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UNITED STATES PRESSES JAPAN FOR PROGRESS ON JAPANESE DEREGULATION INITIATIVES

The United States today submitted a broad set of recommendations to the Government of Japan on deregulation, competition policy, and transparency and other government practices as part of the Enhanced Initiative on Deregulation and Competition Policy. The expansive deregulation initiative agreed to by President Clinton and Japanese Prime Minister Hashimoto at the "G-7" meeting in June strengthens and reinforces commitments under the U.S.-Japan Framework Agreement. This new "Enhanced Initiative on Deregulation and Competition Policy" is to address reform of laws, regulations and practices that impede market access for foreign goods and services.

"While Japan has made some progress in its deregulation efforts over the past three years, more substantial deregulation is essential," stated Ambassador Charlene Barshefsky. "Our proposals lay out in detail the actions we believe Japan should undertake if we are going to see meaningful and concrete deregulation. The test now before Japan is whether it is willing to fulfill the promise of Prime Minister Hashimoto's vision of carrying out fundamental deregulation so as to increase market access and allow market forces to determine market outcomes."

Today's 30-page submission addresses specific deregulatory items in the areas of telecommunications, housing, medical devices and pharmaceuticals, and financial services and addresses such structural issues as distribution and competition policy, and on transparency and other government practices. In addition, the United States has recommended that Japan establish a permanent administrative mechanism in the Prime Minister's Office with the authority to identify necessary deregulation measures and to require their implementation. Such a body is necessary to overcome the reluctance of the Japanese bureaucracy to undertake the necessary reforms.

Over the past months, extensive discussions of the substantive issues contained in today's submission have been undertaken by experts from the two countries at the working group level. Further discussions at the working-group level are scheduled for November 13 in Washington. These meetings will precede the first high-level meeting under the Enhanced Initiative on November 14. The high-level meeting will be chaired by Ambassador Jeffrey Lang, Deputy United States Trade Representative, and Koichi Haraguchi, Deputy Minister for Foreign Affairs, Ministry of Foreign Affairs, Ministry of Foreign Affairs. Numerous other departments, ministries and agencies will also be represented.

The United States deregulation submission is available on the USTR Home Page at www.ustr.gov.

Background and Highlights of the U.S. Submission on Deregulation and Competition Policy

This United States submission to Japan, which builds on and supplements previous recommendations, focuses on four sectors (financial services, housing, medical devices and pharmaceuticals, and telecommunications), as well as structural issues and government practices. The following highlights some of the key elements of that submission.

Financial Services -- The United States anticipates that Japan's proposed "Big Bang" reforms of its financial sector will create significant new opportunities for foreign firms in the Japanese market. In implementing these reforms, the United States urges Japan to:

- Liberalize restrictions on product innovation (allowing such financial derivatives as stock options, introduced this summer).
- Expand the scope of business for securities companies to include foreign exchange activities and new products, such as wrap accounts and over-the-counter equity derivatives.
- Further develop the asset-backed securities market.
- Create new opportunities to distribute investment trust products through banks.
- Improve transparency and disclosure.

Housing -- To ensure the full implementation of the Prime Minister's March 1996 Deregulation Action Program on Housing, which would improve the housing for Japanese consumers, as well as provide important market opportunities for foreign suppliers of building products, the United States has made a number of suggestions regarding housing that include:

- Endorse the APEC initiative for forest products trade liberalization and for regional cooperation towards performance-based building standards.

- Approve pending applications by the American Lumber Standards Committee and Western Wood Products Association for recognition of U.S.-grade marked machine stress-rated lumber and finger joint lumber, as well as other pending U.S. grademark recognition applications.

- Publish testing methods and procedures to implement the new performance based alternative for 2x4 wooden construction.

- Submit legislation to the Diet for changes in the Building Standards Law to make it performance-based.

Medical Devices and Pharmaceuticals -- As part of Japan's plans for substantial reforms of its medical care system, the United States has set out a number of specific reforms that are crucial to the success of its efforts. They include:

- Expediting the process for approval of new drugs to conform with international standards for drug introduction, and reducing substantially the serious time lag in Japan for launching new drugs.

- Improving the application and transparency of the premium pricing system for new and innovative pharmaceutical products.

- Greatly expanding the acceptance of foreign clinical data, which reduces the need for foreign firms to engage in additional costly clinical trials.

- Improving the implementation of the by-function pricing system for new medical devices by creating new functional categories in a timely fashion, and with appropriate reimbursement rates, to reflect improvements in treatment, efficiency, and long-term savings for the health care system.

- Implement fully the measures recommended by the Office of Trade and Investment Ombudsman to fully liberalize the nutritional supplements market (vitamins, herbs, minerals) in Japan.

Telecommunications -- The United States has welcomed measures that Japan has taken recently to foster a more pro-competitive regime in its telecommunications sector. However, given the dynamic nature of this sector, the United States believes that further reforms are necessary to foster competition, maximize opportunities for new entrants, lower prices for consumers and encourage innovative services. Specific telecommunications measures proposed by the United States include:

- Setting of rates paid by carriers to interconnect with the NTT network as close as possible to market prices to prevent NTT from imposing excessive costs on competitors and ensuring that new entrants will be able to fully compete with NTT.

- Removing a wide range of barriers to Direct-to-Home (DTH) Satellite Services to reflect technological and market advancements; in particular, DTH providers should be allowed to offer an unlimited number of channels.

- Limiting government regulation of International Simple Resale (Ko-sen-ko) to providing safeguards against competitive distortions.

- Establishing stronger safeguards to prevent NTT from using its monopoly position to cross-subsidize its competitive services after it is restructured.

- Permitting 100 percent foreign investment in cable TV services and facilitating infrastructure construction.

Structural Issues (Distribution and Competition Policy) -- Liberalization of the overregulated and highly inefficient distribution system coupled with vigorous competition law enforcement in Japan would improve market access for foreign goods, lower the costs of doing business for domestic as well as foreign companies and provide Japanese consumers with more choices at lower prices. Among the structural reforms called for by the United States are:

- Repeal the Large-Scale Retail Store Law and prevent local governments from adopting measures with similar effect.

- Liberalize the movie theater sector by ensuring that new entrants do not face restrictions on establishment and operation.

- Streamline customs procedures and import processing, including those for catalog and direct mail purchases.

- Eliminate entry restrictions and pricing regulations in the trucking and warehousing sectors.

- Require the Japan Fair Trade Commission to establish an Antimonopoly Act compliance initiative to review the antitrust law compliance programs of influential firms in structurally exclusionary markets such as flat glass, paper and film.

- Enact legislation to permit private parties to sue for injunctions in actions based upon violations of Japan’s Antimonopoly Law.

- Require all entities covered by the WTO Agreement on Government Procurement to adopt a program to monitor and report unusual or suspicious bidding patterns to the Japan Fair Trade Commission.

- Allow foreign legal consultants to employ and to enter partnerships with Japanese lawyers.

Transparency and Other Government Practices -- Improvements in the transparency of the public policy process and increased opportunities for public participation in the administrative system are necessary counterparts of sectoral deregulation in Japan. Such improvements could play an important role in reducing market access problems of foreign firms and their need to seek the assistance of the USG in addressing them. Included in U.S. recommendations in this area are:

- Increase the transparency of the administrative system by enactment of an Information Disclosure Law, like the U.S. Freedom of Information Act.

- Require ministries and agencies to publish advance notice of proposed regulations and to provide opportunities for the public to comment on the proposed rules.

- Reform its burdensome and unpredictable application process, which often requires potential applicants to engage in extensive prior consultations with governmental entities before the entities will accept their applications.