March 14, 2013

President Barack Obama
The White House
1600 Pennsylvania Avenue NW
Washington, D.C. 20500

Dear Mr. President,

As the Japanese government considers the question of whether, and under what terms, to seek entry into the Trans-Pacific Partnership (TPP) negotiations, we too must consider our own workers and businesses. Japan's significant, long-standing, and persistent economic barriers put in place to block our exports and support theirs have hurt American workers and businesses for decades.

Nowhere is the closed nature of Japan's markets more evident than in the auto sector, where Japanese policies and practices have been carefully honed – over generations – to keep out American and other foreign cars and parts. Consider the following facts:

- <u>Japan's Auto Market Is Closed.</u> Despite being the third-largest auto market in the world, Japan ranks last among OECD members in terms of auto market import penetration, at 5.9 percent in 2012. By comparison, other OECD countries with major auto sectors typically have an import market share of more than 40 percent (including the United States). The barriers in Japan have included: currency manipulation; a discriminatory system of taxes; onerous and costly vehicle certification procedures for imported automobiles; a complex and changing set of safety, noise, and pollution standards, many of which do not conform to international standards and add significant development and production costs for automobiles exported to Japan; an unwillingness by Japanese dealerships to carry foreign automobiles and insufficient enforcement of competition laws to address anti-competitive practices; zoning restrictions that make it difficult, if not impossible, to establish new dealerships in important markets; government incentives to purchase Japanese-made *kei* cars; and exclusionary consumer preferences shaped by decades of government policies directed at promoting the national car companies.

- <u>The Very Structure of Japan's Industry Depends on Protection at Home and Exploitation of Foreign Auto Markets</u>: Japan's auto sector is already producing over 11 million automobiles despite having only a 5 million automobile domestic market. As its population ages and shrinks, this export pressure will only increase. Moreover, it appears that Japanese auto producers have been able to sell some products in Japan at high prices – and then to use the proceeds of those high-priced sales to sell into the U.S. market at low prices. For example, the current price of a Lexus IS 350 is $50,037 in Japan, but only $40,220 in the United States.

- The Impact on the U.S. Trade Deficit – and U.S. Jobs – Is Profound and Perpetual. Japan is the second-largest source of the U.S. trade imbalance after China, and, in 2012, automotive products accounted for more than two-thirds of the deficit. In fact, over the past five years, for every automobile that America exports to Japan, Japan exports over 120 automobiles to the United States. Trade in auto parts is equally imbalanced. These deficits are longstanding and growing. Twenty years ago, our automotive deficit with Japan was $31 billion. Last year it was $53.5 billion (including an auto parts deficit of $15.5 billion, compared to $9.8 billion 20 years ago).

- Negotiations to Open the Market Have Repeatedly Failed. Our experience with Japan has been unambiguous – namely, that the barriers to American autos in the Japanese market are deeply structural, shifting, and impervious to American negotiating efforts. This near-complete closure of the Japanese auto market has been the status quo for decades, notwithstanding the elimination of Japanese auto tariffs in 1970s or the repeated negotiation of agreements to eliminate barriers to American autos in 1980s and 1990s – including in the Market-Oriented Sector-Selective talks in 1986, the Structural Impediment Initiative talks launched in 1989, and the 1995 U.S.-Japan Auto Agreement. None of these agreements has resulted in barriers coming down and American exports going up.

While some have compared this challenge to the one we faced with Korea, the Japanese auto market is more impenetrable, the history of formidable barriers and imbalanced trade is longer, and the magnitude of the problem is far greater than with Korea. Indeed, our trade deficit with Japan is more than four times as large as our deficit with Korea.

American automobile companies and workers – those at the forefront of today's economic recovery – have been forced to compete for decades on a fundamentally unlevel playing field. Japan's participation in TPP threatens to make matters worse. In an industry with razor-thin profit margins, the elimination of the 2.5 percent car tariff (as well as the 25 percent truck tariff) would be a major benefit to Japan without any gain for a vital American industry, leading to more Japanese imports, less American production, and fewer American jobs.

Confidence building measures and promises of a level playing field in the future do not address the basic concern how, under any circumstances, a TPP agreement could be sufficiently equipped to address the necessary transformation of the Japanese market. These long-standing, economically harmful practices are not susceptible to cursory negotiation at this stage, three years into the U.S. involvement in the TPP negotiations and close to the Administration's target date of concluding talks by the end of this year.

The United States and Japan are, and will remain, close and important allies. A flawed, one-way trade agreement that benefits Japan at the expense of the United States businesses and workers will not help strengthen this vital relationship.

We look forward to working with the Administration on this critical issue.

Sincerely,