

MR. CUTLER: Okay. Good morning Mr. Chairman, and members of the Commission. I'm --

COMMISSIONER LEWIS: I'm sorry. Excuse me. The light will go on. It's green. And it will go on for five minutes. And then when it turns yellow you have two minutes to go. And we hope everybody will limit themselves to seven minutes for the direct presentation. Thank you.

MR. CUTLER: Well, good morning again, Mr. Chairman and members of the Commission. My name is Ron Cutler and I am the current chairman of the U.S. Auto Parts Advisory Committee, and Vice President of Marketing of TRW. I'm extremely pleased to be here today to establish a dialogue between our two committees. APEC is a national advisory committee comprised of private sector companies, trade associations and union representatives that was created by Congress in 1988 and then again reauthorized in '94 for the mandate to advise the Secretary of Commerce on auto parts and trade in Japanese markets. Congress then again in '98 reauthorized our group for a third five year term and extended our scope to advise the Commerce Department on barriers in other Asian markets as well as Japan.

We strongly support open markets for motor vehicles and auto parts, and what success is achievable

through fair and open competition among manufacturers.

The world-class U.S. auto parts industry can successfully compete in every automotive market in the world if competition is not restricted by non-market barriers or other practices either imposed or tolerated by national governments. In short, we are seeking and have ever sought is a level playing field.

The impact of the Asian economic collapse on the U.S. auto parts industry and the U.S. economy generally is worse than it would have otherwise been because of Japan's economy is entangled in a web over web of regulatory controls, non-transparent administrative guidance procedures, bank loan failures, and what we call karetsu relationships and a number --

COMMISSIONER LEWIS: What was that word?

I'm sorry.

MR. CUTLER: Karetsu. Karetsu relationships and other market access barriers. In particular, these practices of Japanese karetsu groups linking vehicle manufacturers and vehicle parts people in Japan and the U.S. continue to tilt the field and make it very difficult for U.S. suppliers to expand business with Japanese and Japanese automakers in all major world markets, despite U.S. industries competitiveness and a continued leadership in the newest high technology areas. The chronic U.S. auto

parts trade imbalance with Japan, \$9.7 billion in '98, is much larger than with any other countries, and is growing this year at a 10 percent rate over the '98 figures.

Save for the parts trade deficit with Japan, the U.S. would have enjoyed a global parts trade surplus in '98, and the same may be said of every year, beginning with '82. Since 1980 when the Carter Administration negotiated the first Japan auto parts market opening agreement, America's cumulated parts trade deficit with Japan has grown from \$1 billion in 1980 to \$140 billion in '98. APEC decade long commitment to the increased private sector in government effort to accelerate the pace of progress in opening Japanese markets has been demonstrated. One, that some formal bilateral part trade agreement is needed for Japan to undertake any market opening measures and, two, that Japan will adhere to the letter, if not necessarily the spirit of market access agreements.

For example, in 1995, auto parts framework agreement Japan compiled with the letter by immediately removing shock absorbers and struts from its crucial parts list. Since only certified garages, generally those tied to automakers in Japan again, may repair crucial parts, the change meant that independent

sellers would not be able to participate in this area.

This opened a new channel for foreign producers to compete in Japan finally. But as for the spirit, Japan promised reviews of the critical part list for purposes of removing additional items, produced nothing, nothing, nothing of note. This despite a compelling U.S. industry petition for brake parts via regulations that was backed the secretary Daley and the U.S. Trade Representative, Barshefsky. Measurements of results is critical to implementing any type of agreement, yet currently available data does not indicate whether U.S. parts purchases by Japanese automakers reflects sales progress of non-Japanese owned or controlled U.S. suppliers, or merely the sales of Japanese affiliated transplant suppliers.

To help solve this problem, APEC long has supported the full implementation of the Foreign Direct Investment and International Financial Data Improvement Act of 1990, including the mandatory priority Congress set for reports on the aggressive auto parts shipment of Japanese affiliated suppliers in the U.S.

COMMISSIONER LEWIS: Two minutes.

MR. CUTLER: In '98 the government of Japan began implementing a \$500 million bail out package for Japanese banks, some of the largest which are at the center of the so-called Japanese karetsu system. It is

vital to U.S. economic and trade interest that the Japanese government and its karetsu group do not use the proceeds to provide subsidiaries to Japanese industrial companies.

American companies and American economy would suffer a double blow to the Japanese government take such type of actions. Our markets would be open to Japanese exports and investments while Japan maintains its import barriers, adds new subsidiaries for exports in financially ailing karetsu type companies.

The financial ailment of karetsu suppliers is profoundly affecting other Asian markets where the karetsu system dominates. Japanese auto companies control 90 percent of the local production of a number of Asian countries.

Let me close with our key policy recommendations. The International Monetary Fund has negotiated assistance packages for Taiwan, Indonesia and Korea that have helped against longstanding U.S. trade objectives. By including commitments to open their automotive markets in the case of Indonesia to abolish its national car program, APEC recommends that whenever the IMF pledges financial assistance to a country, or a country requests additional funds, or the

time to repay loans, the IMF should assist on market openings.

APEC welcomes the creation of the U.S. Trade Deficit Review Commission. We urged three major objectives for you to work. One, identification of country-by-country priorities. Two, establishment in monitoring the progress towards specific defect reduction goals. Thank you very much.

COMMISSIONER LEWIS: Thank you very much. The second person who will make a presentation is Mr. Alfred Eckes.

Thank you very much.