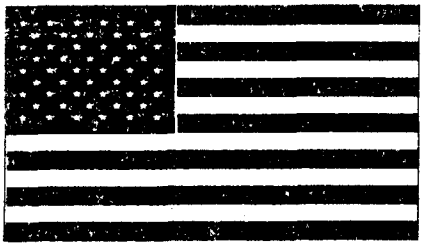
JOINT REPORT

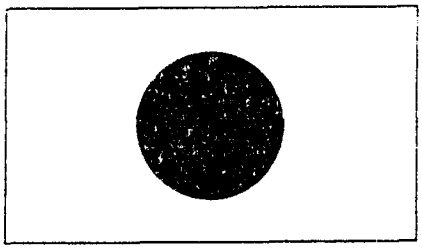
of the

U.S. - JAPAN WORKING GROUP

on the

STRUCTURAL IMPEDIMENTS INITIATIVE





June 28, 1990

The Honorable George Bush
President of the United
States of America
Washington, D.C.

His Excellency
Toshiki Kaifu
Prime Minister of Japan
Tokyo

Pursuant to the decision made by the U.S. and Japanese Heads of Government at the Economic Summit in July 1989, the U.S.-Japan Working Group on the Structural Impediments Initiative (SII) presents the attached Joint Report on the SII talks.

We believe that the attached report contains significant, extensive efforts and actions by both governments that should contribute to further reductions in external payments imbalances. These actions should also lead to more efficient, competitive, and open markets, promote sustained economic growth and enhance the quality of life in both Japan and the United States.

The report also establishes a follow-up mechanism to review progress achieved and to discuss matters relevant to problem areas and the need for actions to address them. Under this mechanism, the Working Group will meet regularly and produce an annual report respectively on the progress made by each country toward solving its structural problems, thereby contributing to the reduction of external imbalances.

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JOINT REPORT

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U.S.-JAPAN WORKING GROUP

on the

STRUCTURAL IMPEDIMENTS INITIATIVE (SII)

Tokyo, Japan

June 28, 1990

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STRUCTURAL IMPEDIMENTS INITIATIVE

The Japan-U.S. Working Group on the Structural Impediments Initiative (SII) provides the attached Final Report on the SII talks. The Working Group believes that this report is a historic document that contains significant, extensive efforts and actions on both sides. These actions should complement the economic policy coordination efforts which have been made through multilateral fora and should contribute to a reduction in external payments imbalances. In this regard, it is to be noted that while the large external imbalances of the two countries have shown substantial reduction in recent years, the two Governments are strongly committed to make efforts for the further reduction of their respective external imbalances. The above-mentioned actions should also lead to more efficient, open and competitive markets, promote sustained economic growth and enhance the quality of life in both Japan and the United States. Both Governments are firmly determined to achieve these goals.

The SII was launched by President Bush and former Prime Minister Uno in July 1989 to identify and solve structural problems in both countries that stand as impediments to trade and to balance of payments adjustment with the goal of contributing to the reduction of payments imbalances. Five Plenary sessions of the Working Group were held between September 1989 and June 1990. An Interim Report on progress was issued on April 5, 1990.

Both the U.S. and Japanese Governments have already taken initial steps and have developed plans for further actions to ensure continuing momentum in solving the structural problems that impede balance of payments adjustment. Both Governments believe that the Final Report represents substantial progress to address structural problems.

The Working Group strongly reaffirms its continuing commitment to solve structural problems in both countries that stand as impediments to trade and balance of payments adjustment.

In order to jointly follow up the year-long SII exercise, the SII

Working Group will continue the meetings under the interagency structure of the SII in a flexible, open and evolving manner which is characteristic to the SII, and agreed to meet three times in the first year and twice a year thereafter, most probably in spring and autumn and other times mutually agreed, at a level of Vice/Deputy Minister and Under Secretary/Assistant Secretary, to :

- - review progress achieved regarding issues identified in the Final Report ;

- - discuss matters relevant to problem areas already identified in the SII and the need for actions to address them; and

- - produce in spring of each year a written report respectively on the progress made by each country toward solving its structural problems thereby contributing to the reduction of external imbalances, review the reports together, and issue them with a joint press release.

After three years, the SII Working Group will review the follow-up process, taking into account measures in the Final Report that extend beyond three years.

These talks have taken and will take place outside Section 301 of the U.S. Trade Act.

The Working Group believes that in addition to its beneficial effects on the U.S. and Japanese economies, the SII process will benefit other countries and the global economy generally.

Saving and Investment Patterns

I. Basic Recognition

1. Reduction in the Current Account Surplus

As a result of appropriate policies pursued to sustain solid economic growth led by strong domestic demand, Japan's current account surplus has been reduced remarkably from 4.5 per cent of GNP in FY 1986 to an estimated 1.9 per cent in FY 1989, which is less than half the level of FY 1986. This downward trend is projected to continue in FY 1990.

Impressive growth of imports, along with increases in overseas travel expenditures by the Japanese people reflecting in part an increased emphasis on leisure, has contributed to this positive trend. U.S. exports to Japan have increased faster than U.S. exports to the rest of the world.

To make further progress on the basis of this positive trend, the Government of Japan will continue to undertake economic policies aimed at promoting sustained non-inflationary growth led by domestic demand.

The Government of Japan recognizes the need to continue to reduce its current account surplus and strongly reaffirms its commitment to work actively toward that end. While the Government recognizes the utility of making available savings for certain other parts of the world, including Eastern Europe, it further recognizes that a further reduction of Japanese current account surplus is compatible with Japan's ability to continue to export long-term capital. Thus, the Government commits itself to place a high priority on continuing a steady reduction in its current account surplus which will, together with the efforts of other major industrial countries, foster world growth and financial market stability. The Government of Japan also recognizes that a reduction of the imbalance between domestic savings and investment is important to that process. This will help further a reduction in the current account surplus.

2. Recognition of the Need for and Importance of Social Overhead Capital Improvement

The Government of Japan recognizes that there remain areas where Japan is still behind other major industrialized countries in terms of the levels of social overhead capital accumulation, though the pace of improvement has been rapid -- partly as Japan was historically a slow starter in this field -- with annual public investment (Ig) four times as large as that of the U.S. measured against GNP.

The Government of Japan will continue to pursue its policies to increase and promote steady accumulation of social overhead capital, based on the keen recognition of the need for and importance of social overhead capital improvement.

This would, through sustained non-inflationary growth of domestic demand, facilitate further reduction in the current account surplus.

II. Measures to be Taken

1. Positive Measures in the FY 1990 Budget

(1) FY 1990 budget was enacted on June 7, with the expenditures for public works which surpass the historic high level of the previous fiscal year at ¥7,444.7 billion, despite the revenue constraint caused by unsuccessful sales of NTT stocks in the previous fiscal year, and notwithstanding the vigorous expansion of the economy expected in FY 1990 which does not warrant additional stimulus.

The investment by the public sector on GNP basis (Ig) would add up to ¥26.3 trillion, including the public works expenditure by local governments financed entirely by themselves (in the Local Public Finance Program) and the expenditures of the public work executing agencies financed through the FILP (Fiscal Investment and Loan Program) which rose 7 per cent, respectively, over FY 1989.

(2) Total cumulative expenditures in seven out of eight sectoral long-term plans, which are to expire at the end of FY 1990, are expected to exceed the projected target expenditures as a result of further emphasis placed on social overhead capital in the FY 1990 Budget.

2. Toward Further Improvement

(1) The Government of Japan intends to increase and promote steady accumulation of social overhead capital, from a medium to long term perspective, as the nation heads for an aging society toward the twenty-first century.

For that purpose:

(i) The Government of Japan has newly launched the "Basic Plan for the Public Investment", which serves as guiding principles for steady accumulation of the social overhead capital toward the twenty-first century. This plan covers a decade from FY 1991 to FY 2000, and provides a basic blueprint of the basic direction of the public investment for the decade. Firm implementation of the public investment over the medium term based on this Plan, with due regard to balanced development of the economy, is expected to provide a basis for sustainable non-inflationary growth led by strong domestic demand, and this should, along with other measures, facilitate further reduction in the current account surplus.

The annual total of public investment and of investment in each sector will be determined through yearly budgets, according to prevailing circumstances, and compatible with the basic lines of this plan.

Building on the principle "to boost domestic investment, improve social overhead capital and to reduce the shortage of investment relative to savings and to the size of the Japanese economy," the Plan includes the aggregate investment expenditure of about 430 trillion yen for the decade, up drastically from the estimated 263 trillion yen in

the previous decade from FY 1981 to FY 1990.(note 1) This plan shows that the Government of Japan has taken the decisive step toward considerably increasing the public investment far above its previous pace.

This plan enunciates that the share of public investment related to "living environment and cultural functions (note 2)," which is directly linked to the everyday life of the people, would be raised from a few points over 50% of the total in the previous decade to about 60% of the total during the period of the plan.

Through the firm implementation of the plan, the levels of social overhead capital accumulation of Japan would be broadly comparable to those of other major industrial countries at the beginning of the twenty -first century.

In addition, the aggregate expenditures of the investment by such entities as JR and NTT which used to be included in the public investment prior to their privatization, are expected to be approximately 25 trillion yen for the coming ten years.(note 3) This is the amount of expenditure that the Government of Japan fully expects to be realized.

Adding this with the 430 trillion yen shown above would bring the total figure to about 455 trillion yen.

(note 1) The aggregate investment for the first five years calculated on the basis of an average annual increase is expected to be about 182 trillion yen.

(note 2) Public investment related to "living environment and cultural functions" includes investment for; water supply, sewers, parks, green spaces, waste disposal facilities, housing, local roads, subways, and welfare as well as educational facilities.

(note 3) Estimation based on the continued current annual expenditure.

(ii) As to the eight categories of social overhead capital whose current plans are to expire at the end of FY 1990 (i.e., March 1991), the ministries concerned will formulate larger long-term plans with the positive and specific targets as indicated in Table 1. By the end of FY 1990, yen figures shall be developed for most of the eight sectoral plans which are conistent with the ten year plan in order to improve the quality of life in Japan. It is envisaged that larger long-term plans for certain other key areas, such as roads, will also be formulated as the current plans expire on a scale similar to that for these plans.

(iii) The yearly expenditure for social overhead capital should be decided flexibly considering the prevailing economic and fiscal conditions, paying due attention to avoiding inflation and overheat of the economy as well, given the significant role that the public investment plays as a counter-cyclical measure in Japan, and compatible with the basic lines of the plan and the targets in (ii) above.

(2) In allocating the expenditure among various types of social overhead capital, utmost consideration should be given, as much as possible, to those closely linked to the improvement of the quality of life.

(3) In the implementation of public investment, including the above plans, the Government of Japan will make effective use of the legislative form of the budget that authorizes contracts incurring treasury liabilities over the succeeding fiscal years, in order to secure maximum efficiency in executing public investments within the constitutional framework of the single year budget system.

(4) The Government of Japan will make more effective use of the FILP (Fiscal Investment and Loan Program) funds to improve social overhead capital. Such effective use would include financing urban redevelopment projects through the Japan Development Bank. In allocating the FILP funds, utmost consideration should be given, as much as possible, to housing and other projects contributing to enhancement of the quality of life of the people. More effective use

of the FILP funds will also include attaching major importance to allocation of the funds, for feasible projects, with a view to achieving the long-term plans of social overhead capital in such areas as housing, roads and airports.

(5) The Government of Japan will see to it that overall efficiency is increased in promoting the complex multi-jurisdictional development projects like the Kansai International Airport and the Tokyo Bay Area Development, by ameliorating systems for securing better communication and closer cooperation among the related ministries.

(6) More active use of various resources in the private sector, such as financial resources, technology and know-how, is important for the improvement of social overhead capital, as seen in such cases as the Kansai International Airport and the Trans Tokyo Bay Road Project. The Government of Japan will continue to promote further deregulation and to provide various incentives as needed in order to make the best use of these private sector resources in the improvement of social overhead capital.

(7) The Government of Japan reconfirms the principle of non-discrimination in the Japanese construction market, and will continue to work with the U.S. Government in faithfully implementing and reviewing the provisions of the U.S.-Japan Major Projects Arrangements.

3. Private Consumption: Leisure Opportunity and Flexibility in Consumer Finances

(1) As to curtailing work hours, the Government of Japan launched a trial, starting this April, of 40 hour weeks for those government employees on shift work schedules, to pave a road to complete 5 day weeks for all government employees, and will encourage curtailing work hours in the private sector.

(2) As to improvement of consumer credit convenience, the interim report by the Credit Industry Committee of the Council on Credit Sales recommends that "concerning the introduction of revolving credit

function to the credit cards issued by bank affiliated companies, it is appropriate to allow bank affiliated credit card companies to register under the Credit Sales Law within two years, with the existing restriction on access to bank teller machines by credit card companies removed." The Government of Japan will endeavor to implement this recommendation after consulting with the parties concerned.

(3) To quote a few examples of extended operating hours of automated teller machines, major financial institutions have since May lengthened operating hours of their machines on Saturdays, and some institutions have started to operate their machines on Sundays as well.

The Government of Japan will welcome business decisions of the financial institutions to lengthen operating hours of their teller machines when they so decide based on their own commercial considerations, while there are no restrictions on the operating hours at present.

(Table 1)

Category	Targets of the Plans
Housing	To increase average floor space per unit to approx. 95㎡ in FY 1995, aiming at improving quality of housing stock (cf. average floor space per unit in 1988 was 89㎡).
Sewers	To increase sewerage service coverage ratio by approx. 10 percentage points during the period of the plan and to promote drainage programs, aiming at better urban environment (cf. sewerage service coverage ratio in March 1989 was 40%).
Parks	To increase park space per capita to more than 7㎡ in FY 1995, aiming at better urban environment with full of greenery and amenity (cf. park space per capita in March 1989 was 5.4㎡).
Waste Disposal	To increase waste treatment percentage ratio to the mid-80's in FY 1995, aiming at more hygienic and comfortable living environment (cf. waste treatment percentage ratio in March 1989 was 78%).
Traffic Safety	To construct sidewalks, etc. of approx. 25,000km in aggregate during the period of the plan, where current risk to pedestrian safety is high (cf. sidewalks, etc. in March 1989 were 99,712km in aggregate length).
Port Facilities	To construct berths for foreign trade terminal of approx. 30km in aggregate during the period of the plan, to cope with increased foreign trade cargoes and enlarged vessel size (cf. existing foreign trade terminal berths in March 1989 were 60km).
Airports	To increase the index of aggregate runway length as measured against population and land area to approx. 880 in FY 1995, and to initiate new construction of a substantial amount during the period of the plan in order to accommodate future aviation needs, with due regard to the levels in industrial nations. This would result in increasing aggregate runway length by 18% during the period of the plan (cf. the index of aggregate runway length in March 1989 was 742).
Seashore	To increase improvement ratio of seashore which needs protection by approx. 10 percentage points during the period of the plan (cf. the improvement ratio in March 1989 was 40%).

Land Policy

1. Basic Recognition

The land problem is one of the most serious domestic problems facing the Government of Japan. The Government of Japan has, as a first step, already enacted the Basic Land Act (*) last December. Recognizing the need such as for the increase of supply of housing, as well as the supply of land for buildings, with necessary facilities, such as public and commercial facilities, the Government of Japan will implement a wide range of specific measures as set forth in guidelines such as the Priority List of Land Policies, also announced last December, and as set forth below.

Due to these measures, it is expected that housing and other demand will be boosted, leading to greater import opportunities.

1. Promotion of further supply of housing and land for buildings in metropolitan areas.

2. Comprehensive review and adjustment of the land taxation system with the obejctive of making taxes more equitable, neutral and simple.

3. Greater utilization of idle and underutilized land owned by the central or local governments or other public land.

4. Improvement and increase of infrastructure necessary to facilitate increase in the supply of housing and land for buildings.

5. Review of the Land Lease Law and the House Lease Law.

6. Review of divisions between Urbanization Promotion Areas and Urbanization Control Areas and promotion of specific deregulation measures.

7. Rationalization of the official assessment of land value.

(*) The Basic Land Act stipulates:

(a) basic principles regarding land such as giving priority to public welfare;

(b) responsibilities of the central and local governments, private enterprises and individuals; and

(c) basic elements concerning land policies.

II. Measures to be Taken

1. In order to take the following measures, the Government of Japan has already enacted in this June the amendments of the "Special Measures Law for Facilitating Supply of Residential Land etc. in Major Metropolitan Areas", the "City Planning Law" and the "Building Standards Law".

(1) Improvement of the existing system to enable the formulation of master plans regarding the supply of housing and residential land across two or more prefectures.

(2) Establishment of a new system for identifying and promoting the utilization for housing, business and commercial purposes etc. of, idle land such as unused plant sites.

(3) Improvement of current city planning and other systems in order to facilitate the conversion of agricultural land within urbanization promotion areas to residential land.

In line with (2) above, the Goverment of Japan will establish a system for identifying idle land by the end of 1990 through the amendment of the "City Planning Law". The Government of Japan will encourage local authorities to actively and expeditiously utilize the

system. Through these measures, substantial increase of the supply of housing and residential land in metropolitan areas would be expected.

2. (1) The Government of Japan is conducting a comprehensive review on the land taxation system on the basis of such basic principles of taxation as equity, neutrality and simplicity, and in accordance with the principles expressed by the Basic Land Act and with other land policies. A study has been initiated by the Sub-Commission on Land Taxation established in April under the Government Tax Commission.

The Sub-Commission has met almost once a week, and has so far held 13 meetings since this April. It issued a paper on May 29, entitled " Main Issues in the Review of Land Taxation" which clarifies main issues to be considered in the course of the review of land taxation.

Subsequently on June 22, the Sub-Commission issued a paper entitled, "For the Review of Land Taxation", which sorts out opinions expressed by the commission members concerning land taxation.

In these papers, the Sub-Commission presented the following two points as points of reference for the review of land taxation: first, it is important to pursue appropriate tax burden on an asset of land, from viewpoints of equity and neutrality of taxation, and this consequently contributes to efficient utilization of land; second, land taxation, as a part of land policy, can play an important role in promotion of efficient utilization of land, preventing speculative land transactions.

The paper issued by the Sub-Commission on June 22 contains various opinions concerning appropriate tax burden on transfer, holding and acquisition of land, including issues related to (2), (3), and 7(1), (2) below, which indicate, inter alia, that the Government of Japan will conduct a review with a view to addressing the deferment system of payment of the inheritance tax and the fixed assets tax, as well as consider the possible strengthening of the special land holding tax on idle land.

The Government of Japan highly appreciates that the Sub-Commission has satisfactorily progressed the discussion and expects that the discussion will lead to land tax reform which contributes to such land policies as efficient utlization of land.

Taking account of the issues provided in the above mentioned papers, the Sub-Commission will continue to discuss possible changes in the land taxation system and issue a report by early November.

The Government of Japan will make out a draft of a revised land taxation system, with giving serious consideration to the report, and submit the necessary legislation to the Diet by the end of FY 1990.

(2) With respect to the taxation system on agricultural land within urbanization promotion areas of the major metropolitan areas, the Government of Japan, together with necessary adjustments and improvements in the related policies, will conduct a review with a view to addressing the deferment system of payment of the inheritance tax and the fixed assets tax, in accordance with the Comprehensive Land Policy Plan, so that the results will be smoothly implemented from FY 1992.

(3) In addition to the establishment of the new system for idle land mentioned in 1.(2), a review will be made with regard to the possible strengthening of the special land holding tax on idle land.

3. The Government of Japan is now examining, toward the end of FY 1990, the utilization of State-owned land in the major metropolitan areas and, in accordance with its findings, will try to enable the land to be utilized for, through sales and other arrangements, appropriate private projects of urban district development, urban facilities, urban redevelopment and public housing projects, except those cases where preservation of land for public use is necessary. The Government of Japan is urging local governments to take similar measures with regard to local government-owned land.

The Government of Japan will complete the identification of idle and underutilized State-owned land by the end of FY 1990. The Government of Japan will set a goal of converting idle and underutilized State-owned land to productive use by the end of FY 1991, and will carry out the conversion according to the goal.

Effective utilization of the extensive land owned by the Japanese National Railways Settlement Corporation in metropolitan areas will also be ensured.

4. In order to increase the supply of housing and residential land, installation of the required infrastructure will be steadily pursued. In this context, based on the target indicated in the "Saving and Investment Patterns" chapter, the Government of Japan is engaged in the formulation of a larger five-year plan for housing construction, improvement of sewerage and urban parks, etc.

Following the report submitted by the Administrative Reform Council in October 1987 etc., two circular notices were issued to give guidance concerning the utilization of the eminent domain system. As a result, the number of eminent domain operations authorized in FY 1989 increased largely by more than 20% from the previous year. The Government of Japan will encourage the more vigorous use of eminent domain.

The Government of Japan will encourage more effective use of subterranean property, and studies will also be conducted on the system concerning public use of the deep underground from various aspects including legislation in order to encourage its utilization.

5. In order to meet the changed circumstances and to improve the legal relationship between lessors and lessees, and taking into account the desirability of greater availability of housing, a review of the Land Lease Law and the House Lease Law is being conducted, and an outline of the draft amendment of these laws may be ready by as early as the end of FY 1990. The Government of Japan will then submit the necessary legislation to the Diet

without delay. These measures are expected to induce a more appropriate use of land and an increase in the supply of good quality houses for lease.

6. In order to encourage effective utilization of land and to facilitate the planned conversion of agricultural land to residential land within urbanization promotion areas, the Government of Japan will promote timely and appropriate review of divisions between Urbanization Promotion Areas and Urbanization Control Areas, and change of zoning designations. Particularly in major metropolitan areas, review of divisions between the two Areas will be promoted to provide for the growing housing demands.

The Government of Japan has enacted in this June the amendments of the "City Planning Law" and the "Building Standards Law" to establish the "District Plan to Promote Intensive Use of Residential Land" which will help ensure the relaxation of limits on building heights, total floor area ratio, etc. for quality projects contributing to the increase of housing supply and the formation of a better urban environment. Specific deregulation measures will be operated under this system by the end of 1990 with other existing systems.

7. In order to rationalize the official assessment of land value, the Government of Japan will:

(1) rationalize the land value assessment for inheritance tax calculation expeditiously, taking into account the nature of the tax with a view to making the assessment closer to the market value; and

(2) give guidance to local governments to rationalize their land value assessment for fixed assets tax calculation at the time of the reassessment of the land valued in FY 1991; and advise them to make public the land values of the standard points.

Distribution System

I. Basic Recognition

Concerning the distribution system in Japan, the Government of Japan attaches great importance to the enrichment of consumer life in Japan through further improving efficiency, ensuring market access, and building physical infrastructure. Based upon such recognition, the Government of Japan will promote the implementation of a broad spectrum of measures:

1. The distribution of import freight will be accelerated and its cost will be reduced by the improvement of airports, harbors, and other import infrastructure.

2. Customs clearance procedures and other import procedures will be further expedited to correspond to the increasing trade volume, while maintaining such functions as realizing a proper and fair sharing of the tax burden, and ensuring the health and safety of the people.

3. Deregulation of the distribution system will be further promoted with regard to a variety of laws and regulations, such as the Large -Scale Retail Store Law, with a view to enriching consumer life in Japan.

4. As to trade practices concerning distribution, an improved environment will be sought from the standpoint of promoting competition and securing market openness.

5. Wide-ranging measures with lasting, structural impact will be implemented in order to expand imports, thereby improving the efficiency of Japan's market structure including the distribution system.

II. Measures to be Taken

1. Improvement of Import-related Infrastructure

(1) Airport Improvement

(a) Based on the Fifth Five-Year Plan for Airport Improvement (FY 1986-90), the improvement of the New Tokyo International Airport, the off-shore expansion of the Tokyo International Airport and the improvement of the Kansai International Airport are being vigorously promoted as the three most important projects. In particular, completion of the second phase construction of the New Tokyo International Airport and the first phase construction of the Kansai International Airport will double the cargo handling capacity as the cargo handling area will expand from about 20 hectares at the New Tokyo International Airport alone to about 50 hectares at the two airports combined. This expansion of capacity, together with the improvement and the expansion of the regional airport and airport-related cargo handling facilities, is a significant step toward the goal of ensuring airport capacity sufficient to meet the demand for international air services for some time to come. The airport -related cargo handling facilities at the New Tokyo International Airport and at the Baraki Terminal are being improved and expanded responding to the increasing demand for international air cargo handling. Considerable efforts are also being invested in the improvement of local airport facilities: For instance, the construction of the New Hiroshima Airport is now vigorously under way with December, 1993 as the target inauguration date.

(b) (i) The Sixth Five Year Plan for Airport Improvement, to be initiated in FY 1991, will include Yen targets and specify airport and airport facility projects to substantially increase airport capacity sufficient to meet medium-to-long term growth of the demand in international air transportation. (The details of the Sixth Five Year Plan will be formulated in autumn in 1991.)

(ii) The Aviation Council is now discussing as one of the main agenda for the Sixth Plan various improvements of

airport facilities, including the overall concept of the Kansai International Airport and increased use for international service of regional airports.

(c) Improvement of roads related to import is being promoted in line with the Tenth Five-Year Plan for Road Improvement (FY 1988-92).

(2) Harbor Improvement

Harbors are being improved in line with the Seventh Five-Year Plan for Harbor Improvement (FY 1986-90). In recent years, imports of manufactured goods have been rising rapidly, and therefore, in order to be able to respond to these increasing imports, the improvement of container terminals for overseas trade and large scale multi-purpose terminals for overseas trade will be given high priority in the context of the Eighth Five-Year Plan now being prepared to be initiated in FY 1991. Concerning warehouse facilities, the Government of Japan is promoting private investment in facilities through such means as low-interest loans by the Japan Development Bank (JDB) and favorable tax measures. Since FY 1989, special emphasis is being placed on promoting the improvement of warehouse facilities dealing primarily with imported goods through a special low-interest loan facility. Thanks to these measures, warehouse companies in the Tokyo and Osaka metropolitan areas plan to expand their facilities by 16% by the end of FY 1991.

2. Expeditious and Proper Import Procedures

In order to ensure rapid entry of normal cargo imports into the Japanese distribution system, the Government of Japan goal is 24 hours clearance (from presentation of import declaration to import permit) through entry procedures for imports by 1991. The Government of Japan will ensure adequate budget resources and make regulatory changes necessary to accomplish this goal.

(1) Customs Clearance Procedures

Automated Processing System will be introduced for customs clearance of sea cargoes from 1991 to 1992. In addition, the Japanese Customs will further improve and rationalize the customs clearance procedures, in accordance with the report by the Japan-U.S. Customs Experts Group. This will include efforts for achieving, within a few years, the implementation of upgrading of NACCS (Nippon Air Cargo Clearance System), expansion of the scope of the Provisional Examination System and its procedural simplification, and introduction of the Automated Risk Judgement System supported by the Customs Data Base.

(2) Import Procedures other than Customs Clearance Procedures

In accordance with the report submitted by the Japan-U.S. Experts Group on Import Procedures, which was established with a view to achieving more expeditious and proper import procedures and consists of agencies concerned, the Government of Japan will, after study as necessary, start any of the following measures as soon as it becomes feasible and make efforts to implement them within three years.

(a) Establishment of an integrated import processing system under the cooperation between Customs and other agencies with jurisdiction over import procedures through measures such as setting up of Liaison Committee consisting of agencies with jurisdiction over import procedures, simultaneous processing of customs clearance and procedures required by other import -related laws, and facilitation of information transmission among agencies with jurisdiction over import procedures.

(b) Promotion of pre-arrival processing by introduction of pre -filing system, improvement and expansion of pre-export examination system, including promotion of acceptance of overseas examination data, enlargement of blanket handling system, etc.

(c) Physical improvement and expansion of cargo processing system, including expansion of working hours.

3. Deregulation

(1) Large-Scale Retail Store Law

As dynamic changes are called for in the distribution industry, deregulation measures will be taken in order to meet new needs of consumers, to enhance the vitality of the distribution industry and to ensure smooth procedures for opening new stores. Deregulation measures will be put into place by both the central Government and local public authorities.

The following deregulation measures will be implemented by the Government of Japan.

(a) Deregulation measures that will be immediately taken (such measures as those for an appropriate implementation of the law)

(i) In order to ensure smooth coordination procedures and to facilitate the opening of new stores and expansion of existing stores, the following deregulation measures for an appropriate implementation of the law came in effect on May 30, 1990, subsequent to the deliberation by the Joint Conference of the Industrial Structural Council and the Small and Medium Enterprise Policy Council on April 27, this year. These are the maximum measures which are legally possible under the current Large-Scale Retail Store Law (LSRSL).

(aa) Shortening of coordination processing period for opening stores:

The coordination processing period will be less than one and a half years. The day the items required by the public ordinance (tsūtatsu) are presented on the

plan to open the store with the relevant regional Bureau of the Ministry of International Trade and Industry (MITI) is regarded as the announcement day of the store opening. All the applications will be received.

(bb) Exceptional measures concerning floor space for import sales:

Regarding floor space for import sales, coordination procedures will be exempted for an increase up to a specific scale (100㎡ or less of the floor space).

(cc) Exemption of coordination procedures for the increase of a certain increase in floor space:

Coordination procedures will be exempted for certain cases such as a floor space increase up to a specific scale (whichever is the smaller, 10% of the existing floor space or 50m²).

(dd) Relaxation of the scope of regulation on closing time and the number of business holidays:

Closing time under regulation will be relaxed from "after six o'clock p.m." to "after seven o'clock p.m." The number of business holidays under regulation will be relaxed from "less than four days a month" to "less than 44 days a year".

(ee) Enhancement of transparency in the coordination procedures:

Transparency of the coordination procedures will be improved through such measures as further disclosure of the outcome of the deliberation in the Council for

Coordinating Commercial Activities, quarterly publication of the status of coordination activities and establishment of the office for receipt and processing of the inquiries by the interested parties including those wishing to open stores.

It is confirmed that, as has been the case in the past, the ongoing coordination procedures will not prevent other procedures required by other laws and regulations (such as Building Standards Law and City Planning Law) from being pursued in parallel nor will they prevent those wishing to open stores from advertising for potential tenants. It is also confirmed that in case of acquisition of existing retail outlets through corporate acquisition (including those by foreign firms), the coordination procedures are not required.

(ii) Regarding separate regulation by local public authorities, the central Government, together with the above measures, is making its utmost efforts by, for example, notifying each prefectural Governor to take necessary corrective measures as local public authorities in the light of objectives of the law.

(iii) In order to ensure an appropriate implementation of the law and of separate regulation by local public authorities, the Government of Japan will take necessary follow-up steps including the checking of the status of implementation of the above measures. For this purpose, Headquarters for the Promotion of Smooth Coordination of Store Opening and Headquarters for Regional Promotion were established in the Ministry of International Trade and Industry (MITI) and in its regional Bureaus and Department from May 21 to 30, this year, with the first meeting of the Headquarters for the Promotion of Smooth Coordination of Store Opening taking place on June 1, in an effort to follow up the steady

implementation of the above measures.

(iv) In order to ensure an appropriate implementation of the above measures thus to expedite the processing of the coordination procedures, the fiscal 1990 budget establishes a new division called the Distribution Industries Division in MITI (as of July 1, 1990) and increases by ten the number of officials concerned (as of October 1, 1990). Further efforts will be made to expand and strengthen the institutional set-up.

(v) In order to accelerate changes in the distribution industry and to expand manufactured imports, together with the above measures, steps will be taken to help promote imports by the distribution industry including small and medium distributors. To achieve this objective, the budget, the fiscal loans and investment plan, and the tax reform of FY 1990 have established tax incentive measures to promote manufactured imports, grass-root import expansion activities of small and medium distributors, international comprehensive distribution centers, expansion of import promotion fairs by local retailers, and others. Further efforts will be exerted to expand and reinforce such measures.

(b) Amendment of the law which is to be submitted to the Japanese Diet during the next regular session

The Government of Japan will immediately start preparation for the amendment of the law aiming at submitting the bill during the next regular session of the Japanese Diet, by initiating the deliberation of the relevant council.

(i) Standpoint of the amendment

(aa) Sufficient consideration upon consumer interest.

(bb) Ensuring expedited processing of the coordination procedures.

(cc) Ensuring the enhanced clarity and transparency of the procedures.

(dd) Consideration upon international request to Japan to increase imports.

(ii) Items considered as the elements of the amendment

(aa) Introduction of exceptional measures of coordination procedures concerning the floor space for import sales aiming at more import expansion.

(bb) Shortening of coordination processing period for opening stores. (The objective of efforts is to shorten the period to approximately one year.)

(cc) Enhancing clarity and transparency of coordination procedures for opening stores.

(dd) Restraining local public authorities' separate regulations.

(ee) Others

(c) Review after the above-mentioned amendment of the LSRSL

The LSRSL shall be reviewed further two years after the above-mentioned amendment of the LSRSL. This study will include an analysis of the law's impact on consumers and competition in the retail sector and, based thereon, the need for a basic review of the law and further action. In order to make the first point clear, the above-mentioned amendment shall include a provision stating that the effectiveness of the implementation of the amendment will be examined and that, based on this result,

examination will be made on matters including removal of regulations applied to specific geographical areas.

(2) Regulation concerning premium offers and advertisement

The regulation of premium offers by the Act Against Unjustifiable Premiums and Misleading Representation, including that by Fair Competition Codes, is designed to ensure fair competition in the market place and to protect consumer interests. Obviously, this system is not intended to be an impediment to new entry by foreign or domestic firms, and the Fair Trade Commission (FTC) has enforced and will continue to enforce this system so that it does not impede such new entry.

The FTC, however, is currently reviewing all existing Fair Competition Codes on premium offers so that they will not work as impediments to new entry by foreign or domestic firms, and will give priority to completing this review, and any relaxation as necessary, as early as possible with respect to Codes relevant to foreign trade or investment. As part of such an undertaking, the regulation by the Fair Competition Code on Premium Offers in Chocolate Industries will be relaxed for the second time in July this year. The regulation of eight Codes will also be relaxed as early as possible this year and, among them, newspaper advertisements with coupons are scheduled to be allowed by this summer.

In reviewing the Codes, the FTC will hear the opinions of foreign firms and foreign businessmen.

Guidance on Fair Trade Conferences by the FTC will be tightened lest they should take any action beyond their proper objectives.

(3) Regulation concerning liquor sales and other businesses

(a) The Guidelines for Liquor Sales Licencing were amended, and their implementation has been improved since last September by such measures as the easing of the licensing

criteria for large retail shops and the simplification and clarification of those for average-sized liquor shops. Under these measures, liquor sales licenses were planned to be issued to all the large retail shops (with a floor space of more than 10,000m^2) and to about 5,000 average-sized shops by 1994. In accordance with the Interim Report of the SII, the Government of Japan has decided on front-loading licensing to large retail shops, which are expected to sell more imported liquors. The issuance of licenses to all of those shops will be completed by the fall of 1993.

(b) On trucking business, a law was approved by the Diet at the end of last year and the Government of Japan has decided to promote deregulation. The revised law altered the method of entry regulation from the licensing system to a permit system while abolishing the supply-demand adjustment regulation, and changes the permit system for fare regulations to a notification system. (The revised law is due to take effect on December 1 this year.)

(c) With regard to the Pharmaceutical Affairs Law regulation concerning general sales of pharmaceuticals, the Government of Japan took deregulation measures which include the reduction of items sellers should be equipped with for the tests of drugs to about one third of the previous number.

(d) In NTT, discounts for bulk contractors of the "free dial" (toll-free calls) have been introduced this June. Reduced postal rates have been made available for direct mails and catalogues sent out in large numbers for business purposes. These have become possible by the introduction of the advertising mail service in October 1987 and the catalogue parcel service in September 1989.

4. Improvement of trade practices

(1) The FTC received a recommendation on June 21 from the "Advisory Group on Distribution Systems, Business Practices and Competition Policy," consisting of scholars and business experts.

The main contents of the recommendation are as follows.

① The FTC should formulate guidelines concerning the Antimonopoly Act enforcement with regard to marketing policy by manufacturers towards distributors and by distributors towards manufacturers in the field of consumer goods' distribution, taking fully into account merits and demerits of concerned business conduct from the viewpoint of competition policy.

In formulating the guidelines, the following points should be taken into consideration.

a. To alleviate excessive interference into business activities of trading partners, and to promote more active and independent business conduct.

b. Especially to promote price competition among companies.

c. To enhance openness of markets in order that new entrants, whether domestic or foreign companies, can more freely enter the market or perform more active business activities.

The guidelines may include the following types of conduct and other issues.

a. Resale price maintenance.

b. Suggested retail or wholesale prices by manufacturers which come under resale price maintenance.

c. Non price vertical restraints (restraints on dealing

with competitors' products or imported goods, territorial or customer restriction, and restraints on sales methods), interference into distributors' business, rebates or allowances, return of unsold goods, dispatching salespersons to shops, systematizations regarding purchasing of commodities by large scale retailers, coercion into purchase, and coercive collection of contribution, which fall into unfair trade practices.

d. Group boycott formed among competitors or among trading partners which falls into private monopolization or unreasonable restraints of trade when they substantially restrain competition in certain fields of trade or else which fall into unfair trade practices.

e. Application of the Antimonopoly Act regarding unfair trade practices to dealings between parent and subsidiary companies.

② Although sole import agent agreements are an important instrument for new entry of imported goods, it may sometimes cause anti-competitive effects upon domestic distribution. Therefore, the FTC has to review its current guidelines by clarifying its interpretations with regard to manufacturers' import, sales at high price in domestic markets, and undue inhibition of parallel imports, in order to effectively tackle these anti-competitive effects.

Furthermore in case foreign companies or sole import agents are engaged in anti-competitive conduct, the FTC has to apply the Antimonopoly Act strictly.

③ Individual companies, especially big companies, should desirably enhance their legal affairs division and make compliance programs, etc. in order to prevent violations of the Antimonopoly Act.

The FTC, based on these recommendations, will formulate

and publish guidelines by the end of FY 1990 which will clarify, as concretely and clearly as possible, the criteria regarding the enforcement of the Antimonopoly Act so that fair competition with regard to trade practices in the distribution sector will not be hindered. In formulating such guidelines, drafts will be made available in advance to the agencies concerned at home and abroad, so that they may provide comments to the FTC before the guidelines are finalized. The FTC will strictly enforce the Antimonopoly Act according to these guidelines.

The FTC has enhanced its investigation system so that it can intensify information gathering on illegal activities under the Antimonopoly Act and strictly eliminate such activities. The FTC will continue its endeavor to enhance steadily its investigation system.

(2) The Ministry of International Trade and Industry (MITI), after hearing the opinions of foreign business organizations in Japan and having received a recommendation from the Council on June 20, formulated and presented to the industries concerned on June 25, a guideline for improving trade practices aiming at simplification, clarification and increased transparency of trade practices. The MITI is encouraging the industry concerned to take positive steps to improve trade practices. Contact points for processing complaints from foreign businesses will be established in MITI and the industries concerned.

5. Import Promotion

(1) Japanese Government has introduced a new package of comprehensive import expansion measures in order for Japan to become a world leading importing nation. It includes:

(a) creation of tax incentives to promote manufactured goods imports;

(b) considerable increase in budget allocation for import expansion measures such as the establishment of an information network for promotion of imports and the dispatch of experts to western countries and other forms of human exchanges in search of products to be exported to Japan;

(c) strengthening and expansion of the low-interest loan facilities for import promotion;

(d) elimination of tariffs on more than 1,000 products

Having received Parliamentary approval in the Diet, these measures are now being implemented. In addition, agreement has been reached between the MITI and the U.S. Commerce Department for trade expansion. Efforts are thus being made to make the measures more effective in cooperation with those of the export countries.

(2) The Government of Japan will establish, in the Trade Conference (an interagency committee chaired by the Prime Minister), the Import Board (tentative name) consisting of both Japanese government officials and private businesspersons including foreign businesspersons. The board will summarise general requests and opinions of the board members that relate to import expansion and facilitation and will report them to the Trade Conference.

(3) Regarding concrete complaints by foreign firms concerning market openness and import smoothness, including import procedures, the Office of Trade and Investment Ombudsman (OTO) will continue to receive them at all times and promptly process those claims. With such meeting having taken place on May 29 this year, OTO will continue to hold meetings of the members of the OTO Advisory Council as well as the members of the Special Grievances Resolution Meeting with the members of the foreign Chambers of Commerce in Japan, including the members of the American Chamber of Commerce in Japan (ACCJ) at the latter's request, which will

continue to provide opportunities for the latter to express their opinions on the improvement of access to the Japanese market including issues relating to the standards and certification system. Appropriate government agencies concerned will study these opinions with a view to improving the openness of the Japanese market and will report back the results of their consideration. Moreover OTO will improve its management, such as participation of foreigners in the OTO Advisory Council Meeting, as special members.

The Government of Japan will initiate a new review in the area of standards, certification and testing, where it will review existing regulations and practices with regard to standards, certification and testing, including matters connected with industry association standards, to ensure that processes are transparent and that standards and testing are performance based where appropriate. As a first step, this new review will take up standards, certification and testing which are raised by ACCJ, other foreign chambers of commerce and other interested parties through the OTO and other appropriate channels.

Exclusionary Business Practices

I. Basic Recognition

Maintenance and promotion of fair and free competition is an extremely important policy objective, which not only serves the interest of the consumers but also increases new market entry opportunities including those of foreign companies. Based upon such recognition, the Government of Japan will implement wide-ranging measures.

1. Enhancement of the Antimonopoly Act and its enforcement.

2. Greater transparency and fairness in administrative guidance and other government practices.

3. Encouragement of transparent and non-discriminatory procurement procedures by private companies.

4. Facilitation of patent examination disposals including a shorter examination period.

II. Measures to be Taken

1. Enhancement of the Antimonopoly Act and its Enforcement

The Government of Japan or the Fair Trade Commission (FTC) will take the following actions, including legislative action, which are necessary or appropriate in achieving the goals set forth in the Report regarding enhancement of the Antimonopoly Act and its enforcement.

(1) Resorting More to Formal Actions

The Fair Trade Commission (FTC) will strictly exclude, through resorting more to formal actions, activities violating the Antimonopoly Act, by expanding and enhancing the investigatory function of the FTC and increasing its proof-collecting capacity against illegal activities. Especially, the FTC will rigorously deal with such conduct as price cartels, supply restraint cartels, market allocations, bidrigging, and group boycotts, and will take formal actions against them when they are found violating the Antimonopoly Act.

In addition, a system for consultations and complaints from foreign businessmen and foreign firms was established in the FTC on June 8 and a special official (Officer in charge of Consultation from Foreign Firms) was appointed, in order to make it easier for foreign businessmen and foreign firms to have consultations or make complaints concerning the Antimonopoly Act, to report cases of violation of the Act, and in order for the FTC to address such cases as violations of the Antimonopoly Act promptly and adequately.

(2) Ensuring Greater Transparency

In order to ensure transparency, to enhance the deterrent effect and to prevent similar illegal activities from occurring, the contents, including the names of the offenders, the nature of the offense and circumstances surrounding it, of all formal actions such as recommendations and surcharge payment orders will be made public. Warnings will also be made public other than in exceptional cases.

(3) Increase in Budgetary Allocation

In June this year, the Government of Japan increased the number of personnel in the FTC investigation department and created new divisions:

(a) Allocation of 25 new officials (129 → 154), resulting in a 20% increment in staff,

(b) Establishment of one new office for strengthening violation detection (1 → 2 offices),

(c) Establishment of two new divisions for enhancing investigative functions (6 → 8 offices),

(d) Establishment of one new division in the Osaka Local Office for enhancing investigative functions of local offices (1 → 2 offices).

The Government of Japan will continue with its efforts to steadily improve and strengthen the FTC.

(4) Surcharges

In order to enhance enforcement against violations, the Government of Japan plans to submit a bill to revise the Antimonopoly Act to the Diet during the next regular session, to raise the surcharges against cartels so that they effectively deter violations of the Antimonopoly Act. A consultative group consisting of scholars and other experts has been set up under the auspices of the Chief Cabinet Secretary, to consider the concrete contents regarding the raising of surcharges. Moreover, group boycotts will also be regulated as cartels if they substantially restrain competition, and will be subject to surcharges if they influence prices.

(5) Resorting to Criminal Penalties

More criminal penalties will be utilized in the future, by the FTC's accusation of illegal activities violating the Antimonopoly Act to seek criminal penalties for them.

Relevant governmental agencies (the Ministry of Justice, prosecuting authority and the FTC) have initiated coordination in enhancing systems to cope adequately with any case violating the Antimonopoly Act. As a specific measure, a liaison-coordination was set up in April between the Ministry of Justice and the FTC, to examine matters such as accusation procedures. The group is working with a view to reaching a conclusion by the end of this year. There is also a plan to establish a point of contact between the prosecuting authority and the FTC for exchange of opinions and information on concrete problems of each case being considered to be accused.

The FTC will, from now on, actively accuse to seek criminal penalties on the following cases, and this policy was made public on June 20:

(a) Vicious and serious cases which are considered to have wide spread influence on people's livings, out of those violations which substantially restrain competition in certain areas of trade such as price cartels, supply restraint cartels, market allocations, bidrigging, group boycotts and other violations.

(b) Among violation cases involving those businessmen or industries who are repeat offenders or those who do not abide by the elimination measures, those cases for which the administrative measures of the FTC are not considered to fulfill the purpose of the law.

On June 20, 1990, the Minister of Justice, in a publicly released statement, called on all the chief prosecutors, on the occasion of the Annual Meeting of Chief Prosecutors, to provide to the FTC any relevant

information on Antimonopoly Act violations they have obtained during the course of investigation or otherwise. In addition, he directed all the chief prosecutors to make special efforts to vigorously pursue cases where the FTC has accused a criminal violation of the Antimononopoly Act.

(6) The Damage Remedy System

A study on the effective use of the current damage remedy system provided in the Section 25 of the Antimonopoly Act is currently undertaken by a study group set up in the FTC, in order that any individual party suffering damage from violation of the Antimonopoly Act can resort effectively to damage remedy suits. The study group has publicized the results of its deliberations on June 25. The FTC will implement the recommendations of the study group, effective immediately, and will take necessary measures, including the following, so that the current damage remedy system will be able to be effectively utilized:

(a) In order to deter violations of the Antimonopoly Act through proper and swift recovery of damages caused by such violations, the FTC intends to play a more active role in damage remedy suits under Section 25 of the Antimonopoly Act.

(b) In order to alleviate plaintiffs' (injured parties') burden of proof concerning violation and damage, the FTC will take the following measures:

aa. the FTC will describe its findings on the violation as concretely and clearly as possible in its document of decision.

bb. when the FTC submits its opinion pursuant to Section 84 of the Antimonopoly Act, it will describe as much as possible its judgment on the relevance or causal relations between violations and damages, the amount of damages, and the measure used for its calculation. The FTC will also append as far as possible, the materials and the data which are the

bases of its views.

cc. the FTC will, upon request of the court, submit to the court materials and data necessary to prove the existence of violations, or the amount or causation of damages. Plaintiffs (injured parties) will be permitted, according to the civil procedures, to review such materials and data upon receipt by the court.

dd. the FTC will retain originals or copies of materials and data obtained in the course of investigations resulting in formal decisions of violation of the Antimonopoly Act that might be relevant to proof of violation, or the amount or causation of damages, in a private damage action based on such violation.

(c) The FTC will fully publicize the damage suit system under the Section 25 of the Antimonopoly Act.

(d) The FTC will take necessary actions, including measures similar to those listed in paragraph (b) above, to ensure that the private damage remedy can be utilized effectively when the FTC finds that a trade association has violated the Antimonopoly Act.

Moreover, with regard to the question of filing fees of private damage remedy suits based upon the section 25 of the Antimonopoly Act, the Ministry of Justice and the FTC will continue to study the matter as to whether or not there is room for improvement.

(7) Effective Deterrence against Bidrigging

(a) The Government of Japan will continue to make efforts to eliminate bidrigging on government-funded projects. In this regard, procuring agencies will rigorously deal with any bidrigging cases, and will vigorously apply against firms found to have engaged in such bidrigging administrative measures, including suspension from designation, that are

effective in deterring bidrigging activities. Moreover, such procuring agencies will increase their vigilance against bidrigging activities on their procurements, and will on their own judgment report relevant information regarding such activities to the FTC.

(b) The FTC will enforce the Antimonopoly Act strictly against bidrigging in all industries.

(c) The National Coordinating Committee for Implementation of Public Works Contract Procedures (NCC) has revised its model guideline on designation suspension, extending the period of suspension and expanding the district of application of suspension in Antimonopoly Act violation cases. Through this revision, in certain cases, the minimum period of designation suspension has been doubled and it is to be applied on a nationwide level.

Upon the above-mentioned revision, governmental agencies and public corporations have been taking steps to revise their guidelines on designation suspension, and most of them have completed the revision of the guidelines in an expeditious manner since June this year.

(d) In reviewing the fines provided in the Criminal Code, the Ministry of Justice is considering an increase in the maximum fine under the Criminal Code 96-3 concerning bidrigging, and will endeavor to amend the Criminal Code to that effect at the earliest time possible.

2. Government Practices

(1) The Government of Japan has been making strenuous efforts to promote deregulation. On the basis of the recommendations of the Provisional Council for the Promotion of Administrative Reform, a Cabinet decision on Deregulation Policy Proposals was adopted. Based upon these Proposals, improvements in the system and its implementation

will be made as soon as possible, through such means as expeditious considerations in the relevant Councils.

(2) Administrative Guidance

In order to ensure comprehensive and government wide transparency and fairness of administrative guidance, the Government of Japan will ensure that administrative guidance conforms with its intention that administrative guidance does not restrict market access or undermine fair competition. The Government of Japan will implement its administrative guidance in writing as much as possible. It will make the administrative guidance public when it is implemented, unless there are strong reasons not to do so, for example, when it is related to national security or when a publication of the administrative guidance causes, or may cause, such harm as might result from divulgence of trade secrets.

(3) Advisory Committees and Study Groups

The Government of Japan confirms the following principles:

(a) The results of the deliberations of government-sponsored "industry advisory committees and study groups" shall be made public.

(b) Where the subject of discussion is related to consumer interests, the committee or study group shall invite, as members, those who can effectively represent consumer interests.

(c) Where the subject of discussion is relevant to the interests of foreign companies, the committee or study group shall make efforts to hear the opinions of foreigners or representatives of foreign companies who represent the balanced and general interests of foreign companies.

(d) Study groups, in Japanese practice, consist of those who have

outstanding knowledge or experience on the subject of discussion and are able to make valuable contributions to the discussions. Likewise, when study groups address matters relevant to the interests of foreign companies, qualified foreigners will be considered for participation in such study groups.

(e) The substance discussed in the committees and study groups shall not be anti-competitive.

(f) The "visions" developed by the Government shall not be used to enhance the competitiveness of particular companies in the Japanese market.

(g) In the "visions" involving trade matters, the significance of imports shall be emphasized.

(4) With regard to the exemptions from the application of the Antimonopoly Act, they are exceptional dispositions exempting certain special cases from the general rules of the Antimonopoly Act. The exceptional treatment has therefore always been kept to a minimum.

The exemptions from the application of the Antimonopoly Act should be at a minimum, and the necessity of existing exemptions will be reconsidered with a view to promoting competition policy. The scope of exemptions will also be reviewed, even in cases where they will be maintained, beginning with the exemptions, if any, which impede import trade or investment.

No recession cartel based upon the Antimonopoly Act is currently in effect. The FTC will not allow recession cartels to be used to impede imports.

3. Procurement Practices of Private Firms

(1) The Government of Japan confirms its view that procurement by private firms should be left to the decisions of the buyers and the

efforts of the suppliers under free competition at the market place, and that any action in violation of the Antimonopoly Act hindering market competition must be resolutely eliminated.

(2) The Government of Japan believes that, as a matter of course, procurement by private firms should be non-discriminatory against foreign goods.

(3) The Government of Japan, therefore, highly appreciates the "Guidelines of Procurement Policies", announced by the Japan Federation of Economic Organizations (Keidanren) on April 24, as a voluntary effort of the business sector in Japan and supports those guidelines. In addition, the Government of Japan will encourage, from an international viewpoint, private firms to make their procurement procedures transparent and non-discriminatory against foreign goods as soon as possible, and will conduct statistical surveys of those procedures annually for three years following the publication of this report.

4. Effective Patent Examination

Regarding the patent system, consideration on the harmonization of patent systems is under way in multilateral fora such as WIPO and GATT. The Government of Japan, together with the U.S. Government, will actively participate in, and contribute to, the discussions there.

The Government of Japan has vigorously promoted comprehensive policy measures to expedite patent examination disposals, which include the continual increase in the prescribed number of officials of the Patent Office (increase of patent examiners; by 30 persons each in FY 1989 and in FY 1990), commencement of the world's first electronic filing of patent applications (special measures laws including the revision of the Patent Law; approved by the Diet on June 7, 1990, and to start the electronic filing in December, 1990), as well as the contracting with a specialized outside agency for prior art search necessary for patent examination (10,000 cases in the budget of FY 1989 and 20,000 cases in the budget of FY 1990). Through such comprehensive

measures, the situation of the patent examination delay has already started to improve.

The Government of Japan will use its best efforts to reduce the average patent examination period of Japan to 24 months within five years.

For the implementation of the above, the Government of Japan will make continuous and significant annual increases of the prescribed number of patent examiners and other officials of the Patent Office which are to be newly implemented under a special consideration in addition to the on-going comprehensive measures.

· Apart from the ordinary examination procedure, the accelerated examination system, which terminates the examination in a short period, has been introduced, and its active utilization is expected.

Keiretsu Relationships

I. Basic Recognition

Certain aspects of economic rationality of Keiretsu relationships notwithstanding, there is a view that certain aspects of Keiretsu relationships also promote preferential group trade, negatively affect foreign direct investment in Japan, and may give rise to anti-competitive business practices. In order to address this concern, the Government of Japan intends to make Keiretsu more open and transparent and to take necessary steps toward that end. The Government of Japan will take measures in its competition policy and enforce the Antimonopoly Act strictly, so that business transactions among companies with the background of Keiretsu relationship would not hinder fair competition and thereby have an exclusionary effect on foreign firms attempting to export, market or invest in Japan.

The Government of Japan will also implement a wide range of policies to facilitate the entry of foreign enterprises into the Japanese market.

II. Measures to be Taken

1. Strengthening the Function of the Fair Trade Commission

(1) The Fair Trade Commission (FTC) will strengthen its monitoring of transactions among Keiretsu firms, including but not limited to, those which have cross shareholding relationships, to determine whether these transactions are being conducted in a way that impedes fair competition. If such monitoring reveals that the effect of the cross shareholding may be a substantial restraint on competition, the FTC will restrict cross shareholding or order transfers of shares held in the cross shareholding to remedy the illegal situation; if the monitoring reveals that cross shareholding is used as a means of effecting an unfair trade practice, the FTC will take appropriate measures, including restriction on cross shareholding or transfers of shares held in the cross shareholding, to remedy the illegal situation. Further, if such monitoring reveals that anti-competitive practices are occurring, the FTC will take appropriate measures to prevent and remedy the anti

-competitive practices. The FTC will include in its annual report any results and such actions as have been taken.

In this connection, on June 21 this year, the "Advisory Group on Distribution Systems, Business Practices and Competition Policy" established by the FTC, consisting of scholars and business experts, issued recommendations with respect to the continuity and the exclusiveness of the transactions among companies in the same Keiretsu group whether or not cross shareholding is involved. Main contents of the recommmendations are as follows:

① Although continuous trade relationships may have been formed due to certain reasonable motives, impediments to competition, such as entry barriers, should be removed. For this purpose, regarding the exclusiveness in transactions among companies where a continuous trade relationship or a shareholding relationship exists, the FTC should establish guidelines setting out the conduct which may be illegal under the Antimonopoly Act. The guidelines should include following types of conduct:

a. Cartels regarding customer restrictions, and market allocation cartels, among competitors.

b. Group boycotts formed among competitors or among trading partners which fall into private monopolization or unreasonable restraint of trade when they substantially restrain competition, or else which fall into unfair trade practices.

c. Unilateral refusals to deal, exclusive dealing, coercing to deal or mutually beneficial reciprocal dealing, and other anti-competitive conduct associated with continuous trade relationships, which fall into unfair trade practices.

d. When shareholding is used as a means of ensuring the effectiveness of conduct listed in a, b, and c above, or when dealing is refused etc, because of the absence of a shareholding relationship, the FTC should clarify its interpretation that such conduct could be

regulated from the viewpoint of unfair trade practices. Furthermore, when it is envisaged that unfair trade practices can not be eliminated effectively without ordering disposition of stocks, the FTC can order such disposition.

② Individual companies, especially big companies, should desirably enhance their legal affairs division and make compliance programs, etc., to prevent violations of the Antimonopoly Act and other exclusionary practices. It is also desirable to improve transparency of presidents' meetings within corporate groups through such means as providing the public with information on their activities.

On the basis of the recommendations, the FTC will set up and publish guidelines by the end of FY 1990, which will clarify, as concretely and clearly as possible, the criteria regarding the enforcement of the Antimonopoly Act with respect to the continuity and the exclusiveness of business practices among companies in the same Keiretsu group, with a view to ensuring that business practices among companies in Keiretsu groups will not hinder fair competition, and thereby contributing to the promotion of fair and more open transactions among them without any discrimination against foreign firms. In formulating such guidelines, drafts will be made available in advance to the agencies concerned at home and abroad, so that they may provide comments to the FTC before the guidelines are finalized. The FTC will strictly enforce the Antimonopoly Act in accordance with the guidelines.

(2) The FTC will conduct regularly, roughly every two years, close analysis of various aspects of Keiretsu groups, including supplier -customer transactions, financing arrangements among group firms, personal ties, and special emphasis on the role of general trading companies in Keiretsu groups. The results of these analyses will be published. The FTC will take steps, including stricter enforcement of the Antimonopoly Act, to address anti-competitive and exclusionary practices uncovered in the FTC analyses. Furthermore, the FTC will survey the transactions among companies in specific industries regarding such issues as the effect of cross shareholding among

companies which have trade relations.

(3) The Chief Cabinet Secretary will issue a statement which affirms that the Government of Japan will implement a wide-range of measures so that Keiretsu relationships will not hinder fair competition and transparent transactions and thereby the entry of foreign firms into the Japanese market will be facilitated as well as calling upon keiretsu firms for their cooperation to that effect.

2. Foreign Direct Investment

(1) The Government of Japan will issue a clear policy statement affirming its strong commitment to an open foreign direct investment policy, encompassing the principle of national treatment. This statement will be issued as soon as possible following release of the SII Final Report.

(2) The Government of Japan will submit, after due legal examination, a bill to amend the Foreign Exchange and Foreign Trade Control Law in the next ordinary Diet session.

The current Foreign Exchange and Foreign Trade Control Law enables the Government of Japan to restrict the foreign direct investment and importation of technology into Japan in any industrial sector on the grounds that the investment and the importation of technology might adversely and seriously affect similar domestic business activities or the smooth performance of the Japanese economy.

The Government of Japan, recognizing that these provisions are neither appropriate nor fit to the present practices of the law and that such broad restrictions are not needed on a general basis, will abolish these provisions of the law and replace them with new provisions to ensure that restrictions will only be applied to those cases which concern national security or related interests as described in Article 3 of the Code (Code of Liberalization of Capital Movements of OECD) and to cases in sectors as reserved under the Code. Recognizing the objectives of the OECD Code, the Government of Japan

continues to review carefully its reservations within the framework of the OECD Code.

In relaxing or abolishing the provisions relating to the present prior notification requirements for foreign direct investment and importation of technology into Japan, the Government of Japan will positively examine the possibility of replacing prior notification requirements with ex post facto notification procedures for cases clearly excluding those which concern national security or related interests as described in Article 3 of the Code and those in sectors as reserved under the Code.

(3) The low-interest loan facility offered exclusively to foreign companies and Japanese affiliates of foreign companies by the Japan Development Bank (JDB) and the Okinawa Development Finance Corporation was drastically expanded in June. In addition, a corresponding facility was also established in the Hokkaido-Tohoku Development Finance Corporation in June. Furthermore, advisory offices for the promotion of foreign direct investment in Japan are to be set up in the overseas representative offices of the JDB in order to support foreign companies investing in Japan in cooperation with Embassies, Consulates -General and JETRO offices. Appropriate offices of JETRO or these advisory offices in cooperation with Embassies and Consulates-General provide information useful in arrranging beneficial ventures between foreign firms and Japanese companies and arrange seminars and missions for potential investors (JETRO offices only).

3. Revision of the Take-Over Bid System

Regarding the Take-Over Bid (TOB) system, the Goverment of Japan submitted to the Diet a bill calling for abolition of the prior notification requirement for TOB's, prolongation of the take-over period and so forth. The bill was approved on June 15.

4. Enhancement of the Disclosure Requirements

(1) In order to introduce the so-called 5 percent rule, which requires the disclosure of substantial ownership in shares, the Government of Japan submitted to the Diet a bill. Together with the revision of the TOB system, the bill was approved on June 15. The new rule would also require continuing reporting as investors above the five percent threshold acquire or dispose of blocks of shares in an amount equal to one percent or more.

(2) With respect to the disclosure requirements related to the Keiretsu problem, the Government of Japan will enhance them as follows:

① With respect to reporting of related-party transactions, the Government of Japan will expand the scope of related-party disclosure requirements to such as specified by the standard of FASB statement No. 57 in the United States, so that they will include a company's transactions with its affiliated companies, major shareholders (holding 10 percent of the shares or more) and any other significant related -parties, in addition to transactions with its parent company and with the directors of the company concerned.

Such reporting will include the nature of the relationships, description of the transactions, and their amounts.

② With respect to the consolidated financial statement required by the Securities and Exchange Law, the Government of Japan will amend the rule so that the consolidated financial statement will be disclosed in the primary annual statement instead of being provided as its attachment.

③ The Government of Japan has implemented the rule for segmented financial reporting on a consolidated basis from the business year beginning on or after April 1, 1990, under which sales amounts and operational profits and losses by industry as well as sales amounts in home country and abroad will be disclosed.

④ The Government of Japan will further improve disclosure requirements on unconsolidated financial report as well to include sales amounts to each major customer, defined as those accounting for over 10 percent of total revenue, in addition to the current requirements for disclosure including amounts receivable and amounts payable by major parties.

Regarding ①, ② and ④ above, the Government of Japan will implement the enhanced rules from the business year beginning on or after April 1, 1991.

The Government of Japan expects that these enhanced disclosure requirements will promote transparancy of relations among firms.

5. Reexamination of the Company Law

The Committee on Legislation will reexamine the Company Law with a view to enhancing disclosure requirements and shareholders' rights, and to simplifying mergers and acquisitions procedures.

Pricing Mechanisms

I. Basic Recognition

Based upon the recognition that it is undesirable, in realizing a high quality of life, for large and unreasonable price differentials between domestic and overseas markets to continue to exist for a long time, the Government of Japan will implement the following policies to adjust the differentials:

1. Obtaining information on price differentials and providing it to consumers and industries;

2. Deregulation and strict enforcement of the Antimonopoly Act;

3. Promotion of imports and improving productivity;

4. Formation of more appropriate land prices;

5. Setting of public utility prices at more appropriate levels.

II. Measures to be Taken

1. Implementation of Measures to Adjust Price Differentials between Domestic and Overseas Markets

The Government and the Liberal Democratic Party (LDP) established on December 4 last year the Government-LDP Joint Headquarters for Adjustment of Price Differentials between Domestic and Overseas Markets to promote comprehensive policy measures for the adjustment of the price differentials from a consumer-oriented standpoint. The membership consists of the Prime Minister as Chairman, with the Minister of State of Economic Planning Agency, the Minister of International Trade and Industry, the Chief Cabinet Secretary and the Chairman of Policy Affairs Research Council of the LDP as Vice Chairmen, and other Cabinet Ministers and LDP leaders concerned. The Headquarters decided on 52 items as concrete measures to be taken for

the adjustment of price differentials between domestic and overseas markets in its second meeting held on January 19 this year.

These concrete measures can be grouped into the following six pillars:

(1) The government agencies concerned will endeavor to obtain information on price differentials through such means as surveys of price differentials of goods and services between domestic and overseas markets, and, where needed, to take necessary measures such as providing the industries concerned with the information on price differentials in order to adjust and narrow the gap.

(2) The government agencies concerned will endeavor to improve the competitive condition in the distribution system by such means as deregulation and strict enforcement of the Antimonopoly Act.

(3) The government agencies concerned will endeavor to further promote import and/or improve productivity of the relevant industries for the purpose of contributing to the adjustment and narrowing of the price differentials between domestic and overseas markets.

(4) Efforts will be made to set prices for public utilities at more appropriate levels by further improving productivity of the industries concerned and by examining from an international perspective their cost compositions and other elements of price formation.

(5) Based upon the deliberations of the Ministerial Conference for Land Policies, efforts will be made to rationalize land prices, especially in metropolitan areas, through close coordination among the government agencies concerned.

(6) The government agencies concerned will promote other policy measures which will contribute to the adjustment of price differentials, such as further deregulation, strict enforcement of the Antimonopoly Act and the dissemination of relevant information to

the consumers.

The government agencies concerned will steadily implement the 52 measures included in the above six pillars. In July 1990, the Headquarters will review the implementation of the 52 measures to date and make public the results of such follow-up at that time, including, where needed, a clearer schedule for further implementation. The Government of Japan will be prepared to explain implementation measures in the SII follow-up process.

The government agencies concerned will thereafter publish the state of implementation each time any measure is implemented.

2. Continuous Implementation of Domestic and Overseas Price Survey and the Dissemination of Information to Consumers and Industries

(1) Pursuant to the decision of the Joint Government-LDP Headquarters, the Ministries of International Trade and Industry, Health and Welfare, Agriculture, Forestry and Fisheries, Finance and Transport, which participated in the joint U.S.-Japan price survey conducted by MITI and the Department of Commerce, as well as the Japan Fair Trade Commission, have also conducted independent surveys under their jurisdiction.

MITI held meetings with consumers and industrial representatives in eight major cities to explain, as well as exchange views on the problem of price differentials. MITI also gave publicity to the problem through advertisements on newspapers and in pamphelets.

(2) Methodology for price survey

The government agencies concerned will continue to endeavor to grasp the present conditions of domestic and overseas price differentials to provide detailed information to consumers and industries.

The surveys will be done mainly from the standpoint of consumers' interest. Methodology, product focus, identification of price

differentials and analysis of the surveys will be undertaken transparently.

For the purpose of SII follow-up by the Government of Japan and U.S. Government, these issues will be addressed and discussed in a deliberative manner.

Such surveys will not be mandatory, nor will they compel the disclosure of trade secrets. The dissemination of comparative price information will not be done in a manner whch discriminates against imports or interferes with individual firm pricing decisions.

3. Promotion of Deregulation

The Second Council for the Promotion of Administrative Reform made an extensive study on deregulation, and the Government of Japan has been engaged in the promotion of deregulation based upon the recommendations of the Council.

Specifically, the Cabinet decided, in December 1988, on the General Plan for the Promotion of Deregulation to promote the reform of public regulations, basing its decision on the recommendations made by the Second Council. In addition, the Government of Japan decided to continue active promotion of deregulation in its Administrative Reform Plan of 1990 (Cabinet Decision, December, 1989), and the agencies concerned have been making the utmost efforts in accordance with this decision.

As the Second Council was dissolved on April 19 this year, the Government of Japan, after considering the most effective scheme thereafter for the continued promotion of administrative reform, including deregulation, decided to establish the Third Council in the Office of the Prime Minister. The bill for that purpose passed the Diet, on June 26. The Third Council will focus on the implementation of the recommendations of the Second Council and is expected to identify new areas for deregulation.

4. Further Steps Based on the Final Report of the SII

In addition to the measures listed above, the Government of Japan will take concrete steps with respect to the structural problems identified in this final report.

Some of them are described below, and it is expected that those steps will allow price mechanisms to work more effectively in the Japanese market.

These measures will be implemented in conjunction with the six policy pillars and 52 measures decided in December 1989 and January 1990 by the Government-LDP Joint Headquarters.

(1) Deregulation of the distribution system, including the Large-Scale Retail Store Law, liquor sales, trucking and other businesses

The government agencies concerned will endeavor to improve conditions for free and fair competition in the distribution system through various measures. These will include the immediate relaxation of implementation and subsequent amendment of the Large-Scale Retail Store Law and the Government of Japan encouragement to private firms to make their procurement transparent and non-discriminatory.

The Government of Japan has established the goal of 24 hour import clearance system (from presentation of import declaration to import permit) for normal cargo imports. This can have a positive long-term effect on the cost of imports entering the Japanese market.

(2) Promotion of fair and free competition in the market through the enhancement of the Antimonopoly Act and its enforcement

In order to enhance enforcement against violations, the Government of Japan plans to submit a bill to revise the Antimonopoly Act to the Diet during the next regular session, to raise the surcharges against cartels so that they effectively deter violations of the Antimonopoly Act.

More criminal penalties will be utilized in the future, by the FTC's accusation of illegal activities violating the Antimonopoly Act to seek criminal penalties for them.

Appropriate measures will be taken so that the current damage remedy system will be effectively utilized.

The FTC will not allow recession cartels to be used to impede imports.

(3) Increase of Japanese overhead capital

The Government of Japan notes that these efforts will include the substantial increase in social overhead capital, including that which relates to the entry and distribution of imported products in Japan.

Building on the principle "to boost domestic investment, improve social overhead capital and to reduce the shortage of investment relative to savings and to the size of the Japanese economy," the newly launched "Basic Plan for the Public Investment" which serves as guiding principles for steady accumulation of the social overhead capital toward the twenty-first century, includes the aggregate investment expenditure of about 430 trillion yen for the decade.

Through the firm implementation of the plan, the levels of social overhead capital accumulation of Japan would be broadly comparable to those of other major industrial countries at the beginning of the twenty -first century.

(4) Efforts to rationalize land prices

The Government of Japan will implement a wide range of measures with respect to the land problem. These include measures which encourage increased supply of available land for buildings with necessary facilities such as public and commercial facilities, including the establishment of a new system for identifying and

promoting the utilization of idle land, such as unused plant sites, by the end of 1990. Local authorities will be encouraged to utilize the new system. The Government of Japan will set a goal of converting idle and underutilized state-owned land to productive uses by the end of FY 1991.

The Government of Japan will also review the land taxation system, as well as the Land Lease Law and the House Lease Law in order to improve the legal relationship between lessors and lessees.

(Note) Full and precise contents of the measures above are described in the related part of this final report.

5. Submission of the Results of Price Surveys and Joint Activities

Recognizing that changes in relative prices can be significantly related to structural matters, the Government of Japan and U.S. Government will cooperate on SII follow-up action to track price differentials in the two markets.

(1) The Government of Japan will submit the results of price surveys relevant to the SII follow-up process and discuss them with regard to SII issues.

(2) The Government of Japan will conduct joint price surveys with the U.S. Government, as agreed. These surveys will be discussed in the senior level SII follow-up process, and utilize methodology and procedures as described in Section 2.(2).

Structural Impediments in the U.S. Economy

The Government of Japan has identified several conditions in the U.S. economy which may impede balance of payments adjustment and long-term competitiveness and has offered helpful suggestions to remedy these conditions. Below is a review of U.S. initiatives that address the issues raised by the Government of Japan.

I. Saving and Investment Patterns

An important goal of U.S. economic policy is to continue to reduce the U.S. current account deficit. Raising U.S. saving rates -- by reducing the Federal budget deficit and increasing private saving -- would make an important contribution toward the reduction of the Nation's current account imbalance. Increasing the pool of savings would also contribute to lower interest rates, thereby facilitating investment, productivity and economic growth in the U.S. and in other countries. The Administration is taking action to promote saving by both the public and private sectors.

Public Sector: Deficit Reduction and Government Saving

The top budget priorities are to eliminate the Federal budget deficit, in accordance with the Gramm-Rudman-Hollings (G-R-H) budget law, and to reform the budgeting process. The Administration supports improving the G-R-H budget law, which requires a balanced budget by FY 1993, by extending and strengthening the law so that it applies beyond FY 1993 and incorporates an automatic second sequester. Once a balanced budget is achieved, projected surpluses will be used to reduce the Federal government's outstanding debt.

Since the publication of the SII "Interim Report and Assessment", President Bush has reaffirmed his commitment to achieving these aims by initiating negotiations with Congressional leaders to develop a responsible and lasting solution to Federal budgetary imbalances.

On June 26, 1990, the President issued the following statement reviewing the status of these negotiations: "It is clear to me that both the size of the deficit problem and the need for a package that can be enacted require all of the following: entitlement and mandatory program reform; tax revenue increases; growth incentives; discretionary spending reductions; orderly reductions in defense expenditures; and budget process reform -- to assure that any Bipartisan agreement is enforceable and that the deficit problem is brought under responsible control. The Bipartisan leadership agree with me on these points".

Federal Budget Deficit

- Substantial progress has been made on reducing the Federal budget deficit. It has been cut from 6.3% of GNP in FY 1983 to 2.9% in FY 1989.

- In FY 1990, following the procedures in the Gramm-Rudman-Hollings (G-R-H) budget law, the President ordered a sequester. He demonstrated his fiscal resolve by announcing his willingness to operate with the sequester for the entire fiscal year if necessary, and by not canceling the budget savings achieved through the sequester. This reversed past practice and set a strong precedent for future fiscal discipline.

The Budget Negotiations

- The purpose of the Budget Summit is to produce a Federal budget that will:

  -- reduce the deficit substantially on a multi-year basis;

  -- allow the economy to continue to grow;

  -- strengthen the budget process; and

  -- avoid the adverse economic and programmatic effects of a budget stalemate.

- When initiating the budget negotiations with the Congressional leadership, the President stressed that the discussion should proceed without preconditions on what should or should not be discussed.

- The budget negotiations are continuing. Many of the policy initiatives described in the "Interim Report and Assessment", including suggestions by the Government of Japan, have been discussed already in the Budget Summit.

  -- These issues include spending and revenue measures needed to reach a balanced budget, various budget process reforms, and the budgetary treatment of social security.

- Future sessions of the Budget Summit will undoubtedly continue discussions of these items and will include discussions of the other policy initiatives described in the "Interim Report and Assessment" as well.

The Budget Process

During the past year, weaknesses in the current budgeting process have been recognized. The Administration has supported the following reforms and shall make best efforts for them to be implemented:

- o A stronger Gramm-Rudman-Hollings (G-R-H) budget law, including:

  - -- an automatic second sequester during the fiscal year. This would close the principal loophole in the G-R-H, which is that spending increases and revenue reductions enacted after October 15 do not count against the deficit target and do not trigger a sequester. Any deficit effect of new policy actions would be added to the calculation.

  - -- the use of updated economic and technical assumptions for the purpose of assessing whether the G-R-H targets have been exceeded and setting second sequester levels.

  - -- a requirement for a super-majority vote to cancel a sequester. This would create a strong incentive to make the necessary reductions to avoid a sequester in the first instance. Should a sequester occur, this requirement would make it more difficult for Congress to restore the expenditures and reduce the savings achieved by the spending reductions.

  - -- automatic off-set rules. Equal off-sets to both budget authority and outlays would be required for supplemental appropriations.

  - -- extending G-R-H beyond FY 1993, to require a balanced budget for each fiscal year thereafter.

- o Legislative line-item veto. On April 25, 1990, the President reiterated his support for the Legislative Line-Item Veto Act of 1989 (S. 1553), so-called "enhanced rescission authority", which would enable the President to rescind spending programs of lower priority. This legislation would provide the President with a realistic option to disapprove special interest items, while preserving the right of Congress to overturn the President's veto by a vote on each.

- Joint budget resolution. The annual budget resolution would be converted from a concurrent resolution, which does not need the President's approval, to a joint resolution, which does. This would ensure that budget negotiations, similar to those leading to the Bipartisan Budget Agreements of recent years, would occur early in the process. The result would be less conflict later over individual appropriations bills, revenue measures, and spending measures included in reconciliation bills.

- Biennial budgeting. The budget process would cover two years. Biennial budgeting would free time for both Congress and the Administration to pursue improved program management.

- Supplemental appropriations restraints. Formal procedures would ensure restraint in the use of supplemental appropriations. These appropriations have the potential to undermine any discipline exercised during the regular appropriations process. The needed rule would either limit supplemental increases to amounts provided in a separate contingency allowance (that would be reserved for funding emergencies outside of regular appropriations bills), or would require that equal off-sets to both budget authority and outlays be provided for in the legislation (as proposed for the G-R-H budget law).

  - The off-set would apply automatically; that is, if a full off-set is not provided for explicitly, then a uniform, across-the-board reduction would be applied to discretionary accounts in the same appropriations act.

- Credit reform. The Administration has proposed a change in the treatment of credit programs that would result in measuring credit activity on an expenditure basis equivalent to other Federal spending.

  - Support for the basic principle of credit reform appears to be widespread in the House and Senate Budget Committees, the Congressional Budget Office and the General Accounting Office.

- Balanced budget amendment. While the G-R-H balanced budget law has brought some additional discipline to the process, it has not been enough. For this reason, the President, on April 25, 1990, called for a constitutional requirement to balance the budget in order to counter forces demanding higher spending for particular purposes.

  - The President endorsed Senate Joint Resolution 12, a balanced budget amendment introduced by Senator Thurmond, but he urged that it be changed so that the mandate for a balanced budget be effective beginning with FY 1993, the year that the G-R-H law requires elimination of the deficit.

  - The proposed amendment would require that outlays not exceed receipts, thus allowing the budget to be balanced or to run a surplus.

- Constitutional line-item veto authority. On April 25, 1990, the President transmitted to the Congress a proposed constitutional amendment to create a line-item veto applicable to bills containing spending authority. The line-item veto is a tool the President, as the Nation's representative of the general interest, would use to curb the demands for special interest spending.

  - Under the current system, the President faces the choice of vetoing an entire bill, which is usually not a practical choice, or proposing a rescission, which Congress can, and usually does, ignore.

Social Security Surpluses

The President's FY 1991 budget proposed a Social Security Integrity and Debt Reduction Fund (SSIDRF) to ensure that anticipated surpluses in the social security program are not spent for other purposes. Instead, they would be applied to reduce the Federal government's publicly held debt. By retiring government debt and, in effect, balancing the non-social security budget, anticipated surpluses would be injected into the Nation's capital markets. Thus, the Federal government would become a net saver -- a source of funds for enhanced growth.

- The proposed SSIDRF would have the following key elements:

  - The social security trust funds would be treated as they are now, with their reserve balances building up.

  - Beginning in FY 1993, the SSIDRF would receive each year, as outlays, an amount equivalent to an increasing portion of the projected social security operating surplus (reaching 100 percent in 1996). The fund would be obliged to use these outlays to reduce Federal debt.

  - In the near term, savings allocated to the SSIDRF would rise quickly, from an estimated 0.3% of GNP in 1993 to an estimated 1.5% of GNP in 1995.

  - The G-R-H law would be extended beyond FY 1993 and would require a balanced budget thereafter, including the payment to the new fund.

  - The required payment to the fund would be counted as an outlay and the budget would have to be balanced including this outlay.

- Apart from increasing national savings, the merits of this approach include:

  - The social security trust fund reserves would be protected and would continue to build up for the payment of future retirees.

  - The budget would be balanced without, in effect, relying on the social security reserves, and some of the national debt would be retired.

  - There would be no unified budget "surplus" available to create a temptation for additional spending.

- There are other ways to achieve these goals, and the Administration is

working with the Congress to find a mutually acceptable reform in the budgetary treatment of social security. As noted above, some discussions of these issues have already taken place in the Budget Summit.

Revenue Developments

- Federal revenues have grown steadily during the current, 8-year economic expansion. In each year since the expansion began, Federal revenues have exceeded the average of 18% of GNP experienced during the 1950-1979 period. Revenues are projected to increase further in FY 1991, remaining at historically high levels as a proportion of GNP.

- The projected increase in revenues in FY 1991 comes largely from a projected increase in incomes, but additional steps are being proposed which would affect revenues. For example, the President's budget for FY 1991 proposed:

  - Extending social security retirement coverage to those state and local employees not currently participating in public employee retirement programs. This measure would provide coverage for approximately 4 million state and local employees. This extension of coverage is expected to yield revenues of $2.1 billion in FY 1991, and more in future years.

  - Providing coverage for all state and local government employees under the Medicare Hospital Insurance program. This proposed extension, to take effect on October 1, 1990, would yield an anticipated $1.7 billion in FY 1991.

  - Reducing the rates on capital gains will increase Federal revenues (see Lower Capital Gains Tax Rates, below).

- -- Raising a variety of user fees. For example, the air passenger tax would be increased to 10%, the air freight tax to 6.25%, the non-commercial aviation gasoline tax to 15 cents per gallon, and the non-commercial jet fuel tax to 17.5 cents per gallon. These proposals would raise $500 million for the Airport and Airway Trust Fund in FY 1991, and more in future years. The ad valorem fee on shippers would be increased, yielding an estimated $300 million in FY 1991 and $1.7 billion from FY 1991-5. Taken together, proposed user fee increases would raise $1 billion in FY 1991 and $7.8 billion from FY 1991-5.

- -- Making permanent the 3% communications excise tax. If enacted, this extension would yield an estimated $1.6 billion in FY 1991, and more in future years.

- o In addition to these revenue measures, the IRS has identified several management reforms and opportunities for increased enforcement that are expected to yield more revenue. Some of these are listed below.

  - -- Resources will be reallocated to accelerate the examination process for tax shelter cases, making it possible to close such cases more quickly. Significant cases will be prioritized and given expeditious handling. It is estimated that this reallocation of resources will yield an additional $349 million in FY 1991.

  - -- Settlement authority for appeals will be delegated to the examiners of the Coordinated Examination Program on the basis of historical appeals settlement precedents. The result will be an acceleration of the receipt of taxes, penalties, and interest. The effect on FY 1991 revenues is estimated to be $547 million.

  - -- Resources will be shifted to conduct actuarial examinations of small retirement plans, increasing the number of examinations in this area from the previously planned 700 to 18,000. The revenue effect begins in FY 1990, with additional collections of $64 million. An additional $602 million is anticipated for FY 1991.

  - -- Resources will be reallocated from examinations staff to appeals staff in order to help close targeted large cases in the appeals process. The IRS plans to target between 30 and 50 cases in FY 1991, yielding collections of approximately $1 billion in that year.

Financial Safety and Soundness

The failure of many Federally insured savings and loan institutions, and the level of Federal funding required to resolve the thrift problem, have renewed attention on other areas in which the Government may be exposed to financial risks. The Administration and the Congress are taking actions that will reduce the likelihood of a similar occurrence in the future.

- o President Bush, in his FY 1991 Budget, gave recognition to the underwriting risks associated with Federal credit programs. He suggested that "structural reforms and better incentives for evaluating risk can preserve the benefits of Federal credit programs while avoiding excessive Federal risk".

- o The Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) has remedied conditions which contributed to the savings and loan problem. Among other things, the Act:

  - -- increased capital standards;

  - -- separated regulatory and insurance functions; and

  - -- strengthened enforcement.

- o In May 1990, the Treasury Department submitted to Congress a major study of the financial safety and soundness of the Government-sponsored enterprises (GSEs), and the risks associated with each. A second study of this subject will be submitted by May 15, 1991. Treasury's proposals would reduce risk to the taxpayer while ensuring the long-term solvency of GSEs by:

  - -- ensuring that each GSE has a significant amount of its own capital at risk;

  - -- requiring each GSE to obtain a triple-A rating, absent any implicit Government guarantee, from at least two of the nationally recognized credit rating agencies;

  - -- separating the regulation of GSE programs from the regulation of standards of financial safety and soundness;

  - -- requiring disclosure of the value of the Government's financial support.

- The Treasury Department is currently engaged in a study which investigates and discusses how the exposure of the Federal government, as the underwriter of Federal deposit insurance, can be reduced. The Federal deposit insurance study will be submitted by February 9, 1991 and possibly earlier.

Private Sector: Incentives to Save and Invest

Though still below historical levels, the personal saving rate in the U.S. seems to be improving. It reached 5.4% in 1989, up from a trough of 3.2% in 1987, and it now appears to be moving higher. The Administration's Working Group on Savings and the Cost of Capital considered numerous options to stimulate personal savings. As a result of this review and analysis, the Administration has proposed to Congress several initiatives, grouped together as the Savings and Economic Growth Act (SEGA), which are designed to stimulate private saving and investment further.

- The Savings and Economic Growth Act of 1990 (S. 2071) was introduced by Senator Packwood on February 6, 1990, and has been referred to the Senate Finance Committee for consideration. The House version of SEGA, introduced the following day by Representative Archer, has been referred to the Ways and Means Committee.

- The proposals comprising SEGA (outlined below) are being discussed in the Budget Summit now underway, and the Administration shall make best efforts to realize them.

New Family Savings Accounts

- The Administration has proposed the introduction of Family Savings Accounts (FSAs). FSAs would stimulate private saving by allowing tax-free earnings on contributions to these accounts.

  - Individuals would be able to make non-deductible contributions of up to $2500 per year and couples up to $5000 per year, provided the taxpayer's adjusted gross income is less than $60,000 per year (less than $100,000 for heads of households, and less than $120,000 for married couples filing joint returns).

  - Contributions to FSAs would be allowed in addition to contributions to qualified pension plans, IRAs, 401(k) plans, and other tax-favored forms of saving.

- -- Earnings on contributions retained in the FSA for at least seven years would be eligible for full tax exemption upon withdrawal. Withdrawals of earnings allocable to contributions retained in the FSA for less than three years would be subject to both a 10% excise tax penalty and to income tax. Withdrawals of earnings allocable to contributions retained in the FSA for three to seven years would be subject only to income tax.

Enhanced Individual Retirement Accounts

- o The Administration has proposed improving existing Individual Retirement Accounts (IRAs) by making them more attractive to savers.
  - -- Withdrawals of up to $10,000 per taxpayer would be allowed for eligible home purchases.
  - -- The 10 percent excise tax on early withdrawals would be waived for eligible taxpayers.
  - -- Eligibility for penalty-free withdrawals would be limited to individuals who did not own a home in the last three years and are purchasing or constructing a principal residence that costs no more than 110% of the median home price in the area where the residence is located.

Lower Capital Gains Tax Rates

- o The Administration has proposed lowering the effective tax rates on capital gains. The proposal would induce more saving and investment by raising after-tax rates of return, especially for long-term investment.
  - -- When fully effective in 1992, the exclusion on capital gains would be 30% for assets held 3 years or more, 20% for assets held at least 2 years (but less than 3 years), and 10% for assets held at least one year (but less than 2 years).
  - -- The holding period requirements are phased in. For dispositions of assets in 1990, the 30 percent exclusion applies to all assets held at least 1 year. For dispositions in 1991, assets held 2 years receive the 30 percent exclusion, and assets held 1 year receive a 20 percent exclusion.

- The proposal would apply to all individual capital assets except collectibles (e.g., works of art, antiques, gems, etc.).

- Depreciation deductions would be recaptured in full as ordinary income.

- Excluded capital gains are included in the alternative minimum tax.

- As a result of these exclusions, the effective tax rates applicable to capital gains on qualified assets by a taxpayer in the 28 percent tax bracket would be, respectively, 19.6 percent, 22.4 percent, and 25.2 percent.

Other Incentives to Save and Invest

The Administration continues to support strongly the measures to promote saving that have been proposed in the President's FY 1991 budget (and described above). These new initiatives will usefully supplement the substantial tax inducements now being offered to millions of American savers.

- The President's FY 1991 budget projects that the tax exclusion on contributions to and earnings in pension plans will be worth $54.8 billion in that fiscal year.

- The President's FY 1991 budget retains the exclusion from Federal tax of all accrued capital gains on assets held at the time of death. This inducement to private saving is estimated to be worth $14.5 billion in FY 1991.

- The Secretary of the Treasury has testified against the double taxation of dividends. The Department of the Treasury is currently studying this issue. This study should be completed in the autumn of 1990. No legislation is expected in 1990.

II. Corporation Investment Activities and Supply Capacity: Improvement of U.S. Competitiveness

Investment in U.S.-based production capacity would enhance the competitiveness of exports from the United States. Changes in certain U.S. laws and regulations, as well as the continued openness of the United States to foreign investment, will facilitate productive investment in the United States.

Antitrust Reform

- The Administration has forwarded legislation to Congress, introduced in the Senate as S. 2692, which would reduce uncertainty about the treatment of joint production ventures under the antitrust laws. The bill would promote joint production ventures that enhance competition, while retaining appropriate safeguards for consumers.

- The Administration will actively encourage speedy enactment of this legislation.

- When an antitrust lawsuit is filed against a joint production venture, the bill would require the courts to take into account the competitive benefits of the venture as well as its costs.

- For joint production ventures that are notified to the government, the legislation would limit antitrust liability to actual damages rather than the current treble damage liability.

- Under the Administration's proposed legislation, joint production ventures would receive the benefits of the law, regardless of the nationality of the owners or the location of the facilities. In connection with joint venture legislation, the Administration opposes provisions that would afford less favorable treatment under the antitrust laws to firms with foreign ownership or to firms with joint venture facilities located outside the United States.

- Upon enactment of this legislation, all stages of joint production -- from the beginning stage of joint R&D activities to the final stage of joint production -- would be covered by the 1984 National Cooperative Research Act, as amended. United States Government guidelines, either those in effect or those to be issued within a reasonable period of time after such enactment, will clarify the treatment of joint research and production activities under the antitrust laws.

Product Liability Reform

- Product liability reform is a top priority of the Bush Administration.

- The Administration strongly endorses the Product Liability Coordinating Committee (PLCC) Bill (S. 1400) that would reform product liability laws.

- The PLCC Bill was voted out of the Senate Commerce Committee in May 1990 and was referred jointly to the Senate Judiciary and Senate Labor Committees. It is possible that the legislation could be voted on as early as mid-September.

- The PLCC Bill would contribute to uniformity in all 50 states and limit damage awards.

  -- It is designed to restore basic principles of fairness: adequate compensation for accident victims; fault-based liability; and dispute resolution.

  -- The result would be to cut down on excessive litigation and the cost of doing business in the U.S.. It would also lessen disincentives to develop new products and other innovations.

- Features of the PLCC Bill are:

  -- The elimination of joint and several liability for non-economic damages (pain and suffering), but not for economic damages (medical expenses, lost wages).

  -- An expedited claims settlement procedure, which would benefit both parties to an action.

  -- Uniform rules that establish the liability of product sellers.

  -- The improvement of the law governing punitive damage awards. The bill provides a uniform standard that punitive damages may be awarded only if there is "clear and convincing" evidence that the actions of the defendant show a "conscious, flagrant indifference to safety".

  -- A two year statute of limitations from the time a claimant discovers both his harm and its cause.

-- A 25 year-statute of repose for capital goods. A statute of repose presumes that after a product has been in the marketplace for a certain length of time without causing harm the manufacturer should not be sued for an alleged defect in the product. A small proportion of the states now have such statutes.

-- A prohibition on double recovery. Damages would be reduced by the amount of worker's compensation benefits available to an injured person.

Policy Toward Foreign Direct Investment

o United States policy toward foreign direct investment has long recognized that a free flow of investment capital across borders benefits both host and investor countries. The United States generally provides non-discriminatory treatment of foreign investors under U.S. laws and regulations. It is in the interests of U.S. consumers, workers and investors to maintain this open and non-discriminatory policy.

o In his Economic Report transmitted to the Congress in February 1990, President Bush wrote:

> To serve the interests of all Americans, we must open markets here and abroad, not close them. I will strongly resist any attempts to hinder the free international flows of investment capital, which have benefitted workers and consumers here and abroad.

o The Administration will issue a detailed policy statement reaffirming its strong commitment to an open and non-discriminatory direct investment policy. This statement will be issued as soon as possible following release of the SII Joint Report.

o For over 200 years, the United States has welcomed foreign investment and, at the same time, protected vital national security concerns. The U.S. restricts foreign investment only to protect the national security. It has reserved certain sectors under the OECD Code on Liberalization of Capital Movements. The Exon-Florio provision of the Omnibus Trade Act of 1988, which authorizes the President to prohibit foreign acquisitions that threaten to impair the national security, is consistent with this long standing policy.

- The President delegated his authority to review foreign acquisitions that might impair the national security to the Committee on Foreign Investment in the United States (CFIUS). As of June 13, 1990, CFIUS had reviewed over 375 transactions, formally investigated ten, and referred six to the President for a decision. In only one case has the President prohibited a transaction pursuant to Exon-Florio.

  - The Administration is in the process of preparing the final regulations for the implementation of Exon-Florio. These will be released soon.

- In line with the Administration's open investment policy and the provisions of the law, the Exon-Florio authority will be used only when no other measures are adequate or appropriate to protect the national security. On May 29, 1990, the Secretary of the Treasury reaffirmed that Exon-Florio "has not been and will not be used as a barrier to direct investment in the United States".

- The Administration has strongly opposed the Bryant Bill (H.R. 5), which would require registration and disclosure of foreign direct investment in the United States. The Congress is no longer actively considering this bill. The Administration also opposes other legislation containing foreign registration and disclosure requirements similar to those in H.R. 5.

Tax Treatment of Foreign Investors

- The U.S. and Japan have entered into a tax treaty that provides for non-discriminatory treatment of business enterprises of the two countries.

- The Administration will seek to ensure that Japanese investors will be given a non-discriminatory treatment under the U. S. - Japan Tax Treaty.

- The Treasury Department has made clear to Congress its opposition to pending legislation which would tax certain foreign shareholders on capital gains from the sale of stock in U.S. corporations.

Other Measures to Build Supply Capacity

- In order to reduce U.S. reliance on oil imports, the President's FY 1991 budget includes proposals for tax credits to encourage the discovery of new oil and gas fields and the reclamation of old ones.

- Capital investment in productive capacity will also be encouraged by the Administration's proposals that would lower the cost of capital.

III. Corporate Behavior

The productivity of U.S. workers and the competitiveness of U.S. corporations are affected by the decisions of corporate managers. These managers, in turn, are influenced by the behavior of company shareholders. The Administration is pursuing policies which will encourage managers to take decisions that will benefit their companies in the long-term and thereby making them more competitive. The Administration also recognizes that investment in research, experimentation and development can improve a company's competitiveness.

Long-term Outlook

- Long-term investment (as well as short-term) can be discouraged by the high cost of capital in the United States, and by a tax system which penalizes saving and investment.

- The Bush Administration is pursuing policies to lower the cost of capital. Such policies include lowering the effective tax rate on capital gains, promoting private saving, and eliminating Federal dis-saving. These policies are intended to lower the cost of capital for companies in the U.S., thereby encouraging long-term investment and long-term planning by management.

- The Administration's Working Group on Savings and the Cost of Capital continues to review proposals that could result in a lower cost of capital for companies in the U.S..

- In addition to efforts to reduce the cost of capital, the Administration continues to seek ways to foster a long-term investment horizon on the part of corporate managers. The Treasury is conducting a study on how the relationship between managers and owners of U.S. corporations affects long-term competitiveness. The study is in process and should be completed in the autumn of 1990.

- As part of the study of the relationship between company owners and managers, the Treasury is examining the role executive compensation plays in affecting company performance and competitiveness. In this study, the Treasury is also examining which government barriers, if any, adversely affect the long-term time horizons of investors.

- The Secretary of the Treasury and other top Administration officials are continuously speaking to groups of corporate executives on the need for long-term thinking in business. Vice President Quayle, through the Council on Competitiveness, has also taken an active role in promoting national competitiveness and long-term thinking.

Highly Leveraged Transactions

- Even though the market has demonstrated its capacity to correct itself, USG regulators and other regulatory entities have taken steps to ensure that prudent LBO lending practices continue. These steps include:

  - U.S. commercial banks have been, and continue to be, proscribed from owning high yield debt. Long-standing regulations allow commercial banks to own investment grade securities only.

  - Bank regulators have increased scrutiny and standards for bank financing of highly leveraged transactions (HLTs). This effort has been facilitated because, in February 1990, the three major bank regulators, the Office of Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve Board, adopted a common definition of HLTs.

  - As a result of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA), savings and loan institutions must divest their portfolios of high yield securities during the next five years.

  - The Securities and Exchange Commission (SEC) recently requested that all financial institutions, including insurance companies, increase disclosures regarding high yield debt.

  - Insurance companies, which are regulated by the states, also face more stringent reporting standards. On June 6, 1990, the National Association of Insurance Commissioners adopted reporting changes that will provide insurance regulators with more useful information regarding insurance company holdings of high yield bonds. The new system, which will apply to 1990 insurance filings, expands the number of classifications from four to six and provides for the gradual acceleration of mandatory security valuation reserves.

- Certain tax provisions affecting highly leveraged transactions were enacted in 1989. They were:

  - In 1989, Congress enacted tax legislation (Section 7211, which amends Code section 172) that limits the carry-back of a net operating loss for companies which have undergone either a major stock acquisition or an excess distribution. This provision was enacted to prohibit partial financing of leveraged transactions through tax refunds generated by carry-backs of net operating losses when such losses are incurred as a result of interest deductions generated from the financing of the transaction.

  - The Budget Reconciliation Act of 1989 limited interest deductions for certain high yield obligations known as Original Issue Discount Obligations (OIDs). (These securities are often characterized by deferred interest or paid-in-kind provisions.) For tax purposes, the yield on these securities is divided into two parts: a deferred portion and a disqualified portion (the portion in excess of the Applicable Federal Rate (AFR)). The owner of such securities may deduct the interest from the deferred portion when the interest is actually paid. No interest deduction may be taken for the disqualified portion.

IV. Government Regulation

Certain government regulations discourage international trade and competition. Progress is being made to deregulate controls on both exports and imports.

Export Deregulation

- In view of the changing strategic situation, the U.S. and its allies on the Coordinating Committee for Multilateral Export Controls (COCOM) have agreed to streamline export controls. COCOM is discussing the liberalization of export controls in machine tools, telecommunications and computers as a first step to reducing the number of controlled goods.

- COCOM has also agreed to guidelines for member countries to eliminate most licensing requirements for trade among COCOM member countries. The U.S. plans to implement its new system this summer.

- In July 1989, the U.S. removed all controls on the reexport of dual use goods and technologies (except supercomputers and electronic listening devices) into and among COCOM member countries (and Finland and Sweden), as provided for in Section 774.2(k) of the Export Administration Regulations.

- New export administration regulations issued in October 1989 eliminated the requirement for U.S. reexport authorization for exported U.S. goods that are incorporated as parts and components and comprise less than 25 percent of the end product. This liberalization eliminated reexport controls on large numbers of telecommunications, electronic and instrumentation equipment imported into European nations and Japan from the U.S..

- The U.S. Government is reviewing and will consider changing its export control scheme to allow exports of strategic products and technology by those countries such as Japan which impose strict export control on those items without U.S. re-export license irrespective of their destination.

- The U.S. has significantly reduced trade impediments resulting from short supply export controls. The Administration has revised U.S. short supply policy with regard to agricultural commodities. The Administration has proposed in the Uruguay Round that GATT-contracting parties should be prohibited from restricting exports and imports of agricultural food products for reasons of short supply. The United States is working with its major trading partners, including Japan, to gain support for elimination of GATT Article XI 2.(a).

Energy Exports

- The U.S. has made significant progress in eliminating many energy trade barriers:

  - In 1985, controls on exports of refined petroleum products were eliminated as part of the renewal of the Export Administration Act of 1979.

  - Exports of crude oil to Canada were substantially decontrolled in 1985, as authorized by both the Energy Policy and Conservation Act (EPCA) and the Mineral Leasing Act.

  - Exports of crude oil produced in the state waters of Alaska's Cook Inlet were allowed in 1986, pursuant to the EPCA of 1976.

  - From 1988 to 1990, the Administration removed legal and regulatory barriers to the development of a project to export Alaskan LNG to Pacific Rim energy markets, as authorized by the Natural Gas Policy Act.

  - In January 1990, the Commerce Department submitted a study to the Congress (prepared in compliance with Section 2424 of the Omnibus Trade and Competitiveness Act of 1988) which assesses the benefits and costs of exporting California heavy crude oil. The Administration supports the study's recommendation for a partial relaxation of the ban on exports.

Import Liberalization

- On July 25, 1989, President Bush announced the Steel Trade Liberalization Program to phase out the voluntary restraint agreements (VRA) after two and a half years and to negotiate the elimination of subsidies and other trade distorting practices affecting steel. This program reflects the President's commitment to a meaningful international consensus and to freer and fairer trade in steel on a global basis.

  - As part of this extension and in keeping with overall Administration policy regarding adjustment measures, major U.S. steel companies must make substantial commitments to reinvestment in modernization for enforcement authority to continue. In addition, each of the major steel companies is required to commit at least one percent of net cash flow for worker retraining.

  - Since the inception of VRAs on steel in 1984, the major U.S. steel producers have spent $8.0 billion on steel-related expenditures, including plant and equipment, research and development, worker retraining, and other efforts to adjust and modernize. These companies have modernized their production facilities, eliminated excess capacity, and drastically reduced their production costs.

- VRAs on machine tools, which began on January 1, 1987, are due to expire on December 31, 1991.

  - As with steel, and reflecting Administration policy on adjustment, there is a domestic action plan in place which is intended to facilitate the revitalization of the U.S. machine tool industry.

  - Despite thin profits, the machine tool industry has increased expenditures on research and development and product engineering and design.

  - Combined spending on research and new product development totalled $143 million in 1988 (the most recent data available), or 4.2% of gross sales. By comparison, profits were only 2.1% of sales in 1988.

  - During the last two years, many machine tool companies have introduced major new models of machining centers, milling machines, lathes and punching machines.

V. Research and Development

A steady stream of innovative ideas and technological developments will enable the United States to remain a formidable competitor in international markets. To maintain this technological flow, the United States must strengthen its research and development efforts. The Administration has proposed several initiatives to advance U.S. research and development by both the public and private sectors.

Federally-supported Research and Development

- The President's FY 1991 budget calls for a $4.5 billion increase in Federal funding for research and development, to a record high of $71 billion. Support for civilian R&D will increase by 12% and defense-related R&D will increase by 4%.

- A 22% proposed increase for Federal civil space activities includes a 72% increase for the development of the commercial potential of space, a 47% increase for manned exploration, a 36% increase for space station development, and a 22% increase for scientific exploration.

- Part of the $4.5 billion expansion in Federal R&D spending is devoted to a 14% funding increase for the National Science Foundation. The Administration remains committed to doubling the NSF budget by 1993.

- Other R&D projects with significant implications for civilian technology development for which Federal funding is proposed in the President's budget for FY 1991 include:

  - $537 million for research on semiconductor development and applications;

  - $469 million for high-performance computing R&D, including systems and applications software, networking, and underlying research and human resource infrastructure;

  - $192 million for robotics R&D, a 28% increase;

  - $50.1 million for the funding of Engineering Research Centers and $5.2 million for Industry/University Cooperative Research Centers;

- -- $10 million for the Advanced Technology Program that provides grants to industry-led consortia to support development of generic, pre-competitive technologies;

- -- $5 million to establish Manufacturing Technology Centers that facilitate the transfer of new and innovative manufacturing technology to small and medium size businesses; and

- -- $10 million to explore the possibilities of magnetic levitation transportation, a 400% increase.

- o The President demonstrated his commitment to promote technological development in the United States by establishing the position of Under Secretary for Technology at the Commerce Department. The President's nominee for this position assumed office June 13, 1990.

Private Research and Development

- o The Omnibus Budget Reconciliation Act of 1989 modified the Research and Experimentation (R&E) credit and extended it for first nine months of 1990. The R&E credit is 20% of qualified research expenses that exceed a company's base amount (the product of the company's average gross receipts during the previous four years and the ratio of the company's 1984-88 R&E to its 1984-88 gross sales).

- o The President's FY 1991 budget would make permanent the R&E credit, and would revise R&E expense allocation rules. These changes would encourage firms to establish and expand research facilities by assuring them that tax incentives will still be available when research is carried out.

- o Private research and development would also be bolstered by lowering the cost of capital and reducing regulatory and legal barriers to investment (see policy initiatives described above).

Adoption of the Metric System

- Comments have been received on the proposed update to the "Metric Conversion Policy for Federal Agencies". The updated version, which includes stronger guidance for federal metric implementation and agency reporting requirements to Congress, will be published in final form in July 1990.

- Commerce officials continue to meet with standards groups, trade associations and business advisory groups to encourage use of the metric system in the private sector.

- The Secretary of Commerce received supportive responses to his December 1988 letter to the state governors alerting them to the 1988 Trade Act provisions requiring Federal agencies to use the metric system by the end of FY 1992 in grants, procurement, and other business-related activities. He urged the governors to plan similar initiatives at the state level and to name a senior official to the National Council on State Metrication.

- In response to the Secretary's letter, 46 states have named officials to the National Council on State Metrication. The Secretary will continue to urge greater activity at the state level that will encourage adoption of the metric system.

- The General Services Administration (GSA) metrication plan, published in the Federal Register on April 6, 1990, is expected to become a model for many other Federal agencies.

- Through metrication, the GSA will cause, directly and indirectly, many thousands of U.S. companies to become capable of producing metric products. This is because the GSA is the largest purchaser of non-defense items in the Federal government, and its purchases encompass a large majority of all goods and services used in the economy. In turn, the standards organizations, trade associations, service companies, publishers, etc. will be driven to become capable of using metric measurements in their operations.

- Hearings on Federal metrication progress by the Science, Research and Technology Subcommittee of the House Committee on Science, Space and Technology, held on April 24, 1990, have stimulated increased activity.

  - The Department of Energy has announced that the new Superconducting Super Collider will be of metric design.

  - NASA has indicated its intent to strengthen metric requirements for new projects.

  - The Department of Transportation is recirculating its metric planning and transition plan.

- The Interagency Committee on Metric Policy, comprising senior Federal officials, held a special meeting on June 19, 1990. The Committee will develop a timetable for specific actions in carrying out the objectives of metrication. The newly appointed Under Secretary of Commerce for Technology, who chairs this committee, took this opportunity to urge greater priority for metrication in all agencies.

- The Department of Commerce continues to study ways for the private sector to expand and increase significantly the use of the metric system.

- The U.S. Government will provide a progress report on its efforts and future plans to encourage use of the metric system in the ways described above.

VI. Export Promotion

The President has clearly stated that trade and the competitiveness of U.S. business are high priorities of his Administration. To this end, the Administration has been working hard to make U.S. export promotion efforts more effective.

- The President's FY 1991 budget proposed $159 million for the Commerce Department's export promotion efforts, an increase of $10 million over 1990.

- President Bush has directed the Economic Policy Council to undertake a Commercial Opportunities Initiative to assist U.S. exporters in their aggressive pursuit of these opportunities in international markets. The cornerstone of the President's initiative is the Trade Promotion Coordinating Committee (TPCC), which will be chaired by the Secretary of Commerce. The TPCC will, for the first time, unify and streamline Federal trade promotion activities, including:

  - Collection and analysis of market information;

  - Trade events, including trade missions;

  - Identification of agents and distributors;

  - Dissemination of information on export financing;

  - Representation of U.S. business interests with officials of foreign governmental and international organizations;

  - Assistance in identifying joint venture partners and foreign research and development projects; and

  - Counselling on foreign standards, testing and certification requirements.

- The Department of Commerce is implementing a special export program aimed specifically at increasing U.S. exports to Japan.

  - This program focuses on long-term commitments by U.S. firms to the Japanese market and capturing a larger share of Japan's public infrastructure and overseas development projects.

  - It also provides services tailored to the needs of small and medium-sized U.S. exporters seeking to enter the Japanese market.

- -- Successful implementation and operation of this program will provide a model for the development of trade promotion plans for other countries and regions.

- o The U.S. Government will work, in cooperation with the Government of Japan, to disseminate information to U.S. exporters and others within the United States on Japanese import procedures.

- o The Department of Commerce is expanding its export promotion activities in several geographical areas:

  - -- Commerce has developed a 3-tiered program to help U.S. companies respond to the opportunities presented by the integration of the European Community (EC) into a unified market in 1992.

  - -- For Eastern Europe, the Commerce Department has been active in promoting U.S. business opportunities through a number of trade missions and, most recently, by establishing the Eastern Europe Business Information Center.

- o The Commerce Department developed an education program to inform the U.S. business community, particularly small businesses, about the new trade and investment opportunities created by the U.S.-Canada Free Trade Agreement.

VII. Work Force Education and Training

Improving the education and training of the U.S. work force would heighten America's competitiveness. The Administration has established ambitious goals and plans to improve the quality of education and training in the United States.

Work Force Education

National Education Goals

- The President and the Nation's governors recently agreed on a package of six national educational goals for achieving scholastic excellence and providing U.S. students with skills to compete in a rapidly changing world.

- These goals, to be reached by the year 2000, include: a high school graduation rate of 90% or more; preeminence in the world in math and science scholastic achievement; full adult literacy; ensuring that all schools are free of drugs and violence; and testing that competence has been achieved at appropriate grade levels in key subject areas such as mathematics and English.

- If the ambitious goals of the education summit are to be achieved, then Federal, state and local governments must commit to work together to ensure that steady interest be maintained in funding the programs necessary to achieve these goals over the next ten years.

- The President's FY 1991 budget reflects these priorities. Under the President's proposals, total Education Department budget authority would amount to $24.6 billion, an increase of $500 million over total 1990 budget authority. This is the largest education budget ever proposed.

Excellence in Education Act

- In February, 1990, the Senate passed the "Excellence in Education Act" which President Bush had submitted to Congress in 1989. The House of Representatives has not yet acted on this legislation. The President's FY 1991 budget provides $401 million to support programs proposed in the Act.

- The Excellence in Education Act, among other things, would give incentives to schools to improve educational achievement, expand the use of magnet schools, reward excellent teachers, and promote the hiring of persons with proven subject matter knowledge and management abilities to be teachers and principals.

- The Administration has proposed, as part of the Excellence in Education Act, an alternative teacher certification process. Under the Administration's plan, gifted professionals would be certified to teach elementary and secondary school, even if they had not followed the traditional course for teacher certification.

Foreign Language Education

- The Department of Education has proposed the establishment of a "core" curriculum in high schools under which students would be required to take, among other subjects, several years of foreign language training. The Department has also made a grant to the University of Pittsburgh for the teaching of Japanese in elementary and secondary schools.

- Many local school systems are moving ahead on their own in improving foreign language training. It must be recognized, however, that the U.S. has a diverse culture with citizens from many countries who already possess foreign language skills. Students in several U.S. schools systems have been found to represent over 100 foreign languages because of their backgrounds.

Science and Mathematics Education

- o President Bush has directed the appropriate Federal agencies to support science education programs that will reach students and teachers from the elementary to post-graduate levels. Accordingly, more than fifteen Federal agencies have formed a panel to coordinate their actions. Examples of related activities include:

  - -- The President's proposed budget for FY 1991 for the Department of Education includes $230 million for mathematics and science education, an increase of $94 million, or nearly 70%. These funds will be used to improve the preparation of teachers and help to raise the levels of achievement of American students in mathematics and science.

  - -- The FY 1991 budget for the Department of Education also includes $5 million for national science scholars. This would provide undergraduate college scholarships of up to $10,000 per year to students who demonstrate excellence and achievement in the life, physical, or computer sciences, mathematics or engineering.

  - -- The National Science Foundation budget for FY 1991 provides approximately $190 million for science and engineering education activities, including research fellowships and teacher training.

  - -- The Department of Energy has developed a number of initiatives to improve science education for women and minorities. For example, the Energy Department and the National Aeronautics and Space Administration (NASA) have reached agreement for a joint program to design laboratory experiments for children, provide voluntary science teachers and provide summer training for science teachers.

- o The Office of Educational Research and Improvement has requested applications for instructional awards to establish eighteen National Educational Research and Development Centers in such fields as adult literacy, educational quality of the work force, and the teaching of mathematics and science.

Community Colleges

- The vast majority of community colleges in the United States are developing formal links with local businesses in order to make educational experience more relevant to job requirements.

- The Department of Labor has launched several projects using community colleges to develop work-based training models.

Work Force Training

The U.S. Department of Labor, through the appropriate channels, will provide the Japanese Ministry of Labor with timely updates on the progress that has been made in the areas mentioned below.

Job Training Partnership Act

- The programs provided for under the Job Training Partnership Act (JTPA) are considered highly effective, and the President's FY 1991 budget proposes spending approximately $4 billion to fund them.

- The Administration proposed amendments to the JTPA in 1989 which are intended to revise eligibility criteria to ensure that the program targets the most disadvantaged; provide more intensive and comprehensive services to participants; and improve coordination among Federal, state and local human resource programs.

  -- On June 6, 1990, the Secretary of Labor testified before the House Education and Labor Committee concerning these proposals.

Department of Labor Seven-Point Action Program

In addition to the growing commitment of the private sector to work force education, the Labor Department has initiated a seven-point action program to improve the quality of the work force. Elements of this program are:

- o A "School-to-Work Conference", held May 15-17 in Washington, D.C., aimed at helping non-college bound youth make the transition from school to work.
  - -- The conference was attended by high-level representatives from the public and private sectors who are intimately involved in issues related to work force training and education. The Secretaries of Labor and Education participated.
  - -- The conference addressed ways to link education directly to workplace experience and learning, so that non-college-bound youth can become productively employed.
  - -- The Department of Labor has awarded several grants for school-to-work demonstration projects.
- o The Secretary's Commission on Achieving Necessary Skills (SCANS) has been appointed. It is charged with defining the basic skills which American workers will need to close the gap between educational achievement and workplace requirements.
  - -- William E. Brock, formerly Secretary of Labor and U.S. Trade Representative, has been appointed Chairman of the Commission.
  - -- The Commission will announce, by May 1991, their findings and recommendations for national guidelines in five sectors to prepare high school youth for entry into employment. These guidelines will include basic skills required by high school graduates to achieve work readiness, including such areas as critical thinking, reading, science and math.
  - -- The Commission held its first meeting on May 18 and decided that 200 businesses will be analyzed regarding their human resource needs. More than 1,000 jobs will be evaluated according to the precise level of skill needed in each of seven generic skill areas.

- The Commission will encourage businesses to undertake a number of initiatives to make education more relevant to workplace skills, such as sharing resources with teachers and providing apprenticeships and scholarships.

- Solicitation of nominations for the first annual Labor Investing for Tomorrow (LIFT) awards. These awards will recognize exemplary business-school partnerships, school-to-work programs, employee training programs and employee work-life programs.

- Appointment of a national advisory board on workplace training. The board will guide the expansion of the apprenticeship concept to new industries and occupations.

- Meetings with governors and employers to refocus the Federal-state employment service system in order to deal with the new era of labor shortages. Consultations have already been held at the staff level and based on these discussions Labor Department officials are currently revising their plan of action.

- A "Partners for Tomorrow" program, to involve local businesses and labor groups more directly with parents and school personnel, will be initiated by September 1990, and a major conference dedicated to this topic will be held in the autumn of 1991.

- A program to survey the best practices by employers in meeting employee needs, such as flexible work schedules, is expected to begin in September of 1990 and then become an ongoing program of the Labor Department.

Work-based Training

- In January, 1990, the Department of Labor established an Office of Work-Based Learning, which has the primary responsibility for working with business to assist and encourage effective work-based training programs, including the Department's school-to-work initiatives.

- The Department of Labor has launched a series of pilot programs on work-based training. The first phase of these projects, a research phase, has been completed. Demonstration sites have been selected and the contractors are in the process of developing specific training programs. The Department of Labor will closely monitor implementation and results will be made public.

- The Human Research Development Institute (HRDI) of the AFL-CIO is currently implementing three demonstration projects, noted below, as part of the Upgrading and Career Ladder Program.

  - HRDI is working with Boeing and the Aerospace Machinists Industrial Union to develop a training model that integrates structured, on-the-job training with theoretical instruction.

  - In two projects, HRDI is working with the health care industry in Seattle, Washington in conjunction with the local chapter of the Services Employees International Union.

- Several Labor Department projects are underway regarding structured work-based training in small firms.

  - The National Alliance of Business is coordinating a project with the American Association of Community and Junior Colleges and the Southern Maine Technical College involving approximately 20 employers. This consortium will train environmental technicians through a two-year course at the college and integrated work experience. The employers include mostly small firms involved in environmental cleanup and waste management, as well as units of state and local government.

  - Another project is underway involving small businesses in the services industry.

- The Secretary of Labor has recently published a booklet, "Workplace Learning: Training America's Workers", as part of the Administration's effort to build a positive perception of, and thereby encourage, work-based training. This booklet proposes a national work-based training board and improvements in the national apprenticeship system.

- The National Advisory Board on Work-based Learning will hold its first meeting by the end of 1990 to provide guidance on expansion of structured work-based training and on development of a voluntary system to accelerate such training. Among other things, the Board will explore the following options:

  - expanding the number of public/private partnerships with industry groups to implement structured work-based training programs;

  - establishing a national, voluntary system for accrediting work-based training programs and certifying worker skill competencies;

  - analyzing the effectiveness of various financial incentives for training, including grant programs, mandatory training programs, and various tax incentives and credits.

- In 1990, the U.S. and Japan are exchanging visits of experts on human resource development. The first visit, by a U.S. delegation comprising leaders from business, labor and government, took place in Tokyo from June 16-24. A complementary visit is planned to the U.S. in November by a Japanese delegation.

- Soon after the Japanese visit, an international symposium on skill training will be held in Washington, D.C.. This symposium will highlight the Japanese human resource development system and how business, labor and government work together in Japan to build a quality work force.

Innovations with Unemployment Insurance

- The Labor Department is in the process of testing alternative uses of unemployment insurance (UI) funds to accelerate jobless workers' return to work. Two experimental projects are studying the effectiveness of offering UI claimants a cash incentive to obtain a job as quickly as possible rather than wait for the expiration of UI benefits (normally 26 weeks). Two other demonstration projects are designed to help UI recipients set up their own businesses. In this regard, two distinct types of self-employment allowances are being tested:

  - lump sum payments, equal to the total amount of the worker's remaining UI benefits, to help fund business start-up expenses; and

  - bi-weekly payments, equal to the claimant's regular UI benefit check, for income support during the initial period of business planning and operations.

- A comprehensive project in New Jersey is testing three possible alternatives for UI beneficiaries: provision of job search assistance; provision of job search assistance with referral to Job Training Partnership Programs; and job search assistance with cash bonuses for early reemployment.