection; adherence to internationally recognized labor standards; and corrupt practices such as bribery.
- With regards to corruption, I believe we must do much more work in this area. The OECD has done some work, but we must go much farther.
- Since the OECD approved recommendations to limit illicit payments in April 1994, the U.S. government has learned of almost 100 cases of foreign firms using bribery to undercut U.S. firms' efforts to win international contracts worth about \$45 billion.
- Bribery of officials by businesses attempting to sell their products in a foreign market is a serious problem in trade. It distorts trade and investment by undermining the operation of free markets, raising the costs of doing business, and penalizing companies that do not pay bribes. We can work to limit bribery with negotiations focusing on, first, deregulation measures. By deregulating, you limit the measures an official can be bribed to circumvent. Second, through increased transparency, which makes corrupt practices more difficult to conceal.
- One area in particular in which we have encountered problems with corruption is foreign government procurement, primarily in countries that are not members of any international agreement on government procurement, such as the new WTO Government Procurement Code.
- The United States is determined to increase public awareness of these problems and push initiatives to clean up government procurement practices around the world.

Europe and the Future

- The Uruguay Round was just the beginning. Now we must move forward. We must work on those issues I just mentioned. But there are two other areas I wish to discuss today, that are critical to the futures of both Europe and the United States. By working together, we will prosper together.

Japan

- First, an area that concerns both Europe and the United States is the closed nature of Japan's markets.
- We must work together to cooperate in opening Japan's markets.
- And important as it is in its own right, the U.S. EU relationship is of course about more than just relations between us. We cooperate in leading the global trading system and in working to open markets around the globe. Occasionally, we have differences in approach, but I believe we share a fundamental objective in bringing down barriers and establishing a level playing field.
- But it is important that where we differ on third party relationships -- as we will from time to time -- we manage those differences in private diplomatic channels rather than through public headlines. This is the way we deal with differences we have with EU trading practices with other countries. We would expect the same treatment from the EU. This is how friends should relate to each other.
- Where we agree -- as we most often do -- we need to work together shoulder-to-shoulder in making it clear to subtle protectionists that our publics are no longer tolerant of free riders.
- The United States has fought hard to open Japan's markets. We feel it is in our interest to do so. Even though many of you in this room may not do business directly with Japan, we feel it is in your interest to foster a more open global trading system.
- It is also in the interest of Europe. We share common concerns and problems in entering the Japanese market and competing on a level playing field there.
- Europe complained about many of the same practices when it filed its own GATT case in 1982.
- Imports of cars and trucks represent 55 percent of the market in Italy, 54 percent in the UK, 39 percent in Germany, 38 percent in France, 33 percent in the United States, and only 4 percent in Japan.
- Imports of auto parts represent 60 percent of the market in the UK, 49 percent in

France, 32.5 percent in the United States, 25 percent in Germany, 16 percent in Italy, and only 2.4 percent in Japan.

- Imports of replacement auto parts represent 21.8 percent of the market in Europe, 17.5 percent in the United States and 2.6 percent in Japan.
- These discrepancies must be addressed.

Transatlantic Initiative

- As I said earlier, the U.S.-European economic relationship is stronger than ever.
- At the same time, I believe it is a good time to explore ways to go further progressively and expand our economic ties and reduce trade barriers.
- There are, of course, many visible and invisible barriers to trade between us. Just as Europe found when they formed a single market, elimination of those barriers will foster growth and promote closer cooperation.
- This initiative can grow from our already deep ties. The European Union is by far our largest trade and investment partner, overall its economic structures are quite similar to the U.S. The numbers are staggering. The two-way trade in goods and services of over \$300 billion is remarkably balanced over time. Fifty-five percent of American companies' overseas sales – \$850 billion in 1992 – are in Europe.
- The EU has a very compatible economy with ours, with similar wage structures and equivalent environmental regulations.
- Our stake in Europe is so substantial and our interdependence so great that its economic success leaves us stronger. Further strengthening our ties will lead to more jobs, growth and investment in both Europe and the United States.
- We need to ask the question of what is our ultimate goal, our vision of where we want to end up. We understand that the European Commission is studying the possibility of a U.S.-E.U. free trade agreement. We agree that such a study can help the E.U. to evaluate all of the options. For our part, I have directed my staff to proceed with an in-depth analysis of these ideas, including the idea of a reciprocal free trade agreement consistent with our international obligations.
- Even as we each begin to develop our vision of the future, we can continue to build our economic relationship in such areas as investment, regulatory cooperation and rules of competition in third country markets.

I believe that the following four point plan is appropriate at this time:

- 1) undertaking U.S.-EU cooperation to lead the world toward greater multilateral trade liberalization;
- 2) initiating a bilateral "building blocks" approach, under which the United States and the EU would identify concrete trade liberalization measures they can take in the short and medium term;
- 3) conducting studies, on both sides of the Atlantic, of remaining bilateral trade barriers and the options for eliminating them; and
- 4) encouraging private sector advice on this initiative, including through the TransAtlantic Business Dialogue that Secretary Brown and the European Commission have launched.

- I do not believe it is useful to try to be more specific at this time as to what can be done and by when. This is too important an undertaking to take lightly or to announce rashly. Both the U.S. and EU need to reflect on these issues and to initiate a dialogue as our respective thinking advances. I have asked Ambassador Jeffrey Lang to serve as our chief interlocutor with the EU Commission as we move forward with our respective studies.

CONCLUSION

- When World War II ended, the old world was shattered. The architects of the post-World War II world made a number of choices -- very smart choices -- which frame our relations to this day. Chief among these was the decision to build a world based on engagement and cooperation, not withdrawal and isolationism.
- We stand again at the brink of a new world. But we face the same choice. And our answer must be the same: we must choose engagement and cooperation over withdrawal and isolationism.
- Words cannot pay our debt of gratitude for the sacrifices the heroes of the World War II generation. Only our deeds -- our hard work and continued cooperation in shaping our world today -- will stand as appropriate tribute.

OFFICE OF THE UNITED STATES
TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON, D.C.
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AHn: DIANE

FOR IMMEDIATE RELEASE
Wednesday, May 28, 1995

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STATEMENT BY AMBASSADOR MICKEY KANTOR

I am pleased to announce that the United States of America and the Government of Japan have reached an historic agreement today. This agreement is a significant step to fundamental change. It is solid, meaningful and concrete. It is broad, detailed, and quantifiable. It is a step toward providing the same access for foreign competitors to Japan's market for autos and auto parts as Japan has to the U.S. market. The agreement will begin to create a level playing field.

The challenges both of our nations face are how to increase jobs for our workers, how to raise the standard of living for our families, and how to create global growth. We've proven we can make important progress toward meeting those challenges. This will be neither the first nor the last time we will be called upon to assume this responsibility. The greatest risk of all is when we turn our backs and hide behind our fears.

The agreement we reached just two hours ago is good for America. It is good for Japan. And most importantly, it is good for the working men and women of both of our countries. It will have an important economic impact on both of our economies -- the world's two largest -- as its effects multiply through not only the automotive sectors, but its scores of supplier industries, as well.

Throughout these twenty-two months of negotiations, we have never lost sight of the importance of our relationship with Japan. But even strong relationships need renewal. Through sharing responsibility, as our two nations have done today, even greater ties are built.

The United States and Japan together assumed such responsibility in working

together successfully to help complete the Uruguay Round and to strengthen the Asia Pacific Economic Cooperation Forum (APEC).

In mid-1993, President Clinton sought to lay the foundation for a new, more balanced and cooperative economic relationship with Japan through the "United States-Japan Framework for a New Economic Partnership". In the auto and auto parts sector, Japan committed in the Framework to:

the objective of achieving significantly expanded sales opportunities to result in a significant expansion of purchases of foreign parts by Japanese firms in Japan and through their transplants, as well as removing problems which affect market access and encouraging imports of foreign autos and auto parts in Japan.

Japan and the United States reaffirmed these objectives in a statement on May 23rd last year.

In the past twenty eight months, the United States and Japan have reached 15 trade agreements in important sectors ranging from medical technology and telecommunications to construction and apples. We have negotiated strong and fair agreements, we have made progress, and we are seeing markets beginning to open.

In seeking today's agreement, we have enjoyed the support of an overwhelming majority of the American people, of labor and industry, of bipartisan Congressional leadership, and over 150 Senators and Representatives from both sides of the aisle.

Before closing I would like to thank my counterpart, Ryutaro Hashimoto, the Minister of International Trade and Industry of Japan. When Minister Hashimoto and I first met on Monday evening here in Geneva, I presented him with a Kendo shinai. I said at the time that the sport of Kendo represents courage, honesty, integrity, and patience. After spending a great deal of time with my friend during the last several days I can assure you that he represents all of these qualities and more.

U.S.-JAPAN AUTO AND AUTO PARTS AGREEMENT

FACT SHEET

Today, the United States and Japan reached an historic agreement which will result in significantly increased market access for autos and auto parts, and structural change in the Japanese automotive sector.

This is the 16th trade agreement the Clinton Administration has completed with Japan in the past 28 months -- an unprecedented rate of success. These agreements have opened major trade sectors including telecommunications, construction, agriculture, glass and medical technology.

The missing piece has been the autos and auto parts sector. This area represents \$37 billion of our \$66 billion trade deficit with Japan, nearly 60% of our Japan deficit and 25% of our overall trade deficit. Autos and auto parts support 2.5 million U.S. jobs in sectors ranging from service and sales to steel to semiconductors. No other industry has a bigger impact on America's economy -- 5% of our nation's GDP over the past three decades.

Since auto negotiations began in October 1993, the Administration has emphasized three overriding goals for opening the auto and auto parts sector. Today's agreement meets our goals in each area:

- **Deregulation of the Replacement Parts Market in Japan:** A thicket of bureaucratic regulations have blocked competitive U.S. auto parts from Japan's multi-billion market for replacement parts. Today's agreement clears away layers of needless regulations, introducing new competition and opening a market previously reserved for Japanese suppliers.

- **Access to Dealerships:** Today's agreement will give U.S. auto companies increased access to Japanese dealership networks. U.S. auto companies will be able to sell through more dealerships in Japan. Japanese consumers will have the option to buy our reasonably priced, high quality cars. We expect U.S. auto companies to open an additional 200 outlets by 1996 and 1000 new outlets by 2000, to support the U.S. industry's objective of exporting 300,000 vehicles by the year 2000.

- **Increased Purchases of Original Equipment Parts:** In Japanese companies, the original equipment auto parts market is dominated by "Keiretsu" -- unique, interlocking relationships between manufacturers, suppliers, distributors and financial institutions. The Keiretsu act unfairly to block foreign access to the market.

Japan's five largest auto companies are announcing plans to increase their parts purchases in North America, including diversification into high-value components such as transmissions and engines; to increase their vehicle production in North America by \$6.7 billion; to purchase \$6 billion of foreign parts by 1998 for production use in Japan.

Today's agreement tackles the overarching issue of unfair competition policy in Japan. Throughout Japan's automotive sector, failure to enforce fair competition laws has given Japanese manufacturers monopoly power -- keeping out foreign competition and restricting consumer choice. Japan today agreed to strengthen its key enforcement agency -- the Japan Fair Trade Commission -- directing it to enforce fully its fair competition laws.

Deregulation of the Repair Parts Aftermarket

The Japanese market for replacement auto parts is restricted by a complex system of regulations which channel the bulk of the repair work -- that associated with the regularly scheduled "shaken" inspections required by Japanese law -- to a network of 20,000 "designated garages" that are tightly integrated into a distribution system controlled by Japanese auto manufacturers. As a result, competitive foreign auto parts producers are excluded from the repair market, forcing Japanese consumers to pay higher prices and enjoy fewer choices.

The United States urged Japan to pursue deregulatory measures to open the repair market to a broader range of garages -- many of whom are likely to be less tied to the Japanese auto manufacturers than the designated garages and, therefore, more willing to use competitive foreign parts. Specifically, the agreement addresses the following issues:

Critical parts: Japan's regulations steer any repair to "critical parts" to certified garages because those are the only garages that are authorized to conduct the periodic inspections required by Japanese law.

-- The Government of Japan (GOJ) will engage in a one-year review of the critical parts list with the goal of deregulating any parts that are not central to health and safety concerns.

-- ~~As an important first step, the GOJ has agreed to initially deregulate the following items on the critical parts list:~~
struts, shocks, power steering, and trailer hitches.

-- The GOJ also has agreed to a petition procedure under which MOT will respond within 30 days to requests that a critical part be removed from the list.

-- The GOJ will issue regulations within about one year to

establish a "specialized certified garage" system -- garages that specialize in the repair of any combination of vehicle systems on the critical parts list (e.g., mufflers, brakes). Unlike other critical parts repair conducted by non-certified garages, repairs by these specialized certified garages would not be subject to MOT inspection.

Accessories: In Japan, when a car is modified so that its dimensions change by even 1 cm, the Ministry of Transport requires that the car be reinspected. For example, adding an additional side mirror could require reinspection. This effectively prohibits Japanese consumers from purchasing accessories.

-- The Government of Japan will no longer require MOT inspection for modifications attached to autos by any means other than welding and riveting.

Standards for designated and certified garages: Among the obstacles to competition among garages are the burdensome requirements and, therefore, the costs associated with establishing designated and certified garages. Currently, designated garages are required to have 5 mechanics, three of which must be government approved. Certified garages are required to have 3 mechanics, 2 of which must be government approved. In addition, there are minimum floor space and tool requirements that discourage new garages from being started and which discourage certified garages from seeking licenses as a designated garage (which would permit them to break into the repair market associated with the periodic inspections).

-- The GOJ will reduce the number of government approved mechanics for designated garages from 3 to 2 and for certified garages from 2 to 1.

-- The GOJ will permit certified garages with 5 mechanics to conduct the periodic inspections as "special designated garages". Initially the 7,000-8,000 certified garages that have 5 or more mechanics will be eligible for licenses which will permit them to break into the designated garage market. Ultimately, all 63,000 garages could be eligible to inject a degree of competition into this market -- where low-cost U.S. parts are likely to do well.

Dealerships

Today, ~~80% of U.S. auto dealers sell cars manufactured by more than one automakers~~, including imported cars. However, only 7% of Japanese dealers offer foreign cars. The ability to sell through an existing dealership network, rather than establishing all new dealers from scratch, has been critical to the ability of foreign auto companies, including Japanese companies, to enter and expand in the United States. The same is particularly true in Japan where the land and other associated costs with establishing a new dealership are nearly prohibitive. Many

Japanese auto dealers would like to sell U.S. and other foreign vehicles but feel pressured and fear that they will be subject to retribution by Japanese auto manufacturers.

-- MITI will send a letter to all Japanese auto dealers affirming their freedom to carry foreign vehicles and indicating that pressure not to do so by the Japanese auto manufacturers may raise concerns under the Anti-Monopoly Law.

-- The GOJ and each major Japanese auto manufacturer will appoint a "contact person" who will address dealers' questions and concerns about their right to sell foreign cars [and facilitate partnerships between U.S. auto manufacturers and Japanese dealers].

-- The GOJ will conduct a survey to determine how many and which Japanese dealers are interested in selling foreign vehicles and will use the results of that survey to facilitate joint dealerships.

-- The U.S. manufacturers have as their goal the establishment of 200 such outlets in Japan by the end of 1996 and 1000 new outlets by the year 2000.

Original Equipment/Parts Purchasing Plans

Despite the world class competitiveness and price advantages of U.S. auto parts, Japanese auto manufacturers are not responding to market forces because of the closed "keiretsu" purchasing relationships, both in the Japan and the United States, between Japanese manufacturers and their key suppliers. To address this problem, and to underscore the importance of purchasing parts from other than their keiretsu partners, the Japanese auto manufacturers have issued voluntary parts purchasing plans in 1990, 1992 and 1994.

-- The five major Japanese auto manufacturers are releasing business plans which would lead to increased production of autos, increased purchase of parts, and increased production of parts in the U.S.

-- The five major Japanese auto companies will increase their production of autos in the U.S. from 2.1 million to 2.65 million units by 1998.

-- ~~As a result of these plans, we forecast that the purchase of parts in the U.S. will increase by \$6.75 billion by 1998.~~

-- The five major Japanese auto companies will meet NAFTA standards for rules of origin, increasing their North American content to 56% by 1998.

-- The five major Japanese auto companies plan to purchase \$6 billion in foreign parts by 1998 to be used in the production of

autos in Japan.

Competition Policy and Enforcement

With the reduction in formal trade barriers, many of the obstacles to market access in Japan reflect barriers to free and open competition. A strong competition policy and the full and effective enforcement of anti-monopoly laws is key to addressing private anticompetitive behavior that excludes foreign products.

-- The GOJ agreed to increase support for the Japan Free Trade Commission and to take into account a number of U.S. Government suggestions regarding the more effective enforcement of Japan's anti-monopoly law.

Monitoring and Enforcement

This agreement includes objective criteria which will be used to monitor progress over the life of the agreement, supported by a new, effective monitoring system jointly developed by the U.S. industry working closely with the U.S. Government.

Remarks of Ambassador Kantor for Radio Network June 5, 1995

Q: "Would you like to say something about the Trans-Atlantic Free Trade market that Secretary Fishler was talking about last week?"

K: "Well, number one, he didn't use those terms. It's the Trans-Atlantic Initiative. I have a speech a week before on exactly the same subject. It has four parts to it."

[Microphone Check]

K: "I don't have an opening statement. I'm pleased to talk about our initiative to open-up Japanese markets for U.S. autos and auto parts, and try to end the unfair discrimination and protection which has characterized the Japanese market in both these areas for over 35 years, so I'd be happy to answer questions."

Q: "Sir, these talks scheduled to open tentatively, I guess now, June 12, next week, what are the prospects?"

K: "Well, I think you'd have to ask the Japanese negotiator what the prospects are. We reach agreement with the Japanese in July '93 to open-up the auto and auto parts market as a priority basket or sector under the Framework Agreement. They agreed to significantly increase opportunities, access and sales of autos and auto parts under the Framework. They re-iterated that commitment on May 23, 1994. We've negotiated for 20 months. This is the culmination of about 35 years of frustration on the part of the U.S. workers and U.S. business that the Japanese market has remained nearly closed to U.S. products in our most important industrial sector, whereas the U.S. market has remained open those 35 years. In the last 25 years alone, the Japanese have exported 40 million cars to the United States, and we've only been able to export 400,000 cars to Japan. That's a ratio of 100:1, which is only subject to explanation due to the fact that the market is closed-and-closed in order to allow the Japanese to raise prices, build profits and then engage in exports to the U.S. and to Europe at prices much lower than they sell the cars in Japan. That's in the vernacular called 'dumping.' And so that's the way the Japanese have built-up their export markets, and frankly hurt our industry quite badly over the last number of years."

Q: "What role do you expect Prime Minister Muriyama and President Clinton to have when they meet at G-7?"

K: "I think both have made it clear that the auto and auto parts talks, which will go on both before and after Halifax, will not play any major role what-so-ever at Halifax. Halifax is a G-7

meeting, and bilateral disputes should not take high-visibility or high-priority role in such a meeting."

Q: "But they will want to discuss it, won't they?"

K: "Well, we'll see."

Q: "Have you changed your position at all, or do we have to have a voluntary agreement which they will have to import a certain amount of parts?"

K: "There are 10 different areas that the Japanese would not agree to, voluntary plans are only one of those issues. No, we had voluntary plans with the Japanese in 1990 and 1992, these are between the industries themselves and the governments welcome those agreements and where part of the discussion which lead to them. It is quite curious that the Japanese now in 1995 aren't willing to enter into the same kinds of agreements, of course that they've previously entered into; but, there are nine other areas of very important natures, important as voluntary agreement, that also were not subject to agreement. We need a full, complete agreement which is going to open-up the Japanese market to **foreign** competitive autos and auto parts. This is not just not done on behalf of the United States, we're trying to open-up the Japanese market for all foreign competitive autos and auto parts. The reason we're doing that is we believe open markets and expanded trade is good for everyone. And to the extent Japan has closed its market: they have skewed the auto and auto parts market around the world; they have sent the wrong message to the rest of East Asia that is the way to proceed in world trade; they have hurt global growth; and frankly, they have hurt their own economy. And, so, it is good for everyone if we could open-up this market."

Q: "Are you going to give the Europeans a seat at the table (illegible) . . . ?"

K: "Well the Europeans have a quite interesting position. Number one, they have an agreement with Japan through 1999 to limit Japanese exports to Europe to 11% of the market, and also to infest and require that all Japanese transplant operations in Europe use 60% local content. So the Europeans have a somewhat interesting position. They don't the United States and Europe to be able to impact the Japanese market, but there quite willing to manage trade and to control their own market. We believe they have a view of trade which is opposite which is good for the entire world, that is, 'close your market, not insist the others open their market, and criticize everyone whose trying to expand trade.' That is a position we do not support and one which is not good for global growth."

Q: "The Europeans say that unilateral sanctions violate the WTO rules."

K: "Well, the Europeans, as I said, they have unilateral

restrictions on Japanese automobile imports into their market. They didn't insist that the Japanese give the same benefit to the United States market. Frankly, the Europeans are not in a position to criticize anyone given the way they have reacted to Japanese imports into their own market and their restrictions on Japanese transplant operations, none of which we have done. Our European friends ought to join with us, frankly, in an attempt to open the second largest economy on earth, and that is Japan, rather than criticize the United States, who maintains the largest open market in the world."

Q: "Mr. Kantor, besides the luxury tax on some Japanese automobiles, what other sanctions were we studying?"

K: "We studied other areas, but we believe these are the best way to proceed at this point. Frankly, all 13 models that are subject to the sanctions on June 28, if we have no agreement, were designed and built for the U.S. market; all are only built only in Japan; they use very little foreign parts content; the fact is, that very few U.S. dealers carry them exclusively, therefore very little employment in this country will adversely effected by this action. In so, we believe this was the precise way to go about reacting to what has been a problem for 35 years. It's interesting, I'm looked back in the history, in 1953 the U.S. had 57% of the Japanese auto and auto parts market. The Japanese in 1954, because they had a \$260 million trade deficit decided that they were going to close their market. I might note that the U.S. last year had a \$37 billion trade deficit in auto and auto parts, which was 60% of our total trade deficit with Japan and 26% of our total trade deficit with the world. Japanese closed their market, and by 1960 we literally had no exports into Japan. The Secretary of Commerce in 1967, Alexander Trobridge, said that this was unacceptable and had to change, and had to change immediately. Here we are in 1995 still trying to alter Japanese behavior which has been so negative in terms of the U.S. economy. We are bound and determined, the President is bound and determined to changes; it is not fair to the American workers; it is not fair to American business; it's not fair to frankly the rest of the countries who are trying to open-up the Japanese market."

Q: "Even if Japan were to open-up its markets, could you guarantee that the Japanese people would buy these American cars?"

K: "We're not looking for guarantees, all we're looking for are opportunities. We believe, given the quality of American cars and the competitive abilities of American workers, we would do just fine in that market if we were allowed to compete fairly. If we can't, given fair opportunities, that's our problem then not Japan's problem; if you're not allowed to compete fairly, that's their problem. And so therefore, it's their problem and the ball is in their court, it's time for Japan to react in a fair and reasonable manner and to level-the-playing-field."

Q: "Despite your research into the American dealers that handle the 13 model that would be effected later in the month, do you feel under any political pressure that they have picked something of a cross?"

K: "No!"

Q: "You don't (laugh)."

K: "At two and a half million Americans who are employed by U.S. auto industries: manufacturing is 697,000 or in suppliers or in dealers in U.S. or in other foreign cars. Those two and a half million people, and the businesses they work for, represent 5% of the U.S. economy. Last year, the 'Big Three' alone had a payroll of \$33 billion in just one year. The U.S. auto industry buys more iron, more steel, more aluminum, more flat glass, more platinum, more rubber, more synthetic rubber, and almost semi-conductors than any other industry in America. Therefore, the ripple effect is huge. The only pressure I feel is to open-up the Japanese market."

Q: "Let me ask you about another ripple effect. What do you make of the spill-over debate about the effect of this 'get-tough' policy on overall relations with Japan? To what extent do you think the trade sanctions will have, or will undercut trust between Tokyo and Washington?"

K: "They won't. Our political and strategic relations are very strong. The Foreign Minister of Japan, Yohe Kono, has made it quite clear that we need to separate and will separate the concerns of a political and strategic issues from economic issues. The President has made that clear as well. 'We can eat and chew gum at the same time.' Japan and the United States have very important interests that they share in the Pacific region, if not around the world. In so therefore, this dispute will have no effect upon those relationships. However, this dispute will have an effect upon our overall relationship in terms of economics, and in terms of trying, finally, to operate on a fair and equal basis."

Q: " Can I ask you again about sanctions and their legality under the WTO . . . most trade experts say that the U.S. can't apply these sanctions legally, and that it will likely lose when the Japanese bring their case to the WTO. Wouldn't that put you in a very difficult position? You'd have to walk away from the WTO, saying, 'We won't follow your dictates,' or you'll have to exceed to the demands, and you'll face charges at home that this World Trade Organization is running the country."

K: "It's fascinating, and I know you asked the question for effect only. You ignored the U.S. case against Japan, conveniently. Our case against Japan is a very strong one; it will be filed in the next few weeks. Most experts believe that we have a very strong case and many countries will join us in

that matter. Let me say that everyone thought we would lose the so-called Gas-Guzzler and CAFE case that the Europeans brought against us, and we won them. No one knows how these panels will operate. They're quazi-judicial in nature. They involve three experts from other countries, chosen jointly between Japan and the United States. It will take from 11 to 18 months for a decision to be rendered by the World Trade Organization. Whatever that decision is, of course the U.S. will live with it. The World Trade Organization is an important organization, but we'll expect Japan to live by the decision made in the case we bring as well. Frankly, the fact is that there are four different things that could happen if you happen to win or lose a case at the WTO. If Japan loses her case with the United States, they have four options. One is of course is to withdraw the offending practices in this case. Second would be to pay compensation. Third would be to allow the U.S. to take trade action and fourth would be to negotiate a settlement. And so, once you reach the end of these situations, there are four options left, and so these tend to go on for quite awhile. Regardless of what all the experts in Washington, DC say, or many of them say, most of them, of course, are on the payroll of the Japanese government or Japanese entities, we're not going to follow that. We're going to stand-up for the American people. Frankly, it's time that the American people understand that trade is a two-way street, not just a one-way street. Our problem has been that in 35 years, that we've had a 'one-way street;' we've had open-trade with Japan and they've had closed-trade with United States. That's not rational; that's not helpful; it doesn't really promote jobs and raise standards-of-living in either country. I might note that the Japanese consumers and Japanese people are the second-highest paid workers in the world, yet their standard-of-living is lower than most developed countries. The reasons is that they pay very high prices. The reason that they pay very high prices is a lack of competition in market. The reason there is a lack of competition is because they lock-out foreign competitive goods. If the opposite happened, as Latin American countries have implemented, in other words, 'open your markets, attract foreign investment and let it in, lower your taxes, privatize your industries, stop the subsidies from government to industry,' you'd find that your economy will grow, and you build growth in other nations as well. Japan would be well served to follow those practices as well."

Q: "Mr. Kantor, could you tell us how negotiations are coming with Chile regarding the situation with their accession to the NAFTA?"

K: "We're meeting on Wednesday in Toronto, in our first ministerial meeting in terms of Chile's accession to the NAFTA. We have a number of issues on the agenda. These negotiations will go on for a few months. Our officials have done a good job in six different meetings since the first of the year trying to set the agenda up and begin to provide for the ministers, various options in each of these areas, but I expect these negotiations

will go on for awhile."

Q: "Ambassador Kantor, how likely is it that there will be an agreement before the deadline at the end of the month?"

K: "I have no idea. I'm not a prognosticator, nor am I good at predictions. All I know is that the U.S. position is clear. We are going to pursue that. The rest is up to the Japanese."

Q: "Do you see any flexibility in the Japanese proceedings?"

K: "You'll have to ask them."

Q: "Ambassador, do you see any?"

K: "Well, I, it's interesting. I think the Japanese auto industry is, in public reports over the weekend, showed some grave concern over this situation. I don't know how that affects the Japanese government, I'm hardly known as an expert about U.S. government, much less about Japanese government, so I'll let the Japanese try to deal with that problem."

Q: "There is the issue that a lot of this dispute has to do with things that are not technically been approved by the Japanese government, such as the purchasing policies of the Japanese car companies, and the purchasing by consumers of automobiles. How do you address that issue?"

K: "No, it's not true. Number one, even if you look at the purchase of original equipment parts at the manufactures level, that's where you buy new parts to put in to new cars, where we have asked for voluntary agreement, the failure to enforce anti-trust laws or anti-monopoly acts in Japan, has lead to a situation where Japanese manufactures, suppliers, dealers, and frankly, those repair shops that are certified by the Japanese government, are all connected together, either by virtue ownership or by virtue of capital infusion, either through equity or debt, which leads to or is resulted in a situation where they work together and lock-out foreign competitive products. If only the Japanese government would only take responsibility to enforce that act, we would have the situation we have today."

Q: "In a recent interview with the President of Honda Motor Corporation, he said, 'The reason American don't sell as well in Japan is that the Americans haven't taken the time to research and discover, to learn more about the Japanese people, to be a part of the Japan culture, as the Japanese have done (cough -- illegible) in the United States.' How do you respond to that, Ambassador?"

K: "It's an excuse. It is just used to protect a situation that is unfair, but it gives Honda an advantage. Eighty percent of all U.S. dealerships are dual dealerships, only 7% of Japanese

dealerships are dual dealerships. That means you don't have the opportunity to even get your cars in the showroom. Number two, Japanese government has not allowed foreign competitive automakers to have a list, or have access to a list of car registrants in Japan. They have a system whereby most salespeople go door-to-door to sell cars in Japan. Where Japanese automakers have access to a list of registrants and other don't it gives you somewhat of an advantage, as you can imagine. Number three, today U.S. auto industry has 101 products, 101 products available in Japan: 16 models; 10 are right-hand drive models; 60 of the products are right-hand drive; 51 of the 60 are of engines of 2000 cc's or less, therefore smaller cars, which are of course a large part of the market in Japan. These complaints by those in the Japanese industry or Japanese government are just excuses, they are excuses to do nothing. After 35 years, you would think that the Japanese auto industry, which is selling their luxury and other cars for less in our market than they are selling them in Japan, which is a stunning fact, because you can imagine how only common sense would lead you to the conclusion: 'you can't sell a car for less in a foreign market than you sell it in your own market, unless you're dumping those cars on that market.' They are trying to preserve their market share without opening their whole market, because if they open their whole market, therefore allow competition, their profits would go down, therefore, they wouldn't be able to dump cars on foreign markets in order to absorb those losses. It's time Japan played by rules the same the rest of have to play by. That's what the frustration is at this moment. The Japanese are great friends and allies; we have cooperated in many, many different areas. We have worked together on the Uruguay Round; we worked together on the Asian-Pacific Economic Cooperation Forum; we have had 14 trade agreements with them since we came into office, the most in American history; but, that doesn't mean we've solved the problem. Japanese government and Japanese industry need to ban together and say it's time to address this major problem which has been left unaddressed for 35 years."

Q: "Ambassador do estimate that the overall U.S. economy is slowing? Does the performance of the economy effect your actions with regards to the Japanese?"

K: "No. We have been very aggressive about opening markets ever since the day we walked into office. We've entered in to 81 trade agreements in 28 or almost 29 months, I guess, since the President was inaugurated. The President has made it clear that he would not only reach trade agreements and enforce those on the books, but he'd also enforce our trade laws. We've done all three, as you know, consistently since we've been in office. It's making a difference. In the first quarter this year, our exports were up 17% over the same time last year, the first quarter 1994. That's one of the largest percentage increases in American history; in exports, it is the largest increases in dollar exports in American history, from one period to the next,

year-to-year. And so, this program by the President is working; it's growing jobs. Export jobs tend to pay 17% an the average than other jobs in our economy. It fits right into the President's program both domestically and in foreign economics to raise our standard of living here in this country, and it's working. Therefore, we have not changed our position one iota. We continue to operate in the same way in trade whether or not our economy is either growing very fast or less fast than it was growing in '93 and '94."

Q: "Ambassador, have you tried to resolve this particular dispute with Japan before you make a decision on whether to go to the President's re-election campaign?"

K: "First of all, I'm in no discussions about going to any campaign for anyone. Number two, I'm trying to resolve this dispute because that's what the President has asked me to do, in a way that's going to open markets for U.S. goods in this critical area for our economy. Politics has nothing to do with it."

Q: "Do you expect to remain the Trade Representative 'till the end of this term?"

K: "Unless the President wants someone else to do it, I guess I would. I'm delighted with this job. I hope I'm contributing something to the U.S. economy. I'm trying to serve the President and the American people as best I can."

Q: "Is it possible that you might end-up on the President's re-election campaign?"

K: "I'm too old to be in politics."

[Laughter]

K: "I've reached the end of the rope as far as that, and I said this before, as Yogi Berra said it, 'If you come to a fork in the road, take it.'"

Q: "Mr. Kantor, I wonder how much this fight with Japan is involved. You've got this other big strategy of big emerging you're trying to get U.S. companies in, because those markets are going to develop and become big consumers in the future. Japan is already a well held market. To what extent are you trying to draw a line in the sand with Japan to send a message to some of those other people, Korea, and other Asian nations that we are not going to tolerate this kind of economic structure?"

K: "It should not escape any of our attentions that Japan's method of proceeding, in the last 35-40 years, that is keep your markets closed, keeping prices high at home, developing huge amounts of capital, and then exporting and getting market share in other markets has been copied by others in Asia. Obviously,

our willingness and ability to open-up the Japanese market does send a signal. Frankly, the frustration in Asia over Japanese closed markets is almost as great as the frustration in the United States. When you talk privately to Asian leaders, trade ministers, economic ministers, foreign ministers, they will express that to us, that one of the problems they have, they don't either have the strength in their own market and the fact that they have so much Japanese investment they are reluctant, publicly, to take on the issue. Frankly, we are being cheered privately by almost all of those countries in terms of our willingness, and hopefully, ability to open-up that market. But we are trying to send a signal; you are absolutely correct. We can no longer have this situation. We maintain open market; we maintain the largest open market in the world, and others don't play by the same rules. The great factor that makes the Uruguay Round so important is that it was a single undertaking, that after a 10 year phase-in, at the most, five years in most cases, everyone in the world will play by the same rules. That's different than any kind of situation we've had in the past, or since the GATT in 1947. In 1947, the GATT was set-up to allow free-riders; in other words, you didn't have to sign the agreement, you could be part of GATT and you wouldn't have to play by the rules. The Uruguay Round is quite different. In so, we're trying to send the signal that: we believe in single undertakings, we believe in everyone playing by the same rules. This situation with Japan does have reverberations or ramifications beyond the Japanese market."

Q: "Mr. Kantor, if the sanctions don't achieve the desired results, what's the next step?"

K: "Oh, there would be next steps, but I'm obviously not going to talk about them here. We hope and trusts that this will achieve the desired results. We will work closely with other Japanese counterparts to make that happen. I think it is too early to talk about next steps."

Q: "What about this free trade zone with Europe? They propose that they think it's important in order to link alliances up and nationalize trade together. Is the U.S. receptive to the idea?"

K: "Well number one, let's try to define it correctly what I've said and what Secretary Christopher has said, is we would like to see a Trans-Atlantic initiative, which began to address the progressive illimination of trade barriers between the U.S. and Europe. We are not negotiating any free trade area. Within the European Union or Commission, they are studying the possibility of what a free trade agreement might look like. We're not studying that possibility. We're indicating we're going to take four steps: number one, let's illiminate what trade barriers we can now in order to open-up markets, either by harminization of various regulations or standardization in order to make the markets more open to each other, that would make sense; two, let's study what barriers need to be illiminated in the future;

number three, let's make sure that we get the private industry involved, as the Commerce Department has, and have them take parallel steps along with us; and four, let's address trade barriers on a 'building-block-basis." That would be the four steps we would take immediately. This will begin to address the barriers which exists between the two largest markets in the world; that is the European Union and NAFTA. Whether we go beyond that and begin to look at other areas in the future, I'm not sure. But it is important to go back to the foundation for your question, that we build these trading relationships not just to build jobs, that's critical enough in both economies (I might note, the Europeans have very high unemployment and their economy has not completely recovered from the problems of the early '90s), but also to strengthen the bonds between our European allies and the United States. We find this is an area we can cooperate on; we have a common interest, whereas the Cold War held us together, pre- the fall of the Berlin Wall and the break-up of the Soviet Union. Now we need to find other ways to hold this alliance together and this is one very positive way we can do this."

Q: "Could you clarify for me the Mexico crisis and how the peso is coming along, and the U.S. role in all that?"

K: "Well, the Mexican economy has been very impressive over the last 6 to 8 to 10 weeks. The peso has strengthened as you know. It was above 7, at one point, to the dollar. It is now in the low 6s, or has been as strong, not as low, it has strengthened to the low 6s. It has been as strong as 580. Second, the Brady Bonds are much more stable today; they have able to pay-off a lot of the 'tessa bonos.' They've only drawn down a percentage of the international fund put together to guarantee Mexican loans in order to pay-off the 'tessa bonos,' and to stabilize their economy. Their exports have increased tremendously, and their imports have not decreased, which is interesting, from the U.S. or other places. It appears that their economy is stabilizing rapidly. Second, the economies of South America, which we were concerned about that might be affected adversely by the Mexican problem, have also stabilized. They have not suffered the cascade effect, either in their stock markets, or in terms of interest rates or inflation that was predicted. And so the President's courageous decision to put together an international guarantee fund, is working right. We have not solved the problem completely. It's going to take some number of months, but the situation in Mexico has turned around a lot more quickly than anyone suspected."

Q: "What do you think about the dismantling of Commerce?"

K: "I don't like it; I think it doesn't make any sense. Under Secretary Brown, the Department of Commerce has done a tremendous job going into markets and developing business for Americans and promoting investment for American corporations and helping to build jobs here at home. I think the Department of Commerce

plays a valuable, if not invaluable role in that regard;
therefore, I think it 'penny-wise and pound-follish.'