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COMMENTS BY THE GOVERNMENT OF THE UNITED STATES  
ON JAPAN'S INTERIM DEREGULATION REPORT

March 22, 1995

In response to the solicitation of public comment by the Government of Japan, the U.S. Government has carefully reviewed the Japanese Government's interim deregulation plan and prepared the attached detailed comments.

The U.S. Government welcomes the Japanese Government's decision to issue this interim report and to seek public comment. We hope that the Japanese Government will fully consider these comments and incorporate them in its final five-year deregulation plan.

In preparing our comments, we have been guided by the Principles of Deregulation drafted by the U.S. Government and presented to the Japanese Government on February 24. We strongly urge the Government of Japan to endorse these Principles and to use them to guide the deregulation process.

Among these is the principle of broad and continuous review. We believe that all regulations should be reviewed and that the review process should be continuous and ongoing. Accordingly, we encourage the Japanese Government to establish a private sector advisory group whose role would be to ensure that the process is ongoing throughout the five-year plan.

Of equal importance is freedom from regulation in principle, with regulation as the exception. We urge the Japanese Government to examine all regulations to ensure that those that remain in force are closely and directly linked to accepted public policy interests. While the Japanese Government has publicly endorsed this principle as a key deregulation goal, we urge it to reexamine thoroughly all regulations to determine whether they are broader or more burdensome than necessary to achieve legitimate public policy objectives.

In doing so, we believe the Japanese Government should ensure that the process is transparent and non-discriminatory and that regulatory officials are accountable for their decisions. In particular, we urge the Japanese Government to ensure that all deregulation proposals be described in detail, including specific timetables for implementation. We also encourage the Japanese

Government to provide sound, detailed explanations for why specific deregulation proposals were made and for why others that were proposed by the United States and others cannot be acted upon. We strongly urge the Japanese Government to consider fuller liberalization of regulations identified for partial relaxation in the interim package and acceleration of the review and implementation of regulations deferred for future action or study.

We urge the Japanese Government to ensure that private practices that restrict competition and new entry be eliminated. We believe that vigorous enforcement of competition laws is critical to ensuring that the deregulation goals laid out by the Japanese Government during the past year are achieved.

In adopting these principles and using them to guide the deregulation process, the Japanese Government would make progress toward achieving its comprehensive deregulation goals of expanding domestic demand and promoting imports, pursuing improvements in the quality of national life, creating new industries and expanding consumer choice, and narrowing price differentials between Japan and the rest of the world. We also believe substantive deregulation and aggressive promotion of competition would improve Japan's relations with its trading partners.

## Agriculture/Food

On March 20, the U.S. Embassy in Tokyo reported on the Government of Japan's proposed deregulation measures in the food and agriculture area. The report covers, inter alia, 18 requests made by the United States.

We welcome the Government of Japan's action or plans to take action on 13 of the U.S. requests. We appreciate the efforts underway in Japan to implement international obligations in the sanitary and phytosanitary area, and to make management and organizational changes that will ease importation of food and agricultural products. We will closely monitor implementation of the planned actions to ensure that they resolve the problems that we have encountered.

We remain concerned in two areas: feedgrains and racehorses. Both feedgrains and racing are examples of government-sanctioned industry collusion aimed at managing markets for the benefit of Japanese businesses. In both cases, imports are constrained by these policies, adversely impacting U.S. interests. In the case of feedgrains, Japanese livestock producers are also hurt because the high feed costs resulting from these regulations makes it more difficult for livestock producers to compete with imported livestock products.

In the feedgrains area, Japan states that it is considering establishing a system which would allow importation of whole corn in addition to steam-flaked corn. We would appreciate more details on this plan. Is the Government of Japan considering any other changes to the feed regulation system such as eliminating the point system for mixed feeds, which serves as a barrier to imports of mixed feeds and unnecessarily raises feed costs in Japan?

On the racehorse issue, we continue to believe that the liberalization plan announced by the Japan Racing Association in 1992 is inadequate. We urge the Government of Japan and the JRA to revisit this decision and to consider further opening of races to foreign horses.

## Automobile and Automotive Parts

The U.S. Government sees no significant changes in the interim report in the Japanese Government positions regarding the parts aftermarket or the vehicle market. The report covers all the key automotive and automotive parts issues, but fails to offer proposals that would solve the market access problems faced by foreign parts or vehicle manufacturers.

### Motor Vehicle Parts

- o The U.S. Government has repeatedly described the barriers faced by foreign auto parts suppliers in the Japanese aftermarket: 1) only certified garages (controlled primarily by original equipment manufacturers) can perform most repair/ inspection operations, and 2) virtually all modifications to vehicles must be inspected by the Ministry of Transportation and a heavy tax paid. In response to specific U.S. requests on these issues, the Japanese Government has stated it "will not consider any specific (U.S. Government) request." In addition, the interim report says the Japanese Government will "study the methods and contents of inspections when there is no safety issue involved." The U.S. Government believes the time for studying this issue has passed and that the Japanese Government should eliminate regulations that impede the ability of foreign parts suppliers to compete in the aftermarket.
- o Although the elimination of the six-month inspections could be viewed as a positive development because it demonstrates some small degree of flexibility by the Japanese Government, in fact it will have virtually no effect on vehicle and parts imports into Japan. The six-month inspection is not being enforced and, as a result, most Japanese consumers ignore it. With regard to auto parts specifically, the elimination of the six-month inspection may well lead to more restrictive 12- and 24-month inspections, which would worsen the problems faced by foreign parts manufacturers.
- o The Japanese Government continues to insist on inspecting a vehicle if any "critical parts" are replaced or if the structure of the vehicle is changed. We believe a certified mechanic in any garage should be able to determine if a repair has been completed correctly or if a modification has compromised the safety of the vehicle.
- o The Japanese Government states that "as long as safety and exhaust emission standards are not compromised, it will consider any specific U.S. Government request." The U.S. Government believes it is unnecessary to have



each change or addition approved individually. For example, the Japanese Government proposes that if a major modification is performed, the vehicle must be completely reinspected, but if a minor modification is performed, it will "study the methods and contents of the inspection." Given that the Japanese Government's current definition of minor is a change in length, height, or width of more than one centimeter, we doubt this proposal will have much of an impact. We urge the Japanese Government to reconsider its position on this issue, which we find unreasonable.

The Japanese Government states that there would be "technical problems with the OCR computer system" if the Japanese consumer were to mail in the certificate for modification. We would be interested in a sound explanation for why the OCR system would create such problems.

- o We note that the concept of "repair first and then inspection" may be beneficial. In the past, Japanese consumers have replaced many parts before the shaken inspection, even if they did not need replacement, in order to ensure that they would not fail the inspection. We caution, however, that this change will only be meaningful if the requirement that only certified garages be allowed to inspect repairs is eliminated and Japanese Government open repair/inspection procedures go to all garages.
- o We doubt that decreasing the number of tools and allowing garages that formerly could repair small cars to now repair large cars will have more than a negligible effect on Japanese use of foreign auto parts.

### Motor Vehicles

On the 16 pending standards and certification issues, we offer the following comments.

- o The interim report comments on 12 of the 16 standards and certification issues listed in the annex of the U.S. proposal, (see attached). Three of these issues appear to have been resolved, including the much-discussed catalytic converter overheat warning system and the rear-side marker lamp spacing standard. We welcome these steps, which will reduce costs for foreign manufacturers.
- o On six of the issues, however, including the obsolete and useless side-slip test, the interim report fails to address U.S. concerns. Nor does it provide sound explanations for the Japanese Government positions on

these issues. We continue to believe that certain Japanese Government standards at issue have no relationship to vehicle or occupant safety.

- o The interim report is vague on three issues. The U.S. and Japanese Governments have discussed at length one of these--the requirement for a minimum seat width--and have concluded that this regulation has no relationship to occupant safety. Nonetheless, in the interim report, the Japanese Government states that it is ready to examine the standard "to the extent that it does not affect the safety of passengers." We believe the Japanese Government's failure to propose deregulation of this requirement is indicative of its unwillingness to take even small steps to liberalize the over-regulated vehicle industry.
- o The interim report does not comment at all on four issues from the annex of the U.S. proposal.

## Pending Standards and Certification Issues - Status Report

### Issues Resolved

- FW No. 10 - Rear side marker lamp spacing standard
- FW No. 2 - Catalytic converter overheat warning system
- FW No. 12 - Exhaust emission tests: two-wheel drive/four wheel drive

### Issues not resolved

- FW No. 3 - Head restraint standard
- FW No. 14 - Lamp standard/accept FMVSS 108
- FW No. 15 - Four lamp head-lamp systems
- FW No. 7 - Side-slip test
- FW No. 11 - Emission audit levels
- FW No. 5 - Vehicle identification number

### Issues where MOT's position is unclear

- FW No. 16 - Minimum seat width
- FW No. 9 - Light alloy wheel test
- FW No. 13 - Derived deterioration factor

### Issues not addressed by MOT's deregulation measures

- FW No. 1 - Acceptance of U.S. EPA's engine exhaust emission test
- FW No. 4 - Acceptance of U.S. turn-signal lamp ("on/off") standard
- FW No. 6 - Japanese steering impact test
- FW No. 8 - Equal treatment of all imports (manufacturers'/parallel) at local land offices

## Construction Materials

For the most part, the deregulation measures proposed by the Japanese Government lack specificity, making it difficult to assess what impact, if any, they will have.

We are encouraged by the Japanese Government's commitment to harmonize the JAS standards for wood products with international standards within one year of application. We are concerned about the tying of the one-year timeframe to the submission of acceptable test data, however, given the past problems in the standards area caused by administrative problems and a lack of transparency.

The Japanese Government's deregulation proposals regarding wood products and wood housing construction are disappointing, particularly given the Government of Japan's own program to reduce the cost of housing construction in Japan by one-third by the year 2000.

We are particularly disappointed with the Japanese Government's apparent unwillingness to consider relaxing wooden building restrictions to allow the construction of three story, multi-family, wood-frame construction in quasi-fire protection zones, given the performance of wood-frame construction in the Kobe earthquake and the fact that the Japanese Government has research underway in this area.

## Distribution

The Japanese Government has made some progress in a few areas, but the Government's interim plans will not have a significant impact on deregulating Japan's distribution sector and will do little to facilitate greater penetration of imports into the Japanese market or benefit consumers through greater choice and lower prices.

We are encouraged by the announcement that Japan will introduce a new customs system in early FY96 to permit release of air cargo in cases which do not require physical or documentary inspection immediately upon arrival. We are also pleased at the decision to permit direct release of air cargo without having to proceed through import processing areas, such as Baraki, a measure which can save importers considerable time and expense. Customs officials have informed us that roughly 70% of American air cargo could benefit from this new system. We hope, however, that Japanese authorities can introduce these steps earlier than the target date of early 1996.

We also welcome Japan's decision to link computer systems of other Japanese agencies involved in customs clearance -- the Ministry of Health and Welfare and the Ministry of Forestry and Agriculture -- by 1997. We anticipate that this will facilitate parallel and speedy processing of air cargo requiring review by more than one agency. We call on the Government of Japan to include in the final deregulation plan a commitment to provide sufficient budget to allow timely introduction of these new systems, hopefully sooner than 1997.

We are disappointed that the Japanese Government has declined to take steps to further relax regulation of the warehouse industry. The Ministry of Transport has not explained convincingly why there is a need to regulate this kind of business activity.

Though we welcome the intention of the Ministry of Transport to simplify the documentary requirements for notifying fee rates, but does not indicate what steps are to be taken nor when they will be implemented. We would hope the Ministry of Transport will present detailed and meaningful reforms in its March 31 report.

The Government of Japan has failed to change the ban on transport of fully loaded 20 and 40 foot sea containers which meet ISO standards on Japanese roads until the entire national network has been refurbished by the end of 1997, despite the March 16 finding of the Office of the Ombudsman, the unanimous



view of the Deregulation Study Group, and the requests of many foreign governments and business associations. The USG calls on the Government to adopt the finding of the OTO to allow these containers on road and bridge networks as repairs and upgrading are completed, not waiting for the entire national system to be completed before allowing any sea container on Japanese roads.

We are disappointed that MITI was not able to commit to any further deregulation of the Large Retail Store Law at this time. Moreover, MITI has failed to give any details on how it intends to conduct the mid-term review of the Law. The report does not indicate what items will be reviewed, the timing of that review or, most importantly, the direction which MITI will pursue in conducting that review. We call on MITI to include in its final plan much more detail on these elements, consistent with the recommendation of the Deregulation Study Group, including a strong reaffirmation of its intention to continue to liberalize this restrictive law and to consider the possible elimination of the law.

The Ministry of Finance has indicated that it intends to loosen restriction on licensing of liquor stores, but has offered no details on how or when that move would take place. We look forward to receiving details of those reforms in the March 31 plan.

## Financial Services

We recognize that progress has been made in deregulating the financial services industry in Japan. The recent agreement reached on financial services under the U.S.-Japan Framework negotiations features an extensive package of very specific market-opening actions in the key areas of asset management, corporate securities, and cross-border financial transactions, to be implemented according to set timetables. The agreement also contains commitments to future liberalization, with continued liberalization of access to the corporate pension fund market, further ability to innovate in corporate securities as markets evolve, and additional facility to conduct cross-border transactions. The implementation of these measures will be monitored carefully by both governments and we fully expect them to create significant opportunities in Japan for competitive foreign financial services firms and to help promote the further integration of the Japanese capital market with other capital markets worldwide.

## Investment

The Japanese interim plans contain virtually no measures to ease regulations which impede the flow of direct foreign investment into Japan. The plans fail even to address reducing the number of sectors where prior approval is required and expanding the positive list of sectors in which investment is permitted. The very few investment-related measures included in the plan are tentative and unclear. The Japan Fair Trade Commission, for example, pledges to "review" regulations regarding merger and acquisitions, reports on stockholding, and interlocking directorates, but offers no time frame or terms of reference for that study.

We are disappointed that the Ministry of Justice rejected the idea of permitting the granting of stock options as executive compensation. This practice makes stakeholders of employees, which can bring important benefits to the firm, and if applied to foreign executives, would create an incentive to stay in Japan for longer periods of time.

The interim plans deal only marginally with the important issue of land policy. In the only request forwarded by the US Government which was even addressed by the interim plans, the Ministry of Construction proposed to ease rules on land/building ratios and limitations on building heights through expansion of the "district planning system" (chiku keikaku seido). It was not clear, however, how this expansion would result in easing these restrictions or when the MOC would undertake this expansion. We continue to welcome all measures that will increase the availability of land in Japan's major metropolitan areas. Unfortunately, the interim plans do nothing to increase the amount of such land or optimize its use.

### Legal Services

We are disappointed with the absence in the interim report of any progress on legal services issues. This is especially troubling given the strong recommendation of the distinguished Deregulation Study Group that legal services restrictions be liberalized. While the interim report mentions that regulations on representation in international arbitrations are being reviewed in the Ministry of Justice/Nichibenren Study Group, it includes no details on the specific direction or timeframe of the Study Groups' examination nor any timetable for action by the Japanese Government. We hope that the final report will correct this omission.

With respect to restrictions on partnership and employment between Japanese and foreign lawyers, and on the location of legal experience for purposes of qualification as a *Gaikokuho jinubengoshi*, we continue to believe that the current restrictions are unduly burdensome and inappropriate. We therefore urge the Japanese Government to revisit these issues and to include a program for liberalizing these restrictions in the final deregulation plan.

## Medical/Pharmaceutical

The Medical/Pharmaceutical section of the Japanese Government's interim report on deregulation provides decidedly mixed results. While the report appears to contain some constructive measures responding to some individual U.S. requests, it fails to address several key issues, including those most important to the United States.

We note with particular concern the rejection of any modification of the Highly Advanced Medical Technology (HAMA) system for reviewing the introduction of advanced medical devices into the Japanese reimbursement system. Under the HAMA system Japan requires extensive testing of certain new technologies prior to approving those devices reimbursement for general use. In its final report on deregulation we hope that Government of Japan will, at a minimum, provide for:

- Early general reimbursement of advanced medical devices without entering the HAMA system if the products are widely used and eligible for reimbursement outside of Japan. Examples of such items include implantable cardioverter defibrillators and laproscopic techniques for a wide-range of procedures.

- Greater transparency in the HAMA process. Given that the HAMA system controls market access for cutting-edge medical technology, it is imperative that the criteria for assessing these products be well defined and effectively communicated.

Time constraints do not allow for a comprehensive review of each individual item included in the interim Japanese package. However, we do urge reconsideration of a number of issues before the final deregulation report is released. Specifically:

- In regard to the U.S. request to modify labelling requirements, MHW has promised to review in-vitro diagnostics on an item-by-item basis with simplifications not to be made until JFY 1999. We urge adoption of an accelerated timetable for these simplifications.

- Elimination of the requirement for clinical trials for contact lens and electronic sphygmomanometers. MHW has only agreed to change this requirement in JFY 2000, after an evaluation by an expert committee. We urge accelerated modification of this requirement.

Clarification of deregulation announcements\* which were not fully explained in the interim report would also be helpful:

- Must a company have a pharmacist at each sales office to handle in-vitro diagnostics? We urge elimination of this requirement.



-The MHW's response is not clear on the issues of whether the MHW will permit an "outside company" to do the testing of in-vitro diagnostics after submission for approval. We urge allowance of testing by outside companies.

We are also concerned that the MHW deemed a number of changes proposed by the USG as not possible and would urge a reexamination of these issues in favor of a positive response. Specific U.S. Government requests included:

-Abolition of tests of three lots of in-vitro diagnostics.

-Permission for further clinical trials of in-vitro diagnostics after submission for approval.

-Abolition of clinical trial requirements for wound dressings when products are substantially equivalent to existing products.

On a broader scope, we urge fuller liberalization of regulations identified for partial relaxation and acceleration in the review and implementation of regulations deferred for future action or study. We also urge acceleration of timetables for deregulation measures agreed to by the Japanese Government, but where implementation has been delayed for periods of up to five years.

A favorable response to the issues outlined above would represent an important step toward addressing key U.S. concerns. We urge careful consideration of these suggestions, and all other matters raised in the U.S. submission, before the final deregulation report is released.

## Telecommunications

We are disappointed that the telecommunications section of the Japanese Government's interim report on deregulation does not reflect a commitment to undertake the more comprehensive, pro-competitive approach we advocated in our November 1994 submission. We hope that the Government of Japan views the announced measures as the beginning of the more thorough liberalization that will be necessary to achieve a competitive telecommunications marketplace.

We welcome the measures undertaken to date to liberalize the telecommunications sector. We urge the Japanese Government to accelerate the review of the impact of initial liberalization measures and to strengthen its commitment to the rapid introduction of competition in this sector. We also urge the Japanese Government to deepen its commitment to transparency by establishing formal procedures for the solicitation of public comments sufficiently in advance of final decisions to ensure that they are fully considered.

### Market Entry

We welcome Japan's efforts to liberalize regulation of entry for Type I and Type II carriers. We urge Japanese Government to reconsider the onerous conditions it intends to impose on Type I carriers so as not to discourage potential new entrants. While we welcome Japanese Government plans to simplify the application procedure, we encourage the Japanese Government to implement this streamlining as soon as possible.

### Rate Regulation

We welcome the Japanese Government's adoption of a "prior notification" system to expedite the approval of rates for Type I carriers. We hope that this notification system will foster real price competition in the Japanese telecommunications market. Nonetheless, we urge the Japanese Government to take steps to enhance the range of services to which "prior notification" will be applied.

We are disappointed that the Japanese Government appears to have rejected the price cap regulation. The United States adopted price cap regulation in part to address the tendency of rate-of-return regulated carriers to purchase network equipment beyond actual needs, in an effort to increase costs in the rate base, which they could then recover. We believe this tendency is even more pronounced in Japan. We are encouraged, however, that the Japanese Government is engaging in discussions with industry to determine the appropriate method for NTT to calculate, distribute and account for its costs.

## Interconnection

In a truly competitive market, where the incumbent does not retain market power due to control of essential facilities, negotiated interconnection may be ideal. However, where effective competition has not yet developed, cost-based interconnection tariffs promote the most expeditious entry, as well as the goals of non-discrimination and transparency.

Nonetheless, we welcome the Japanese Government's proposal to include certain safeguards in the negotiated local interconnection regime it is considering as part of its effort to implement the July 1994 cabinet decision to facilitate entry by new providers. We also are encouraged that NTT will be limited in the information that it may seek from new carriers. We are pleased that the Japanese Government shares our view that carriers should only have to negotiate for capacity, and should not be required to divulge business confidential information such as service plans to their competitors.

We also view as positive the Ministry of Posts and Telecommunications (MPT) guidance to NTT that it should accept any proposal submitted by another carrier. We caution the Japanese Government in its review of cases that fall within its stated exception to this principle -- "unless there are rational reasons not to, such as technical impossibility" -- to be skeptical of the incumbent's arguments that technical impediments prohibit interconnection as requested by other carriers.

We also welcome the Japanese Government's proposal to set a standard period of time for negotiations and a quarterly reporting requirement. We urge the Japanese Government to agree to a reasonably short period or the value of the interconnection regime will be undermined and would appreciate being apprised of what standard period is actually agreed to. We also welcome the proposal to disclose interconnection agreements between NTT and other carriers, which will promote competitive entry by additional carriers. We believe that the Japanese Government's efforts to improve the means and range of NTT's disclosure of technical information necessary for interconnection, such as information on signalling systems and number portability, will be necessary to promote competition, and we look forward to seeing the Japanese Government's final policy. We caution that the negotiated interconnection regime will require truly objective oversight to be effective.

We also note that the Government of Japan has only addressed interconnection to the local network. We urge the Japanese Government to consider extending the measures to liberalize interconnection to central offices in order to provide access-based competition. Interconnection only to the local network will not provide a sufficient degree of competition.

### International Interconnection

We are disappointed that the Japanese Government has not addressed our concerns regarding the restrictions against greater competition in the international sector of the Japanese telecommunications market. We urge the Government of Japan to reconsider its limitation on international gateway operators and to permit carriers other than NTT to operate international gateways for terminating or forwarding traffic by or from the international carriers KDD, ITJ, or IIC.

### Leased Line Liberalization

We welcome the Japanese Government's efforts begun to liberalize its policy on leased line interconnection and voice carriage. We urge the Japanese Government to accelerate its liberalization schedule and to shorten the study periods on the effects of its liberalization measures.

### Satellite Communications

We are disappointed that the Japanese Government has not addressed our concerns on the usage of earth station operation. We continue to believe that reliance on earth station standards that far exceed international norms has restricted the use of satellite services, as well as created a barrier to the earth station market for non-Japanese suppliers. We urge the Japanese Government to loosen restrictions on the ownership and use of earth stations.



## Competition Policy

As a general matter, we are disappointed that the Government of Japan ("GOJ") has included in its interim report hardly any new measures recommended by the United States Government ("USG") to improve Japan's antimonopoly enforcement and competition policy. Moreover, we are disappointed that very few of the measures listed in this section indicate specific concrete actions that will be taken or a specific timeframe in which such actions will be implemented.

We believe that it is very important that competition policy issues be included in the final Deregulation Plan in a manner which reflects the equal status of deregulation and competition policy in the GOJ's efforts to deregulate the Japanese economy. We fully agree with the interim report's statement that the GOJ should "promote the active development of deregulation and competition policy as one unit," and we hope that the final Report will reflect this principle by addressing competition policy matters in a way that demonstrates the co-equal status and importance of deregulation and competition policy.

With respect to the specific measures listed, we have the following comments:

1. We welcome the JFTC's decision to conduct a survey on the actual economic situation related to government regulations. However, more specificity is needed on the sectors to be covered by the survey, the timeframe for the survey and its conclusions, and how the GOJ will review and implement the conclusions of the survey.
2. We also welcome the decision of the GOJ to ensure that anticompetitive administrative guidance not be issued after deregulation by seeking greater coordination between the ministries concerned and the JFTC in advance of issuing all guidance. However, the final report should include specific reference to the need to establish an administrative mechanism, formulated by the Cabinet Secretary or other appropriate person or entity, that will spell out the specific procedures that ministries should follow in order to effect such coordination with the JFTC.
3. We look forward to the issuance of the JFTC's revised "Antimonopoly Act Guidelines concerning Trade Association's Activities" within the December 1995 timeframe promised by the interim report. These revised Guidelines could be a useful means of promoting compliance with the Antimonopoly Act by industry associations and their members, depending on the content. We had hoped that a draft of these Guidelines would be issued by the end of March 1995. If this is not possible, then the final report should include a specific date by which the draft Guidelines will



be issued. In addition, the report should make clear that the domestic and foreign business communities, as well as the public in general, will have the opportunity to provide comments on the draft guidelines before they are finalized.

4. With respect to revision of Antimonopoly Act exemptions, the USG has suggested that the GOJ review the exemptions contained in the Antimonopoly Act itself and in the Antimonopoly Exemption Act. While we welcome the statement in the interim report that "other Antimonopoly Act exemption systems" will also continue to be reviewed, the final Report should specify a date of conclusion of that review, and that the direction will be to abolish, in principle, those exemptions as well.

5. The USG has requested that the discriminatory international contract notification requirements for certain joint ventures be eliminated. While the interim report indicates that the JFTC will review the international contract notification system, the report lacks specificity with regard to both the timeframe for the review and the timeframe and ultimate direction of JFTC action upon completion of the review.

6. We are disappointed with the total lack of progress on deregulation of premium restrictions since the GOJ's June 28, 1994 policy statement on deregulation. Substantial deregulation in this area has been called for by the Japanese and foreign business communities, as well as by the USG and European Union. We strongly request that the final report include much more specificity on the direction of the JFTC's deregulatory actions in this area. The final report should also indicate, as did the June 1994 policy statement, that the scope of the review and subsequent deregulatory actions will not be limited just to the upper limit of premiums and the notification on premiums by large retail stores.

7. We are also disappointed with the interim report's failure to indicate clear GOJ support for expansion and strengthening of the JFTC's organizational structure. The resources of the JFTC need to be further increased to enable the JFTC to deal with the changes in the market due to deregulation. The GOJ can best demonstrate its full support for effective antimonopoly enforcement by including in the final report a commitment to increase the resources of the JFTC significantly and to upgrade the status of the JFTC.

8. We were also disheartened that the GOJ has failed to announce any new steps to eliminate bid rigging on government procurements. This is a fundamental component of a sound competition policy and requires both vigorous enforcement of all laws prohibiting bid rigging and the complete support of procuring agencies. The USG suggested a number of measures in this regard, such as the establishment of a telephone "hot line"

for citizens and officials to report evidence of bid rigging on an anonymous basis, and the strengthening of sanctions against firms and public officials that engage in, or facilitate, "dango" activities. The absence in the interim report of any of these recommended measures suggests that the GOJ is reluctant to tackle this problem in an effective manner.

9. Finally, we would like to comment on the proposal in the interim report to reduce the number of firms that are subject to the Antimonopoly Act's restrictions on stockholding by large non-financial firms, and the proposal (not contained in the interim report) of eliminating the Antimonopoly Act's prohibition on holding companies. Although the USG neither supports nor opposes these proposed changes, we do have serious concerns that such changes might lead to a strengthening of keiretsu ties. If the GOJ decides to make either of these proposed changes, we think that it is very important that it be accompanied by a significant strengthening of other parts of the Antimonopoly Act, and of the JFTC's enforcement capabilities generally, so that the JFTC will be able to address any anticompetitive behavioral or structural changes that may result. In such event, we also believe that the GOJ should monitor whether these proposed changes have the effect of reducing the percentage of outstanding shares of individual companies that are actually traded on Japan's stock exchanges.