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CHAIRMAN GRESSER: Thank you, all, for coming. I'm Ed Gresser, with the U.S. Trade Representative Office. I'd like to welcome you, all, to this Trade Policy Staff Committee Hearing on the U.S.-Japan Trade Agreement.

This is a very important matter for us, given our scale of two-way trade with Japan, now running at $19 billion dollars, in goods flows, per month, and $6 billion dollars in services trade.

We are grateful to all of you, for coming to share your insights and your views, on the prospecting agreement. I would like to ask one thing of the witnesses, make sure, please, that you respect the time limit for testimony.

We would like to make sure that all of you have your chance to give your say and that, all of our panelists have a chance to ask the questions that, that, that you can help them with.
So thank you, again. Welcome, to everyone, and let us begin. Let me, now, turn to Michael Beeman, Assistant U.S. Trade Representative for Japan, Korea, and APEC, to lead the session.

MR. BEEMAN: Thank you. Good morning, Ladies and Gentlemen. As Ed noted, my name is Michael Beeman, I'm Assistant U.S. Trade Representative for Japan, Korea, and APEC. It's a pleasure to have you here, this morning, and I welcome you to today's hearing, to seek public input on the negotiations of a U.S.-Japan Trade Agreement.

Over the course of the next three days, a wide-range of interested stakeholders, over the course of the next, course of today, a wide-range of interested stakeholders, including those representing U.S. consumers, businesses, farmers and ranchers will provide views on the nature of the Trade Agreement that we should pursue with Japan.

In accordance with the Bipartisan
Congressional Trade Priorities and Accountability Act of 2015, or TPA, Ambassador Lighthizer notified Congress, on October 16th, of the President's intent to enter into negotiations with Japan, to conclude a U.S.-Japan Trade Agreement, or USJTA.

As required by Trade Promotion Authority, USTR's notification to Congress began a 90-day period of consultations and provides the opportunity for members of the public, as well as, the Congress, to comment on the substance of the negotiations.

To promote this consultative process, USTR published a Federal Register notice, soliciting comments on this negotiation.

We received nearly 160 comments and we appreciate all the effort that has gone into these submission, as well as, for your testimony of all that have asked to join us today. We take your input and interest very seriously.

Let me say a few words about our negotiations with Japan. This past September,
our Governments agreed to a Joint Statement that announced our intentions to launch negotiations for a U.S.-Japan Trade Agreement.

As reflected in that Statement, the scope of negotiations is to include goods, as well as other key areas, which is to include services issues, among others. The goal is to reach an agreement that produces early achievements in all these areas. It was also agreed that further issues in the areas of trade and investment would be covered in additional negotiations.

As is reflected in many of the submissions that we received, access to Japan's market for goods, of course, is not only tied to the issue of tariffs, or quotas, which Japan has some very low, as well as, some extremely high levels of protection, but also is tied to the issue of addressing non-tariff barriers, which often can be the most important barriers to U.S. exports to Japan.

Removing non-tariff barriers may
include, for example, just to, to provide some
sense of the comments we've received, the need to
address broad, cross-cutting issues, such as
transparency, or adequate protections for
American intellectual property.

They also include the need to address
specific barriers in specific sectors, such as
unique standards, or testing issues.

In addition, we have received
submissions that cover other issues and concerns,
including, with respect to a level playing field,
and other market-access challenges in the area of
services.

The number of stakeholders, also, have
indicated the importance they attached to
including broader labor and environmental
obligations, among other areas, including digital
trade.

As we consider and develop negotiating
priorities and objectives, we welcome and look
forward to hearing from you and from the
panelists, through the rest of the day, on how we
can best achieve outcomes that incorporate
priorities of interested U.S. parties.

The Office of the U.S. Trade
Representative takes the issue of transparency
and trade negotiations seriously. Today's
hearing is the one example of USTR's engagement
with interested stakeholders and members of the
public, concerning U.S. Trade Policy.

We very much look forward to receiving
the testimony to help guide our efforts. Before
asking the Panel to introduce themselves, as we
go panelist-by-panelist, a few logistical
details.

As the Agenda notes, we have a long day
of speakers, for today. We ask, as mentioned,
each panelists to be mindful of the time
allotted, which is five minutes of oral comments,
for panelists.

Once all the panel members have spoken,
we, the Agencies represented here, on the, on the
Panel, from the TPSC, will ask a few questions of
each panel.
This hearing is being transcribed, by a court reporter, and video recorded. These, both, will be posted, at a later date, to the USTR Website. We'll now turn to our first panel.

Thank you.

MR. BISHOP: Mr. Chairman, our first Panelist is Desiree Hoffman, with the United Auto Workers. Ms. Hoffman, you have five minutes.

MS. HOFFMAN: Good morning. My name is Desiree Hoffman, International Representative, with the United Auto Workers Union, on behalf of UAW President, Gary Jones, and the more than one million members of, and retirees, of the UAW, thank you for the opportunity to be here today.

We are deeply concerned that an FTA with Japan could, ultimately, further widen our enormous auto trade deficit and hurt our auto industry.

Since we already have an open market and Japan maintains one of the most closed auto markets in the developed world, the U.S. should focus on reducing its trade deficit.
Provided that the U.S. is likely to enter into an FTA with Japan, our preference is to exclude the auto sector from the negotiations, but recognize that's unlikely to happen.

Therefore, we'd like to offer recommendations for negotiating objectives, for a U.S.-Japan Free Trade Agreement. For example, some of the suggestions that we have, would be to establish a Japanese vehicle quota.

Require strong labor standards. Require enforceable protections against currency manipulation, strengthen rules of origin, carve out protections for next-generation auto components, protect by American, and eliminate the Investor State Dispute Settlement, ISDS.

But, before going into those recommended negotiating objectives, I'd like to say a little bit more about the auto trade deficit, to put things into perspective.

Trade with Japan has been an unambiguous failure for American workers. Decades of well-intention-efforts, by U.S. trade negotiators
and republican and democrats that democratic administrations to open the Japanese auto market to foreign competition, has been a clear failure.

In 2017, the U.S. had a $68.9-billion-dollar trade deficit with Japan, with nearly 75 percent of that deficit coming from motor vehicles and auto parts.

What makes the prospect of a more balanced playing field, with, so unlikely that Japan's automotive tariff is already zero percent.

To insulate its domestic automotive manufacturers, Japan has, instead, used non-tariff barriers. These barriers include currency manipulation, discriminatory system of taxes, onerous and costly vehicle certification procedures, for imported automobiles, just to name a few.

These barriers have created an uneven playing field so much that, for every car the U.S. exported to Japan in 2017, Japan sent 100 back.
Any loosening of the 2.5 percent automotive, or 20 percent light-truck tariff, would further direct Japan's overcapacity to our shores, exacerbating the problem.

In addition, the elimination of the light-truck tariff, considerably reduced the existing economic incentive for Japan producers to locate production and employment, here in U.S.

As mentioned earlier, our preference would be to exclude the auto sector from negotiations, but recognize, this is not likely to happen.

Therefore, we recommend the following. In a trade deal with Japan, quotas must not merely be a backstop against future runaway imbalances, but rather an active way to level the playing field.

The U.S. should impose uploading quota, which follows the import rate of American autos and auto parts, to Japan, from the previous quarter. Also, requiring strong labor standards.

Any agreement with the United States and
Japan, must include a strong and enforceable labor chapter, which protects the rights of workers to collectively bargain and hold multi-national companies accountable for unfair labor practices.

In addition, any agreement must contain strong and enforceable currency disciplines, aimed at preventing Japan from using currency, its currency, to gain a competitive advantage and undermine the expected benefits of a trade agreement.

Without strong and enforceable currency disciplines, any achievements in the text could be eliminated, overnight, by currency manipulation.

In addition, negotiators must prevent benefits of an agreement, from being leaked outside U.S.-Japan. USMCA standards must be viewed, as a floor, and not a ceiling.

Since it is bilateral, higher standard is needed, to prevent free-riders, countries that benefit from the agreement, without agreeing to
the standards.

And it looks like I have one minute, so
I'll briefly say a little bit about the rest of
the negotiating objectives. Carving out
protections for next-generation auto components.

Today, most of the production footprint,
for tomorrow's advanced automotive technically,
is being developed overseas. Lithium ion
batteries are the most valuable component for
electric vehicles, and the U.S. is lagging far
behind Asia and Europe in the production of EVs.

In addition, protect by American and
eliminating investor state dispute settlement
should, also, be a part of any free trade
agreement.

In conclusion, the UAW is deeply
concerned, about the potential negative
consequences on American workers and our
communities, if the Administration goes through
in negotiating that trade deal with Japan. Thank
you.

MR. BISHOP: Thank you, Ms. Hoffman.
Our next witness is Matt Blunt, with the American Automotive Policy Council. Mr. Blunt, you have five minutes.

MR. BLUNT: Thank you. I'm Matt Blunt, President of the APC, the American Automotive Policy Council, which represents the public policy interest of America's auto makers, Fiat Chrysler, Ford, and General Motors.

First, we wish to thank the Administration, for their efforts to promote free, fair and reciprocal trade with Japan. We also thank them, for the opportunity to share our views and recommendations, today.

Japan's auto market is the world's third largest, behind only China and the United States, yet, Japan, through non-tariff barriers imposed on foreign automakers, maintains one of the most closed auto markets in the developed world.

In fact, U.S. auto industry exported less than 20,000 cars to Japan, last year. Meanwhile, Japanese automakers export half of the vehicles built in Japan, to open markets across
the globe, including the United States, where
over 1.7 million Japanese-built autos arrived in
2017.

Even though Japan does not impose
tariffs on imported vehicles, vehicles made in
the United States, Europe, and the rest of the
world, accounted for only seven percent of the
Japanese passenger car market last year. This
closed auto market is sustained by the Japanese
government's persistent use of non-tariff
barriers.

AEPC strongly believes that any
bilateral trade agreement with Japan must contain
a definitive agreement to lift these barriers,
including provisions for the full-acceptance of
U.S. automotive standards, commitments to
immediately address a number of technical
barriers, and a provision to prevent future
currency manipulation by Japan.

Japan employees an array of regulatory
barriers that effectively limit the ability of
American automakers to compete on a level playing
field, in the Japanese auto market.

These regulatory barriers, which our written submission describes in further detail, including unique mix of safety and environmental standards, which add significant, often, insurmountable costs, to participating in the Japanese auto market.

Unfortunately, past efforts to open the Japanese market have, ultimately, stalled, despite the considerable pressure that U.S. officials have tried to place on Japan.

We recommend that a broad cross-cutting approach to be used, rather than trying to address individual technical barriers, one-by-one.

Securing Japan's full acceptance of vehicles certified to U.S. auto safety and environmental standards, would be the most effective way to achieve this outcome.

American automakers were pleased to see provisions addressing auto regulations, included in the recently-completed KORUS amendments and,
in the USMCA.

And we urge our negotiators to follow the precedent of including the acceptance of U.S. safety auto standards in all future trade agreements, including any trade agreement with Japan.

Another precedent set in the USMCA was the groundbreaking provision to address currency manipulation. Currency manipulation can provide an unfair, competitive advantage to trading partners that manipulate their currencies and undermine the expected benefits of our trade agreements.

While stopping short of designating Japan a currency manipulator, the U.S. Treasury cautioned Japan against manipulation, as recently as 2013. And Japan has been on Treasuries monitoring list, since the Agency began using that designation, in 2016.

Given the potentially harmful effects of an artificially-depreciated Yen, on U.S. automakers, in the United States, Japan, and in
third-markets, where they compete head-to-head, American automakers would hope for a strong currency discipline, or a strong discipline against currently manipulation, with more robust enforcement mechanisms than those included in the USMCA.

Despite the challenges that U.S. negotiators will face in any discussion, to level the automotive playing field with Japan, we also believe there are unique opportunities.

In particular, we hope that a trade agreement with Japan would include provisions on future cooperation and coordination to align the country's respective automotive vehicle regulatory frameworks, such a provision would build upon the recent dialogue and cooperation that the United States and Japan have enjoyed at the WP29 Forum.

It would also help the parties avoid a piecemeal approach to autonomous vehicle policy development in each country's market, which could shut American AVs out of the Japanese and other
foreign markets.

While AV cooperation represents a realistic tangible outcome for the negotiations, we wish to underscore the importance of including provisions that will force Japan to finally open its market, in a meaningful way, to U.S. cars and trucks.

Accordingly, we recommend that the Administration avoid making any concessions that would further open the U.S. market to Japanese imports, unless and until, there is evidence that Japan is truly committed to opening its auto market to American vehicles.

We believe the best way to achieve such an outcome is for the U.S. to only agree to a long, backend of tariff phase-outs that are contingent upon measurable increases in import market share in the Japanese auto market.

We look forward to working with you to ensure free, fair, and reciprocal trade with Japan, as well as our shared goal of strengthening the American auto industry. Thank
MR. BISHOP: Thank you, Mr. Blunt. Our next witness is John Bozzella, with the Association of Global Manufacturers. Mr. Bozzella, you have five minutes.

MR. BOZZELLA: Mr. Chairman, Members of the Trade Policy Staff Committee, good morning. My name is John Bozzella, and I'm the President and CEO of the Association of Global Automakers and spokesperson for Here for America, which represents all international automakers, operating in the United States, as well as, several suppliers.

International automakers have invested nearly $82 billion in the United States and have become a major part of the American manufacturing landscape.

In fact, 14 companies now produce cars and trucks in the United States, with a 15th scheduled to begin production in 2021. Ten of those 14 originated elsewhere and several have been building vehicles here for over 30 years,
including all four current U.S. producers that
originated in Japan.

International auto companies are deeply
enmeshed in the U.S. communities in which they
operate. Combined, these companies directly
employee 133,000 Americans, at nearly 500
facilities, and create jobs for some 1.29 million
Americans.

Significantly, international automakers
produce, nearly, half of all cars, SUVs, vans,
and light trucks, made in America last year, and
it counted for nearly half of U.S. vehicle
exports.

Japanese origin manufacturers have
invested more than $48 billion dollars in 24
manufacturing and 44 R&D and design centers here
in the United States.

These companies, collectively, produced
3.8 million cars in 2017, and exported 423,415
American-built vehicles around the world. Those
same manufactures employee more than 92,000
Americans.
A trade agreement with Japan can promote economic growth, increased jobs, benefit consumers, and enhance the global competitiveness of U.S. producers.

We also believe that the measures I intend to outline will help advance these objectives. There are, however, some trade actions, we believe, complicate the negotiating process and, which, should be resolved, prior to negotiations with Japan.

First, the 232 tariffs on steel and aluminum imposed on Japan and several other U.S. trading partners, are damaging to the auto industry and contrary to the spirit of proposed negotiations with Japan, they should be removed immediately.

A second issue involves a threat of additional tariffs on autos and auto parts under the current Commerce Department Section 232 Investigation. There is no credible justification for the idea that automotive imports threaten our national security.
In fact, the growth of international automakers and employment in the United States, during the past quarter-century, proves otherwise.

Mr. Chairman, there are five key issues that I would like to urge the Administration consider, as it begins the negotiation of a U.S.-Japan Trade Agreement.

First, we believe all vehicle tariffs should be eliminated, at the earliest opportunity.

While our member companies have U.S.-produced products that compete in the U.S. market, immediate, duty-free treatment of autos and auto parts would benefit all U.S. automotive producers, facilitate U.S.-Japan trade, enhance the competitiveness of U.S.-made motor vehicles, and benefit workers and, ultimately, consumers, in the United States and Japan.

We recognize that, as with other trade agreements, there may be an interest in including a rule of origin for automobiles, as part of any
tariff concession, included in a U.S.-Japan Trade Agreement. Should negotiators pursue such a role, we believe it should be balanced, flexible, and consistent with the tariff benefits obtained.

Second, we believe a U.S.-Japan agreement should embrace global harmonization, for future automotive standards and regulations and that both countries should work through global bodies, like the United Nations Working Party 29, to the greatest extent possible.

Third, in today's world, a constant stream of data flows seamlessly across national borders. It is, therefore, essential to have a clear, consistent set of rules in place that allow for unimpeded flow of data.

We, therefore, encourage the inclusion of provisions that prohibit the imposition of localization requirements, as well as language, to promote e-commerce.

Fourth, we believe a U.S. trade agreement should include customs and facilitation provisions that mirror those in recent U.S. Trade
Agreements, such as the newly-signed USMCA and KORUS.

Finally, we believe that currency is an international issue, more properly addressed in a multi-lateral context, such as the G7, or G20, rather than, in a bilateral, or regional trade agreement.

If currency provisions are included in the U.S.-Japan Trade Agreement, those disciplines should not restrict U.S. Policy options, or preempt multi-lateral treatment of the issue.

Mr. Chairman, and Members of the TPSC, Global Automakers, in here, from America, appreciate the opportunity to testify today and we look forward to answering your questions.

Thank you.

MR. BISHOP: Thank you, Mr. Bozzella.

Our next witness is Anne Wilson, with the Motor and Equipment Manufacturers Association. Ms. Wilson, you have five minutes.

MS. WILSON: Good morning. My name is Anne Wilson, and I am the Senior Vice President
of Government Affairs, for the Motor and Equipment Manufacturers Association.

MEMA represents more than 1,000 vehicle suppliers that manufacture new, original equipment and aftermarket components and systems for use in passenger cars and commercial vehicles.

Vehicle suppliers are the largest sector of manufacturing jobs in the United States, directly employing over 871,000 Americans in all 50 states.

Supplier manufacturing jobs have increased 19 percent, since 2012. In large part, because the investment in new innovative technologies that are dependent on a global supply chain.

I am pleased to be here, today, to address our thinking of priorities for a free trade agreement with Japan. Japan is a critical trading partner for U.S. vehicle parts manufacturers.

MEMA supports this opportunity for the
U.S. to strengthen our trading relationships with Japan, particularly, related to vehicles and vehicle parts.

We are encouraged that the Administration has taken this important first step to open negotiations for a free trade agreement between the parties, to work through critical concerns.

MEMA has a long history of working with Japan on trade relations. For decades, MEMA participated with our Japanese colleagues and vehicle manufacturers, to strengthen the U.S. supply base.

This has led to an interwoven highly-dependent supply base, as demonstrated in our written statement. In order for this supply chain to remain healthy, we are all dependent on a strong trading rule system.

However, the potential for Section 232 tariffs on imported autos and parts, presents a hindrance to near-term trade talks and must be addressed.
The United States and Japan must agree to terms, related to the current Section 232 tariffs on steel and aluminum and any potential Section 232 tariffs on automobiles and vehicle parts.

Moreover, MEMA would urge the parties to agree to full exemption, without any caps, or quotas. Quotas present challenges and uncertainty, especially, for the vehicle industry, which has a long-production cycle.

Addressing these exemptions would signify the importance of our trading relationships and provide the ongoing stability that suppliers need to thrive in the United States.

Adjustments to imports of automotive parts would, likely, cause declines in overall U.S. production, as the cost inputs increase and member companies are faced with the inevitable choice of passing these higher production costs onto their customers, the vehicle manufacturers, or absorbing the price increases.
Passing along the cost, may not be possible, because OEM customers will probably seek other suppliers. If the supplier absorbs the cost, however, they may be forced to delay, or cancel, planned U.S. investment, such as workforce training, or facility expansion.

Regardless, the end result will be a lost market share for MEMA member companies and a less competitive and profitable U.S. automotive industry.

Furthermore, during trade talks between the U.S. and Japan, MEMA urges the parties to, one, allow for mutual recognition of existing standards, without further modification, testing, or certification, providing that safety levels and environmental protection are not lowered.

Second, address non-tariff barriers to trade. Third, promote opportunities for a strong worldwide system, a future-aligned vehicle regulations to the United Nations' process, under the 1998 Agreement.

Fourth, eliminate tariffs reciprocally
and secure 100 percent liberalization, with relatively short phase-out periods. Fifth, require the imports of all automotive parts, including remanufactured goods, are not treated differently, from new good imports.

And, finally, enable a strong sustained political commitment, at the highest level of Government and regulatory authorities, allowing for transparency and regular consultation with industry stakeholders.

MEMA recognizes the vehicle industry, as a key industry for the economies of both parties. Certainly, considerable care must be taken, not to jeopardize the vehicle supply chain and weaken U.S. employment.

MEMA stands ready to work with the parties on these objectives. If key issues, specific to the automotive sector, are addressed, a possible U.S.-Japan Trade Agreement would be mutually beneficial to our industries, citizens, and respective economies.

Such an agreement should aim to provide
expanded opportunities for U.S. vehicle manufacturers, as well as vehicle suppliers.

Thank you for considering our comments, today. I look forward to your questions.

MR. BISHOP: Thank you, Ms. Wilson. Our next witness is Henry Seiner, with the Titanium Metals Corporation. Mr. Seiner, you have five minutes.

MR. SEINER: Thanks. I'm Vice President of Business Strategy, for TIMET, Titanium Metals Corporation.

Eliminating tariffs on imports of titanium, under the USJTA, will have a severe adverse impact on the American titanium industry and on the national security of the United States.

Titanium is a strategically-important metal that meets critical needs in the aerospace, events, and other industries.

Titanium is a special military significance, because of its light-weight and high-strength make it suitable for use in
demanding military applications, particularly, jet engines, vehicle armor, and stealth aircraft. Elimination of the titanium tariffs, under the USJTA, would contravene the long-standing Government-wide policy of encouraging investment in a healthy domestic titanium industry that has three major producers, who compete, vigorously, with each other and with multiple foreign suppliers, and employs more than 4,000, directly, employs more than 4,000 highly-skilled workers and many more, additional and suppliers and subcontractors. TIMET is the only vertically-integrated titanium manufacture, in that, we produce titanium sponge, the basic form of titanium metal, in addition to melded products, long and flat products. Titanium sponge, from Japan, currently accounts for 94 percent of all titanium sponge imported into the U.S. Japan's capacity to produce sponge more than doubled, from 30,000 metric tons annually, in 2004, to nearly 69,000
tons by 2016, and is running between 70 and 75 percent of capacity, currently.

Japan's expanded sponge capacity explicitly targeted the export market for aerospace, including military aerospace applications.

Since 2013, U.S. capacity to produce sponge, has been reduced by approximately two-thirds. Japan has enough excess capacity to take over the rest of the U.S. market.

Expansion of Japan's downstream production, has been aided and abetted by subsidies from the Japanese Ministry of Economy Trade and Industry.

In August of 2017, TIMET filed an anti-dumping petition against titanium sponge imported from Japan. The investigation was terminated in October, when the ITC issued a negative injury determination, based on its findings that TIMET's captive production of sponge does not compete directly with imported sponge sold on the commercial market.
As a result of the ITC's determination, imports of titanium sponge are, effectively, exempt from anti-dumping and countervailing duties.

A large and significant investment is required to sustain Henderson's, TIMET's Henderson, Nevada sponge plant. Should it close, due to unrestrained imports, the United States will become a 100 percent dependent on foreign sources for titanium metal. Those sources are located in Russia, China, Kazakhstan, Ukraine, and Japan.

In response to Executive Order 13806, the Department of Defense, earlier this year, highlighted this specific risk on titanium sponge.

All of the world's foreign sponge producers, including Japan, are geographically remote from the U.S., making the supply chain vulnerable to disruption from military hostilities and political turmoil.

None of these remote foreign producers
can be counted on to maintain shipments of
titanium metal to the United States. Japan,
despite its political reliability, is
particularly vulnerable to disruption, caused by
an armed conflict, because of Japan's proximity
to China, Russia, and North Korea.

As indicated in my late August meeting,
with Mr. Beeman and Mr. Boling, in September of
this year, TIMET filed a petition, asking the
Department of Commerce to initiate an
investigation, under the 230, Section 232 of the
Trade Expansion Act, regarding the effective
imports of titanium sponge on the national
security of the U.S.

USDR should not undermine the OC's
analysis of the vulnerability of America's
defense supply chain, by agreeing to remove
tariffs of sponge, while the Department of
Commerce is evaluating the impact of such imports
on the security of the United States.

I urge the TPSC Representatives to
oppose the reduction, or elimination, of
important tariffs on titanium sponge, as on
titanium products, especially, titanium sponge.

        The current tariffs should be maintained
indefinitely. Announcement of a phase-out period
will have a substantial and immediately-chilling
effect on continued investment in the America's
titanium industry.

        It will immediately devalue the
investments that American companies have made in
their assets and undermine a critically-important
segment of the defense industrial base. If
titanium is included, the tariff phase-out period
should be extended and rules of origin should be
strengthened.

        The USTR should seek a 20-year phase-out
period to allow recovery of capital investments
by U.S. producers, and enforce rules of origin
consistent with the recently-negotiated USMCA.

Thank you very much.

        MR. BISHOP: Thank you, Mr. Seiner. Our
final witness on this panel is Terrence L.
        Hartford, with Allegheny Technologies,
Incorporated. Mr. Hartford, you have five
minutes.

MR. HARTFORD: Thank you. Good morning,
Mr. Chairman, and Members of the Trade Policy
Staff Committee. I'm Terry Hartford, Vice
President of Defense of ATI, Allegheny
Technologies, or ATI.

ATI is one of the largest and most
diversified specialty metals and components
producers in the world. Our company's product
support diverse markets and industries, such as
aerospace and defense, oil and gas, electrical
energy, medical, automotive, and other industrial
markets.

The focus of my testimony this morning
is ATI's manufacturing operations, involving
titanium and titanium alloy products. Due to
their light-weight, strength, and resistance to
corrosion on high temperatures, titanium and
titanium alloyed products are critical to many
applications that make vital contributions to our
country's economic and national security.
With respect to the negotiation of a potential U.S.-Japan Trade Agreement, ATI urges the Trump Administration to pursue three titanium-related priorities in its interactions with the government of Japan.

First, we urge the immediate phase-out of the 15 percent normal duty on imports of titanium sponge from Japan. Titanium sponge is the purest form of titanium metal and it is combined with alloying elements to manufacture downstream mill products.

Demand for titanium sponge in the U.S. substantially exceeds the capacity of the sole U.S. producer of titanium sponge, TIMET. Indeed, TIMET's production of titanium sponge, at its Henderson, Nevada facility, does not satisfy even its own internal demand. As a result, TIMET is a substantial importer of titanium sponge.

ATI previously produced titanium sponge, at its facility in Rowley, Utah, in December 2016, however, our company idled that facility.

That decision was based on several
factors. One was ATI's ability to secure a
long-term supply of titanium sponge from two of
our long-term, long-standing offshore suppliers,
including a producer in Japan.

Another factor was the strategic
disadvantage of the production process at Rowley.
Specifically, the need to source important import
inputs, in the production process from unrelated
suppliers, relative to the operations of TIMET
and offshore producers.

While we don't expect to restart the
Rowley facility in the foreseeable future, it was
idled in a manner that will allow its prompt
restart, should market conditions warrant.

While TIMET has claimed in the past
that, purportedly, unfairly low-priced imports of
titanium sponge, from Japan, are responsible to
injury of domestic titanium sponge producers,
that is simply not the case.

TIMET's internal consumption of,
virtually, all of the titanium sponge, it
produces in the U.S., makes it vitally important
that there is a steady supply of
reasonably-priced titanium sponge available in
the U.S. market.

The current normal duty, at 15 percent,
on imports of titanium sponge from Japan, only
increases the cost of a critical input used, by
the domestic titanium industry and the production
of downstream titanium products.

Eliminating the normal duty, on import,
imports of titanium sponge from Japan, will
improve the global competitiveness of the
domestic titanium industry.

Second, ATI urges the Trump
Administration to maintain the existing normal
duties on all other titanium products from Japan.
In particular, the Trump Administration should
maintain the existing normal duties indefinitely.

Or, at a minimum, phase-out the normal
duties, over a 15-year period, consistent with
the United States' commitment to Japan, in the
Trans-Pacific Partnership Agreement.

The lengthy phase-out period in the TPP
Agreement is reflective of the critical importance of titanium and titanium products, to the economic and national security interests of the United States.

We believe that, all domestic producers of titanium and titanium products support this position.

Third, the Trump Administration should ensure that the rules of origin applicable to titanium products prevent unscrupulous producers in third-countries, from exploiting the benefits intended for the producers in the U.S. and Japan.

Specifically, as discussed in more detail, in our written submission, to the TPSC, we urge the adoption of the product-specific rules of origin for titanium products, in the United States Canada Mexico Agreement, or USMCA. Those rules would provide for a significant regional value content requirement for unwrought titanium that is produced in non-signatory country and is converted into an article of titanium in Japan.
Such a rule would avoid the disastrous circumstances in a U.S.-Korea, or KORUS Free Trade Agreement that, enabled China and Kazakh producers to export titanium ingots slabs to Korea, where they were subjected to minimal further processing and then, became eligible for duty-free entry into the United States.

The titanium-specific rule of origin in the KORUS Agreement resulted in a reduction of U.S. producer's exports of titanium products to Korea and a significant increase in U.S. imports of titanium products from Korea, significantly harming the domestic titanium industry.

If the rules of origin in the USMCA, are not adopted, it is likely that the same circumstances will repeat themselves with respect to U.S. imports of titanium from Japan.

On behalf of ATI and its 8,500 employees, I appreciate the opportunity to testify this morning and I'll be happy to take your questions. Thank you.

MR. BISHOP: Thank you, Mr. Hartford.
Mr. Chairman that concludes direct testimony from this panel.

MR. BEEMAN: Thank you. Thank you, very much, for your testimony. And, we have a, a handful of questions, I know, for the Panel. I'd like to begin with some, a handful of questions on autos and the motor vehicle sector, before moving on to the issue of titanium.

We'd like to cover all this in the next, within the next half-hour. So, Governor Blunt, and Ms. Hoffman, there was some common elements, both, in both your testimonies, both, written, as well as, some of the oral, points that were made, including concerns and barriers, with barriers, in Japan, to unique, or complex, safety, or other standards.

Issues related to distribution, were also mentioned, I think, in both your submissions, some means, to ensure U.S. autos can improve their market share in Japan, among others.

Helpful, for us, to hear from you, both
of you, individually, directly, what your top two
to three priorities are that you feel would go
the furthest, in terms of helping to secure the
level of access to the Japanese market that you
deam acceptable.

        We will come to the issue of currency,
in a moment, so I'd like to set that aside. But,
focusing on changes within the legal, regulatory,
or other environmental, other environment,
business environment-type issues, specific to the
auto sector. Appreciate your, your views.

Maybe, start with Ms. Hoffman?

        MS. HOFFMAN:  Thank you for that
question. The top two, or three, priorities that
the UAW would like to see in terms of, did you
say non-tariff barriers? I guess, I didn't hear
the --

        MR. BEEMAN:  Pardon me. Focusing on
barriers that you feel that, if they were removed
in Japan, would, would allow for a level of
access to U.S. autos that, that you would see, as
having made substantial progress?
MS. HOFFMAN: Okay. And that's outside of the currency manipulation that, we --

MR. BEEMAN: We'll come to that, in a second.

(Simultaneous speaking.)

MS. HOFFMAN: Great, got you. So one of the -- a couple of the priorities we would say, to address this web of closed systems that makes it really difficult for manufacturers, from abroad, to have successful sales.

So some of the additional non-tariff barriers that, we believe, should be addressed, would be the complex and changing set of safety noise and pollution standards, many of which don't conform to international standards.

And they add significant development and production costs. Also, an unwillingness of Japanese dealerships to carry foreign automobiles. And then, also, government incentives to purchase Japanese-made key cars. So those would be some examples.

MR. BLUNT: All right, so there are, as
you well-know, given all of your work on this subject, a number of technical challenges that U.S.-built vehicles face, in terms of, export to Japan. We, you know, we touch on some of those technical challenges in our, our written submission.

But, we believe that, the most effective and swift way, to remove the regulatory barriers, would be for the Japanese to agree to full-acceptance of vehicles that are built to U.S. Safety and Environmental Standards.

Similar to what was achieved in the KORUS, or even more broadly, achieved in the USMCA. We think that would cut through the, the Gordian knot of all the regulatory challenges that we face, today.

And, you know, one of our fears would be that we might address all of the challenges that exists, at this moment, but, of course, new regulatory barriers could emerge in the future.

So we believe, full-acceptance of products built to U.S. Safety and Environmental
Standards is the most effective solution.

MS. MOGHTADER: Turning to the issue of currency. Ms. Hoffman, and Governor Blunt, you both stressed the importance of including enforceable currency disciplines.

Could you comment on, what specific approaches and outcomes that you would recommend for negotiations with Japan, especially, as compared to the outcomes in the USMCA?

MR. BLUNT: Sure. And, I'll begin, if that's okay? Yes, we, we, certainly, would want to commend with the USTR and the U.S. Government, the Trump Administration achieved, in the USMCA.

It's significant. It's the strongest currency provision of any free trade agreement, anywhere in the world and, with those trading partners, we believe, is meaningful.

In terms of trade with Japan, where you have an economy that has a history of manipulating their currency and a direct market intervention, to devalue their currency, to gain a trade benefit, we do think you need a stronger
provision.

    We think there should be a more
enforceable, enforceability, within the
provision. We don't have a specific solution
that we've offered, but we've always thought --
we've, we've offered a solution in the past, but
at this moment, you know, we, we would love to
have an opportunity to work with Treasury, as
they develop some sort of a framework. We've
always believed the types of things that the
Treasury looks at, in the semi-annual report, are
the types of things that we ought to be a part of
a well-defined currency provision.

    In the past, we've advocated for a test,
    a three-part test, if a country had a significant
foreign exchange reserves, which we define as six
months of imports, and a current account deficit.

    If they had those two provisions in
place, and they were to intervene in the market,
they'd be deemed a manipulator and they would,
actually, lose the tariff benefits of the
agreement, while, for, for, at least a year.
We think that's, sort of, a clear, clearly-defined definition of what currency manipulation would be, for purposes of the agreement, with a very swift and, a penalty, is the sort of approach we ought to take, with an economy like Japan.

MS. HOFFMAN: There's really not much more to add, based on what he has covered, in terms of an approach, but we do know is that, Japan, you know, has historically engaged in these practices and they artificially devalue the Yen.

And, it makes it very difficult for American workers and it puts foreign companies, you know, gives them unfair profit advantages that result in hardships for American workers.

I would say that, in terms of, making sure -- I mean, the enforceability is, very much, a cheap component of this, and going beyond any reporting requirements.

So I'd have to look a little bit deeper to see, where we stand, at this moment in time,
in terms of how we approach it, but it is
definitely a concern, giving how big the auto
trade deficit is and how we are already at zero
percent, in Japan.

Obviously, they're engaging in a number
of practices, which keeps their market closed,
their auto market closed, and currency
manipulation is, is definitely an area that we
need, need to tackle.

MS. MOGHTADER: I thank you, both. Just
to follow-up, Mr. Bozzella, you, also, expressed
a view, in your submission, that currency is more
properly addressed, in a multi-lateral context.

The Trade Promotion Authority sets out
a negotiating objective, related to currency, for
U.S. Trade Agreements. In your view, how can
this TPA objective be met, while also, addressing
the point you raise in your comments?

MR. BOZZELLA: Yes. Thank you for the
question. I think the, the short answer is,
carefully. I think you have, you know, again,
the proper approach, already, with regard to G7,
The challenge we face, of course, is that currency exchange rates aren't set in a bilateral context. And, we don't want to limit our options, our policy options, to promote economic growth here.

And so I think you have to be, obviously, thoughtful. I recognize the TPA objective, but I think we've got to be thoughtful, in terms of, how we do that, without limiting your policy objectives and, also, failing to address actions that take place outside the bilateral context in which you're discussing this.

MR. KENNEDY: Good morning. I'm Scott Kennedy, the Director of Offices of Transportation and Machinery at the Commerce Department. I have a question for Ms. Wilson and Mr. Bozzella.

So both, in your testimony and in your public comments, from both of your organizations, you touched on the importance of the efforts to
work towards standards harmonization for new

technologies for motor vehicles.

What are your views, on how to most
effectively achieve this outcome within the
context of a trade agreement negotiation?

MS. WILSON: Well, thank you, for the
question. We really have embraced the work that
is being done, currently, under the UN Provisions
and the WP29, specifically, with regard to what
they're doing on automated vehicles.

We think it’s important for the U.S. to
continue their very active engagement, which
currently exists. We need to align those.

As one of the technical people, in one
of our companies, who's very involved in
automated technology, said to me, "you know, we
don't like to make brake systems to three or four
different standards."

"But, we cannot make the upcoming
automated vehicle technology to three or four
different standards, it's too expensive, there's
too much at risk, cyber security, just to name a
few other concerns."

I would also point out that it's important for us to align where we are, in future technologies, with where our regulatory climate is.

In separate submission on fuel efficiency, our Trade Association differed, slightly, from some of the vehicle manufactures. It is important for us in the United States, to have a market for technology, for us to develop and invest in that technology in the United States.

I think that's one of the things that we need to keep in mind when we make requirements on vehicle manufactures, or their suppliers, to invest in the U.S.

MR. BOZZELLA: Yes, I would agree with, with Anne. I think WP29 is the appropriate context for this. I do agree that, this is extremely important. This is where the industry is going.

And, I think, also, this is, not only is
it an important standards question, I also think it relates to a potential rule of origin, if you, if you contemplate that, within the context of U.S.-Japan, in the sense that, if you're too restrictive that innovation could happen elsewhere, outside the bilateral arrangement.

And so I think, for both of those reasons, I think it's important that we work in a, in a, in a broad, a global context, and WP29 is the right way to go.

MR. KENNEDY: If I could, just, ask a, a follow-up question, to Ms. Wilson? So, as data in your submission, made very clear, U.S. exports to Japan of auto parts, remain extremely low, compared to our exports to other major auto manufacturing countries.

Of the proposals that you outlined, in your testimony, which of those proposals should we focus on, to help ensure U.S. auto parts exports have a better success in the future, in Japan?

MS. WILSON: I think, when Governor
Blunt addressed, you know, acceptance of U.S. Standards, immediately, as it is in the USMCA, I think, that that is something that our members would embrace.

But, if you look at testing requirements and individual certification requirements, these become particularly burdensome, particularly, for vehicle suppliers, who are, primarily, in the U.S. and, who do not have a global footprint. Those need to be addressed, immediately, not just within the context of U.S.-Japan, but with the other trading partners.

And we've been working very long with, you know, past administrations, the current Administration, to address those, but that is, this is an opportunity to address that with the, within the context, between the United States and Japan.

MR. BEEMAN: Let me make sure we have enough time, to spend on titanium, as well, which is another important industry, in the United States.
Mr. Seiner, in your view, based on the testimony you had submitted, what accounts, from your perspective, for the decline and the price of titanium sponge that we're seeing from Japan, and is there anything, you feel that can be done, in a trade agreement, to address that particular cause?

MR. SEINER: Excess capacity over capacity globally of titanium sponge has been the number one cause. The Japanese went from 30,000 tons of capacity to nearly 69,000 tons, from 2004 until today.

And, there is no growth in their home market. Half of their sponge is exported. They'd like to export more. Two-thirds of their mill products are exported.

And, the most attractive market, available, is the aerospace market, in the United States. There isn't a domestic, significant domestic aerospace industry in, in Japan, hence, we're the, we're the target.

And I just, I don't, I think that sponge
needs to be treated separately. The U.S. needs, for national security, needs a healthy sponge industry, both, domestically and in Japan and it's those unique requirements that make sponge a little bit different from mill products.

MR. BEEMAN: Thank you. And also, just in your testimony, both, written and oral, just now, you also touched on the issue of subsidies that, you have argued, or been provided, by the Japanese government, does this go to the over-capacity issue that you've referenced, or can you can say more about what your knowledge is of these subsidies?

MR. SEINER: I don't have a detailed knowledge. I believe, it's been more along the lines of mill product production than, for titanium sponge, specifically.

MR. BEEMAN: All right, thank you. And then, for Mr. Hartford, as well. How should we look at, obviously, you know, there are other comments on, with respect to the elimination of, views, on the elimination of tariffs on titanium
sponge from Japan.

And, you know, obviously, there's the argument that eliminating domestic production in the U.S., potentially, from the steps that a trade agreement might result in and leave U.S. Military hardware vulnerable to, potentially, unreliable foreign suppliers. Those are a set of national security arguments that have been made.

What are -- can you opine on your views, as to how, or the extent, of which, those are actually significant, from your perspective, perspective of your operation?

MR. HARTFORD: Yes, thank you for the question. I think it's important to look at the titanium products market segment, as being somewhat separate from the titanium sponge segment.

The titanium sponge business is a raw material input, to make finished titanium products, in the United States. U.S. producers have, historically, been reliant upon imported sponge, to make our products. It's been that way
for years.

   Even, TIMET, the sole producer, relies
upon imported sponge to satisfy all of their
needs, in addition, to what they make in
Henderson.

   When we were running Rowley, Utah, we
also, relied upon imported sponge to finish our
products. There are two other domestic
producers, who rely upon imported sponge, and it
has been that way for years.

   And, the Japanese have demonstrated,
over a very long period of time, that they are a
secure, reliable, responsible producer of sponge,
for U.S. producers.

   Japan, being the strong ally of the U.S.
that it is, has always made that trade
relationship work very well for us.

   MR. BEEMAN: Thank you. I don't know,
if there are any other questions, from the Panel,
for this group?

   (No audible response.)

   MR. BEEMAN: All right. All right,
thank you, again, for your time. So given that, we're running, about, seven minutes ahead, maybe, we will just wait, until the appointed time, to make sure the next panel is seated. Thank you.

(Whereupon, the above-entitled matter went off the record at 10:32 a.m. and resumed at 10:47 a.m.)

MR. BISHOP: Mr. Chairman, our first witness on this panel is John Stanford, with the Small Business Roundtable. Mr. Stanford, you have five minutes.

MR. STANFORD: Chairman, members of the Committee, thank you for the opportunity to testify, and for the diligent pursuit of improved relations with other countries, which, for small businesses, means additional markets, which entrepreneurs can innovate, compete and fuel the American economic engine.

My name is John Stanford and I'm the Executive Director of Small Business Roundtable, a coalition of leading small business and entrepreneurship organizations.
Trade policy has long been a priority for our community, as exporting offers new markets and customers to business owners. And that is effectively the sum of our ask today.

We urge the U.S. Government to negotiate with other countries to facilitate better access to 95 percent of the world's customers living beyond our borders, and their two-thirds of the world's purchasing power.

It's not simply a matter of more revenue. The Institute for International Economics found that not only are these business faster-growing, they're far less likely to go out of businesses.

We hardly need to debate why. An increased customer base, improved competitive advantage, expanded product lines, all while developing partnerships and mitigating domestic and seasonal economic turbulence.

Prioritizing small business in the Japanese market will pay dividends to the tens of millions of businesses here that can compete
To that end, Small Business Roundtable has identified six principles for consideration throughout these negotiations.

First, provide certainty in foreign markets. Small businesses thrive when barriers to innovation and competition are removed. A corollary of this is the need to ensure that business conditions do not change through the course of starting or growing a business.

As such, as with all trade deals, we prioritize certainty for American businesses. USTR should establish commerce norms that can be relied on for years to come. Uncertainty is anathema to entrepreneurship. So, we insist on achieving certainty for business overs.

The existence of a strong, free, fair and reliable international marketplace is integral to the ability of small enterprises to succeed.

Second, and in line with certainty, we urge you to simplify and harmonize trade
regulations with U.S. law as much as possible. Decreasing regulatory barriers at the border will increase the interests of entrepreneurs when they shy away from foreign markets.

The most obvious example of simplifying commerce through trade deals is by increasing the de minimis levels of our foreign partners. The current level for low-value shipments to Japan is US $90.

Increasing this level would be the most tangible impact on small businesses. We also ask that you encourage the Japanese to evaluate regulatory impacts on their entrepreneurs.

This was achieved in the customs and trade facilitation, and cross-border services chapters of the USMCA, and is of value.

Third, I encourage you to pursue fairness through market competition. These trade deals must emphasize the need to remove government policies that pick winners and place arbitrary limits on American businesses.

The Japanese market is notoriously
complex, a possible byproduct of many regulations and technical specifications that do not conform to global standards.

Decision-making bodies in the Japanese Government are difficult to track, leaving American business owners with limited insight when evaluating investment in the market.

Each of these prevents free market-based decisions for small business owners. Nonetheless, the preferences of Japanese consumers and a culture embracing of innovation, paired with a large economy, make an ideal opportunity.

We urge the USTR to challenge any domestic preferences. And I think my colleagues here today will provide a great deal of specificity on the barriers industry-by-industry.

Fourth, we ask that you provide protection of American innovation abroad. A common refrain from would-be exporters is a concern over their goods and services. Effectively, their entire businesses being
pirated in a foreign country with no recourse.

For this reason, strong IP protections must be at the heart of any trade deal. The theft of trademarks, trade secrets, proprietary designs, and the proliferation of counterfeit goods, steals profits and dilutes reputation.

The protection of IP rights and trade agreements with other countries inoculate small business owners by providing an equal competitive foundation on a global scale.

As noted in the U.S. Chambers' Global Innovation Policy Center IP index, Japan has strong IP rights, but would benefit from an FTA enshrining gold-standard IP rights, and we urge USTR to establish those in this US-Japan agreement.

Similarly, the USTR has well-documented specific concerns in their 2018 Special 301 Report, and we would reiterate that many of those challenges impact small business directly and indirectly.

Fifth, create downstream supply chain
benefits. Millions of small businesses play critical roles in supporting the production of goods and services in America's largest companies.

If trade policy can increase the competitiveness of these larger firms, small businesses in the supply chain can benefit.

Sixth, keep small business at the table. The signing of trade deals is hardly the end of the road for negotiations between countries.

We urge the USTR to build on the gold standard set in the USMCA, whereby government insisted on a small business chapter in the trade deal, as well as the establishment of an ongoing SME dialogue.

The increased cooperation of entrepreneurs might help break down cultural and business barriers between our two economies.

In many ways, this may be one of the largest benefits, as the sharp contrast of cultures would not be overcome by a trade deal alone, but instead the renewed sense of
partnership between allies.

In conclusion, an evaluation of any future deal would be through the lens of increased opportunity, simplicity and fairness.

We've seen in recent trade negotiations the commitment of the Administration to achieving these outcomes, and look forward to working alongside your agencies to ensure such results can be the new standard.

As the world's third largest economy, Japan is of great interest to American businesses both large and small. Few are well-poised to reap benefit from this market as American entrepreneurs, whose innovation knows no border.

We urge the Administration to consider the aforementioned principles, and we thank you for the opportunity to testify here today.

MR. BISHOP: Thank you, Mr. Stanford.

Our next witness is Charles Freeman, with the U.S. Chamber of Commerce, US-Japan Business Council. Mr. Freeman, you have five minutes.

MR. FREEMAN: Thank you. Chairman
Gresser, members of the Committee, it's an honor to be here today to address this important topic. As was mentioned, I do represent the U.S. Chamber and the U.S. Business Council. And many of our specific sectoral issues and recommendations are contained in the written submission from last month.

But let me address some principles that surround our concerns and our hopes for this agreement.

At the outset, we recognize the agreement -- the negotiation has not taken place in a vacuum. There are two very significant agreements that are in the region that are going into effect at the end of this year or the beginning of next.

The comprehensive and progressive Trans-Pacific Partnership Agreement will take -- will go into force on December 30th, and the EU-Japan Economic Partnership Agreement goes into effect on February 1st.

These are not insignificant deals, and
their going into effect will effectively
disadvantage U.S. businesses, their workers,
farmers and ranchers.

        And, for example, the US -- the Japan-EU
economic partnership deal represents an open
trade zone covering more than 600 million people.
The agreement will remove over a billion Euros
and tariffs paid annually by EU companies to
Japan, and there are significant gains to the EU
in areas that have been identified previously as
of particular concern in autos and agricultural
products, from which U.S. exporters won't
benefit.

        That said, that's -- we really commend
the Administration for -- and Japan for
announcing the negotiations beginning in the US-
Japan trade agreement, and is a real opportunity,
we believe, to create gold standard trade
agreement for a globally-competitive U.S. trade
industry.

        We recognize the negotiations will be
challenging, and we obviously stand ready to work
with both sides to secure successful outcomes
that strengthen ties between two of the world's
largest economies.

Some specific recommendations.

Obviously, we believe strongly that the USTR keep
closely to negotiating objectives in the trade
promotion authority, and we urge the U.S. and
Japan to negotiate a truly comprehensive
agreement, rather than focus narrowly on the
reduction of tariff measures in particular goods
or agricultural products or services.

Clearly, tariff reductions will result
in market access gains for many sectors,
including agricultural and automobiles. But the
service-to-sectors parties should not be ignored.

Service sector is highly competitive in
the Japanese market already, and the U.S. service
exports totaled $46.4 billion in 2017. These are
gains on which we can build.

We also recognize that there are --
there is a strategic component to this agreement,
and we believe that a successful agreement will
help mitigate risks in what is already an area or region with significant trade frictions.

Further, and just to highlight a couple of important areas of concern. Any US-Japan trade agreement should really promote innovation and ensure future competitiveness. And that's why we think attention to the digital chapter, drawing on the USMCA agreement text, is critical for future competitiveness.

In 2015, for example, all things digital in the economy were valued at over $19 trillion, which is 22.5 percent of global GDP, and by 2020 those numbers are expected to be $25 trillion, or something like 25 percent. So, getting the digital piece right is fundamental.

Also, on the intellectual property section chapter, there's enormous opportunities for gains, and to contribute to creativity and innovation.

There's real opportunity in this negotiation for a particular victory for the biologics and pharmaceutical industry in
establishing 12 years of IP protection.

The business community has looked at the US-Korea free-trade agreement and the USMCA for signals of where USTR will take these negotiations. We want to say that some of those chapters or sections are already gold standards and can be improved upon.

But I think, as a basis or fundamental, that includes digital trade, IP, financial services, SPS, TBT, competition policy, SOEs, good regulatory practices, telecom, and customs and trade facilitation.

However, USMCA fell short in some particular areas that are of concern. Those include investment protection, government procurement, the de minimis rules -- as was already suggested -- and Canada's cultural exemption in the USMCA were disappointing.

And further, areas of managed trade that appeared in the USMCA we would urge be excluded from these negotiations and from this text.

As I said, we've attached detailed
comments to our written submission, but we believe that areas of significant opportunity include agriculture and biotech, automobiles, competition, cosmetics, customs, digital trade, direct selling, electronic payments, energy and infrastructure, express delivery, financial services, functional foods and dietary supplements, procurement, investment, pharmaceutical and medical devices, and trade remedies and dispute settlement.

All of these area are ripe for significant contributions through this agreement, and we wish you godspeed. Thank you.

MR. BISHOP: Thank you, Mr. Freeman.

Our next witness is Christopher LaFleur, with the American Chamber of Commerce in Japan. Mr. LaFleur, you have five minutes.

MR. LAFLEUR: Chairman, fellow panelists, thank you very much for giving us this opportunity today.

I'm here from Tokyo to represent the nearly 3,500 members of the American Chamber of
Commerce in Japan -- the ACCJ -- which has been
the voice of American business in Japan since
1948.

We are the leading foreign business
organization in Japan, and I'm honored to
represent our views today.

The ACCJ has been calling for a new
bilateral trade dialogue for a number of years.
So, let me begin by expressing our full support
for negotiations aimed at a new US-Japan trade
agreement.

Even though Japan is America's fourth
largest export market, there is more American
business could do.

Consider the evolution of the U.S.
commercial relationship with Japan and where
we're headed. For example, in 1985, medical
technologies and pharmaceuticals each accounted
for little over one percent of U.S. exports to
Japan.

Today, medical technology accounts for
more than seven percent of all U.S. exports to
the country, helping U.S. industry capture a
nearly 25 percent market share. And
pharmaceutical exports have soared, allowing U.S.
manufacturers to gain a 20 percent share of a
$95 billion market.

These innovative exports support
thousands of American jobs across the country.
To continue expanding U.S. exports, we should
prioritize such industries of maximum
opportunity, those that will drive sustained U.S.
growth in the 21st century.

The ACCJ respectfully proposes four
principles, which we hope will guide the
negotiations.

First, preserve and enhance the market
opportunities which leading U.S. industries have
worked to build in Japan. U.S. companies have
won significant market share not only in
pharmaceutical and medical technology, but also
in financial services, information technology,
and professional services.

Those successes are not guaranteed over
time. For example, evolving policies and regulations in Japan are beginning to disadvantage U.S. pharmaceutical companies, which account for a major share of U.S. goods exports to Japan today.

Preserving opportunities where U.S. companies are most competitive should be among the very highest priorities with these negotiations.

Second, negotiators should focus on both goods and services. Some US-made goods face clear market access issues, such as in agriculture. We hope to see such barriers lowered and removed.

We also believe conflicting, restrictive and outdated government standards discourage merchandise exports in multiple sectors -- notably, automobiles.

We hope you will seek bilateral adoption of common standards not only for today, but also to secure common standards for future technologies, such as autonomous vehicles.
We also hope negotiations will deliver outcomes for American workers in services, where the U.S. enjoys a $14 billion trade surplus with Japan, and where exports have grown 22 percent since 2007.

There is further immense opportunity in Japan to sell innovative, American-made services in areas such as cloud computing, online shopping, and electronic payments.

Securing common standards and growth-oriented policies can help ensure that American success in services continues.

Third, the U.S. should seek a model agreement that raises the global bar. This negotiation is an opportunity to collaborate with a major U.S. ally and a willing partner, to advance shared ideals in intellectual property protection, regulatory transparency, and best-practices, and to strengthen the frameworks necessary for a robust digital economy, such as guaranteeing cross-border data flows, protecting personal information, and bolstering
cybersecurity.

The Indo-Pacific is witnessing an ever expanding array of alternative trade arrangements. This arrangement can and should set a new benchmark for the future of global trade.

Fourth and finally, the agreement should reinforce pro-growth reform in Japan. Prime Minister Abe has been implementing pro-market reforms to confront demographic headwinds, and make Japan's market more efficient, transparent and growth-oriented. These efforts are working. Japan is now in its longest growth streak since the 1940s.

American companies and products compete well in areas where Japan's reforms have leveled the playing field.

Only a few years ago, the Japanese cellphone market, for example, was dominated by domestic technologies. Today, U.S. technology companies lead.

American exports of information
technology services to Japan in fact have nearly tripled since 2014.

Continued expansion of U.S. exports to Japan requires that Japan stay the course towards sustainable growth. Therefore, these negotiations should reinforce those reform efforts and ensure that workers and consumers in both countries see our future agreement in one in which both sides win.

In conclusion, it is no accident that the ACCJ's membership today is at its highest level ever. American business in Japan is competing and winning in key sectors. We look to these negotiations to expand those playing fields and ensure they remain level, with a forward-looking, future-oriented trade agreement.

We commend the U.S. Government for pursuing this new bilateral agreement, and ask the Administration to continue seeking private-sector inputs throughout the negotiation.

The ACCJ stands ready to offer its expertise on every issue. Thank you.
MR. BISHOP: Thank you, Mr. LaFleur.

Our next witness is Celeste Drake, with the AFL-CIO. Ms. Drake?

MS. DRAKE: Mr. Chairman, members of the Committee, good morning. I appreciate the opportunity to testify on behalf of the AFL-CIO, and its more than 12 million working families on a potential trade agreement with Japan.

I have submitted written testimony for the record and will summarize my comments here.

The AFL-CIO does not believe that more of the same trade policies that brought us the original NAFTA and WTO will fix the problem, and appreciates the USTR's willingness to think outside the box.

With respect to Japan specifically, the AFL-CIO is concerned that a bilateral trade deal may be the wrong approach. Our experience, including more than 35 years of unsuccessful U.S. efforts to pry open Japanese markets gives us no faith that any commitment secured in the proposed deal will be effective at changing the trade
relationship in ways that benefit ordinary workers.

A traditional trade deal will not adequately address the $68.9 billion U.S. goods trade deficit with Japan, 75 percent of which comes from motor vehicles and parts, particularly given that Japan consistently produces more cars and car parts than it could possibly consume.

Despite decades of efforts by Japan's trading partners to open the Japanese market to imported automobiles, Japan remains the most closed automotive market in the world, despite a Japanese automotive import tariff of zero.

South Korean Hyundai Motors, which attempted to penetrate the Japanese auto market and pulled out in frustration in 2009, provides a cautionary tale.

Some of Japan's trade barriers are regulatory. But the USTR's past approach to regulatory barriers, which is to set up rules that allow firms and parties to attack legitimate public interest regulations, as well as market-
protective measures masquerading as such, may occasionally help a global firm to pad its bottom line, but usually leaves working families unprotected, and undermines democratic decision-making.

The AFL-CIO recommends that any reduction in U.S. tariffs on Japanese imports must be tied to actual, verifiable opening of the Japanese auto market and a substantial reduction in our bilateral auto trade deficit with Japan.

We also recommend a sunset clause that provides for the automatic termination of the agreement if the anticipated change in access to the Japanese market does not materialize.

An appropriate metric for the sunset clause would be a 50 percent reduction in the non-military, bilateral industrial goods trade deficit between the two countries.

Additionally, Japan's history of currency manipulation and misalignment is unlikely to be meaningfully addressed by a provision such as that included in the new NAFTA.
The AFL-CIO urges USTR to include specific currency disciplines that are enforceable in a timely way. The deal must also include a mechanism by which the parties will cooperate to address common threats, such as currency manipulation and overcapacity by third parties, or efforts by firms to engage in transfer mis-pricing, duty evasion, or tax avoidance.

Finally, Japanese automakers manufacturing in the United States have persistently denied their workers a fair and democratic opportunity to decide on union representation.

Without binding, effective rules to address this, any new U.S. jobs will not be family-wage jobs, but rather, more low-road jobs that further exacerbate income and equality.

Although we understand that the administration shares our concerns about the United States' enormous, persistent global deficit, to-date we have not seen the
comprehensive transformation of U.S. trade policy
required to bring about inclusive growth and
shared prosperity.

For example, although the renegotiated
NAFTA includes a meaningful paring back of
investor-to-state dispute settlement, a new
approach to labor obligations, and automotive
rules of origin and an innovative review
mechanism, we have concerns about whether these
new provisions -- particularly given the
inadequate dispute settlement mechanism -- will
transform trade relations in North America.

Additionally, too much of the new NAFTA
duplicates or expands upon corporate giveaways
present in trade agreements from the original
NAFTA to the WTO, to the TPP.

Provisions that keep drug prices
astronomically high and interfere with our
ability to regulate Wall Street and toxic
chemicals, have no place in a trade agreement.

They will not help create rising wages
or the shared prosperity that working families
need.

We urge the USTR to omit these provisions, and instead focus on tariffs and safeguards, cooperative mechanisms to address abusive practices by third parties, and strict labor and environmental terms to prevent a race to the bottom.

The United States cannot afford another trade agreement that hollows out our industrial base and adds to inequality.

The AFL-CIO will not support any trade agreement unless it is well-balanced, supports good jobs, protects the rights and interests of working people, promotes a healthy environment, and protects our democracy.

I thank the Committee for its time, and would be pleased to answer any questions you may have.

MR. BISHOP: Thank you, Ms. Drake. Our next witness is Rufus Yerxa, with the National Foreign Trade Council. Mr. Yerxa, you have five minutes.
MR. YERXA: Thank you, Mr. Chairman.

And thank you for inviting me today. I want to begin by saying our membership -- membership of the National Foreign Trade Council, which includes some of the nation's most successful and innovative global companies, and also largest exporters -- wants to state our unequivocal support for an outcome in these negotiations that will maintain and build on the strong existing US-Japan relationship.

They consider it essential to ensure that negotiations result in a strengthening of these ties and do not introduce further impediments into the trading relationship.

We believe that the agreement can strengthen this relationship and are prepared to work closely with you to identify key potential gains for the US.

We have submitted to you a detailed statement, which includes some overall guiding principles that I'd like to articulate.

First, that this agreement should create
more open markets and better rules, not new restrictions. Negotiations should be focused on improving market access and ensuring greater fairness, but must not become a pretext for designing new trade restrictions or undermining existing access.

Secondly, this agreement should reflect changes in the world economy, and negotiations should create new rules to ensure open markets in areas like digital trade, e-commerce and other new technologies, and modes of commerce that represent the modes of delivery of the future.

And thirdly, that the negotiations should address the section 232 tariffs, which are adversely affecting both our trade with Japan and the U.S. economy. More generally, U.S. manufacturers, consumers and exporters.

And we would strongly advocate that these unwarranted restrictions be removed as a byproduct of these negotiations.

We have submitted to you, as I said, a statement that contains a number of specific
negotiating objectives in ten key areas. I'll just state those areas briefly. Obviously, willing to answer questions about our submission on any of them.

On customs and trade facilitation, digital trade, trade-related IP, SPS and TBT, regulatory coherence, market access and goods, barriers to trade and services, investment, government procurement and SOEs.

And overall, I think in all of those areas, what we're stressing is something that Charles Freeman talked about -- how important it is to use this agreement to restore the competitive parity with other TPP countries that were lost as a result of U.S. withdrawal from the TPP agreement, and the decision of the remaining 11 countries to go forward with the CPTPP.

It is vitally important that we have this new agreement with Japan in order to restore that competitive parity.

It's made even more important by the fact that now Japan has entered into an FTA with
the EU, and this is creating one of the largest
free-trade zones -- if you want to call it
that -- in the world, which the U.S. will be
outside of if we're not successful in negotiating
new agreements with both Japan and the EU.

And I know the Administration's also
announced a proposal to go forward with
negotiations with EU.

So, a lot's at stake in these
negotiations, in order to ensure that U.S.
manufacturers and exporters don't find themselves
at a permanent or long-term competitive
disadvantage with the other major economies of
the world.

As I said, we're prepared to work with
you as you go through this process, and I'll be
glad to discuss any of our specific comments as
you get to that section.

MR. BISHOP: Thank you, Mr. Yerxa. Our
next witness is Michael Mullen, with Express
Association of America. Mr. Mullen, you havenine minutes.
MR. MULLEN: Thank you for the opportunity to talk with you today. I'm testifying on behalf of the Express Association of America, which represents DHL, FedEx and UPS, the three largest express delivery service providers in the world.

EAA-member companies serve over 200 countries, have estimated annual revenues in excess of $200 billion, employ more than 1.1 million people, and delivery more than 30 million packages each day -- or about twice that these days.

EAA strongly supports the concept of negotiating a trade agreement with this significant U.S. trading partner, provided that Japan agrees to a high-standard, comprehensive agreement.

EAA members' concerns regarding Japan arise mainly from the Japan Post, one of the world's largest, most powerful and wealthiest State-owned enterprises.

In addition to its basic mail-delivery
services, Japan Post provides a large variety of delivery and financial services that compete directly with services offered by the private sector.

Japan's 2005 postal privatization bill pledges that the cabinet and Japan Post will take measures to, quote, ensure equal competitive conditions, unquote, between the Japan Post operations and those of private companies engaged in the same lines of business.

But this pledge has not been honored in practice. Express Delivery Services and other value-added services offered by Japan Post continue to enjoy significant regulatory advantages over competing services offered by the private sector, and little or nothing has been done to ensure that Japan Post does not use profits and resources obtained from its monopoly and dominant market position, to subsidize other services.

The Express Delivery Service industry's immediate concern is the regulatory preference
given to Japan Post's international parcel delivery services, including express mail service, and other value-added services that compete directly with the private sector.

Japan attempts to justify this unequal treatment by applying an expansive definition of the basic universal postal service that has no basis in international law or practice.

Japan Post's express mail service should be subject to the same regulations imposed on private express delivery services.

Specific issues regarding the discriminatory treatment received by Japan Post include the customs clearance process, the handling of quarantine requirements, and the submission of advanced air cargo information.

Furthermore, the US-Japan trade agreement presents an excellent opportunity to speed the flow of trade by improving and harmonizing customs procedures.

With the exception of the de minimis provisions, chapter 7 of the USMCA would serve as
an excellent template for the agreement with
Japan on customs and trade facilitation issues.

Specific opportunities with regard to
Japan in this area include separating the
physical release of goods from the duty and tax
collection process, providing for the immediate
release of express shipments upon arrival, and
raising Japan's current de minimis level of
¥10,000 -- about US$90 -- to a more commercially
meaningful level.

Under no circumstances should the U.S.
suggest -- as we did in the USMCA -- that it
would lower its de minimis level as negotiating
leverage in these or any other trade
negotiations.

The U.S. economy benefits significantly
from the statutory level of $800, which is a spur
to greater engagement in the global e-commerce
marketplace, in which is the U.S. is a leader.

Reducing the de minimis level is the
equivalent of raising taxes, as it will cause
more shipments to be subject to tariffs, which is
just a tax by another name.

This would be a highly regressive tax, as it falls mostly on small businesses and individual consumers for whom paying the tariff could be particularly burdensome.

This is why a lower de minimis rate is strongly negative for the U.S. economy. It imposes higher bureaucratic cost on the small business likely to be the most dynamic entrepreneurs in the U.S. business community.

Finally, lowering the U.S. de minimis rate for some trading partners but not others, also opens the door to a potential WTO challenge, as it would impose different de minimis rates for different countries.

Thanks again for the opportunity to testify, and I look forward to your questions.

MR. BISHOP: Thank you, Mr. Mullen. Our final witness on this panel is Danielle Kessler, with the International Fund for Animal Welfare. Ms. Kessler, you have five minutes.

MS. KESSLER: On behalf of the
International Fund for Animal Welfare and its nearly two million supporters, I'd like to thank the U.S. Trade Representative and the Trade Policy Staff Committee for the opportunity to testify today on the proposed US-Japan trade agreement.

Protecting the world's wildlife and species vulnerable to overharvest, overexploitation and other human-induced threats, is not a restriction to industry and innovation. In fact, quite the opposite is true.

Here in the United States we have some of the strongest domestic standards and policies to protect imperiled and declining species, and strive for effective implementation of international environmental treaties to which we are a signatory.

We are simply saying that we expect other particularly economically advanced nations like Japan to achieve the same. To allow them not to be held to such standards creates an uneven playing field for U.S. agencies and
companies who take their obligations seriously.

The illegal trade in wildlife and wildlife products has become a massive global industry with profoundly negative impacts upon endangered species protection and ecosystem stability, as well as an increasing threat to national and global security.

This trade, which includes products as shocking as rhino horn and bear bile, to as seemingly mundane as rosewood timber and seafood, has become ranked as the fourth largest global illegal activity, after narcotics, counterfeiting and human trafficking.

Organized crime groups -- especially those with smuggling capabilities -- find wildlife trafficking attractive because of its low risks, high profits and weak penalties relative to other crimes.

Japan is one of the remaining legal domestic markets for elephant ivory, and reserve ports have shown significant unresolved risk in Japan's system for regulating its legal markets
that are being exploited by illegal traders.

An increase in illegal ivory exports from Japan has been documented, as well as considerable sales of ivory on the Yahoo! Japan website, with lack of proof of legal origin and high non-compliance with the requirements of display business registration for ivory sellers online.

When ivory hanko sellers were asked if they would sell ivory to someone who declared their intent to export the ivory, more than half said that they would, despite it being illegal.

The United States has been a leader in urging the closure of domestic ivory markets, spearheading strong action through the Convention on International Trade in Endangered Species of Wild Fauna and Flora, and implementing a near complete ban on its own ivory market.

Legal ivory markets anywhere are a threat to elephants everywhere. The U.S. should safeguard the future of elephants and call for the immediate closure of Japan's ivory market.
Japan's engagement in scientific whaling is another area of critical concern to biodiversity conservation and animal welfare, that should be addressed through a US-Japan trade agreement.

In 2018 Japan's programs killed 333 minke whales in the Southern Ocean -- including 122 pregnant females -- and more than 50 minke whales in the Antarctic Marine-protected area.

The U.S. should call upon Japan to end its unnecessary special permit whaling programs in the Antarctic and North Pacific, and to cease its efforts to overturn and undermine the International Whaling Commission moratorium on commercial whaling, which was adopted with unwavering support from the U.S. and then-President Ronald Reagan.

A US-Japan trade agreement, if ratified, would be of paramount importance, and contribute to the development of global rules in areas including environmental protection and sustainable development.
There's an urgent need to mitigate the detrimental effects of increased wildlife trade -- both legal and illegal -- on the local and global survival of trade of wild animal species, including the effects on individual well-being of traded animals.

Protecting biodiversity and the welfare of endangered threatened, captive and otherwise imperiled wild animals should be a key priority for U.S. and Japan negotiators alike.

Thank you for your time, and we would be pleased to work with you on these recommendations as negotiations move forward.

MR. BISHOP: Thank you, Ms. Kessler.

Mr. Chairman, that concludes direct testimony from this panel.

MR. BEEMAN: Thank you. Thank you to all the panelists for your time and the effort to not only be here, but in all the work that was put into the submissions. Obviously, I know five minutes is a rather limited time to cover.

The breadth of many of the submissions
we received were rather lengthy and we've read those very carefully. So, I want to assure you of that.

I just wanted to start with -- if I could -- with a question that came to my mind of Mr. Freeman, Mr. LaFleur and Mr. Yerxa, which is the submissions that your organizations put forward, obviously cover a broad range of sectoral and cross-sectoral issues and priorities, some of which were overlapping.

Obviously, they included a range of issues that affect goods trade, but also services trade and other broad areas as well, including digital trade, intellectual property and customs provisions, are just some examples.

In these areas, your associations are seeking more comprehensive rules, if you will, for the trade agreement.

Can you speak to why you believe including these cross-cutting, broad rules and chapters is important from your perspective?

In particular, why is it important from
your perspective to include these even in cases
where there may not be any current concern with
the state of law or practice in Japan at the
current time?

MR. FREEMAN: Thank you, Mr. Beeman. If
I could start in response, I mean, clearly we
want to make sure that this agreement is truly a
gold standard for the bilateral trade
arrangement.

But also, going forward, we think that
these are two countries that share like minds on
some critical issues of concern for the future of
the global trading system.

And for the two governments to get
together and decide among themselves what makes
sense for a global trading system in these areas
is a signpost for future trade agreements much
beyond this one.

MR. LAFLEUR: Let me add that in the
areas such as transfer of data across borders,
this is an issue of the utmost importance, not
only to the business that evolve in the digital
economy, but increasingly to all business that are operating in Japan or exporting to Japan.

So, this is a quite critical principle that ought to be enshrined for the long-term in bilateral agreements, both, I think -- as Mr. Freeman indicated -- to set a gold standard for other negotiations that are in process as we speak, but also to ensure -- or best ensure -- against any future contingencies.

Policy in this area, across all governments, is evolving very rapidly along with the digital economy itself, and this bilateral offers an opportunity to set again the highest standards and ensure that those, as technology progresses, that our standards are wide enough and pro-growth oriented sufficiently to encourage the growth in this area, where American companies are very, very competitive.

MR. YERXA: So, let me just add that I support the comments the other two have made, but I would stress further that from our perspective when the U.S. decided not to go forward with the
TPP, we not only created a competitive problem for ourselves with other TPP countries, but we lost an important strategic advantage.

You know, thankfully, the USMCA agreement restores some of those principles that the U.S. was able to incorporate into that agreement with respect to digital trade.

For example, state-owned enterprises, and a number of other things. And we think that's particularly important for our future relationship with China, and that this agreement is an opportunity to create a system of norms in those areas, particularly if we can then reassert the same norms in an agreement with the EU, because I think that if we're to move China in the right direction with respect to issues like forced technology transfer like IP -- like the digital economy -- the norms that we create through these agreements are going to be exceedingly important.

The Administration has pointed out that the WTO agreement, for example -- which hasn't
been updated for over 20 years -- falls short in some of these areas.

This is an opportunity for us to create broader multilateral norms in those areas, that will be exceedingly important with respect to how China emerges as a player in the global economy in the future.

MR. BEEMAN: Thank you. Thank you for your perspectives on that. In a similar vein, I want to address a question to Ms. Drake and Ms. Kessler.

There were, you know, some very specific concerns that you've identified with respect to labor and environment issues in Japan.

So, certainly we've heard that very clearly from you. Setting that aside -- I don't want to minimize it, but just setting that aside -- why do you consider it important to include broader rules on labor and environment provisions with respect to issues where Japan may typically not be thought of as a source of major concern in those areas?
MS. DRAKE: Thank you for the question.

As referenced in my oral testimony, one of the big concerns that we have with Japanese labor practices is how it treats workers when it invests abroad, and particularly with Japanese auto manufacturers operating in the U.S. South.

They do everything possible to deny workers a free and fair choice of whether they want to have a union in the workplace or not. And we think that rules should address that.

Moreover, Japan's home labor standards, which traditionally have been very high, and wages there have been very high, in recent decades has really duplicated the practices of many U.S. companies, which is to take workers from being well-paid workers with union rights and good pensions, and all of those things that allow workers to have a sustainable family, to turning them into perma-temps -- so, repetitive renewal of very short-term contracts -- which really undermines the right to organize and to negotiate for better wages.
So, we believe that since the U.S. and Japan relatively -- compared to the rest of the world -- have decent basic labor standards and decent basic wages, they should work together to set high-road rules that will prevent a race to the bottom, and then use those with other trade agreements in the future, to really set a new higher standard.

MR. BEEMAN: Thank you. And Ms. Kessler, as well, if you could address -- I think in your -- in the written testimony, you mentioned the desire for a strong environmental chapter. Could you speak to the importance of that chapter from your perspective, less the two specific issues that you've identified?

MS. KESSLER: Yeah, so with regard to the environment provisions -- and these are very specific issues, as you mentioned -- that you pointed out for Japan -- the end of ivory trade and whaling -- more broadly though, you would be hard-pressed to find any wildlife conservation or environmental issue that Japan, as the third
largest economy, isn't contributing significantly
to, from marine conservation, carbon emissions,
over-agriculture, these are all issues that we
certainly want to make sure that the U.S. has a
level playing field as they're implementing high
standards on this, that Japan is equal, and that
we're creating that little playing field for the
two economies.

We do think as well, I would add, the
USMCA agreement, the environmental chapter there
does make some significant strides. I think it's
a great baseline to start negotiations from,
particularly there's some new things added to
that with regard to -- marine litter has become
an increasing issue -- addressing that --
prohibiting and taking measures to be on shark
fin trade.

So, there's some significant progress
made in the USMCA chapter, and I think it
provides a really great baseline.

MS. MOGHTADER: Ms. Drake, in your
written comments you argue that USMCA took a step
in the right direction as to currency
manipulation, but did not go far enough on
enforcement mechanisms.

Can you describe what type of mechanisms
you believe would be most effective to include in
the US-Japan agreement?

MS. DRAKE: In particular, we would
recommend that all of the currency provisions be
subject to binding enforcement, and not just the
reporting requirements. So, we think that that's
a major omission.

Secondly, we would make sure that the
dispute settlement mechanism is really effective.
And we believe that the potential for a party to
block panel formation if a dispute were to go to
dispute settlement -- which exists in the NAFTA,
and which the U.S. has used before, to prevent
NAFTA disputes from going to settlement -- that
should be omitted.

And thirdly, we think that the currency
provisions could be strengthened by adding rules
to say, the U.S. and Japan should work together
when they identify a third party with whom both trade, that is engaging in currency manipulation, or has severely misaligned currency that doesn't quite fit the definition of manipulation, the U.S. and Japan should address that together, because that would make the U.S. and Japan stronger, and any efforts taken against those third parties to be more effective, because they wouldn't simply be unilateral.

MS. MOGHTADER: Thank you. And then, just following up, Mr. Freeman, in your written submission you state that currency language in the US-Japan agreement should not infringe on the ability of the Federal Reserve or the Bank of Japan to steer U.S. or Japanese monetary policy, respectively.

What is your view on the currency provision in the USMCA, and could you elaborate on how a US-Japan agreement could best address the issue of currency?

MR. FREEMAN: I am not an expert on the USMCA's currency provisions. I will say that
monetary policy is fragile by nature, and putting excessive rules and constructs around monetary policy, as conducted by either the Fed or the Bank of Japan, is something which should be done with the utmost caution.

As a general rule, we believe that currency policy is something best left to the currency experts, and not the trade experts.

MS. BONNER: Mr. Stanford, thank you so much for coming and for your testimony on the challenges that SMEs face. Going forward, we'd love to know if you could testify on any additional transparency measures or mechanisms that could improve market access and transparency for small businesses in Japan. If you have other additions, we'd love to hear from you.

MR. STANFORD: Yeah. I think you raise a particularly good point, and I think some high standards set in recent trade deals -- particularly, the US-Mexico-Canada agreement -- really took a new step in pushing those countries to be fair to those small
businesses.

In the United States we have a strong practice of looking at the small business implications for any regulatory provision and promulgation. I don't need to tell the SBA about how important the SBREFA process is.

The Japanese Government does not seem to have at least certainly a similar process. And so, we would look to see where entrepreneurs in Japan typically would be the best advocates for entrepreneurs everywhere.

And so, the more these deals can require that governments -- whether it's simple notification about regulations impacting small businesses, or if it's allowing them to shape that regulatory process itself -- that would certainly be warranted, and we certainly thought USMCA struck a right balance both within the SME chapter, and the other chapters laid out in our testimony.

MR. BEEMAN: I also wanted to touch on an issue that's of -- I think has been raised by
a number of the panelists as well, but I wanted
to get the views of Mr. Stanford and Mr. Mullen
in particular, which has to go to the issue of
Japan's customs de minimis level, and how changes
to Japan's level could -- that is made more
reciprocal with the U.S. level -- may provide
opportunities for small and medium-sized
enterprises.

Can you speak in a more focused way on
how important that has been when you've seen
cases where SME exporters have been benefitted by
other countries lifting their de minimis levels,
and how important that is to the SME sector?

MR. STANFORD: I'm happy to take the
first crack at that. And we'll follow up by
providing the Committee sort of more than
anecdotal evidence, and we'll look at some past
times.

We're excited about what the new levels
in Mexico and Canada may mean for our community.
But speaking in broad strokes, raising that level
decreases the barriers at the border.
You will only see entrepreneurs, innovators and small businesses enter markets where they feel comfortable. The higher that threshold is, the more they can do and the more they'll be willing to enter those markets.

A point that I don't know that we've touched on entirely about the importance of de minimis thresholds, is simply the expediency and simplicity.

It may not so much be that the duties will come into play. Small businesses will seek solutions wherever they can find it to be profitable.

So, whether or not the taxes are on those -- that $800 limit coming into the United States, is less important than the importance of expediency and the ability to do things just in time, and to have a functional supply chain.

And so, the increasing of that level for the Japanese will certainly allow not just American small businesses to purvey low-value goods over there, but also to balance the
ecosystem that will allow for an improved supply chain in which largely entrepreneurs would benefit.

MR. MULLEN: I certainly want to second what John said. He summarized it very well. The issue is really making the business transactions more simple for small and medium-sized enterprises.

And because both the U.S. and Japan have fairly low tariffs on the kinds of products that we're talking about -- low-value tariffs -- low-value products -- the tariffs being collected are really fairly minuscule from a broader budget-wide perspective.

So, just adding that nuisance to the operations for a small business is really not a good idea.

We're not -- the express industry is not saying that Japan should -- we should put a lot of pressure on Japan to come up to $800. Some increase in the current level would be fine.

But we don't think that this should be
made into a major political issue in the
negotiations, because it's not likely that we'll
get the results that we want from that kind of a
process.

We should encourage them to raise their
level, which hasn't been raised in quite a long
time, but to maybe focus harder on the other
provisions in the customs and trade facilitation
chapter, that will allow for a more expeditious
clearance process across the border.

MR. BEEMAN: Thank you. Thanks for your
perspectives. And for Mr. Mullen, as well, I
just wanted to ask a question on the written
testimony.

And it was also reflected in -- a number
of the other organization spoke in very detailed
way about the different advantages that Japan
Post express mail service has over private
competitors.

So, without rehashing the specifics, has
your -- or have your associations attempted to
calculate like a cost differential that your
MR. MULLEN: Well, it's very difficult to calculate it in a precise way. But it's major -- we're talking about three different areas, mainly.

One is the customs clearance process for goods under Japanese ¥200,000 yen, which is about $1,800, which is most of the express mail industry.

Japan customs handles all the paperwork for Japan Post. So, Japan customs will fill out the declaration for those shipments, they'll calculate the duties and tariffs, and they'll submit all the required documents.

I mean, it's all done electronically, but my members hire hundreds of people to perform those functions, because they don't get that kind of service from Japan customs.

The second area is quarantine. The quarantine officials in Japan allow Japan Post to
truck shipments from the airport to the postal
distribution center, and the quarantine officials
go there and do whatever inspections they need to
do and clear the shipments.

The private sector has to pay for that
kind of process to be done on space at the
airport. Those shipments have to be cleared at
the airport by the private sector.

And again, the cost of doing it there is
significantly higher than what -- the system that
Japan Post has.

And then, the third area is the
submission of advanced information. The private
sector has to provide shipment-level data for
everything they're bringing into the country
three hours in advance of the flight arriving.
Japan Post has no such requirement.
They don't have to provide advance data. So,
those are the big -- I could go on and on, you
know. Japan Post can double-park anywhere in
Japan. In the middle of Tokyo, Japan Post can
double-park. I'll ask Mr. LaFleur to address the
meaning of that significant benefit. The private sector gets a ticket if they try to do that.

So, it's just a system with a lot of built-in advantages that are really unfair compared to the private sector. And I would say the express delivery annex of the USMCA was best we've had in any trade agreement up until now. That's a good template for starting. But the whole issue of express delivery comparability should be a major focus of these talks.

MR. BEEMAN: Thank you. Thank you very much. Did you have another question?

MS. MOGHTADER: Mr. Freeman, one additional question for you. In your written comments you state that the US-Japan agreement should commit to deepened regulatory cooperation and coherence in fintech developments complementing multilateral and other bilateral efforts aimed at promoting cross-border financial technology development and growth.

How do you envision incorporating such commitments into an agreement, particularly those
tied to multilateral efforts?

MR. FREEMAN: We can submit a much more
detailed set of recommendations than I can
provide here. I do say that fintech is key to --
for our industry in Japan, and some of the data
provisions in particular are central to those.
So, I think as we look at the whole array of
digital concerns, fintech is front and center of
those. But we'll provide some additional
comments to the Committee.

MS. BONNER: Mr. Freeman and
Mr. LaFleur, thank you for your testimonies.
Could you share which of your recommendations
would be most beneficial for small businesses
seeking market access in Japan?

MR. FREEMAN: I think in general, as has
been suggested before, the de minimis provisions
are probably front and center on that. I mean,
when you're looking at a ¥10,000 level, we think
it should -- we're probably a little out there.
We think it should be ¥100,000.

That would really enable -- particularly
as we advance in the digital provisions that enable small businesses to get into the market in ways that they have not before.

So, I think we start from the de minimis, and then some of the customs and facilitation provisions, as well, would be central to that. But, you know, I think de minimis, digital and customs.

I should -- I want to follow up just briefly and to address the fintech thing if I might.

I think the key to us -- in all this is transparency. And so, we want to make sure the transparency obligations are as robust as possible.

MR. LAFLEUR: This is one of those choosing your favorite child questions, I think. But clearly, the issues we've just heard by some of the witnesses mentioning on de minimis and regulations, are simplification of regulations, and improvement -- in the case of deliveries of regulations and treatment of the national carrier
in Japan -- would all be of significant benefit
to small business in a variety of areas.

    I just might add to that that since
small businesses are typically the ones that are
most innovative in the areas of both fintech, and
also of the digital economy in general, that
further efforts to strengthen the cooperation
between the two countries, and harmonize the
regulatory treatment in the digital economy area,
I think would probably benefit small companies,
SMEs, even more perhaps than the large companies.

    And so, that I think becomes very
important for us in this agreement for small
companies.

MR. BEEMAN: I just have one -- I have
a couple more minutes. One last question for
Mr. LaFleur, in particular coming from Tokyo.
Obviously, you speak to a number of U.S.
businesses on the ground there, and the issue of
transparency and good regulatory practice was an
issue that was also raised in your submission,
including -- and submissions of others as well.
Can you speak to what areas in particular would be of most benefit to ensure better transparency in Japan? Certainly, we hear different experiences of U.S. companies.

Some feel the situation of transparency is improved. Some feel they have no access to the opportunities that the Japanese companies have to express views with respect to potential regulations or policies, and therefore, they get left out. Can you speak to kind of your views on how to deal with the issue of transparency?

MR. LAFLEUR: Certainly. Indeed, there are -- it's important to recognize indeed there has been progress in some areas in Japan in trying to expand transparency. And, as I mentioned in my oral statement, this in fact is one thing that the Prime Minister and his Abenomics policy has been trying to work on in Japan since I think the Japanese Government recognizes that increasing transparency across the economy is going to be one of the ways they can stimulate the growth that Japan so badly
needs as they address their demographic challenges.

So, I think we need to recognize that there has been progress in some areas. But, in certain areas -- and I mentioned pharmaceuticals in my statement a moment ago -- we find a process in which very clearly the views of foreign-based pharmaceutical companies -- and even in certain instances, we suspect, the Japanese companies -- doesn't appear to be having a big impact on -- or an opportunity to be involved at an early enough stage in the deliberations within the government, to have any real effect.

So, for example, we're well aware that Japan is trying to find ways to reduce the rising costs for healthcare, which the government supports in their single-payer system. But the opportunity for private sector to be involved in discussion of creative solutions to that problem really isn't there sufficiently at this stage.

And instead, what we're seeing is a focus on certain areas, such as pharmaceutical
prices, in a sort of exclusive way, to help Japan address this problem.

   Certainly, Japan has a big problem here. We all recognize that. But we would like to work together, and we think we can work cooperatively if business is given an opportunity to participate in a sufficiently early stage of the discussions.

   MR. BEEMAN: Thank you to -- again, thank you to the panel. Obviously, we have a very broad scope of views and opinions and priorities.

   But I really -- we have, as I say, have digested -- many of the submissions we received from this panel particularly are rather lengthy, and we have digested them all in full I want to assure you. So, I just wanted to leave that with you.

   PARTICIPANT: Thank you.

   MR. BISHOP: We release this panel with our thanks. I'm going to invite the members of panel 3 to please come forward.
Would everyone please find a seat.

Mr. Chairman, our first member of this panel is Phil Agress, with AdvaMed -- pardon me.

Mr. Agress, you have five minutes.

MR. AGRESS: Thank you very much, and I'm pleased to be here on behalf of AdvaMed, the Advanced Medical Technology Association.

AdvaMed represents manufacturers of medical devices, diagnostics and health information systems. Our members provide patients throughout the world with the best and highest quality products to treat their medical conditions and to enhance their lives.

AdvaMed welcomes the announcement by the U.S. and Japan of their plans to negotiate a bilateral trade agreement.

We believe that a trade agreement that expands opportunities for U.S. medical device manufacturers in Japan will increase U.S. economic growth and well-paying U.S. jobs.

Our industry is the clear world leader in medical device manufacturing, sales and
innovation. We're one of the few U.S. manufacturing industries that's consistently running trade surplus globally, and that's consistently run a trade surplus with Japan.

US-Japan trade agreement provides an opportunity to ensure that U.S. medical device manufacturers can benefit fully from their comparative advantage in Japan.

US-Mexico-Canada trade agreement provides a useful template for the US-Japan trade agreement.

But of course, since conditions vary between the two markets covered by these agreements, the terms of the US-Japan trade agreement would need to be modified as appropriate to suit the particular conditions that characterize medical device trade between the U.S. and Japan.

Now, let me briefly describe the negotiating objectives that AdvaMed would like to see the U.S. Government adopt for the US-Japan trade agreement.
First, it's important to ensure that Japan does not adopt any measures contrary to the spirit of the US-Japan joint statement of September 26th.

In the case of medical devices, this means that any revisions to reimbursement prices carried out in conjunction with Japan's plant consumption tax increase, should not take effect before the tax increase, and should not be used as the basis for a subsequent move by Japan to adopt annual reimbursement revisions.

Next, an important priority for AdvaMed is the inclusion of provisions on transparency and procedural fairness in the early achievements portion of the agreement.

We also support the inclusion of provisions on regulatory coherence similar to those in the US-Mexico-Canada agreement, and we'd also like to see these included in the early-achievements portion of the agreement.

In addition, we encourage the U.S. to seek a commitment from Japan in the early-
achievements portion, to work toward common regulatory systems for the review and approval of medical devices.

The goal should be to eliminate duplication of approvals or regulatory activities, where possible.

Another negotiating priority that we strongly encourage is based on a provision in the trade promotion authority legislation.

That provision states that one of the U.S. negotiating objectives shall be, quote, to achieve elimination of government measures such as price controls and referenced pricing, which deny full market access to United States products, unquote.

In view of this provision in the TPA legislation, we ask the U.S. Government to seek the elimination of Japan's reference pricing system for medical devices.

In addition, we'd like to see language in the agreement to constrain any revisions to Japan's reimbursement cycle, that would undermine
the value of medical devices.

Now, all of these negotiating objectives apply specifically to medical devices. AdvaMed also supports the inclusion of broader, more general, provisions in the agreement that would encourage the adoption of good regulatory practices generally, that would address issues that create particular challenges for small and medium-sized enterprises, that protect intellectual property rights, that address issues involving State-owned enterprises, that balance the need for the smooth flow of data and the protection of privacy, and that support the rule of law and combat corruption.

Thanks very much for your time, and for this opportunity to present our views.

MR. BISHOP: Thank you, Mr. Agress. Our next witness is Jay Taylor, with PhRMA.

MR. TAYLOR: Thank you very much. It's a pleasure to be here this afternoon on behalf of the Pharmaceutical Research and Manufacturers of...
PhRMA represents the country's leading innovative biopharmaceutical research companies, which are devoted to inventing, manufacturing and distributing valuable medicines that enable patients to live longer, healthier and more productive lives.

A key component of America's high-tech economy, the research-based pharmaceutical sector supports nearly 4.7 million jobs across the economy, including more than 800,000 direct jobs, and contributes nearly 1.3 trillion in economic output on an annual basis.

Our sector is one of the most research-intensive in America, and one of the top U.S. exporters among IP-intensive industries. In 2017 alone, our sector exported more than $55 billion in pharmaceuticals.

Innovators in this critical sector depend on robust intellectual property protection and enforcement, fair and transparent access to overseas markets, and strong regulatory systems.
Japan is a critical destination for U.S. biopharmaceuticals, representing the fourth largest export market for pharmaceuticals in 2017, with exports to the market valued at just under $4 billion.

A strong trade agreement with Japan that eliminates barriers to trade would foster even greater exports.

PhRMA and its members, therefore, strongly support the negotiation of a high-standard trade agreement between the United States and Japan.

The recently concluded US-Mexico-Canada agreement, or USMCA, provides a very strong base from which to negotiate a US-Japan agreement.

From the perspective of our industry, negotiations with Japan should address the following components.

First, negotiations with Japan and the United States -- two of the most innovative economies in the world -- should build on the strong IP protections set forth in the USMCA, to
establish ambitious IP provisions that protect
and provide effective enforcement mechanisms for
inventions from each country.

In particular, the negotiations should
address several aspects of Japan's IP system,
including the need to provide patent term
adjustments in the event of patent office delays.

Further, consistent with U.S. law and
the negotiating objectives under Trade Promotion
Authority -- or TPA -- a US-Japan agreement
should require Japan to provide at least 12 years
of regulatory data protection for biologics.

IP is the backbone of the innovative
biopharmaceutical industry. By cementing strong
IP standards in a US-Japan agreement, the United
States could build on the successes of the USMCA,
establish a significant precedent for other
future agreements, and help to pave the way for
the next generation of treatments and cures.

Second, the negotiations should
establish rules to ensure that Japan
appropriately values, protects and encourages
innovation, and provides greater transparency in pharmaceutical pricing and reimbursement decisions.

The negotiations provide a critical opportunity, consistent with TPA, to eliminate price controls and ensure that government regulatory reimbursement regimes in the market are transparent, provide procedural fairness, are non-discriminatory, and provide full market access for U.S. products.

To this end and consistent with Japan’s existing international obligations, the negotiations should address the discriminatory elements of Japan’s Price Maintenance Premium -- or PMP -- a system that appears to be biased inherently toward domestic companies, calling into question Japan’s commitment to its WTO obligations.

Further, the negotiations provide a timely opportunity to ensure that any new Japanese health technology assessment systems incentivize innovation and provide patients with
timely access to new treatments.

The negotiations also should ensure that
the development and application of rules and
procedures that apply to pharmaceutical pricing
and reimbursement decisions are predictable,
transparent, and fairly applied, and that applied
rules are available to all U.S. companies in
sufficient detail and clarity such that they have
a full understanding of the rules and
methodologies used in decision-making.

Put simply, medical advancement cannot
occur absent predictable and transparent public
policies, and investment in the development of
innovative medicines cannot occur in unfavorable
or unfair business environments.

Third, the negotiations should establish
rules to ensure transparency in the application
of international standards in Japan's drug
approval and other regulatory processes.

As Japan develops new rules, regulations
and policies that will affect how U.S. products
are regulated and priced in its market, Japan
should allow meaningful opportunities for interested stakeholders to provide input throughout the process.

A strong regulatory framework not only ensures that patients have fast access to safe, high-quality and effective medicines, but also encourages scientific research and innovative drug development.

Finally, as the United States Government identifies areas in which it could secure early achievements as part of these negotiations, we encourage you to consider the impediments faced by the U.S. innovative biopharmaceutical industry.

We also encourage the U.S. Government to ensure that Japan -- consistent with the US-Japan joint statement of September 26, 2018 -- refrain from taking measures against the mutual trust and spirit of the negotiations.

Such measures would include major revisions to Japan's pricing and reimbursement system, that would impact seriously the ability
of U.S. companies to access the Japanese market.

    Thank you again for the opportunity to
testify. We believe that with the right policies
and incentives in place at home and abroad, our
member companies can continue to bring valuable
new medicines to patients, and contribute
powerfully to the American economy.

    PhRMA's written submission more
thoroughly outlines our positions for a US-Japan
agreement, but I'm happy to answer any questions
the panel has. Thank you.

    MR. BISHOP: Thank you, Mr. Taylor. Our
next witness is Joseph Damond, with the
Biotechnology Innovation Organization.
Mr. Damond, you have five minutes.

    MR. DAMOND: Okay, thank you. Good
morning. Also pleased to be here this morning,
representing the Biotechnology Innovation
Organization, which has a membership of more than
1,000 biotech companies, academic institutions,
state biotech centers, and related organizations,
in almost all 50 states, a number of foreign
countries.

The vast majority of our membership are small and medium-sized pre-commercial companies, or startup companies.

We also represent all aspects of the biotech industry, including the biopharma sector, agricultural biotech, and industry and environmental applications in biotech.

I'm going to focus this morning mostly on the biopharma sector, because that's where most of the issues affecting the biotech sector exists with respect to Japan.

I wanted to provide some key data points behind the formal testimony that we submitted. First of all, just to say that we support a US-Japan trade agreement as the best opportunity to address some of the critical issues outlined.

Some data points, though. Seventy percent of all new medicines now originate with small and medium-sized enterprises. Seventy percent of all new medicines, that is, that are approved by the FDA or PMDA in Japan, originate
with small enterprises.

Sixty percent of all new medicines originate in the US, and increasingly, those are biotech products.

Secondly, Japan's system, until recently, has been greatly improved with respect to both regulatory and reimbursements, in terms of promoting innovative biotech and access for innovative biotech, which created opportunities for collaboration between the U.S. and Japan in the biotech sector, and commercial opportunities for both sides in the Japanese market.

This progress was reversed in the last couple of years, with a series of anti-innovation, reimbursement policies that were imposed by the Japanese Government, as outlined in our testimony -- I'll come back to those in a second.

Third, we understand the fiscal problems that Japan Government faces with respect to its healthcare budget, but they are consistently balanced on the back of the innovative
biopharmaceutical industry, especially innovative
biopharmaceutical companies, which account for
something like 20 percent of healthcare costs,
but routinely bear the brunt of 40/50 percent of
healthcare savings.

We consider this unfair, discriminatory,
and also restrictive of market access, both for
our industry, and also in terms of Japanese
patients.

And, from a Japanese perspective, it's
an inefficient allocation of healthcare resources
to focus on this one sector.

Moving on to the specific practices
outlined in our testimony -- without going into
great detail -- I just want to mention a few.

First of all, innovation changes to the
Price Maintenance Premium system that were
outlined, particularly focus and discriminate
against small and medium-sized enterprises.

We were a little bit taken aback at the
way these were designed, but the criteria for
getting innovation points, or being considered
innovative in Japan, particularly relate to the number of drugs launched in Japan, the number of clinical trials launched in Japan -- or done in Japan -- which some of our larger companies or larger members can meet those criteria, but the small startup companies cannot.

So, some of our most innovative companies will not be eligible for innovation premiums in Japan.

Secondly, the non-transparent nature of pricing and reimbursement policymaking in Japan -- by Chuikyo in particular -- Chuikyo has not done a particularly good job of taking into account the comments of the innovative industry.

But in particular, for small and medium-sized companies, it's very hard to get represented in Japan.

Finally, the one just mentioned, that we are very concerned about the way that health technology assessment is being developed in Japan, and that it could exacerbate the trend in anti-innovation of Japan if not done in a way
that actually fosters access to new medicines.
And we're concerned that it's not doing that.

Our recommendations for the agreement
are that we -- as was mentioned -- apply
standstill commitments to the sector to not make
worse policies that are anti-innovation while
negotiations proceed.

Secondly, we see some opportunities to
capture and formalize past key agreements between
the two governments as part of any early
achievements in the process -- in particular,
agreements reached a long time ago -- to ensure
that new products are listed for reimbursement
between 60 and 90 days after regulatory approval.

We think the more complicated pricing
and reimbursement as they stand now can be
addressed in the main body of the trade
agreement, in terms of general principles, and
then specific commitments.

And, because new policies are always
coming up from the Ministry of Health, Labor and
Welfare in Japan, we think there needs to be an
ongoing system to ensure not only compliance with what was agreed upon, but to ensure commitment to innovation and market access over time.

Finally, I just want to mention two points that build on existing trade agreements and that are relevant to our sector.

We think good progress was made in the US-Mexico-Canada agreement, on, particularly, intellectual property rights, where there was a greater degree of data protection -- data that was specifically built in for biologic products.

We think that can be built upon, and should be built upon in Japan, to get Japan -- as was mentioned by Jay -- up to the U.S. standard of 12 years of data protection for biological products.

Secondly, with respect to agriculture, I do not want to forget that aspect of our sector. We welcome the potential of the US-Japan trade agreement to strengthen the relationship between the governments to ensure regulation of biotech ag is science-based, transparent and
We think there are lots of opportunities for collaboration in this sector, and can be -- that both governments are sort of positively inclined to do that. And we think that predictable science and risk-based regulation is critical to enabling innovation and attracting investment in this sector.

So, with that, I'll conclude my comments and glad to answer any questions. Thank you.

MR. BISHOP: Thank you, Mr. Damond. Our final witness on this panel is Rachel Sher, with the Association of Accessible Medicines.

Ms. Sher, you have five minutes.

MS. SHER: Thank you, and good morning. Mr. Chairman and members of the Trade Policy Staff Committee, my name is Rachel Sher and I serve as Deputy General Counsel at the Association for Accessible Medicines, or AAM.

AAM represents the manufacturers and distributors of generic and biosimilar medicines in the United States.
In the last decade, generic medicines have saved U.S. patients, taxpayers and insurers $1.67 trillion, compared to prices that would have been paid for brand-name prescription drugs.

In 2017 alone, generic medicines saved $265 billion, and the potential for savings from biosimilars is projected to reach nearly the same level.

In 2016, AAM members manufactured over 61 billion doses of prescription medicines in the United States at 149 facilities in 16 states.

Our members manufacture generic and biosimilar medicines in the United States for domestic use and for export markets, including Japan.

As an initial matter, AAM strongly supports the Administration's blueprint for lowering prescription drug prices. Generic drug and biosimilar competition is the centerpiece of the President's blueprint, because fair competition is the best way to bring down the cost of prescription drugs.
AAM supports provisions in U.S. trade agreements that deliver on the mandate in the bipartisan Congressional Trade Priorities and Accountability Act of 2015 -- or TPA -- to ensure that the Intellectual Property Rights -- or IPR -- provisions of our trade agreements foster innovation and promote access to medicines.

Any trade agreement reached with Japan must maintain this careful balance, which also is reflected in the current U.S. law.

AAM opposes the inclusion of IPR provisions that extend monopoly protection for branded products, such as longer pharmaceutical data exclusivity provisions, or mandates to extend a pattern term based on delays in granting the patent or obtaining marketing approval.

AAM does not believe that the current US-Mexico-Canada agreement -- USMCA -- pharmaceutical IPR provisions establish the appropriate balance between protecting innovation and encouraging access to medicines, and thus it does not serve as an appropriate model for the
One area of great concern for AAM is the requirement for countries under the agreement to provide a ten-year exclusivity agreement for brand-name biologics, independent of patent protection.

In Japan, patients generally can access biosimilar medicines after an eight-year period of exclusivity granted to new drugs. Increasing this period to at least ten years will delay patient access to biosimilars in Japan, blocking U.S. exporters from potential markets and hampering their ability to invest in the development of biosimilars for the U.S. market.

Moreover, this provision will handcuff U.S. policymakers from lowering the U.S. exclusivity period below ten years, should Congress decide that doing so is needed to lower prices in the US.

Typically, the IPR chapter of U.S. trade agreements includes many monopoly protections and
deterrents to generic competition, including the
extended biologics exclusivity provisions I just
mentioned.

Yet, the agreements often lack several
critical features of U.S. law that encourage
generic and biosimilar competition.

These features are outlined in more
detail in our written submission, and include a
robust regulatory review or Bolar period, an
incentive for the first generic drug applicant
that successfully challenges a weak brand-name
drug patent, and requirements to disclose the
best mode for carrying out a new invention.

Without such provisions, the required
balance between protecting IP and encouraging
access to medicines will not be met and the net
effect will be a slowdown in biosimilar and
generic deployment, and increase prescription
drug prices borne by patients in the US.

The US-Japan trade agreement presents an
opportunity to improve on the USMCA by including
provisions that enhance generic and biosimilar
drug development and access.

This approach will benefit U.S. exporters of these products and advance the President's goal of lowering U.S. drug prices.

Most importantly, it will ensure that patients have greater access to affordable medicines. In a nutshell, it's a win-win.

Thank you for the opportunity to testify, and I look forward to answering any questions you may have.

MR. BISHOP: Thank you, Ms. Sher.

Mr. Chairman, that concludes direct testimony from this panel.

MS. BOHON: Good afternoon. Thank you all for your testimony today. I have a question for Mr. Taylor of PhRMA. In your written submission, you observed the Japan's Price Maintenance Premium -- or PMP -- criteria have been made, quote, inherently biased towards domestic companies.

Can you please explain further why this is the case in your organization's view, and if
you believe this is a disguised industrial policy
that favors Japanese life sciences companies.

Thank you.

MR. TAYLOR: Thank you for your
question. The short answer is yes, this policy
seems to be inherently skewed toward the benefit
of local Japanese companies.

We've had to do quite a bit of digging
to better understand the way that companies have
been tiered within the PMP system, and it's not
been a transparent process, as I think my
testimony touched on in our written submission,
as well.

In order to benefit from 100 percent of
the Price Maintenance Premium, you need to be
qualified as a Tier 1 company, and then it goes
down -- Tier 2, Tier 3.

A number of highly innovative U.S.
companies did not qualify for Tier 1 status.
There are a number of very non-innovative
Japanese companies that did qualify for Tier 1
status.
And if you look at just the sheer amount of research and development investment that U.S. companies who are not benefitting from that highest tier of the premium, it really does show an inherent bias in the system.

But, you know, a large part of our struggle has been the core transparency issue. It's permeated all of the discussions around Japan's pricing reforms of the last two years.

Whether it's their Chuikyo process at which we've had very limited opportunities to engage, certainly our comments have not been listened to, or any other part of this set of pricing reforms.

So, the answer is yes. I'm happy to provide more information on that.

MS. BLEIMUND: Good afternoon. I'm Emily Bleimund from the U.S. Department of Health & Human Services. I have a question for Ms. Sher. Your submission states that, quote, being allowed to sell new biologics in markets outside the United States allows the fixed cost
of biosimilar development over a much broader patient base.

Could you explain further what those fixed costs are? Do you see the sale of biosimilars abroad, including in Japan, as a way to reduce the cost of biosimilars in the United States? Thank you.

MS. SHER: Thank you for the question.

Yes, as our submission states, our companies are generally global companies that develop products for markets all over the world.

So, being able to have access to foreign markets -- including Japan's -- is a critical aspect of our company's business model. I can get you a more detailed description of exactly what the fixed costs are.

But the concept is having access broadly to markets all over the world is critical, and it allows our members to spread those costs throughout a much broader patient base.

MR. BEEMAN: Thank you. I wanted to explore the issue of the types of provisions that
are actually -- you know, make the most sense
from the perspective of achieving the objectives
that you're aiming for.

I recognize they're not necessarily the
same objectives, but at the same time wanted to
talk about that with respect to how trade
agreements can address these issues in a way
which respects the government's rights and
ability to make policy and regulation, at the
same time that addresses the concerns not only of
market access, but also of access to medicines,
but also the medicines that -- the development of
the medicines themselves, that enable patients to
do well, essentially.

So, there are different ways of looking
at this. I think, Mr. Damond, in your testimony
you submitted, you cite the agreements with Korea
and Australia as particularly having aspects of
those agreements that you felt were important to
include in any agreement with Japan.

Can you elaborate on the types of
provisions that you find to be most -- have been
most effective in those agreements, and is there
anything in the USMCA that you would recommend
also including?

MR. DAMOND: Well, I think that the
provisions in the Australian and Korean
agreements are a good basis on which to build, in
the sense that, particularly with respect to the
transparency and accountability of the pricing
reimbursement system put in place, a number of
procedural disciplines that the countries needed
to follow, and in the text of the agreement, were
covered, generally.

And then, those were accompanied by side
letters that provided in greater specificity the
actual changes that would be made to those
systems.

I think that's a good model for ensuring
that what's agreed to is executable. I think it
needs to be built on in the case of Japan,
because now we're talking about not just ensuring
procedural fairness, but substantive fairness,
particularly when it comes to discrimination
against anti-innovative policies, or policies that somehow single out, as I said earlier in my testimony, the innovative biopharmaceutical industry.

I think there need to be provisions basically saying that such practices will not be taken. But then, the agreement will need to get specific about which practices we're currently talking about.

But to just finally reiterate something else I said is, I don't think we're under the illusion that even such agreement would be durable in the long run, because having covered this issue for a couple of decades, I know that the MHLW itself is very innovative in coming up with new policies that have similar impact, while they'd be different formally.

And there's going to need to be some sort of ongoing process of compliance to make sure that Japan sticks to the spirit and letter of the agreement itself.

MR. BEEMAN: Thank you for that
perspective, and including that idea, you know --
I think you suggested it's an ongoing effort and there's, you know, only certain things that can be done in a trade agreement that will actually get you to that point.

I wonder if I could just expand this question for all the panelists then, now that Mr. Damond has kind of given his views -- maybe starting with Mr. Agress. Can you -- I mean, this issue of addressing very detailed, you know, specific topics and areas -- be it the HTA, be it the PMP, be it the frequency of reimbursement reviews, for example -- you know, there's this challenge, in terms of the level of specificity you can get into in a trade agreement, that addresses these issues on the one hand, while leaving sufficient room for -- to be able to achieve other policy goals on the other hand.

Can you speak to maybe one or two of your priority issues, and speak to kind of how you see those best addressed in terms of a trade agreement itself, or maybe what those limits may
be?

MR. AGRESS: Sure. Thank you very much for the question. Let's talk a little bit about their regulatory coherence, because I think that's a good area that kind of fits the question.

In any -- in the US-Mexico-Canada agreement, as well as in other agreements, the parties have agreed to provisions on regulatory coherence that are somewhat general, I guess, in nature, but specific enough that I think they create a framework that provides discipline on both sides to improve their regulatory procedures and bring them closer together in a way that benefits all parties, I think, to the agreement.

And -- for example, in Annex 12-E of the US-Mexico-Canada agreement, that contains regulatory coherence provisions that I think, you know, are really an excellent template for other agreements, including the US-Japan trade agreement.

We would encourage you to look at those
as you move forward in negotiating the US-Japan trade agreement. I think those can be built upon. I think it's possible to move beyond those, and we would encourage that, in the case of the US-Japan trade agreement, to move closer toward ultimately a system where the -- it's not exactly mutual recognition, but where there is less duplication of need for reviews and approvals than currently exist.

MR. BEEMAN: Thank you. Also, I'll ask the same question of Mr. Taylor and Ms. Sher, as well. Just choose one or two of kind of your priority topics, and how you think that's best addressed.

Maybe it has been addressed in another agreement that you think did a good job of it, or maybe -- I'll let you expand on that.

MR. TAYLOR: I'll try not to choose five. I think -- well, let's set aside the intellectual property issues now, and hopefully, we'll have a chance to touch on that.

But in the market access space and on
pricing reimbursement issues, our industry has faced enormous challenges in the Japanese market over the last couple of years.

I think, as Joe mentioned, there is a good history here with the US-Korea, US-Australia, and now the USMCA, text that covers transparency and procedural fairness.

You know, there’s a key provision in the US-Korea agreement that says that if you’re not going to be a free open market, you should at least have elements in your system to get close to competitive market-based systems.

That’s also reflected, I believe, in the language in TPA, which sort of sets forth this idea that price controls are a bad thing and we should try to find ways to alleviate the pressures that they impose on U.S. industries.

It’s too big of an opportunity in the US-Japan FTA to not try to find that right set of provisions that address some of the worst practices in Japan, building off of the US-Korea and Australia, USMCA texts.
Maybe it's a question of altitude. Maybe if you get too specific, it gets too difficult. But we're seeing some basic discrimination and basic practices at play that you could presumably capture at some level of text in an FTA.

A few that spring to mind, annual -- this potential shift to annual repricing in the system from their biennial system, health technology assessment, and the fact that it's been laser-focused on the pharmaceutical industry, and not the broader healthcare system in Japan.

The Price Maintenance Premium and the inherent discrimination that we touched on just a moment ago, these are all parts of the Japanese pricing and reimbursement system that are posing real problems for U.S. industries.

This is a great opportunity to find a way to address some of those, and to adhere to this notion that if you're not going to be a competitive market-based system, you need to have
disciplines in place that get you as close to
that as possible.

MS. SHER: Thank you for the question.
As I mentioned during the oral testimony, our
goal in any of these trade agreements is to honor
the priorities that were set forth in the TPA,
which is to balance innovation and access.

And to sort of answer your question
about an example of one that in this case we
think has not done it, it would be the USMCA, as
I mentioned. Our position is that that agreement
is skewed too much toward the innovation side,
with not enough on the access side.

And we are hoping that the US-Japan
agreement will strike that balance in a more
effective way.

More specifically, in terms of
provisions that we would like to see on the
access side, is mimicking U.S. law to provide an
incentive for the first generic applicant to
challenge the patents and bring the product to
the market.
In the U.S. law, as you know, there is a 180-day term of exclusivity rewarded to that first generic applicant, and that has been a critical incentive for bringing generics to the market at the earliest possible time. So, we would hope to see that echoed in the Japan agreement.

Similarly, the Bolar provision, which allows our companies to use the patented invention only for the purposes of developing data and going through the regulatory review. That also is a feature of U.S. law and has been critical for bringing generics to market at the earliest possible moment, as soon as the effective patent life for exclusivity expires for the branded products.

So, those are just to name a couple. There are more outlined in our written submission. But in general, we're really hoping that that balance can be better struck in the Japan agreement.

MS. BOHON: Okay, this question is for
Mr. Taylor, Mr. Damond and Mr. Agress. Are there other provisions or principles in the US-Japan MOSS agreement, as referenced in some of your submissions, that you also find important to be included in an agreement with Japan?

MR. DAMOND: I think that the key provision of the MOSS talks that's in potential jeopardy as Japan engages in its price reforms, is the so-called 60-90 day rule that we mention in our written submission.

I think that's a potentially prospective concern if sort of these pricing reforms are headed in the direction that they are, that you wouldn't get approval within the 60-day period and, you know, at the very latest the 90-day period.

So, that is one component of the MOSS talks we're paying a lot of attention to. But I'm happy to provide more detail and follow-up, as well.

MR. AGRESS: Yeah, thank you. I think the fact that we're talking about the MOSS talks
at all 32 years after they were completed speaks
to the real value that they've had over these
past three decades, in serving as a forum for
discussion of issues on medical devices and
pharmaceuticals.

And personally, I think that's been
their greatest value over this time. Obviously,
the specific provisions are important, and I
don't disagree at all with what Jay said.

But I think having this kind of forum,
begin able to meet regularly and exchange views,
I think, is something that's tremendously
important and needs to be continued in some
fashion as we move forward.

MR. DAMOND: Just to add briefly, I
mean, I agree with what both of the preceding
comments were, and we mentioned the idea of
locking in the 60- to 90-day reimbursement
deadline after regulatory approval.

I would just also note that we should
probably all go back, I think, and look a little
bit more at what MOSS has produced over the last
30-some years. It's been an ongoing process. Point about it is the agreements are always provisional. They always last a year or two. But over the decades of those discussions between the U.S. and Japan, Japan has episodically agreed to do things like forestall the application of an annual pricing review process and other steps that have to do with how innovative drugs are assessed, and I think it's worth -- even though it is 32-some years of looking at it -- I think it is probably worth us all studying some of the commitments that Japan has made provisionally over the course of those decades, and seeing if they can be formalized in the context of the US-Japan trade agreement, and made a little bit more permanent.

MS. BLEIMUND: This question is for Mr. Damond. In Bio's written comments, it highlighted the importance of Japan as an export market for U.S. agriculture, and the achievements made in the USMCA on agricultural biotechnology. Can you expand on the provisions in the
USMCA that serve as a model for the US-Japan trade agreement in that area or in others?

MR. DAMOND: USMCA we did think was a very good model, with respect to cooperation on agricultural biotechnology, because what it did was established a ground rule, or set of ground rules, that called for predictable and science-based regulation in the two -- in the parties of the agreement, and with a view towards making approvals of biotech products more synchronous with each other.

In other words, there's not huge delays between the approval and one country and another, and therefore reducing the uncertainty in the global environment for biotech.

We have found through years of dialogue with Japan on these issues, as I said earlier, as I alluded to at the end of my testimony, that Japan is amenable to working with the U.S. on synchronizing its regulatory system for biotechnology and agriculture.

And we think that the framework for
doing that -- establishing it as a more formal process and establishing sort of the basic objectives of that -- is a really good and concrete way of moving that agenda forward.

MS. BOHON: This question is for Ms. Sher. What provisions in the US-Japan trade agreement would you say are the most critical to enhance market access and patient access to generic products?

MS. SHER: I think we would, first of all, stress, as I mentioned, the need to avoid erecting barriers to particularly the emergence of biosimilar products, with the great concern about putting the ten years in place.

As we mentioned, Japan currently has eight years, and our view is that Japan and other countries should have the ability to tailor their systems appropriately for their own markets, so avoiding that would be critical.

And then, as I mentioned, our written submission goes into a lot more detail. But the other provisions designed to encourage the
emergence of generic and biosimilar products by
providing incentives and protections for those
products, is critical, and there's a list of them
in our written submission.

MR. BEEMAN: Just a quick follow-up. In
terms of actual market access, I understand the
points you made. Do you find particular market
access barriers within Japan beyond those that
are specific to Japan's other regulations?

MS. SHER: I'm happy to get back to you
in writing on that. As of now, the main one that
we refer to are the -- the ones that we
mentioned.

CHAIRMAN GRESSER: Let me thank you all.
We are going to take a brief break for lunch and
be back promptly at 1:05. And thank you to all
our witnesses and those of the previous panels.

(Whereupon, the above-entitled matter
went off the record at 12:43 p.m. and resumed at
1:04 p.m.)

CHAIRMAN GRESSER: Will the room please
come to order? Thank you all very much for
coming and welcome to this Trade Policy Staff Committee hearing.

Just a couple of notes. Please, all our witnesses, we'd ask to respect the five-minute limit for testimony, to make sure that all of our witnesses can speak and provide their insights and views.

We are grateful to you for coming and want to make sure we hear from all of you. And also to provide enough time for our panelists to ask questions and go deeper into issues that they'd like to learn a bit more about.

Once again, thank you. And let me turn now to Mike Beeman, our Assistant Secretary -- Assistant USTR -- for Japan, Korea and APEC.

MR. BEEMAN: Thank you. Good afternoon.

Thank you for coming. As I mentioned this morning for other panels that had come, we greatly appreciate the time and effort that you've made, not only to appear here today, but also in all the effort that was put into
testimony, preparing that and submitting it in
the period of time.

We take all this very seriously and we
really appreciate you coming this morning. I
think we can begin the panel. Thank you.

MR. BISHOP: Mr. Chairman, our first
witness on this panel is Floyd Gaibler, of the
U.S. Grains Council. Mr. Gaibler, you have five
minutes.

MR. GAIBLER: Thank you very much. On
behalf of the U.S. Grains Council, I appreciate
the opportunity to offer our statement of
negotiating objectives in support of a US-Japan
trade agreement.

The Council has enjoyed over 50 years of
cooporation and relationships working to innovate
the Japanese feed, livestock and starch
industries.

Because of this mutual relationship and
our commitment to be a long-term, reliable
supplier, Japan has been a top customer of U.S.
corn exports.
The Council strongly supports the objectives of a trade agreement with Japan, similar to our support for inclusion of Japan during the negotiations of the Trans-Pacific Partnership.

In addition, the recently signed US-Mexico-Canada agreement contains provisions in both market access and regulatory provisions that, in our view, should be service-foundational language for negotiations in a US-Japan trade agreement.

TPP provided new market opportunities for U.S. feed grains by countering preferential treatment from regional and bilateral agreements Japan has in place.

For example, with the European Union completing its trade negotiations with Japan and, in fact, voting on it this Wednesday, EU barley and barley products and sorghum will face lower costs than the U.S. currently faces.

TPP eliminated the preferential treatment and leveled the playing field for
market access.

So, in our view, matching or exceeding the market access from these regional competing agreements should be a key negotiating priority.

At the outset, the negotiations should aim to eliminate and/or phase out all existing tariffs and tariff-rate quotas.

At a minimum, market access provisions with Japan should match or exceed those achieved under TPP.

For us, that includes maintaining zero duties on imports of corn for feed and industrial use, corn gluten feed and dried grains, as well as eliminating existing tariffs for barley for feed outside the existing TRQ, sorghum and ethanol.

In addition, under TPP, new country-specific quotas for starches were provided, as well as expanding the TRQ for barley.

Efforts to resolve outstanding bilateral sanitary and phytosanitary disputes with all trading partners are important to create a free
competitive environment, particularly within the Asian region.

USMCA built on the already strong SPS chapter agreed to during the TPP negotiations. High standards of transparency import notifications and technical consultations prior to disputes among other provisions should be helpful in establishing a baseline for future trade negotiations, and serves as an ideal placeholder for the US-Japan agreement.

TPP was the first bilateral or regional trade agreement that includes biotechnology. And recognizing ag biotechnology is an important tool to feed the world's growing population in a sustainable manner, and that an agreement that included provisions that committed TPP countries to foster transparency in science-based regulations in their decision-making process.

It also included provisions to promote timely authorization of products of modern biotechnology. The USMCA improved these
provisions and should be included in a US-Japan agreement.

While Japan has a regulatory process that is relatively synchronous with the US, situations exist where asynchronous approvals of biotechnology products by regulatory authorities in exporting and importing countries, may restrict innovation and create enormous risks to the international trade of commodities, such as our corn products and soybeans.

The provisions that were in TPP that we think should be included in this agreement include import and export restrictions, performance requirements, import licensing, ag export subsidies, domestic supports, ag safeguards, food security export restrictions, and trade -- State trading enterprises.

And as a member of the U.S. Food and Agriculture Dialogue for Trade, we also support provisions on a strong technical barriers to trade chapter, good regulatory practices, and customs administration and trade facilitation.
In conclusion, the Council strongly supported completion of TPP and the inclusion of Japan as a full negotiating partner.

While we would have preferred that the U.S. would reconsider participation in the now 11-member CPTPP agreement, it is imperative that the U.S. achieve a bilateral agreement with Japan so that U.S. Food and Agriculture can reclaim its market access benefits achieved under TPP, and regain market shares.

As the world's third largest economy, a trade agreement will provide opportunities to expand free and fair trade, strengthen our economic and strategic partnership between our two countries, and help promote economic growth in the Asia-Pacific region. Thank you very much.

MR. BISHOP: Thank you, Mr. Gaibler.

Our next witness is Vince Peterson, with the U.S. Wheat Associates. Mr. Peterson, you have five minutes.

MR. PETERSON: Thank you, gentlemen and panel, for the opportunity to speak with you on
behalf of U.S. wheat farmers about these trade negotiations with Japan.

Again, my name is Vince Peterson. I am the President of U.S. Wheat Associates. Our mission is develop and maintain expanded international marketplaces on behalf of U.S. wheat farmers. And frankly, one of our most critical markets in this endeavor is Japan.

Given its overall demographic and consumption trends, Japan is generally a market that we endeavor to maintain our 53 percent market share in that country. But today, we're facing an imminent collapse because of being outside of the TPP agreement.

Frankly, this is because of provisions negotiated by USTR for the benefit of ourselves under the Trans-Pacific Partnership. But our competitors in Australia and Canada will, in fact, now benefit from those provisions, as U.S. farmers will remain on the outside and helpless in that process.

So, over the immediate past five years,
Japan is our largest, most reliable and most valuable customer that we have in the export market.

The importers, Japan's Ministry of Agriculture, Forestry and Fisheries -- or MAFF is the acronym you're well aware of -- MAFF is the only entity that can import duty-free in Japan.

All others must pay a prohibitive tariff after MAFF imports the wheat and resells it to the Japan flour milling industry with a significant markup currently in excess of $150 per ton to the price of that wheat. This is the equivalent of a 60 to 70 percent ad valorem tariff at today's prices.

So, while we certainly wouldn't hold up this system as an example for others, it has historically worked very well for us in Japan, and for themselves.

Wheat is higher-priced there than anywhere else, but MAFF still imports enormous quantities of high-quality American wheat in the process.
Since the wheat market in Japan is relatively stable, there tends to be very little variation in the quantity of imports between the US, Canada and Australia, which are the three primary principal suppliers to Japan.

However, this will start changing in 2019, as CPTPP takes effect. There will be an immediate seven percent drop in the markup for Canadian and Australian wheats. By April 1st, it will have gone down by 12 percent.

In very real terms, as of April 1st U.S. wheat will face a $.40 per bushel, or $14 per ton, resale price disadvantage to Australia and Canada, and that difference is a deal breaker in any market.

After nine years, the U.S. will face an automatic premium of $70 per ton if nothing intervenes in the interim. By that time most of the market will be long gone for us in Japan.

Japanese food processors, they are looking at ways to reduce their exposures, and they're doing that right now.
They'll reformulate products to adapt other wheats of different origins, because they'll have to. And if they don't, their competitor will. There's a competitive environment in their marketplace and they will fight for market share amongst themselves.

We are very relieved that this Administration is prioritizing negotiations with Japan, and we do urgently need a fix that will erase this enormous vulnerability created by CPTPP.

Three are other improvements that can be made, such as WTO-plus and the SPS rules. But for us there's really nothing more important than fixing the markup disparity.

American farmers have been traveling to Japan promoting U.S. wheat for more than six decades, starting just shortly after World War II. We've had an office in Japan for more than 60 years in that process. We have spent countless hours and millions of dollars of hard-earned producer money building this market over
these years.

During that time, the Japanese milling industry has become an indispensable partner with U.S. wheat, particularly for farmers whose wheat is exported out of the Pacific Northwest.

All of that is at risk without a quick US-Japan agreement. In the meantime, U.S. wheat farmers and Japan flour millers hope that we can maintain provisional equivalents for U.S. wheat imports while our two countries conduct ongoing, good-faith negotiations.

So, we thank you for understanding the plight of the farmers who are already facing severe trade disruptions in other markets. As you're well aware, the U.S. has not sold one kernel of wheat to China in this trade war that we're having since the first of March 2018.

So we urge you to act quickly to help us and help save our markets in Japan, and we thank you very much for the opportunity to speak with you about it today.

MR. BISHOP: Thank you, Mr. Peterson.
Our next witness is Tom Slunecka, with the Minnesota Soybean Research and Promotion Council. Mr. Slunecka, you have five minutes.

MR. SLUNECKA: Mr. Chairman, members of the panel, thank you for taking comments today on the tariff and non-tariff barriers with Japan.

My name is Tom Slunecka. I am CEO for Minnesota Soybean Research and Promotion Council, but I'm here today representing Northern Soy Marketing LLC.

This is made up of three QSSB organizations -- North Dakota, South Dakota and Minnesota. We administer the soybean research and promotion funds from the Federal checkoff organization or program.

The soybean farmers that I represent today produced nearly one billion bushels of soybeans in 2017, and that's worth an estimated $7.76 billion.

Each of our States, soybeans is the number one, if not the number one -- export from our farmers and the State as a whole. So, this
is a very, very important issue to us today. Japan has long been an important trade partner for U.S. soybeans. In 2017, Japan imported more than $1 billion worth of whole beans and soybean meal.

Japan buyers largely purchase from America's Gulf of Mexico ports due to an outdated, misleading technical measurement that states crude protein as the ultimate measure for soybeans. However, the most efficient route for Asia is to purchase soybeans via the Pacific Northwest, or PNW, because it is geographically much closer to their marketplace.

The PNW offers great advantages for transportation and cost efficiencies due to the billions of dollars of private investments over the last decade in infrastructure by the grain elevator system, rail companies, and soybean port transloading facilities.

U.S. soybeans are prized due to their superior essential amino -- their essential amino
acid content, which enables poultry, swine and fish to grow faster, while consuming even less meal than other feeds.

Crude protein -- or CP content -- is an out-of-date parameter that is not applicable to feed for poultry, swine or aquaculture. In reality, crude protein measurements are just that -- crude.

The process tests, actually the nitrogen level in the grain, and not its digestibility or nutritive value.

So, the system to test crude protein was established more than 200 years ago, and the process has changed very little since that time.

Today's nutritionists know that the building blocks of protein -- the five essential amino acids -- are what determine the value of any feed.

That's why they utilize near infrared technology to rapidly analyze the quality and makeup of all feeds. NIR technology is modern, well-known, affordable, available across the
globe for many manufacturers.

As evidence of this change, many of the world's buyers purchasing out of South Asia have moved to this system.

But despite the growth in neighboring countries, we have failed to make headway in getting the Japanese market to switch to buying soybean and soybean meal on the basis of amino acid profile, instead of crude protein.

While in recent years the U.S. and other global producers of soy have seen a decrease in the amount of crude protein of soybeans at harvest.

Soybeans grown in cooler climates -- northern states, for example -- have proven to have a more desirable balance of essential amino acids.

And the fact of climate compounded with new soybean genetics is resulting in the ability for northern states positioned at the beginning of the PNW route, to provide Japanese livestock industry and the very best possible feed.
available.

As we compete against countries like Brazil and Argentina, it is vital that the soybeans produced and shipped from northern states are promoted as the highest quality feed in the world, especially for pork, poultry and aquaculture.

We understand that issues like this and many of the issues that you've heard today are very complex, and we'd be happy to share the information, or connect you with university experts that have been studying this for decades, and truly know the value of how feed is measured.

Ultimately, an internal mandate based on outdated criteria and outdated technology, has created a non-tariff barrier, locking out northern-based American farmers from this valuable market.

We urge you to request Japan to lift or adjust its internal minimum crude protein requirements, and give our soybean farmers free trade access to this vital market.
Doing so gives more of the world access
to the technology, to allow soybeans to be
utilized across the world, and not just helping
U.S. farmers and Japanese producers. We're
really changing the paradigm for soybean
production and feed production across the world.

MR. BISHOP: Thank you, Mr. Slunecka.

Our next witness is Alicia Rockwell, with Blue
Diamond Growers. Ms. Rockwell, you have five
minutes.

MS. ROCKWELL: Thank you. I'd like to
thank the Chairman and the Committee members for
holding this important hearing today.

My name is Alicia Rockwell and I'm an
executive at Blue Diamond Growers, leading
communication and public affairs for the Blue
Diamond cooperative.

I serve as an appointed advisor to the
Agricultural Technical Advisory Committee for
Trade in Fruits and Vegetables, which is jointly
administered by the Office of the U.S. Trade
Representative, and the U.S. Department of
Agriculture.

I also serve as an alternate on the Board of Directors for the Almond Board of California. I welcome the opportunity to appear before the Committee today to express Blue Diamond's strong support for the President's leadership in seeking to negotiate a high-standard trade agreement with Japan.

I would like to begin my remarks today by providing you some background information about Blue Diamond.

Blue Diamond is comprised of over half of California's almond growers, most of whom are small, family farm operations. As the world's leading non-profit, grower-owned almond processing and marketing cooperative, operating for 108 years, Blue Diamond is also the industry leader in product research and innovation.

This trailblazing work has led to the creation of globally-recognized market applications for almonds and processed almond products, including consumer-packaged flavored
almonds, almond flour and meal, almond oil, crackers, and Almond-Breeze milk and yogurt.

Almonds are an unparalleled, grown-in-America, success story. California accounts for approximately 80 percent of global production of almonds, with approximately 70 percent of that production going for export.

In addition to providing a full range of nutritious almond products to food manufacturers and consumers in all 50 states, Blue Diamond exports its products to over 100 countries around the world.

Japan is a longstanding and valued customer for California almonds, ranking as the number four export destination in 2017, based on value -- behind the European Union, India, and Hong Kong.

U.S. exports to Japan of almonds in-shell, shelled, prepared and preserved, more than doubled over the most recent ten-year period, topping $226 million in 2017.

Through the first ten months of 2018,
the value of almond exports to Japan was running
over 16 percent ahead of the same period in the
preceding year.

In addition to in-shell and shelled
almonds, Japan is a growing market for consumer-
ready products, including snack almonds and the
beverage base used make Blue Diamond's Almond
Breeze almond milk.

The United States currently enjoys a
leading market share in Japan among the almond
import categories.

However, Australia is well-positioned to
make inroads in the market, given the
preferential market access it enjoys under its
existing economic partnership agreement with
Japan, as well as the soon-to-be-implemented,
Comprehensive and Progressive agreement for
Trans-Pacific Partnership, or CPTPP.

In addition, under the pending Japan-
European Union EPA, Spain will similarly gain
preferential access to Japan's market for the
full range of its almond products.
In light of Japan's various third-country agreements, it is more imperative than ever that the United States and Japan successfully conclude a high-standard trade agreement.

As the top priority in the upcoming negotiations, Blue Diamond strongly urges the Administration to undertake the negotiations on an expedited basis, such that the eventual agreement can be approved and entered into force as quickly as possible.

The longer this process takes, the further the United States will fall behind, to the benefit of third-country competitors.

The written comments submitted by Blue Diamond contain the relevant HTS numbers, for which it has requested that U.S. negotiators achieve the prompt elimination of Japan's existing import tariffs, preferably on an immediate basis upon entry into force of the eventual agreement.

I would state for the record here today,
that in addition to the traditional categories of in-shell, shelled, prepared and preserved almonds, it is important that U.S. negotiators take account for the full range of almond product categories, including almond flour, meal, and almond oil.

I would like to thank the Committee, again, for this opportunity to present these views today. I am happy to answer any questions later. Thank you.

MR. BISHOP: Thank you, Ms. Rockwell.

Our next witness is Matthew Aufman, with Welch Foods. Mr. Aufman, you have five minutes.

MR. AUFMAN: Good afternoon, Committee members. I'm Matt Aufman, Welch's Vice President and General Counsel.

Welch's is the processing and marketing arm of the National Grape Cooperative Association, which is owned by approximately 800 family farmers in New York, Pennsylvania, Ohio, Michigan and Washington. I'm privileged to represent them before you today.
Our juices, jellies and other products made from Concord and Niagara grapes are sold throughout the United States and 40 countries around the world, including in Japan.

Since TPP12 was first launched a decade ago, Welch's has been seeking immediate, duty-free access into Japan for U.S. grape concentrated imports.

Japan is one of our most critical export markets, representing seven percent of our growers' proceeds.

We have a branded business in Japan, as well as an ingredients business selling concentrate to other manufacturers.

The ingredient side of our Japanese business is managed by Mission Trading, which has been importing our juice concentrate since 1971.

Mission sells the concentrate as an ingredient to industrial customers, which then uses it in products such as chilled juices, confectionaries, and alcoholic beverages.

The branded side of our Japanese
business is handled by Asahi Group, which uses our juice concentrate to manufacture Welch's branded juice and confectionary products.

    Japan is a large user of grape juice concentrate, but produces very little domestically. So, virtually all its domestic consumption is satisfied by imports.

    In 2017, its grape juice imports totaled more than $90 million, $23 million of which -- or roughly one-fourth -- came from the United States.

    Japan's grape juice imports enter under two six-digit tariff categories -- 200961, covering grape juice of a brix value of 30 or less, and 200969, covering grape juice of a brix value of more than 30.

    MFN tariffs on these categories are high, ranging from 19.1 percent to 29.8 percent. These high MFN rates are putting U.S. grape juice exporters at a substantial and growing disadvantage.

    Grape juice volumes from Chile and
Mexico are already entering Japan duty-free under Japan's free-trade agreements with those countries.

Very soon, Italian and Spanish volumes will also be entering that market duty free when Japan, under its EU Japan deal, eliminates in year 1 the 19.1 percent tariff on 200969210 -- its main grape juice subcategory.

Since Welch's ships most of its grape juice concentrate under that same subcategory, our top priority in the US-Japan negotiations is to obtain the same immediate zero-duty treatment on this item as quickly as possible.

In addition, to ensure that future Welch's grape juice exports enter Japan duty free, regardless of their grape juice subheadings, we are also asking for immediate tariff elimination for all of Japan's other grape juice subheadings, under 200969 and 200961.

Our Japanese customers value our premium quality grape juice. But low-priced competition from Argentina, Chile and Brazil -- and now Italy
and Spain -- are a growing market factor.

To maintain and expand U.S. grape juice market share in Japan, immediate tariff elimination on grape juice concentrate has become an imperative.

Eliminating these Japanese tariffs will be a win-win for both U.S. and Japanese interests. They will increase profits for U.S. producers, including the family farmers who own National Grape and Welch's.

They will increase U.S. export revenues, reduce costs for the Japanese manufacturers that buy U.S. grape juice concentrate, and increase access for Japanese consumers to high-quality, healthy U.S. grape juice.

Welch's thanks the U.S. Government for its prior negotiating efforts to eliminate Japanese grape juice concentrate duties, and urges that the same priority be given to eliminating these tariffs in the upcoming negotiations.

Given the imminent implementation of the
EU-Japan free-trade agreement, we further urge
the U.S. Government to make every effort to close
and ratify the new US-Japan deal as promptly as
possible.

We stand ready to work with the U.S.
Government throughout these negotiations to
achieve these ends.

I appreciate your attention, and would
welcome any questions you may have.

MR. BISHOP: Thank you, Mr. Aufman. Our
final witness on this panel is Nancy Wilkins,
with Grocery Manufacturers Association.
Ms. Wilkins, you have five minutes.

MS. WILKINS: Good afternoon. I am
Nancy Wilkins, Director of Federal Affairs for
the Grocery Manufacturers Association -- GMA.
I am pleased to be here today
representing GMA to align our priorities in
negotiating the US-Japan trade agreement.
GMA represents the world's leading food,
beverage and consumer products manufacturers.
Our industry is the largest -- the single largest
employer in U.S. manufacturing.

We directly employ 2.1 million Americans in 30,000 communities across the United States, an estimated 16 percent of all U.S. manufacturing employment.

These are good, high-paying jobs, and employment and consumer packaged goods manufacturing has grown in recent years, when other manufacturing employment declined. In addition, our industry indirectly supports 11 million jobs, from farm to fork.

Our industry is a unique driver of economic growth in the United States. Processed food and beverage sales are valued at $1 trillion per year and contributed $243 billion to the U.S. GDP in 2015.

Taking advantage of sophisticated supply chains and product innovation, U.S. processed food and beverage manufacturers provide tens of thousands of safe, affordable, nutritious products that consumers rely on every day, letting hardworking American families spend less
of their disposable income on food, than in any other industrialized economy.

More than 95 percent of the world's potential consumers live outside of the United States. So, access to foreign markets is a key component of future growth and competitiveness for the U.S. food and beverage industry.

U.S. processed food and beverage exports totaled approximately $39 billion in 2017, roughly a third of all U.S. agriculture exports. Of these processed product exports, approximately $2.83 billion were destined for Japan.

Japan is the fourth largest market for U.S. processed food exports, behind Canada, Mexico and the European Union.

U.S. processed food and beverage exports have grown in recent decades, thanks to a steady decline in tariffs, contributing to an overall agricultural trade surplus.

GMA hopes that the U.S. trade agenda will continue this growth by seeking to remove all remaining tariffs on U.S. consumer goods
exports, decreasing unnecessary regulatory
differences, and promote regulatory cooperation,
strengthen enforcement, and set fair rules that
level the playing field.

With Japan implementing the
comprehensive and progressive agreement for
Trans-Pacific Partnership -- CPTPP -- at the end
of this year, and likely the EU-Japan FDA in
2019 -- U.S. processed food exports will be at a
significant disadvantage in Japan.

We urge the Administration to not only
remove tariffs on U.S. exports to Japan, but also
to insist on expedited timelines for tariff
elimination, so U.S. goods do not lose market
share and can remain competitive.

GMA welcomed commitments achieved in the
US-Mexico-Canada agreement -- USMCA -- and other
previous U.S. negotiations that foster
transparency on measures related to modern
agricultural biotechnology. Equivalent
commitments should be included in the US-Japan
trade agreement.
In addition, we urge the administrations to secure the same commitments made in USMCA -- that limit unnecessary technical barriers to trade, and require sanitary and phytosanitary measures be based on science.

The US-Japan trade agreement should require all regulations to be implemented in a transparent, predictable, and non-discriminatory manner.

Access to the growing markets in Asia is critical for the U.S. processed food, beverage and consumer products industry. The US-Japan trade agreement is an important step in securing that access, including by removing non-tariff barriers to trade and reducing costs that arise from unnecessary regulatory barriers.

We look forward to working with the Trump Administration, Congress, and other stakeholders, to strengthen U.S. competitiveness so that we can continue to grow our industry, create jobs, and drive the U.S. economy.

Thank you for this opportunity to
I testify, and I look forward to your questions.

MR. BISHOP: Thank you, Ms. Wilkins.

Mr. Chairman, that concludes direct testimony from

Mr. Stunecky: Most of our conversations

you.

government officials regarding this issue. Thank

association has had with Japanese industry or
describe any discussions that your industry

I wondered if you could just briefly

exported to Japan.

of crude protein requirements for soybeans

Affairs. Mr. Stunecky, you described the issue

wentzel, with USTR’s Office of Agricultural

Mr. Wentzel: Good afternoon, I'm Roger

we have.

colleagues to ask some number of questions that

Your time, why don't I turn to some of my

Mr. Beeman: Thank you, again, for all

from this panel.

Mr. Chairman, that concludes direct testimony

Mr. Bishop: Thank you, Ms. Wilkins.
testimony, and I look forward to your questions.
this 200-year-old measurement to something more modern and something more accurate.

This number that was put in place many years ago has never really been challenged. And so, ultimately, we're just asking for a reduction of a percent or a percent-and-a-half in their meal requirement number for crude protein.

That would allow for the vast majority of beans produced in the Upper Midwest to be able to be shipped out of the PNW, just opening that marketplace.

And many times those soybeans -- a portion of those soybeans can make their way to the Gulf of Mexico, but it's far less efficient. And so, in the conversations that we've had with the companies, they do understand, but they feel as though that they're tied to this agreement, and so the conversation never went any further.

MR. WHITLEY: Good afternoon. And I'm Daniel Whitley, with the USDA's Foreign Agricultural Service. And I just want to echo the Chair's comments about the importance and the
value of you all being here and sharing this information with us.

Mr. Peterson, my first question goes to you. U.S. Wheat Associates noted that Japan is a relatively inelastic buyer of U.S. wheat, but that our market share is not guaranteed.

Could you briefly describe what characteristics or factors determined this inelasticity, and are there certain quality characteristics or particular end uses which make U.S. wheat more suitable than wheat from other countries -- for example, Canada or Australia?

MR. PETERSON: Yes. Thank you for the question. We work very hard to differentiate the various classes of U.S. wheat in all markets, but Japan is probably more sensitive and more particular than most.

We have a differential between U.S. and Canadian spring wheat, where our wheat is slightly stronger, higher gluten, for application in certain bread products that are desirable over Canadian wheat.
We have soft, white wheat from the
Pacific Northwest that is particularly low-
gluten, low-protein, very highly desirable for
sponge cakes in Japan, almost irreplaceable from
any origin.

There's a center part, hard red winter
wheat, which is the center part of the demand
base for products in Japan. So, Japanese millers
are well-formulated in these things. They are
highly sophisticated, and they price those
ingredients according to their needs for their
end products.

And, because of that industrial process,
we've maintained a better-than-50-percent market
share because of the functionality of the wheat.

MR. WHITLEY: Thank you very much.

Ms. Rockwell, thank you for being here, as well.
In your testimony, you noted interest in tariff
elimination not only for almonds, but also almond
products, including almond flour and almost oil.

Can you briefly describe the market for
these kinds of products in Japan, and the extent
to which the demand for these products has grown in recent years? Also, do Australia and Spain compete in these market segments, as well, in Japan?

MS. ROCKWELL: Very good question, thank you very much. Japan is an extremely important market for almonds.

It's very important and it's respected partner to Blue Diamond, and we have the capabilities of providing such products as the meal, the flour and the oil, to the high standards that Japan requires.

And therefore, it's extremely popular, and we see the potential for a lot of growth in those areas. So, it is critical for us to get some tariff relief in those areas, particularly in the meal and the flour category.

It's probably the highest out of all that we face in Japan today. And so, to be able to provide our high-grade quality product to a market that demands that kind of quality would be incredibly important to our growers and our
ability to provide a higher return back to them
to sustain their family farms. So, the market is
really important.

And yes, we do face intense competition
among Australia, and likely Spain in the future.
But right now, Australia has an advantage.

They are not fully vested in these
activities yet, but we anticipate that, given the
incentive of the advantage with their tariff,
that they would invest in that, and probably go
into that whole Asian rim more aggressively than
they do today.

MR. PETERSON: Thank you very much.
Mr. Aufman, this question is in response to your
testimony. You noted that its top priority would
be to obtain the same immediate zero-duty
treatment as specified in both CPTPP, as well as
the EU-Japan agreement, on Welch's juice
concentrate.

I think that duty is currently at
19.1 percent. What are the other competitors for
these products in the Japanese market?
MR. AUFMAN: Because we sell through a partner, I don't have the -- as good a visibility as some of my colleagues here, in terms of who we're competing with, when we look at United Nations data, which I think might look at the categories a little bit differently than you guys do.

But we see that we have about a quarter of the US -- of the market there is US, and I think we believe that we represent by far the largest share of that.

But there's a couple of other significant competitors. About another half comes from Argentina and Chile, and the other quarter comes from other countries.

And I think the real concern for us going forward is Italy and Spain, because while we have a -- you know, we have a long history of coexisting with kind of low-cost commodity grape juice from South America.

If you go to the store here and buy a bottle of white grape juice that's not ours,
it'll probably have country of origin labeling on it from Argentina or Chile.

We don't have a long track record of coexisting with price-advantaged European competition, and I think we've been unsuccessful in building a significant ingredients business in Europe and we have only a very small consumer business in the United Kingdom.

And so, I think we worry about what that means for us in Japan going forward. If you'd like me to dig further, I just really don't know who the companies are that are selling in those countries.

MR. PETERSON: No, no. I think that's helpful. Thank you.

MR. BROWN: Council of Economic Advisors. And I would like to thank all our witnesses for being here today. I have a question for Ms. Wilkins.

The written summary of your testimony says that GMA supports negotiations for a comprehensive US-Japan trade agreement. And then
you enumerated a number of areas. Could you
explain why GMA emphasized that the agreement be
comprehensive in nature?

MS. WILKINS: Sure. Thank you for your
question. We believe that there are several
opportunities as it relates to processed food and
beverage exports for the US-Japan trade
agreement.

In addition to tariff elimination on
processed food and beverage products, we also
believe that there are some opportunities based
on the USMCA, particularly as it relates to a
food formula confidentiality index -- annex --
excuse me -- as well as also some language that
was included on products from modern agriculture
biotechnology in the USMCA.

MR. DUNN: Good afternoon. My name is
Patrick Dunn. I'm from the U.S. Department of
State, Office of Agricultural Trade Policy. Once
again, let me add my thanks to the rest of the
panel for your presence here today.

Mr. Gaibler, this question would be for
you. In your written comments you express support for including language from chapters related to agriculture, that were included in TPP and, more recently, in USMCA.

What specific aspects or elements of those agreements -- for example, rules of origin, biotechnology, SPS or TBTs -- would you like to see in a new US-Japan agreement? Thank you.

MR. GAIBLER: Thank you for that question. I think the top priority for us amongst all of those areas that you mentioned, would probably be biotechnology.

Again, we think the USMCA language was a vast improvement over TPP because it added not only traditional R&D, but also the new plant breeding techniques. And we know that Japan is one of those governments that's trying to figure out how to regulate that.

We had also suggested in prior negotiations, about the concept of mutual recognition of safety determinations for food and feed.
You know, this is a concept that has worked its way through the process in several different venues.

It's really trying to provide opportunities to achieving comparable outcomes without having to have individual countries following the same exact processes, and we would like to see that concept put into the biotechnology chapter, if that was at all possible.

But in general, I think our view is that we would like to see the provisions that we got, particularly on market access under TPP, to, at a minimum, be put in place.

And, if nothing else, if we can't get more access, accelerate the provisions that would have taken effect if we would have -- if TPP would have gone into effect this year.

MR. BEEMAN: If I could take that basic question, again, kind of what elements and other trade agreements do you see as critical beyond those that you've identified here, in terms of
being able to achieve a level of predictability
and access that you need for your -- to deliver
on exports to Japan.

You know, we can cover areas --
biotechnology was just mentioned, for example --
SPS measures, TBT measures, labeling, any other
types of issues.

I know many of you have identified
certain elements of these in some of your
testimony, but if you could highlight kind of the
most important ones to you that go beyond the
straight market access issues that many of you
have identified, I think we would benefit from
that.

So, maybe we just go through the line
Mr. Gaibler has already mentioned. So, maybe
Mr. Peterson? Or, if you want to add to it,
please, Mr. Gaibler.

MR. GAIBLER: No. Again, I think we
have to -- you know, first of all, timing is of
issue here. You've heard this, you'll hear it
again.
And I think you'll need to make the political calculation of whether you try and get more access than we got under TPP, and I know some of our commodity groups like Vari & Rice would certainly like to have more.

But the key here is that whatever you do, we need to, at a minimum, at least accelerate the process in terms of timing, of phasing out and eliminating tariffs or expanding TRQs.

MR. PETERSON: I would thank you again for the chance to weigh in. From our standpoint, we were extremely supportive of the effort to negotiate TPP in the first place.

We were grateful and supportive of the results you obtained in that agreement, and frankly, served the wheat industry well at that time.

There were a few minor things where they mentioned in their testimony about WTO plus SPS issues. That's really more just codifying some process with Japan.

Frankly, Japan is extremely fastidious
about the testing of U.S. wheat. They test 450
different criteria, and we've never missed one
yet. So, we've got a very good track record with
Japan.

So, our primary concern is just simply
the markup -- solving it soon -- because we're in
imminent danger of losing market with that one.
Thank you.

MR. SLUNECKA: Well, I echo Vince's
comments, as well. I think the soybean
associations across the nation appreciate the
work that's been done, and have been very
supportive.

For this issue, I'm representing today
50,000 farmers, a large percentage of those
simply cannot move their soybeans off of their
farms into the elevator systems.

We're drowning in this product and it's
all because we can't move it into China. Japan
is relatively the same distance, the same -- it's
a very large marketplace that we can start to
capitalize on if we just simply make a small
adjustment.

And the adjustment is one that is a win-win. It's a win for the Japanese producers. It's a win for the feed industry. It's a win for the U.S. farmers. It's a win for science, because we just want to evolve the science.

So, whether the debate is made around the science or the access, either way will gain us a huge advantage at a time that's truly in peril for many of these northern producers.

MS. ROCKWELL: Thank you for the question. It's very good, and I tend -- I agree with my colleagues here. Urgency is paramount. The almond growers in California -- there are over 6,000 of the growers in the state -- we are staring a three billion pound crop in the face.

It is going to happen. It's not if, it's when, and when is coming soon. We need a place for it to go. The Asian rim is a huge market for almonds.

Sending a message, getting into Japan,
hopefully get us greater access throughout -- I mean, yes, we would have loved to have stayed in TPP. We understand the reasonings around that. But getting into Japan can help instigate even broader access in that area.

And right now -- I talked about Australia being a major competitor for us. Well, they're not just a competitor because of their agreement -- their trade agreement -- but they have location access.

Where they are provides them an advantage, as well. So, definitely would hope that we could expedite these talks and get something penned with Japan sooner, rather than later, and would like to just echo my colleagues. But the urgency's important for us.

MR. AUFMAN: There are differences in food regulations between the United States and Japan, of course. But at least in our little narrow area of the world I wouldn't describe them as structural impediments to trade. This is really a tariff issue for us.
MS. WILKINS: Thank you for the question. So, Japan is an important and growing market for the processed food and beverage industry.

In addition to the SPS and TBT measures that I mentioned in response to an earlier question, I think another opportunity conceptually within the SPS chapter is around risk assessment and making sure that risk assessment is appropriate to the circumstances of that risk, and that the risk management measure that's put in place is no more trade-restrictive than necessary.

We'd also like to see a provision that encourages parties to use transparent risk communication techniques to share information and explain measures to consumers and other stakeholders.

So, all this gets at is making sure that SPS measures are made in a transparent, predictable and non-discriminatory manner that helps facilitate trade.
MR. BISHOP: We release this panel with our thanks and we invite the members of panel 5 to come forward and be seated.

Mr. Chairman, our first witness on this panel is Dan Halstrom, with the U.S. Meat Export Federation. Mr. Halstrom, you have five minutes.

MR. HALSTROM: There, is that better? There we go. Good afternoon. I'm Dan Halstrom, President and CEO of the USMEF based in Denver.

On behalf of USMEF, I appreciate the opportunity to participate in this hearing and offer our comments on the priorities of USMEF regarding a potential US-Japan agreement.

USMEF was established in 1976 and we opened our first office in Tokyo in 1977. And our organization's deeply rooted in the Japanese meat industry, and has a long and trusted history working in the Japanese market.

Exports of U.S. beef and pork globally will total about $14.8 billion this year, which represents approximately 13 and 26 percent of total U.S. beef and pork production,
respectively.

One quarter, or about 3.7 billion, of all U.S. beef and pork exports are bound for Japan, the highest value international market for U.S. red meat.

Japan is unique, however, as customers there demand high-quality chilled U.S. beef and pork, and the U.S. is uniquely positioned to meet this demand.

While Japan has consistently been a top market for U.S. beef and pork exports, demand continues to grow.

Japanese consumers have a growing appetite for imported red meat and are shifting their consumption preference from seafood to beef and pork.

In short, Japan is poised to continue not only being a principal destination for U.S. beef and pork products now, but an opportunity for sustained export growth into the future.

This also coincides with Japan aggressively finalizing trade pacts with many of
the US's red meat export competitors.

As Japan moves closer to implementation of the CPTPP and the Japan EU EPA, it will immediately place the U.S. at a tariff disadvantage to the participant nations, in the absence of a US-Japan trade agreement.

The EU, Australia, New Zealand, Canada, Mexico and Chile will all benefit from additional red meat access under these agreements, and it is paramount that the US, at a minimum, keep pace with its competition, from a duty standpoint.

USMEF cannot understate the urgency of reaching agreement with Japan, and strongly supports immediate and expeditious engagement by the U.S. Government with the Japanese to reduce tariffs on U.S. red meat exports, and return the U.S. to a level playing field with its global red meat competitors.

Additionally, when an agreement is reached, it's critical the U.S. start at the same tariff level as its competitors, regardless of date of implementation, so as not to lag behind
on tariffs for years, until final implementation is reached.

Given the huge opportunity of the Japanese meat industry, these opportunities will go to our competitors if we do not have an agreement in very short term.

USMEF has published estimates of potential loss opportunity the U.S. beef and pork business if the CPTPP and Japan EU EPA both are implemented prior to April 1, 2019, and the U.S. does not have an agreement.

If the U.S. has a level playing field with these competitors, it is estimated that the U.S. beef exports increase by at least $551 million annually by 2023, and by $1.2 billion annually by 2028.

Under the same scenario, U.S. pork exports could increase by at least $612 million five years from now, and a little over $1 billion annually by year ten.

But in the -- if the U.S. and Japan do not expeditiously reach an agreement, these
opportunities will indeed become losses.

Beyond the farm sector, beef and pork exports to Japan alone are estimated to directly support more than four percent of the jobs in the meat packing and processing industry.

According to initial research by World Perspectives, and the potential loss of beef and pork exports, sales to Japan in year ten without a trade agreement is projected to result in more than $5.2 billion in direct economic losses, and about 23,600 job losses to other business and industries in the top 15 states where the meat packing and processing industries are located.

Preserving the U.S. red meat industry's competitive position, our most important market, is critical for the long-term profitability of our industry.

After decades spent as an exporter of U.S. beef and pork, I've learned that it is easy to lose customers that have been cultivated over decades, but much more difficult to win them back once they are lost.
Securing an agreement between the U.S. and Japan as soon as possible will help U.S. beef and pork exporters maintain their closer ties with the Japanese customers, now and in the future.

Thank you for the opportunity to speak today, and USMEF looks forward to working closely together as we move forward.

MR. BISHOP: Thank you, Mr. Halstrom.

Our next witness is Kevin Kester, with the National Cattlemen's Beef Association.

Mr. Kester, you have five minutes.

MR. KESTER: Thank you and good afternoon. My name is Kevin Kester. I'm a rancher from Parkfield, California. I'm here today on behalf of the National Cattlemen's Beef Association, the oldest and largest association of America's cattlemen and cattlewomen.

I am honored to provide the Office of the United States Trade Representative with our perspective on the importance of timely negotiations and implementation of a US-Japan
trade agreement and the opportunities it will
provide the U.S. beef industry.

As the largest segment of the U.S.
agriculture industry, the U.S. beef industry
consists of over 900,000 cattle operations, which
are primarily family-owned, with a national herd
size of 94 million head of cattle, accounting for
roughly $64 billion in annual farm gate receipts.

It is estimated we export 13 percent of
overall U.S. beef production, and that will
amount to over $8 billion in sales for 2018.
That equals more than $320 per head attributed
solely to beef exports.

Japan is the top market for U.S. beef
exports in both volume and value, accounting for
roughly 25 percent of total beef export sales
through October, to the amount of $1.8 billion.

Under our current terms of access to
Japan, U.S. beef faces a tariff rate of 38 and a
half percent, and a volume-based safeguard that
can trigger a 50 percent snapback tariff.

Unfortunately, the 50 percent tariff was
triggered last year, and remained in place from August of 2017 to March of this year.

When asked about the safeguard tariff on frozen beef, Japan's finance minister said, quote, this measure would be abolished if the TPP were implemented, but it remains because the U.S. withdrew from TPP, end quote.

And on the non-tariff side, U.S. beef exports to Japan are limited to cattle slaughtered under 30 months of age. This restriction is unjustified. U.S. beef is considered some of the safest beef in the world, and is designated by the OIE as having negligible risk status for BSE.

Japan should lift the current age restriction on U.S. beef soon, consistent with the recommendations of the OIE.

We are concerned that any tariff or non-tariff barrier that continues to restrict our sales to Japan will have a negative impact on America's ranching families and our Japanese consumers.
NCBA opposes artificial barriers because they unfairly distort the market and punish both producers and consumers. Nobody wins in this situation.

Our producers lose access and beef becomes much more expensive for Japanese consumers.

This is why NCBA supports the full elimination of tariffs, quotas, and other trade restrictive measures on U.S. beef exports to any market, including Japan.

The NCBA supported the negotiated compromise under the Trans-Pacific Partnership because it reduced the massive tariff applied to U.S. beef, diminished the likelihood of triggering a snapback tariff, and established strong, objective, and predictable SPS and other rules-based trade standards.

We expect nothing less under a US-Japan trade agreement. Unfortunately, our competitors, like Australia, have a leg up on us in the Japanese market.
The terms of the CPTPP and the EU-Japan agreement creates a significant tariff rate advantage for our competitors, and U.S. beef producers will be at a tremendous disadvantage if we do not take action immediately.

In many ways we have been fortunate. A prolonged drought in Australia has made us more competitive in Japan in recent years. But we're living on borrowed time, and we know that Australia's herd will recover.

And when they do, they will have a significant advantage over us in our leading export market. We must act soon and secure a strong bilateral agreement with Japan.

The U.S. beef industry has invested heavily in developing a strong consumer base in Japan, and we cannot afford to jeopardize all we have worked for by delaying negotiations or accepting any terms that are less than those negotiated in the TPP.

The National Cattlemen's Beef Association supports USTR's efforts to secure a
strong bilateral agreement with Japan, and I look forward to answering any questions. Thank you.

MR. BURCH: Thank you, Mr. Kester. Our next panel witness is William Westman, with North American Meat Institute. Mr. Westman, you have five minutes.

MR. WESTMAN: Thank you. Good afternoon. My name is William Westman. I'm Senior Vice President of International Affairs at the North American Meat Institute, based in Washington, DC, and I thank you very much for this opportunity to provide comments on the negotiating objectives of the US-Japan trade agreement.

Based on the arguments outlined in this testimony and the competitive market situation we face in Japan, it is imperative that the US-Japan trade agreement negotiations be completed and the resulting agreement approved by the legislatures in both countries as soon as possible.

In 2017, U.S. exports of red meats and poultry products to all markets totaled
$18 billion, approximately 25 percent of U.S. pork production, 16 percent of poultry production and 13 percent of beef output.

U.S. exports of beef and pork products to Japan totaled over $3.5 billion, nearly 26 percent of total U.S. beef and pork exports.

Clearly, we must remain competitive in our largest meat market, and NAMI and member companies will be directly impacted by the outcomes of the US-Japan trade agreement negotiations.

A strong US-Japan trade agreement is vital to the health and future growth of the U.S. meat and poultry industry, will provide economic benefits to producers, processors and workers in the industry by making U.S. meat and poultry products more competitive in one of the most important markets in the Pacific region.

Furthermore, U.S. trade policy does not operate in a vacuum. Many countries move forward with bilateral and regional FTAs without any regard to U.S. interests.
Examples include the Japan-EU and the Japan-Australia trade agreements, as well as the 11-nation Comprehensive and Progressive Agreement for Trans-Pacific Partnership, which will enter into force on December 30th of this year.

U.S. beef and pork products exported to Japan should at the very least receive the same tariff benefits that its competitors will receive under the CPTPP.

The agreement provides for a reduction in tariffs from 38 and a half percent to 27 and a half percent on beef imports when it enters into force, and then a further reduction to 26.6 percent at the beginning of Japan's fiscal year on April 1st of next year.

Tariff will continue to climb to nine percent in year 16 of the agreement. These are competitive disadvantages. The U.S. beef industry cannot overcome unilaterally, and result in lost exports and market share for U.S. firms in the future.

In addition to reducing the tariff on
chilled and frozen beef, the negotiations should seek to phase out Japan's tariffs on imports of other commercially important beef products, some of which are not widely consumed domestically in the United States, such as variety meats -- notably, tongues, skirt meat -- to high-volume export items to Japan and, as well as processed beef products.

In addition to the tariff reductions, Japan has also eliminated the quarterly safeguard mechanism and progressively increased the aggregate annual safeguard volume of imports of beef originating from all CPTPP members, and reduced the safeguard trigger duty.

In short, the U.S. is the only significant beef supplier in Japan that remains subject to the quarterly safeguard mechanism. All other competitors are subject to relatively large annual safeguards that are not likely to trigger, and with snapback duties that are at or below the normal rate charged on U.S. beef.

The U.S. pork industry's primary
objectives during the negotiations will be to phase out import tariffs, eliminate the quarterly safeguard mechanism, and return U.S. pork to a level playing field upon implementation.

These changes will provide the U.S. industry with new opportunities, and will make sure of a flourishing market. Without urgent agreement and implementation of a US-Japan trade agreement, the U.S. pork industry will lose significant market share in its top value market.

In addition to receiving the same tariff benefits that its competitors will receive under the CPTPP, the U.S. pork industry should receive the same treatment as the European Union competitors enjoy in the Japan-EU EPA.

A trade agreement with Japan will also be economically beneficial to producers, processors and exporters of meat industry byproducts, such as hides and skins used to manufacture leather.

Many of these byproducts are not processed or consumed in huge volumes
domestically, so they must be exported to capture higher value and returns for U.S. producers and companies.

In fact, on average less than five percent of U.S. cattle hides are processed domestically into finished leather. Japan represents a strong market for these products, consistently ranking among the top six or seven export destinations for each year.

Finally, the entire U.S. meat and poultry animal products industry, and U.S. agriculture generally, stand to benefit from enhanced sanitary and phytosanitary measures negotiated in a trade agreement with Japan.

Thank you very much for this opportunity to testify.

MR. BURCH: Thank you, Mr. Westman. Our next panel witness is Paul Drazek, with the National Pork Producers Council. Mr. Drazek, you have five minutes.

MR. DRAZEK: Thank you and good afternoon. My name is Paul Drazek and I'm
representing the National Pork Producers Council.
I'm a consultant here in town with DTB
Associates.

NPPC staff and leadership are holding a
meeting of their trade advisory council away from
DC today and they, therefore, have asked me to
present their views on their behalf.

NPPC represents the federal and global
interests of 60,000 pork operations in 42 state
organizations. U.S. pork industry is a major
value-added component of the U.S. agricultural
economy, and a significant contributor to the
overall economy.

In 2017, the industry exported
$6.5 billion in pork products to over 100
countries. Of those 100 nations, Japan ranks
number 1 in sales, valued at $1.6 billion in
2017, and is clearly, therefore, an enormously
important market for the pork industry and
supporting sectors.

Pork exports to Japan alone support over
13,000 U.S. jobs. Given this, NPPC is an
enthusiastic supporter of upcoming U.S. trade
negotiations with Japan.

Achieving a significant improvement in
access to the Japanese market as quickly as
possible through these talks is of paramount
interest to the industry. Any extended
negotiation with Japan prevents the very real
threat of losing significant market share to our
biggest foreign competitors, suppliers that will
themselves be benefitting from free-trade
agreements with Japan in the very near future.

These are the impending implementation
of free-trade agreements between Japan and other
CPTPP members, and between Japan and the European
Union, in 2019.

Under the terms of the CPTPP agreement,
Japan will provide participating countries with
very large tariff reductions for pork, thus
putting the U.S. pork industry at a major
disadvantage with several of them in the Japanese
market. And based on our examination of the
relevant tariff schedules, these concessions are
virtually identical to those Japan negotiated with the EU.

According to Iowa State professor Dermot Hayes, these agreements pose the risk of massive loss of U.S. sales to Japan, unless the U.S. is able to at least match those deals in the upcoming negotiations.

For these reasons, it is of vital interest to the U.S. pork industry that U.S. trade negotiations with Japan be successfully completed on an expedited basis.

It is also extremely important that one, Japan's tariff reductions on pork match those provided to the CPTPP countries and the EU, and two, once the US-Japan agreement is implemented, Japan's tariff concessions to the United States on pork be front-loaded in a way that synchronizes these concessions with Japan's tariff reduction schedules for both the CPTPP and the EU.

This will allow the U.S. pork industry to operate on a level playing field with other
pork suppliers in the Japanese market.

To conclude, it is of vital interest to
the U.S. pork industry that the U.S. trade
negotiations with Japan be successfully completed
on an expedited basis, and failure to achieve a
trade agreement with Japan would likely result in
a major loss of U.S. pork sales to Japan, which,
as I mentioned, is our most important export
market.

I appreciate the opportunity to present
these views, and I'm happy to answer any
questions you might have, either now or in
writing later. Thank you.

MR. BURCH: Thank you, Mr. Drazek. Our
next panel witness is Kevin Smith, with Seaboard
Foods. Mr. Smith, you have five minutes.

MR. SMITH: Thank you and good
afternoon. My name is Kevin Smith and I'm the
Vice President for International and for the
process of sales for Seaboard Foods.

On behalf of Seaboard, I appreciate the
opportunity to be here to provide our comments on
the objectives and priorities for a US-Japan trade agreement.

Seaboard Foods is the third largest producer of live pigs in the U.S. and the fourth largest fresh pork processor in the US, representing product from three of the largest -- newest large-scale processing plants in the country.

Seaboard Foods also jointly owns Daily's Bacon with Triumph Foods, which produces nearly 130 million pounds of bacon annually from three different facilities.

Seaboard in total is employing a little over 5,000 employees in 25 states and is a division of Seaboard Corporation.

Seaboard Corporation employs more than 25,000 people worldwide and is number 41 on the 2017 Fortune 500 list, with net sales of over $5 billion annually.

Seaboard Foods is one of the largest exporters of U.S. pork to Japan. Japan is an extremely important export market for U.S. pork,
as you've already heard. It is the highest value market for U.S. pork, as well as the second largest volume market. And those trends also apply to our company, as well.

But what's maybe more important than that, is that even though it is the largest value market, it is also a growing market, with much more opportunity.

Another important piece that you've already heard from some of the panel participants, is that the product mix for Japan is extremely critical, in that they do take high-quality chilled as well as frozen pork, and that mix of products is extremely complementary to everything that we sell, both domestically, as well as other destinations around the world.

Given the critical importance of the Japan market to our company and U.S. pork exports, maintaining competitiveness of U.S. products is extremely important to Seaboard Foods.

Beginning next year or early next year,
two of our primary competitors in the market in
the European Union, as well as Canada, will move
forward with trade agreements that will put them
into a much greater competitive atmosphere than
what we will be facing.

And what's probably more important than
that is our understanding is the beginning of
April, they'll move into year 2 of their
agreements, which will put us further behind in
terms of our competitive nature of the
environment to sell product there.

Our position and point is that it's
incredibly important for us to maintain a level
playing field and maintain an opportunity to
compete in the market.

Seaboard has developed strong
relationships with our partners in Japan for the
past 22 years. But in recent months, in my
meetings with our customers, those conversations
have been strained, as they're under pressure to
maintain profits and the health of their own
respective businesses.
They have to look at the most advantageous and profitable business model for importing and distributing pork in Japan. And unfortunately, the way it looks as of April of 2019, our products simply won't be as competitive.

We as a company are already seeing a decline in sales due to diversification of supply by our customers as they prepare themselves to be able to take advantage of the tariff reduction opportunities that will be in place as of April.

We as a company view this as a tipping point for the future of our business in Japan, and thus the health of our company. We're one of the fastest-growing pork companies in the US.

In late 2017, we just finished a brand new, state-of-the-art production establishment that increased our product sales by over 50 percent over an 18-month period. That growth isn't sustainable without export opportunities, and Japan is one of the foundations of that business model.
Our specific requests are that the U.S. and Japan engage as quickly as possible the goal to reach a conclusion to the agreement as soon as possible, and that we as a company have an opportunity to compete on a level playing field.

We cannot stress enough the importance of the April deadline or April date, as this is the point where our competitors will reach essentially year 2 of their respective agreements, and we become -- or we find ourselves at a significant disadvantage in the marketplace.

We believe strongly that we can compete and succeed if we have the same opportunities, and if on a level playing field. But we cannot face months, and potentially years, of an environment that puts us at a competitive disadvantage.

Once again, I cannot stress the importance of Japan to the health of U.S. pork production and to our business. The product mix and value derived from the Japan pork business is vital to our continued success.
It's important to note that we believe Japan is an evolving market and a growing market, as I mentioned before. But we view this as a critical moment and opportunity to ensure that we have an opportunity to participate in this growth, instead of our competitors.

We believe if we don't act on this opportunity right now, that we will pay for this lack of urgency for many years to come.

Thank you so much for this opportunity. I look forward to answering any questions here or in writing.

MR. BURCH: Thank you, Mr. Smith. Our next panel witness is Shawna Morris, with the National Milk Producers Federation and U.S. Dairy Export Council. Ms. Morris, you have five minutes.

MS. MORRIS: Thank you. I'm happy to be here today representing America's dairy farmers, farmer-owned dairy cooperatives, processors, and dairy exporters.

Times are difficult in dairy country
right now, with prices being low, economic pressures mounting, and people going out of business.

Trade is a key element to weathering the storm and making dairy viable for future generations. For dairy to remain a mainstay in the rural economy, it's imperative that we open foreign markets, root out protectionist policies that put efficient U.S. businesses at a disadvantage.

The dairy industry has welcomed the advances made in the US-Mexico-Canada agreement, and we hope that our negotiators will apply some of the same principles found in USMCA to pending trade negotiations with Japan.

Like Mexico, Japan is a vital market for the U.S. dairy industry, accounting for roughly $300 million in dairy exports last year. U.S. market share should be maintained in upcoming discussions, and should be protected from competitors looking to displace American producers.
Despite current sales to Japan, much of the market is still closed to dairy exporters, and should be further liberated.

Opening Japan's market further is particularly important right now, and that's because dairy businesses in Europe, New Zealand and Australia will soon begin benefitting from completed trade agreements with Japan. Those agreements, if not matched by our own, will not only jeopardize future market growth for American dairy interests, but also imperil our existing market share.

We implore you to begin negotiations with haste and secure ambitious results. In doing so, we ask that you prioritize the following during these negotiations.

First, don't limit the potential market access gains that may be possible. We have concerns about language contained in the joint statement that the U.S. and Japan released in September, and would urge that your office not set a precedent of prematurely capping trade
benefits for American farmers and food manufacturers before negotiations begin in earnest.

Two, achieve greater market access for America than what our foreign competitors have secured in their own deals. And where needed, expedite tariff phase-out periods in order to ensure that U.S. exporters maintain an advantageous market position.

Three, protect commonly used food names in Japan by building upon the advances made under USMCA, such as, for example, establishing a non-exhaustive list of non-restricted cheese names, and providing assurances that these names can be used by all players in the supply chain, would be a critical step forward, as would be memorializing key due process procedures to govern the consideration of geographical indications.

And four, address non-tariff barriers that can limit the sales of U.S. dairy products. This includes creating a more transparent and
scientific system for Japan's sanitary and phytosanitary rules, as well as ensuring that new trade barriers do not limit access to the market. Such as, for instance, Japan's contemplation of a revised dairy health import certificate.

In closing, I would like to reiterate our industry's appreciation of the Administration's commitment to advancing freer and fairer trade for America's farmers and food manufacturers.

The Administration's tireless work during the USMCA discussions will pay dividends in North America, and we're excited about what the future holds in Japan, and in markets throughout Asia, as well.

The dairy industry believes that U.S. trade negotiators have a real opportunity to strike a deal with Japan, and that is even better than what Japan has achieved in its past treaties, and we stand ready to assist with your efforts. Thank you.

MR. BURCH: Thank you, Ms. Morris.
Mr. Chairman, this concludes direct testimony from this panel.

MR. WENTZEL: Good afternoon. My name is Roger Wentzel. I'm with the USTR Office of Agricultural Affairs. Thanks to all of you for your testimony. I'd like to pose a question to Mr. Drazek.

Mr. Drazek, in the NPPC submission, increase to Japanese pork imports from Canada and Spain were noted for recent years. And my question is, do you expect those trends to continue irrespective of any impact that might accrue from the CPTPP or the EU-Japan agreements? Thank you.

MR. DRAZEK: Thank you for the question. Not being an expert on pork and representing an industry that has very clear and fixed views on various things, I think what I'll do is pose that on to them to see if they have a different reaction to what I'm going to say.

But my sense is that there is a continuing concern about the potential for
erosion of our markets in Japan and our supply or share of market in Japan as a result of policies in those two countries.

But I don't think NPPC is prepared at this point to express enough concern about those that they would want that to become part of the negotiations.

Their principal interest is clearly, let's get this negotiation going with Japan. We can deal with other issues down the road. If we don't have an agreement with Japan, then we clearly will see serious market erosion for our products in Japan.

MR. WENTZEL: Thank you very much.

MR. WHITLEY: Good afternoon and thank you all for being here and sharing this valuable input with the Administration. We certainly appreciate it.

I'm Daniel Whitley, with the USDA's Foreign Agricultural Service. I have a few questions I want to pose to the panel, but Ms. Morris, I'd like to start with you.
You noted in your comments that Japan has not provided sufficient market openings for dairy products in any of its existing trade agreements.

Can you briefly describe what you consider to be the most significant shortcomings for dairy access in these agreements, including any information or details you have on specific dairy products?

MS. MORRIS: Thank you for that. So, in terms of the major dairy commodities, certainly compared to what they've agreed in CPTPP and in the EU agreement, we think that deeper and swifter access expansion is possible for cheese, in particular, as well as in the whey area, both of which were negotiated previously by Japan in quite complex ways.

But probably the biggest gaps in those prior agreements are for milk powder and butter fat.

Where Japan previously was very firm in resisting providing more than effectively token
access for those products and, as such, have a
quantity -- the tariff rate quotas provide only
very tightly controlled new access under them.

That's certainly something that we hope
that these negotiations will be taking a fresher
look at. Thank you.

MR. WHITLEY: Thank you very much.

Mr. Smith, you noted in your comments that pork
production in the United States is at record high
levels, due in large part to strong demand in
many international markets, including Japan.

Can you elaborate on some of the reasons
driving this increased demand for U.S. pork in
these markets?

MR. SMITH: Yes. Thank you very much
for the question. To talk specifically about
Japan, there's a lot of things that are occurring
there that are driving greater consumption of
pork.

In particular, you've had rising seafood
prices, you've had a shift in terms of the
population, in terms of age dynamics there. The
shift away -- from a health perspective -- away from potentially some more further processed items into some of the more fresh items that we're seeing. A retail and food service. You're just seeing simply a trend there of greater demand.

Globally, pork is a low-cost, highly nutritious item. We were seeing a greater demand there in areas where we actually have free-trade agreements. Say, for example, like Colombia, where we've seen huge success, even as a company and as a country, primarily because of the advantage that we have there from the trade agreement that we have in place.

So, those would be just two examples I can give where we were seeing this greater demand. Mexico is another one where we're seeing continued growth and demand around the world for pork.

A lot of that is because of the access that we've had in the past in terms of the zero-duty. Obviously, that's been a change in the
last several months, but in general there's a lot
of factors for it, but we are seeing increased
demand.

MR. WHITLEY: Thank you, sir. That's
helpful. Mr. Halstrom, in your comments you
noted that the Japanese market is not only
booming, but in a transition phase, whereby
there's an increased demand for convenience items
and value-added products.

Can you elaborate on what you mean by
transition phase? In other words, what types of
items are you describing, and what does the U.S.
stand to lose in both the short-, as well as the
long-term, for these products in the absence of
any agreement?

MR. HALSTROM: Thank you for the
question. What we're seeing is, in some of the
more developed markets -- Korea and Japan would
be two that stand out -- we're seeing a real
drive with the middle-class and the upper-middle-
class in these countries wanting more convenient
items.
In other words, items that take less
time to prepare, for example. You might have
two -- a husband and wife both working and not a
lot of time to prepare a meal, so they want to go
into the retail store and pick up something that
might have all the ingredients in a package and
it takes 15 minutes or less to prepare.

The beauty of these sorts of products is
that these products -- the first concern is not
price. The first concern is quality, convenience
and feasibility of using them quickly. And price
becomes a second or third concern.

So, these tend to be -- call them -- you
could refer to them as value-added products.
They're not precooked -- some are precooked, a
lot are not. They're fresh and they have to be
warmed up.

But we're starting to see this trend
emerge in a lot of markets, and Japan and Korea,
in particular, the two that are leading it. So,
something that I think we'll continue to see more
of.
MR. WHITLEY: Thank you, sir.

Mr. Kester, the next question's for you. In terms of product mix -- frozen versus fresh, chilled, various cuts, low- versus high-value cuts, value-added products -- to what extent does CPTPP and/or EU countries compete head to head with the United States in the Japanese market?

MR. KESTER: Well, in a limited way, actually. For chilled products going to Japan, that's a real value-added and highly-sought beef products into Japan, and of course a lot of chilled also, being that it's our number one market destination.

EU has a lot of limitations for U.S. beef for non-scientific, non-tariff trade barriers, like hormone use and things like that, and so, there's other countries around. China would be another example of a potentially huge market force that also has those same kind of non-tariff trade restrictions.

So, there is not a lot of places to where, if we were to be forced out of Japan
because of Australia removing our market share
because of their tariff advantages in the future,
potentially, we don't have any identified places
we could send product to, to replace the Japan
market.

MR. WHITLEY: Thank you very much. And
my final question is for Mr. Westman.
Mr. Westman, you noted a lot of insight into the
Japanese market in your testimony, but are there
particular market segments -- for example, a
specific beef or beef product -- where demand in
Japan has either increased or decreased?

And how does that trend compare to what
we have here in the United States? So, in other
words, are there particular market segments that
perform better in Japan than in the United States
for beef products?

MR. WESTMAN: Well, thank you very much
for that question. I think Dan's the best one to
answer that since he travels to Japan quite a bit
and spent a lot of time there. I think I'd like
to defer to Dan if he's willing to do that.
MR. HALSTROM: Okay.

MR. WHITLEY: It works.

MR. HALSTROM: I was just there last week. Yes, there are quite a few segments that are performing quite a bit better than the U.S. side. We're in the middle of a meat boom, or what we call the niku boom, a Japanese word for meat, in Japan.

And we're seeing tremendous growth -- back to your earlier question on the home meal replacement -- we're seeing a booming growth in retail for things like convenience items for home meal replacement type of things.

We're seeing a huge boom in the food service side of the business in Japan, and there's many different segments. I'll just give you an example of a couple on the beef side.

One is the fast, casual dining. They have these beef bowl restaurants, which is shaved short-plate, marinated, cooked on a bed of rice, for less than $5.

This is a very good example where we
will become less competitive without something equivalent to CPTPP, vis-a-vis Australia, in particular.

You have the yakiniku industry is another -- it's Korean barbeque on a Korean grill, very popular with all demographics in Japan, and that is booming, as well.

And once again, we run the risk of becoming less competitive there. But U.S. beef -- because it's chilled, because of the quality and the texture of the grain feeding -- is preferred in a lot of these food service segments, vis-a-vis our competition.

So, if we were on an even playing field going forward, there's no doubt that we're confident we could defend and expand our share, without a doubt.

So, I think there are just a couple of examples for you, to answer your question.

MR. WHITLEY: Thanks very much. I'm definitely hungry now, so I'll pass it back to the chair.
MR. BEEMAN: Well done. I just wanted to ask a similar question that I asked the last panel, which has to do with -- I mean, certainly the message has come through loud and clear with respect to market access and the issue of timing, which is -- you've been very eloquent on how important that is to all of you in moving that forward as quickly as possible.

There were a couple of mentions of non-market access, or non-straight, traditional market access type issues, including SPS provisions. GIs, I think, was mentioned in the case of the dairy industry, and others.

Looking at -- just setting aside all the important points that you've made with respect to timing and market access, what other specific aspects or elements of recent U.S. agreements -- you can look at USMCA or others, in areas of rules of origin or SPS or TBT -- that you haven't touched on here, that you also find to be of critical importance in terms of securing the type of market access that you would need, not only in
the short-term, but going forward to make sure that non-tariff and/or other barriers don't cause you headaches later, essentially?

    Maybe it should just go to the panel.

Maybe we could start in the back and go forward.
Just shake it up a little bit, please. Thank you.

    MS. MORRIS: I'll be brief, because I think I touched on mine. We saw the USMCA provisions on the SPS agreement as particularly helpful. We want to see those incorporated on and built further here.

    Likewise, in the geographical indication space, both in the intellectual property chapter, where there are a number of new elements, both kind of incorporating some of the CPTPP principles, and taking those yet a step further, as well as in the side letters established with Mexico, to provide greater assurances that we won't see backsliding, in particular, on those issues in the future.

    We see that as also being critical here
in the Japanese context. Thank you.

MR. SMITH: I think, from my perspective, for the most part, really we -- it really boils down to just being able to compete. And I know that that's not really the answer you're looking for, because you're asking for something in addition, but that's really the end of the day.

With Japan, specifically, we're able to have a lot of success just being able to compete on a level playing field, and really just have an opportunity there.

We haven't had tremendous challenges or issues over the course of certainly my career the last several years, and it's proven to be very successful.

So, I don't have any specific suggestions as to say, hey look, this could be a lot better. I really just kind of want to stick to my primary points of emphasis. But thank you.

MR. BEEMAN: Don't feel compelled, but if you do have something to add, please. Thank
 MR. DRAZEK: Okay. No, I guess my sense is the reason that at least the pork producers didn't stress or spend much time talking about anything other than the issue of timing and balancing this agreement with Japan with those Japan will have with others, is that I think they saw what was accomplished in both the USMCA and what is in -- was in TPP and will be in CPTPP, were good outcomes.

I think for the pork producers the number one priority in those negotiations was -- in non, sort of, market access areas -- was the SPS part. It was a good agreement, and good provisions in both those agreements.

And my sense is they probably assumed that that's a baseline. That's where we will get -- we must get at least that in the Japan agreement.

So, they're content with that, and I think that's why they think we need to focus and have been focusing on access. Thank you.
MR. WESTMAN: Thank you for the question. I'd like to note what is complete in my testimony, but we'd like to see elaboration on key provisions of the WTO SPS agreement to include a recognizing regional conditions for animal diseases, equivalents, science and risk analysis, systems-based audits, etc.

But probably more importantly to us and to set as an example or a model for future trade agreements, this has to have a dispute settlement mechanism for SPS issues.

I think this is something that, going forward, if we can continue to encourage this with the trade agreements that we're negotiating, it's going to help us in the future. I mean, so we can avoid a formal dispute settlement mechanism and have something like a panel to handle these things internally, and try to resolve them as quickly as we can. Thank you.

MR. KESTER: And I would concur with Mr. Westman's comments. In the beef sector, we don't have any significant issues. But to follow
science-based WTO standards and dispute
settlement like Mr. Westman was saying, we would
go with that.

MR. HALSTROM: So, in conclusion, I
would agree with Mr. Westman as well. I would
just like to make one additional note that the --
my first trip to Japan was in 1987.

I've been there many, many times since
and I can say this, that once an agreement is
made in the previous TPP or CPTPP, for example,
Japan is one of the most dependable markets we
have in the world, and I think, once again, in
getting back to the speed is of the essence --
and we do greatly appreciate all your hard work
on the previous negotiations.

But I think speed is the most important
thing from our point-of-view here, and once we
have that, the dependence of the market will come
through with flying colors, in my opinion.

MR. BEEMAN: Thank you very much.

Speaking of speed, I think -- are there any
further questions? Are we in good shape? All
right, we are ahead of schedule, which I'm not sure happens that often.

But nonetheless, we should -- I should feel -- but thank you for being very succinct and very focused in your testimonies, as well. Any recommendations on how to proceed?

Maybe we should reconvene at 3:05, which is a little in advance of the next panel, but in case the panel is here, then we can seat them and move on. Or, how do you suggest?

CHAIRMAN GRESSER: Yes, this is a testimony to the forcefulness and precision of American agriculture in making its case. Thank you all very much, and yes, let us reconvene at 3:05.

(Whereupon, the above-entitled matter went off the record at 2:42 p.m. and resumed at 3:09 p.m.)

MR. BURCH: Our first witness for this panel is K.C. Swanson with the Telecommunications Industry Association. Ms. Swanson, you have five minutes.
MS. SWANSON: Thank you for the opportunity to testify today. The Telecom Industry Association represents some 250 manufacturers and suppliers of global communications networks in the U.S. and around the world. We're also an ANSI-accredited standards development organization.

In considering negotiating objectives for the proposed trade agreement with Japan, we believe it would be beneficial to draw upon a number of highly constructive provisions in the recently negotiated U.S.-Mexico-Canada agreement.

In our view, the USMCA represents a major advance in trade rules, institutionalizing new norms that will facilitate expanded U.S. trade. We hope the administration will leverage key provisions in forthcoming negotiations with Japan.

Given time constraints, I'll highlight today only selected sections of my written testimony.

Digital trade data flows, since TIA has
discussed in our written comments the value of promoting cross border data flows, I will not elaborate further here. However, on the data flows issue, I would briefly highlight our recommendation that the two parties consider making permanent the prohibition on the imposition of tariffs, duties and/or taxes on cross border data flows in digital products.

IPR protections, the USMCA also offers important new IPR protections that we hope will be carried forward in future U.S. trade agreements. Notably, this includes a ban on government requirements for companies to disclose source code or algorithms in exchange for market access.

The agreement also forbids governments from forcing companies to provide specific information about cryptography in commercial products as a condition for market access. In addition, the agreement provides criminal penalties for theft of trade secrets.

Promotion of risk-based cyber security
approaches, the USMCA sets out an expectation that both partner countries and firms within their borders should use risk-based approaches based on consensus-based standards to deal with an evolving constellation of global cyber threats.

The new language represents a helpful step forward in forging cyber norms. And this is a timely development as more countries are wielding the specter of cyber threats as cover to undertake protectionist trade-restricting policies.

We would also like to highlight a chapter of the revised trade agreement that has received less attention but is of great value to the American ICT industry. The technical barriers to trade chapter is both robust and very comprehensive and introduces a number of noteworthy precedents that we would urge USTR to carry forward into future trade agreements.

A ban on requirements for in-country testing certification, one especially important
provision bans localization requirements for testing and certification. Government demands that firms use only testing and certification facilities on their home territory frequently collide with the complexities of the ICT global supply chain, posing a substantial commercial burden to U.S. companies. The language marks an important effort to craft new norms in the commercially significant area of TBT.

Better disclosures on protection of IP and conformity assessment, a second important provision grants free trade partners the right to ask how confidential business information will be protected during conformity assessment procedures by government bodies.

Amid a growing tendency of governments around the world to enact requirements for cyber-related testing, it is critical to provide better protections for American IP. The new USMCA language lays down an important marker in this respect.

Non-discriminatory standard-setting,
worth highlighting, too, is the inclusion in USMCA of the commitment to non-discriminatory standard-setting. New language in the trade agreement prohibits government preferences for standards developed in a way that disadvantages foreign standard-setting participants.

While this may sound like a technical matter, the reality is that governments too often use the standards process as a back door for protectionist behavior that hurts U.S. industries.

A requirement to allow e-labeling, another beneficial provision in the USMCA requires parties to allow regulatory information to be displayed electronically rather than by affixing physical labels to devices. This represents a considerable savings of both money and time for ICT companies.

While Japan allows e-labeling if it is easily and clearly labeled, we believe it would be helpful to affirm this in a free trade agreement.
And finally, government procurement, in some countries governments constitute the biggest market for ICT products. Thus, we value language in USMCA that maintains open, non-discriminatory and transparent market access in government procurement.

So to summarize, newly negotiated provisions in the USMCA set important and commercially significant new precedents that will help make U.S. telecom equipment suppliers more globally competitive. We hope the administration will further leverage these advances in its upcoming negotiations with Japan. Thank you.

MR. BURCH: Thank you, Ms. Swanson. Our next panel witness is George York with the Recording Industry Association of America. Mr. York, you have five minutes.

MR. YORK: Good afternoon, members of the TPSC panel. My name is George York, and I'm with the Recording Industry Association of America.

RIAA is a trade association that
supports and promotes the creative and financial
vitality of the major music companies. Our
membership includes several hundred companies,
many of which are small to medium-sized
enterprises distributed by larger record labels.

I'm grateful for this opportunity today
to provide our views to the TPSC with respect to
trade agreement negotiations between the United
States and Japan. I'm also grateful for your
stamina. I know it's late in the afternoon. And
I appreciate your indulgences.

My brief remarks this afternoon will
focus on three key issues, first, the
significance of the Japanese music market,
second, copyright protection and enforcement
priorities, and third, barriers to trade in
recorded music, including with respect to digital
trade.

Turning to the first, first to the
Japanese music market, Japan is a critical market
for the American recording industry. In fact, it
is the second largest music market in the world
after the United States.

    Notably, it is the largest music market for the sale of physical music products. In fact, Japan accounts for 38 percent of global physical music sales.

    Regarding digital music, Japan ranks third globally in terms of recording industry revenues.

    As for streaming, which has been critical to our industry's growth and contributions to the U.S. economy, Japan is the 15th largest market where streaming contributed to the global recorded music market revenues. Japan accounts for four percent of total global streaming revenues for music.

    Therefore, for all of these reasons, Japan is a top priority for our industry in the United States and globally.

    As we work to maintain and grow this market, we continue to rely on strong copyright protections and enforcement, which fuels our ability to license music on commercial terms to
legitimate platforms and make music widely available to listeners.

Turning to our copyright protection and enforcement priorities, I will highlight exemplars today and will refer the TPSC to our written comments submitted previously.

In addition to affirmative protections such as the making available right and technological protection measures, I wanted to underscore the importance of Japan adopting a public performance right. This remains a significant gap in Japan's copyright system.

In addition, it is critical to recall the extremely important work of USTR and the U.S. IP interagency in helping to secure copyright term in Japan commensurate with the global consensus.

Moving on to copyright enforcement, a strong copyright enforcement framework is predicated upon a clear legal basis for liability, including both primary and secondary liability. These are critical features of U.S.
law and are the basis for U.S. creative industry's efforts to enforce their rights.

Similarly, damages, including monetary, statutory damages and website blocking are all vital enforcement tools. In this respect, we support the introduction in Japan of injunctive relief to secure orders to online service providers to deny access to infringing websites that hide the identities of their operators or are located in foreign countries.

Finally, members of the committee, I will conclude by underscoring the need to dismantle barriers to trade in music, including with respect to disciplines for goods, services and digital products.

Here, copyright loopholes rank among our top concerns, whether they are overbroad safe harbors or exceptions and limitations. While we agree that effective safe harbors are necessary for a legitimate online ecosystem, the proper interpretation and application of those safe harbors is highly complex with many different and
strongly held views on all sides.

International negotiations heighten the potential that critical aspects of U.S. safe harbor law get lost or modified in transposition.

On this highly technical issue, which is undergoing constant legal and technological change and is currently the subject of intensive scrutiny both in the United States and around the world, we look forward to working with the TPSC on this issue intensively going forward.

Moving to exceptions and limitations briefly, we very much support the administration's position on copyright exceptions in confirming the three-step test. Here we also note our support for Japan's decision not to introduce fair use into its own domestic system.

Additionally, platform accountability should be a central feature of U.S. digital trade policy and should feature prominently in the U.S.-Japan trade agreement.

While the internet presents opportunity for legitimate commerce, there are also
significant and copious challenges to such
commerce. Such challenges include illicit
content, whether copyright-infringing or other
illegal content, but is not limited only to such
content.

U.S. trade agreements should provide
affirmative digital trade disciplines with
respect to ensuring platform accountability.

To conclude, I want to thank the TPSC
again for this opportunity to present our
priorities with respect to a U.S.-Japan trade
agreement and look forward to both questions this
afternoon and to a continuous and close dialogue
with the TPSC going forward. Thank you.

MR. BURCH: Thank you, Mr. York. Our
next panel witness is Joseph Whitlock with BSA,
The Software Alliance. Mr. Whitlock, you have
five minutes.

MR. WHITLOCK: Thank you to the members
of the TPSC for the opportunity to testify at
today's hearing, and thank you for your time.

I'll discuss today the urgency of
including digital trade rules as part of an early
harvest in the U.S.-Japan trade negotiations,
building upon the strong digital trade outcomes
in the United States-Mexico-Canada Agreement and
the Trans-Pacific Partnership outcomes.

BSA is the leading advocate for the
global software industry in the United States and
around the world. Our members are at the
forefront of artificial intelligence, machine
learning, cloud-based analytics and Internet of
Things, powering U.S. innovation and economic
growth.

In 2016, software contributed 1.14
trillion of U.S. value-added GDP and over 10
million jobs, driving growth across all 50
states.

As the first and third largest economies
in the world, making up nearly one-third of
global GDP, the United States and Japan have an
opportunity to set a new global gold standard for
digital trade.

Robust digital trade outcomes will not
only benefit both countries' innovation
economies, but act as an invaluable counter-
narrative to rapidly emerging digital
protectionism in the Asia Pacific. Our two
countries should work together to ensure that our
technology and software sectors continue to lead
the world to our mutual long-term strategic and
economic benefit.

While ongoing discussions in
multilateral fora can prove beneficial through
the issuance of political statements and the
gradual building of consensus norms, it is
crucial that the United States and Japan take
proactive steps to safeguard their shared
economic and strategic interests through the
early negotiation of binding and enforceable
digital trade provisions.

These provisions should obligate parties
to permit cross border transfer of data while
protecting personal information, prohibit data
localization requirements and customs duties on
electronic transmissions, protect source code and
algorithms, recognize electronic signatures in commercial transactions, protect intellectual property while including appropriate exceptions and safeguards, promote the use of innovative technology in the public sector, support encryption in commercial products, promote interoperability with respect to artificial intelligence and other emerging technologies and prohibit preferential treatment for state-owned enterprises.

We note, for example, that no FTA to date contains any rule specifically relating to AI, machine learning, IoT, or other emerging technologies. Both of our countries have a critical opportunity to fill this gap and we must not fail to do so.

Other countries in the region are advancing digitally protectionist policies that favor local champions and undermine opportunities for U.S. and Japanese manufacturers and exporters.

Robust digital trade rules are paramount
to the future of our integrated digital economy and should be prioritized at the early stages of any U.S.-Japan negotiation.

In September 2018, USTR Lighthizer and Japan's Minister of Economy, Trade and Industry Seko agreed to cooperate in facilitating digital trade and growth of the digital economy and to enhance business environments with the promotion of data security.

Additionally, in a January 22 speech before the Diet, Prime Minister Abe emphasized in relation to IoT and AI that, quote, if we are not ahead of the wave of new productivity, the new productivity revolution, Japan's economy has no future. Prime Minister Abe emphasized Japan's resolve to, quote, fully mobilize all possible measures, close quote, to secure that future.

An early harvest digital trade outcome with the United States should be a key component of that plan.

Working with Japan to include core digital trade objectives in an early agreement
sends a powerful message to those advancing
digital protectionism and isolationism in their
own markets and abroad.

In the last 18 months, the Asia Pacific
region has seen a proliferation of data
localization requirements, cross border data
restrictions, forced technology transfer and
other measures that exclude and deprive U.S. and
Japanese exporters of market opportunities around
the world.

Finally, digital trade is a critical
component of any goods-focused negotiation.
Software, AI, IoT, and other emerging
technologies, as well as the ability to transfer
data across borders, are all critically important
to U.S. and Japanese global competitiveness in
advanced manufacturing.

Without emerging technologies and the
ability to transfer data across borders, there
can be no 21st-century manufacturing. Simply
negotiating tariffs without protecting our shared
digital trade priorities leaves us exposed to
digital protectionism that closes foreign markets
to U.S. and Japanese exports.

We thank the U.S. government for its
leadership on digital trade and for considering
the inclusion of a robust digital trade outcome
in the early stages of the U.S.-Japan
negotiations. Thank you and I look forward to
your questions.

MR. BURCH: Thank you, Mr. Whitlock.

Our next panel witness is Harley Geiger with
Rapid7. Mr. Geiger, you have five minutes.

MR. GEIGER: Hello. And thank you very
much for having me here. I appreciate the
opportunity to testify. My name is Harley
Geiger. And I'm the Director of Public Policy at
Rapid7.

Rapid7 is a cyber security and data
analytics firm. We're headquartered in Boston,
Massachusetts. We have offices around the world.
And a head count of about 1200 people.

We will recommend that USTR seek the
following seven commitments largely focused on
cyber security.

First, we recommend that USTR include cyber security in a digital trade chapter as a reflection of the importance of cyber security to the economies of both the U.S. and Japan.

Many business sectors in the United States and around the world, such as manufacturing, agricultural and healthcare all depend on secure computers for their daily operations in international trade.

The U.S.-Mexico-Canada Agreement, the USMCA, includes an article on cyber security, Article 19.15. And it explicitly recognizes that cyber security threats undermine trust in digital trade, digital goods and services. So we hope to see that principle reflected throughout a U.S.-Japan trade agreement.

Second, encourage interoperable cyber security risk management frameworks. This would be a commitment requiring the parties to develop and to promote the implementation of interoperable cyber security risk management
approaches across their public and private sectors.

There is similar language now in USMCA Article 19.15. But here the added emphasis would be on interoperability so that the parties' cyber security risk management approaches are generally comparable across jurisdictions.

Third, build capabilities of national cyber security entities. This would be a commitment requiring the parties to build the capabilities of national entities responsible for cyber security incident response, as well as national entities responsible for coordinated vulnerability disclosure.

USMCA Article 19.15 includes language on building national capabilities, or sorry, building capabilities for national entities responsible for incident response. But here the added emphasis is on national entities responsible for coordinated vulnerability disclosure.

Coordinated vulnerability disclosure or
CVD is increasingly recognized as a core cyber security practice. And we think that this concept in the trade agreement should include national entities that facilitate coordinated disclosure of vulnerabilities between private sector organizations, as well as non-public vulnerabilities from the government disclosed to the private sector.

Fourth, strengthen existing cyber security collaboration mechanisms, so just strengthening existing collaboration mechanisms for sharing cyber threat information. This is already in USMCA Article 19.15. We don't recommend an addition to this existing language.

Fifth, identify regulatory restrictions to defensive cyber security activity. This would be a commitment that the parties endeavor to review and identify regulations and policies that inappropriately restrict legitimate defensive cyber security activity.

Examples of such regulations and policies that may be under review include export
controls and privacy restrictions.

    This commitment does not need to require
the parties to revise their regulations but
rather merely focus on a regulatory review to
identify areas of potential improvement.

    Sixth, encourage transparency of
consumer IoT security. This would be a
commitment that the parties facilitate voluntary
processes that enhance the transparency of
critical security features in consumer IoT
devices.

    The goal of the process should be to
enable consumers to make informed purchasing
decisions based on the presence of critical
security features in IoT so that consumers are
able to look at two different IoT products and be
able to compare them based on their level of
security.

    Currently, that process does not exist.
There is no well-established way to do it even
though it is called for frequently.

    Most recently, this process gained
renewed momentum in the United States as DHS and
the Department of Commerce released their botnet
roadmap, which includes several workstreams
related to transparency and labeling programs for
consumer IoT, specifically for this reason: to
foster a robust market for trustworthy IoT and to
reduce the instance of automated attacks.

Seventh and last, to prohibit
requirements to weaken encryption. This would be
a commitment that the parties will not require as
a condition of market access manufacturers or
suppliers of products using cryptography to
weaken that cryptography in any way.

Of course, this exists also in USMCA in
Article 12.C.2. However, we do urge USTR to find
ways, if possible, to narrow some of the existing
broad exceptions to that article, to that general
prohibition.

Thank you. And I look forward to your
questions.

MR. BURCH: Thank you, Mr. Geiger. Our
next panel witness is Naomi Wilson with the
Information Technology Industry Council. Ms. Wilson, you have five minutes.

          MS. WILSON: Thank you, and good afternoon. My name is Naomi Wilson. I am the Director for China and Asia at ITI here in D.C.

          I would like to thank the administration first and foremost for continuing to forge a strong partnership with Japan, which is an important ally and trading partner in the region, in particular with some of the trend lines occurring in the region with respect to these issues.

          We also support the, many of the provisions within the USMCA and would like to see that strong language replicated within any agreement with the Japanese government.

          And I'll outline a few of those here. But I also want to make sure that I address some of the issues that we would like to see addressed more concretely with respect to our trade relationship with Japan.

          The first issue that I'd like to
emphasize is how we would like to see services addressed. First, in the context of protecting digital content and platforms, ITI highly values intermediary liability protections as they allow online services and/or intermediaries to host transactions without being held liable for vast amounts of content surrounding each transaction and reaching millions, if not billions, of customers.

We request that USTR ensure that online services are not automatically considered liable for third-party content. Instead, we encourage USTR and the administration to rely on the established U.S. legal framework with respect to copyright and liability. We refer to USMCA Article 20.89 as a good guide for this type of measure.

Second, we would like to ensure that the U.S. government is clear with the Japanese government on issues that may lead to discrimination against U.S. online platforms.

The Japanese government is currently
considering some new and rather aggressive platform regulation that would disproportionately affect and may even target U.S. digital intermediaries. So their essential goal is to keep an eye on and control the growth of larger companies with the very justifiable worry about consumer protection of data and safeguards when data breaches do occur.

However, we want to make sure that these potential policies are not overly broad and, therefore, would encourage the U.S. government to address this issue with the Japanese government directly in the context of the negotiations.

Thirdly, we would ask that you pay close attention to device imports and associated regulations. Currently, Japan does not allow for the importation of any devices for the purposes of testing that do not currently hold Japanese regulatory authorizations.

This is important because companies rely on temporary regulatory authorizations so that they can import goods in limited quantities for
demonstration at industry trade shows, for
testing and evaluation to determine compliance
within the market itself and also to determine
suitability for the market and any adjustments
that need to be made.

Finally, we would ask that you look to
customs and duties within an agreement and
encourage USTR to seek elimination of customs and
taxes for physical goods, as well as an increase
in the de minimis threshold for tax and duty.

And in closing, I would just emphasize
what some of my colleagues have already pointed
to as very strong provisions within USMCA, such
as the free data flows and source code and IP
protection. These are important primarily in a
multilateral context given the trends that we're
seeing in the region and across the globe.

We are very much aligned with the
Japanese government on our views in both of these
areas but want to make sure that if language is
replicated in other agreements, it's strong
language which both of our governments support.
Thank you for your time.

MR. BURCH: Thank you, Ms. Wilson. Our next panel witness is Brian Scarpelli with App Association. Mr. Scarpelli, you have five minutes.

MR. SCARPELLI: Thank you for this opportunity to share views on the proposed U.S.-Japan free trade agreement and specifically on the interests of The App Association.

ACT/The App Association represents thousands of small business software application development companies and technology firms that create the software apps used on mobile devices and in enterprise systems around the globe.

Today, the ecosystem that The App Association represents, which we call the app economy, is valued at approximately $950 billion annual and is responsible for 4.7 million American jobs.

Alongside the world's rapid embrace of mobile technology, our members have been creating innovative solutions that power the Internet of
Things across modalities and segments of the economy. So the U.S. government's approach in this trade agreement directly affects each of our members.

While the global digital economy holds great promise for App Association member companies, our members face a diverse array of challenges when entering new markets.

Commonly referred to as trade barriers, these challenges are reflected in the laws, regulations, policies or practices that protect domestic goods and services from foreign competition and artificially stimulate exports of domestic, of particular domestic goods and services or fail to provide adequate or effective protection of intellectual property rights.

These barriers to us take many forms but have the same net effect: impeding U.S. exports and investment.

Generally, we advocate for bilateral and multilateral agreements to address through digital trade and other chapters barriers to U.S.
export of goods and services, foreign direct
investment and IP rights.

We're committed to working with the U.S.
government and other governments to reduce or
eliminate trade barriers that will inhibit the
growth of the app economy.

With respect to digital trade, the small
business innovators we represent prioritize the
following, not in any order of importance.

But, first, enabling cross border data
flows. The seamless flow of data between
economies and across borders is essential to the
functioning of the global digital economy. And
App Association members need to take advantage of
the internet's global nature to reach new
customers, including those outside of the United
States.

The tolling of data across borders with
the purpose of collecting custom duties directly
contributes to the Balkanization of the internet
and jeopardizes the efficiency of the internet
and effectively blocks innovative products and
services from market entry.

Two, prohibiting data localization policies. Data localization requirements seriously hinder imports and exports, reducing economies' international competitiveness and undermine domestic economic diversification.

Our members simply do not have the resources to build or maintain unique infrastructure in every country in which they do business. And data localization requirements may effectively exclude them from commerce there.

Three, ensuring market entry is not contingent on source code transfer or disclosure. Some governments have proposed or put into place policies that require companies to transfer or provide access to proprietary source code as a requirement for legal market entry, which is simply, again, a non-starter for App Association members.

Four, preserving the ability to utilize technical protection mechanisms to protect end user privacy and security. Global digital trade
depends on the use of technical protection mechanisms such as encryption to gain and maintain the trust of its end users and is essential for our members to grow and create more jobs.

And five, securing intellectual property protections. IP violations lead to customer data loss, interruption of service, revenue loss and reputational damage, each alone representing a potential end of life scenario for a small app development company. Strong protection of IP for, including copyright, patent, trademark and trade secrets is essential.

So, while we continue to evaluate on an ongoing basis the impact of the USMCA, we do believe that the completed agreement contains numerous provisions that will enable the app economy to expand and create jobs across North America.

These provisions include prohibitions on customs duties from being applied to digital products, ensuring cross border data flows and
reducing the potential of data localization
requirements, preserving the ability to use
technical protection mechanism to secure the
integrity of data transmissions, limiting
government's ability to require the disclosure of
proprietary source code and providing for the
protection of the range of intellectual property
that small business innovators rely on to start
and grow their businesses.

To the extent possible, we urge that the
future U.S.-Japan FTA should leverage such
provisions in order to advance harmonized
policies across U.S. trading partners, enabling
the U.S. app economy to grow and create more
jobs.

There is also a broader impact that we
would like to note. In other key markets, in
Asia particularly, policies are being proposed
and finalized that would put into place barriers
to the flow of data through applying physical
good customs style approaches to the digital
economy. Indonesia, for example, has even
created new tariff codes for digital goods.

So now more than ever it is imperative that the U.S. government hold Japan to its promise made with the U.S. to cooperate in facilitating digital trade and the growth of the digital economy to enhance business environments through the promotion of data security as a model to other Asian region, Asia region U.S. trading partners.

Doing so will advance the ability of American small business innovators to grow into new markets to create more American jobs.

The App Association appreciates the opportunity to provide its views here today on the potential U.S.-Japan FTA and its likely impact on our community and the U.S. economy. And we look forward to your questions. Thank you.

MR. BURCH: Thank you, Mr. Scarpelli. Our last and final panel witness is Karen Grunstra with the UL. Ms. Grunstra, you have five minutes.
MS. GRUNSTRA: Good afternoon. And thank you for the opportunity to be here on behalf of UL. My name is Karen Grunstra. And I am on UL's global government affairs team.

As it's the holiday time of the year, you may be decorating your home with festive lights. And perhaps you notice a hologram sticker. Hopefully, you notice a hologram sticker with UL's logo somewhere on that string of lights, and that sticker indicates to you that those are safe lights for you to use.

Certainly, UL is well known and respected around the world for our expertise in electrical safety. We've been pioneers in that field since our founding at the Chicago World's Fair in 1894.

But today in a more complex, global marketplace, our role as an ANSI-accredited standards developer and testing, inspection and certification organization is increasingly important. We not only work to ensure products and systems are safe but also secure and
sustainable.

Through our expansive service offerings, we help our clients, who are manufacturers, retailers and service providers, navigate complex regulatory requirements and bring innovative products to markets around the globe.

UL supports the administration's efforts to open markets for exports of U.S. good and services like ours. And we encourage productive, substantive discussions with Japan.

With the benefit of having recently completed successful negotiations with trading partners in North America, we believe USTR should begin discussions with Japan with a similar tenacity and expect best-in-class commitments in a number of areas.

Strong, robust commitments, particularly in horizontal areas of the agreement such as technical barriers to trade will help to advance the interests of American companies like UL and workers like me while driving innovation and competitiveness in a global marketplace.
Specifically, I'm here today to provide testimony that underscores the importance of establishing ambitious horizontal provisions in the technical barriers to trade and good regulatory practices chapters. The U.S. and Japan share similar practices, beliefs and philosophies more or less in these areas.

For instance, Japan already accepts the WTO process-oriented definition of international standards and has, in fact, adopted UL standards where appropriate. In addition, Japan's model of conformity assessment is akin to that of the U.S. in its reliance on the private sector to deliver third-party conformity assessment services.

Given the similarities of the two respective systems, USTR ought to use the commitments attained in the recent USMCA agreement as a guide for what would constitute an attainable and acceptable set of outcomes with Japan. Failure to reach these commitments would be a missed opportunity for advancing U.S. competitiveness.
Specifically, we'd like to see
commitments related to national treatment for
conformity assessment bodies, recognition and
reaffirmation of commitments on the WTO
definition of international standards and a
regulatory coherence chapter with binding
commitments.

Standards and conformity assessment,
which are near and dear to our hearts, are both
addressed in TBT, but they require best practices
and process in conjunction with them, processes
like consultation, transparency and public-
private partnerships.

Thus, it's imperative that a good
regulatory practices chapter be agreed to in
order to recognize the full potential of the
trading relationship between the U.S. and Japan.

In addition to strong horizontal
commitments such as those found in TBT and GRP
chapters, UL joins the others on this panel to
voice our ardent support for the inclusion of a
chapter on digital trade in the negotiations with
With over 160 facilities and 75,000 clients around the world, we are deeply aware of how government action related to all things digital can support or constrain our operations and our market access for our services.

In our comments, our written comments to USTR submitted via the Federal Register, we also underscore the importance of strong commitments in IP protection, fair competition as it relates to SOEs and commitments in labor and the environment and happy to answer any questions on those.

From my testimony today, however, I hope to have underscored the importance of negotiating comprehensive, ambitious horizontal commitments in the TBT and GRP chapters with Japan. These are not only important for a company like UL but for industry, U.S. industry at large.

The disciplines related to standards, conformity assessment and good regulatory practices are part of the backbone of U.S.
competitiveness and help to ensure that U.S. exports can compete on a fair basis while also establishing critical norms in global trade.

Thank you again for the opportunity to be here today. And we look forward to continuing to support USTR in this important negotiation with Japan.

MR. BURCH: Thank you, Ms. Grunstra.

Mr. Chairman, that concludes direct testimony from this panel.

MR. BEEMAN: Thank you. Thank you very much. Excuse me. And thank you, not only as I mentioned to other panels, for your time taken out to appear in person to have this discussion and to testify, but also for all the preparation that went into each of the submissions that were made.

As I have assured other panels, we have read them thoroughly. And so we have some very specific questions for you if you don't mind. But also to listen to your testimony as well certainly reaffirms a number of the points that
you have made.

   But I'd like to direct my first question
to Ms. Swanson, if I could. In the written
comments and also in the oral testimony you just
provided, certainly you were very clear in terms
of a, you know, a very, rather specific set of
priorities that you would like to see in the,
addressed in a U.S.-Japan trade agreement.

   What was a little less clear to us I
think, except for one specific issue relating to
e-labeling, it was unclear to us if there were
any, if the priorities you identified were
underlined by any specific barriers that you face
in Japan or if these were more, you know,
provisions that you wanted, perhaps as security
going forward for companies in the market,
however you see that.

   I appreciate your response and any
specific Japan issues, if there are any, if you
can address those, I'd appreciate it. Thank you.

   MS. SWANSON: Right, right. Well, I
would actually take this opportunity to call out
how closely aligned I think Japan and the U.S. often are on digital trade issues.

Looking back at the internet economy dialogue that the U.S. had with Japan in July, the two agreed on the need to push back against third-party restrictions on data flows, requirements of transfer source code.

The U.S. and Japan I know have worked closely in the WTO on digital trade issues. Japan's also a member of the trilateral group that's been pressuring, considering ways to try to push China to change some of its unfair trade practices.

So I would say that our concerns are -- we see this trade agreement as a way to leverage provisions that would basically raise the bar. And I would also briefly note that Japan has already agreed to a number of these provisions to some degree in softer form in CPTPP.

But briefly, just to mention a couple of the areas where U.S. trade, provisions taken from USMCA could be used as leverage in terms of
ongoing problems in China, the digital trade
language, banning data localization, source code
disclosure, the ban on requirements for in-
country testing, which is an ongoing problem in
China, IPR provisions on criminal penalties for
theft of trade secrets, also the SOE language,
which I didn't mention in my written testimony,
but we think is also very good and lays down a
helpful marker.

So the short answer to your question,
I've given a long one, is that while I wouldn't
call out a lot of specific problems other than we
could advance language on e-labeling, we do see
Japan as a really constructive and valuable
partner and just sort of raising the bar in the
region.

And also to the degree that we can work
with Japan, which is already a recognized partner
in helping the U.S. in the Indo-Pacific, in
building out the Indo-Pacific strategy, we see
this as a helpful way to go forward.

MR. BEEMAN: Thank you. Thanks for
your, that clarification. Just the second question that I had, and we'll turn to other panelists as well, of course, is for Mr. York. In your written comments that were submitted, you point out, quote, overbroad application of copyright exceptions and limitations, unquote, is a trade barrier in Japan.

Can you -- actually, it's kind of a two-part question. Could you provide some specific examples of what those are?

And then secondly, it's also stated there's an absence of adequate and effective IPR enforcement tools and how those constitute important impediments to digital music trade. And so the second part is what are some examples of the tools and standards from U.S. law that you believe would be best replicated in Japan.

MR. YORK: Thank you for your questions. And again, I very much appreciate this opportunity and the time you spend to review our various submissions.
So I should probably begin with the threshold endeavor to bring more precision to our own filing.

I think, similar to your previous question, we identified a series of systemic priorities that we have, and those were not necessarily, unless we otherwise identified specific concerns or specific areas of support, necessarily identify those concerns with respect to Japan.

So, just to be clear, we very much support the decision which happened within the past year by the government of Japan to not implement a fair use system.

So, typically, fair use provisions, and there are some in the CPTPP text with some best-effort provisions that we do not support, Japan took that on, but in its own domestic legislation chose not to effectively implement that kind of concerning trade barrier in our view.

You also asked a question about enforcement measures. And so we've identified a
series. Again, it's at a systemic level.

Japan has in this regard a fairly strong system and one that we do support. So, again, similar to the previous speaker, we identified a significant level of commonality but also shared leadership in promoting strong copyright protection and enforcement globally.

So Japan is a strong partner of the United States in places like WIPO and in places like the WTO and ensuring that any e-commerce, for example, any e-commerce negotiations in the World Trade Organization do not undermine copyright protection, do not include copyright protection, do not undermine the TRIPS agreement, et cetera. So we count on Japan's support in that regard.

We've identified damages, website blocking, TPM protection and a variety of other enforcement tools that we think are important that both countries recognize in a bilateral agreement.

I will say, specifically with Japan, as
a closing thought, that Japan is currently reviewing various aspects of website blocking and injunctive relief. And while we very much support its initial decision with respect to injunctions, we're also hopeful that it will continue down that road with respect to website blocking, which is a common practice throughout many jurisdictions in the world to address pervasive online piracy with respect to music content and other content. Thank you.

MR. O'BYRNE: Good afternoon. My name is Bryan O'Byrne from SBA's Office of International Trade. This question is for Ms. Grunstra.

One theme in many of the stakeholders' submissions we have received is broad concern with unique or special standards and testing requirements in Japan and the enormous barriers that these present.

Your organization's submission, however, has a greater focus on the importance of broad TBT rules as opposed to specific measures in
Can you give us an overview of what, if any, TBTs that companies UL works with, your clients, tend to face in Japan?

MS. GRUNSTRA: Yeah, thank you for the question. So, admittedly, I don't have any specific examples I can walk through right now. But I'm happy to come back to you with some reports on that.

But overall, our experience with Japan has been that the regulatory regimes are different but more similar than some of our other trading partners. And as a U.S. conformity assessment provider, we are able to operate and issue certifications in the Japanese market. That's not true in other countries around the globe.

Additionally, though they are more -- there's a tendency to look to IEC and ISO standards developed in Geneva. There is an openness to standards developed here in the U.S. like UL that fit the WTO process definition of
what constitutes an international standard.

   Certainly, there are individual TBT issues that impact companies, and we work with our clients to address those.

   But on the whole, this is a rather similar system, and we should try to codify in the language of the agreement the extent to which we have those similarities for use, as my colleagues here have said, in our future trade agreements with countries where we do not have as similar of systems.

MR. O'BYRNE: And one more question.

MS. GRUNSTRA: Yes.

MR. O'BYRNE: We're aware that UL may rely on smaller specialty laboratories to serve as subcontractors for certain products testing and certification services. Are you aware of any unnecessary obstacles to UL's family or other subcontracting laboratories in the Japanese verification market?

MS. GRUNSTRA: I'm not aware of any, but I'm happy to reconfirm and follow up with you on
that, but that was not flagged.

MR. O'BYRNE: Thank you.

MS. LYNTON GROTZ: Good afternoon. My name is Mirea Lynton Grotz with Treasury. My question is for Ms. Wilson.

With respect to your written comments on the inclusion of commitments on financial services and electronic payment services in a U.S.-Japan agreement, do you have any specific concerns with the current U.S.-Japan trade and investment relationship in these areas?

MS. WILSON: Sure. So it's not a concern so much as a trend that we've seen.

So Japan continues to rely heavily on cash and has had something of a resistance to moving toward plastic. However, the Japanese government as well as industry are interested in moving towards digital payments.

So we want to ensure that, as they look into that, that they're doing so in a way that would create a level playing field for both domestic and foreign-based suppliers of
electronic payment systems.

MS. LYNTON GROTZ: Thank you. I also have a question for Mr. Whitlock.

So with regard to your written comments on financial services, you state that generally applicable rules that are also addressed in separate chapters, such as cross border data flows, must not contain any special rules.

Do you have any specific concerns with the data provisions in the financial services chapter in the USMCA?

MR. WHITLOCK: Thank you very much. The USMCA we believe is a good model for application of cross border data rules to the financial sector.

MR. BARZDUKAS: Yes, good afternoon. My name is Danius Barzdukas with the Japan desk at the Department of Commerce. My question is for Mr. Geiger.

In your testimony, you ask for us to set a number of high standards on digital economy with Japan. It is not clear whether any of your
requests are Japan-specific.

Has your company encountered any problems in doing business with Japan that you think the trade agreement could address, or do you solely see this agreement as an opportunity to set model standards?

MR. GEIGER: Thanks for the question. So, like my colleagues, we're looking at this less as an opportunity to overcome specific trade barriers and more as an opportunity to strengthen existing trade with Japan.

And we think that our recommendations do that in several ways. One is by strengthening the trust in digital products and services.

Another is by strengthening the systems of non-digital products and services that, or sorry, the products and services that non-digital companies have. So, you know, it's difficult to sell corn or beef if the machines that you rely on in order to do that are victims of ransomware.

Third, as has been mentioned before, we view this as an effort also to promote U.S. cyber
security norms in international trade, such as flexible risk management in cyber security and transparency rather than overregulation or digital protectionism.

And then lastly, this is also a matter of streamlining trade for the cyber security industry itself. So, for example, in our recommendation on interoperability of cyber security risk management frameworks, that will help customers and vendors talk about products and services and compare them based on their cyber security functions more easily if they're doing it within compatible frameworks. Thank you.

MR. BARZDUKAS: Thank you very much. My next question is for Mr. Scarpelli.

You note in your comments that the completed USMCA contains numerous provisions in its digital trade chapter and others that will allow the app economy to expand.

Are there any areas where you think we can go further than USMCA or any areas where you
were not fully satisfied with the USMCA outcomes?

Have your members encountered any trade barriers that are specific to Japan?

MR. SCARPELLI: Thank you for that question, appreciate it.

I think generally the short answer is probably to say generally no. No, we're, you know, we're I guess sort of pragmatic about the outcome of the USMCA.

You know, I think we always attach that we continue to evaluate to, when we make statements about the agreement because it is a detailed and lengthy agreement. And we're still getting feedback from our members constantly about how it's impacting them in their day to day.

But how could we go further? I guess probably, there's probably maybe one example I can give. And I think it was mentioned in previous testimony.

But, you know, we're -- for example, I mentioned in my opening statement the, how
important the use of technical protection
mechanisms like strong encryption are for our
members in gaining and maintaining customer
trust.

So, to the extent practicable, if
exceptions can be narrowed past what's in the
USMCA, we would be supportive of that. But, you
know, that's -- more broadly, it's probably a
great question for us as an association to take
back to our members.

The second question you asked about,
specific barriers, I too don't have any flagrant
trade barriers to raise for you that our members
have brought to us. So we also view the
agreement as really setting an example.

There's a lot of other markets, both
developed and emerging, that we would have a much
greater concern with.

And we believe that a strong U.S.-Japan
FTA can provide that template and hopefully push
back against what we think is an unfortunate,
some unfortunate trends such as attempts to
regulate so-called over the top services, et
cetera. Thank you.

MR. BARZDUKAS: Thank you.

MR. O'BYRNE: This question is for Mr.
York. Your submitted testimony highlights that
several hundred of RIAA's member companies
represent small and medium-sized firms.

Would you be able to identify any
specific challenges or restrictions that smaller-
sized record labels, producers and even
individual recording artists or groups face in
the Japanese market?

MR. YORK: Thank you so much for that
question. I was hoping you would ask it. Thank
you. Christmas comes early.

So, yes, indeed. So we represent
somewhere north of about 800 independent record
labels. And consistently they have identified a
theme to us and then communicated that on to
various government officials and others,
including in Congress.

And that has to do with the way content
is disseminated, music content is disseminated on
the internet. So it has given independent record
labels an exceptional opportunity but a profound
challenge.

The exceptional opportunity is to make
music available in markets as distant as Japan,
which is a vibrant market. It's our second
largest. And for SMEs, this isn't just for major
record labels. This is for small record labels.

And this is, by the way, for artists who
are themselves SMEs. Every single artist, even
those that we represent and have a relationship
with, are themselves SMEs. Some are very well
known but most are not. Most are barely able to
make rent or make their car payments or do the
basic things that everyone wants to do. And so
on the borderline between working at Starbucks
and being a musician is a fine line.

And while there's the opportunity to
make it big on the internet, the challenge that
often prevents that -- and this is really
critical. When we think about the music
industry, we don't just think about the big names
and the successful artists. We think about how
impossible it is for independent record labels to
use the notice and take down system.

Basically, according to our sister
organization, AAIM, American Association of
Independent Music, they've indicated that
somewhere around 80 percent of their members have
stopped using the notice and take down system.

The notice and take down system is a
feature that we have in U.S. law, which is widely
understood as ineffective. And there will likely
be a report from our copyright office and
certainly there's been reports from our PTO that
it's ineffective and non-functional even in this
market.

And that means that content is available
for free that's pirated. And that deprives these
independent musicians of any revenue. That
deprives independent record labels of significant
parts of what they would seek as revenue. And so
they can't survive. And so that's really
unfortunate.

And so, when we talk about our safe harbor regime here in the United States, it's a safe harbor for big internet platforms. But it is rocky, rocky, stormy waters for SMEs.

And to the extent we're exporting that to third-country markets, we're hoping to take advantage of international digital trade and are not permitted to because notice and take down system doesn't work with respect to jurisdictions outside of the United States.

Most internet platforms, many do, except U.S. DMCA notices, those are the, that's the law that underwrites this basic subsidy. But many foreign companies based in Japan or otherwise who have no jurisdictional nexus in the United States don't have to accept notice and take down requests.

And because we don't have website blocking in the United States with respect to infringing websites who are based outside of the United States, these independent artists, these
independent record labels, who we represent, you
know, a fraction of, a sizable fraction but
certainly not comprehensively, are left dead in
the water as a result of these safe harbors.

So it's something critical to consider
as the U.S. begins to reflect on what the future
of digital trade should be for SMEs. Tremendous
opportunity, but as I've said, in many respects,
unrealized because of these overbroad safe
harbors and the lack of platform accountability
online.

MR. O'BYRNE: Thank you.

MR. BEEMAN: Thanks. Just a question
for Ms. Grunstra. And this was touched on in
some other presentations as well, but maybe -- in
the particular submission from UL, there's a
mention with respect to cyber security on a
recommendation to include provisions in an
agreement that, quote, establish risk-based
approaches on consensus-based standards, unquote,
to establish cyber norms.

Do you have any -- are there particular
trade agreement outcomes that you've seen that are, you feel are kind of a model in this area? Or is this -- can you speak to what kind of rule you foresee that could achieve this?

MS. GRUNSTRA: Yeah, so I appreciate the question. And I think actually my colleague here, Mr. Geiger, answered a bit more in detail than I might be able to.

Certainly we think this is an opportunity to set sort of groundbreaking language. I believe the USMCA language does touch on it but in a very high-level way.

But there is substantive discussions across U.S. government going on with METI in Japan, very similar points of view. And I hope that if we put on our creative thinking caps, we might be able to come up with something pretty advanced in this agreement for the same reasons that my colleagues sitting around me have issued and happy to work with you on that.

I don't have an answer right now. But we're happy to work with you all as you negotiate
with your Japanese counterparts.

MR. BEEMAN: Great. Thank you. Did you want to ask a question?

MR. BARZDUKAS: Yes, this is a question for Ms. Wilson. You touched on this briefly regarding that you seek to commit from Japan to allow imported ICT devices that do not yet have regulatory authorization into Japan for purposes of testing, development and demonstration.

Have your members requested an exception for these devices in the past from the Japanese government? And if so, what was the government's explanation for refusing?

MS. WILSON: That is a good question for which I will have to get back to you with specifics. However, our members have made clear that it is a persistent problem.

Even if an exception process were working smoothly, it is still a burden. And it still puts our companies at a distinct disadvantage to those Japanese companies operating in the market who do not have to go
through that process.

So, even if they were to request an exemption, for example, a Japanese company would not necessarily have to do the same and would therefore have time on their side.

MR. BARZDUKAS: Thank you. And, excuse me, one more question for Ms. Swanson.

In your comments, you asked for USTR to seek commitments that allow for unimpeded trade in remanufactured and reused goods. What are the import barriers for remanufactured goods between the U.S. and Japan that are of concern to your members?

MS. SWANSON: I think I -- let me check with my members and get back to you with a more specific answer on that, because it's a fairly technical issue. I'd be happy to do that. Thank you.

MR. BARZDUKAS: Thank you.

MR. BURCH: Mr. Chairman, we release this panel with our thanks.

MR. BEEMAN: Thank you. So we'll
reconvene at 4:20, 25, if all the panels are here, maybe 4:20.

(Whereupon, the above-entitled matter went off the record at 4:11 p.m. and resumed at 4:20 p.m.)

MR. BURCH: Would the room please come to order?

CHAIRMAN GRESSER: Thank you all very much for coming to present us with your views and your insights on the U.S.-Japan agreement. This is our final panel of the day. So we appreciate your patience.

We'd also like to thank the U.S. International Trade Commission very sincerely for providing us with a venue and providing us with all the support. It's been irreplaceable. And on behalf of the TPSC, we're very grateful.

Let me now turn to our Deputy Assistant USTR for Japan, David Boling.

MR. BOLING: So I would just like to echo Ed's comments about thank you for persevering to the very end here. And we're
looking forward to hearing this panel's comments.

And also, a deep thanks to the staff at
the ITC for all their help in preparation for
this and their help today. As Ed said, it's
really irreplaceable.

So, with that, we'll turn it over to
hear from the witnesses. Thank you.

MR. BURCH: Our first witness on the
last and final panel is Rich Harper with Outdoor
Industry Association. Mr. Harper, you have five
minutes.

MR. HARPER: Thank you, Mr. Chairman and
members of the committee.

On behalf of Outdoor Industry
Association, I'm honored to be here today to
testify on the priorities of the outdoor industry
for the negotiating objectives of the proposed
U.S.-Japan trade agreement.

OIA is the trade association for more
than 1,400 companies across the United States,
including suppliers, manufacturers, and retailers
of outdoor products.
The outdoor industry generates more than $887 billion in consumer spending and accounts for 7.6 million American jobs in the United States.

Our members produce some of the most innovative products that reach all corners of the globe, enriching people's lives by supporting healthy and active lifestyles.

OIA promotes a balanced trade agenda, representative of its diverse membership of importers, domestic manufacturers, and retailers of all sizes. Our balanced trade agenda seeks the elimination of trade barriers, including tariffs, on outdoor products that have no commercially viable production in the U.S.

For those products that are manufactured domestically, OIA supports federal policies that aid U.S. manufacturers and help them transition to competition in a global economy.

A U.S.-Japan trade agreement offers many potential benefits for the outdoor industry. OIA believes that reciprocal preferential market
access, specifically the mutual elimination of import tariffs on most outdoor goods, will have a positive economic effect on U.S.-based outdoor businesses, foster the growth of American jobs in our industry, and will promote the significant economic contribution that the outdoor industry makes to the U.S. economy.

In particular, Japan is one of the top export and retail markets for U.S.-manufactured products with prospects for significant growth in some key areas.

Specifically, we encourage the elimination of Japan's TRQ on leather footwear in the U.S.-Japan trade agreement. Since 1952, U.S. domestic leather footwear exports to Japan have been severely restricted by a tariff rate quota that only permits 12 million pairs annually applied globally.

A 17 to 24 percent duty is applied to leather footwear imports that fall within the quota. However, a tariff of 4,300 yen or 30 percent, whichever is greater, is applied to
those pairs outside of the quota, equating to about $45 per shoe, per pair of shoes.

U.S. domestic leather footwear manufacturers and their suppliers would greatly benefit from elimination of this protectionist practice.

To put this in perspective, the average unit price of American-made leather footwear exports to Japan in 2017 was $43.72 per pair. A tariff of $45 per pair would be near equivalent to its original value.

Japan's total import market for footwear was 651 million pairs in 2017 valued at approximately 594 billion yen. Approximately 35 million pairs were leather, accounting for 5.4 percent.

This equates to 0.3 pairs of imported leather shoes per person in Japan. In comparison, the United States imports 1.5 pairs of leather shoes per person, 6 times more than Japan.

Not only would enhanced market access in
Japan's leather footwear market result in more balanced trade in footwear, but it would augment U.S. production, export volumes, and other purchases from domestic tanneries. Subsequently, U.S. companies could add jobs to fill increased demand.

Japan's TRQ has been identified in USTR's annual national trade estimate on foreign barriers to trade reports since the 1980s. It was eliminated under the Trans-Pacific Partnership. And we urge the administration to support a similar result in the U.S.-Japan trade agreement.

Achieving regulatory harmonization with Japan is another priority for outdoor companies. Harmonized testing standards for future regulations and mutual acceptance of current standards will be beneficial for the outdoor industry and its consumers by lowering costs and administrative burdens.

Finally, consistent with the U.S.-Mexico-Canada Agreement, we strongly support the
inclusion of robust labor and environmental provisions in the core text of the agreement that match the highest international standards and are fully enforceable under the same dispute settlement provisions as the commercial provisions.

OIA is grateful for the opportunity to appear at this hearing. I thank you for your attention to this important matter. And I look forward to your questions.

MR. BURCH: Thank you, Mr. Harper. Our next panel witness is Julia Hughes with the U.S. Fashion Industry Association. Ms. Hughes, you have five minutes.

MS. HUGHES: Thank you very much. Thank you, Mr. Chairman. Thank you, members of the committee, for the opportunity to join you today and talk about what our association's views are on the negotiating objectives for a U.S.-Japan agreement.

The U.S. Fashion Industry Association represents fashion brands, retailers, importers,
and wholesalers doing business in the United States and doing business globally, many of the companies you and your families wear on a daily basis.

Our mission is to eliminate barriers to trade and to open markets. So USFIA member companies strongly support the negotiation of a trade agreement with Japan, the third largest consumer market in the world after the European Union and the United States.

Japan is an important trading partner for retail, as well as for sourcing high quality textiles increasingly demanded by consumers.

With average per capita income of almost $30,000 per year, Japanese consumers are incredibly important for American brands and retailers. And Japan serves as a trendsetter for Asia as a whole when it comes to fashion. So increasing sales in Japan opens the door for brands and retailers to increase sales in other markets as well.

While tariffs are not that important for
many sectors, textiles and apparel still face very high tariffs on imported products. And that's why we support immediate duty-free treatment for apparel and home textiles.

According to the Commerce Department statistics, Japan's tariffs on imported apparel can reach 12.8 percent. Meanwhile, we know that here in the U.S. tariffs on apparel can run as high as 32 percent.

These tariffs lead to higher prices for American consumers and impede the ability of American companies to create high quality design, manufacturing, and retail jobs here in the United States.

The U.S. textile sector does not need special protection in these negotiations. So we urge you to consider a flexible, simplified, 21st century rule of origin. This will allow American businesses to source and develop products based on consumer demand and existing global value chains and create more high quality, high paying jobs in the U.S.
In turn, fashion brands and retailers will be able to utilize the U.S.-Japan trade agreement and create new business relationships with this important trading partner and bolster our influence in the region and, indeed, serve the administration's broader trade objectives.

And let's be honest, we've been saying this in all of our testimony. If the administration wants to encourage companies to move sourcing out of China and create more high quality jobs in the U.S., it makes sense to make it easier, not harder, for companies to do business with our trade agreement partners such as, in this case, Japan.

I'd like to just briefly touch on non-tariff barriers. We encourage you to harmonize and streamline customs procedures between the U.S. and Japan and implement account-based processing to facilitate the flow of goods and harmonize rules and regulations governing issues like product safety and labeling.

As American fashion brands and retailers
and all companies in the United States are seeking opportunities to reach new consumers, grow their businesses, and create jobs, it's important to make it easier to trade and do business with lucrative markets like Japan.

An effective 21st century U.S.-Japan trade agreement would be flexible, recognize the commercial reality that companies rely on global value chains to produce and to sell products. Such an agreement would provide the U.S. with the best economic benefits for U.S. companies, U.S. workers, and U.S. consumers.

We thank you for the opportunity to appear today and look forward to answering any questions. Thank you.

MR. BURCH: Thank you, Ms. Hughes. Our next panel witness is Stephen Lamar with the American Apparel and Footwear Association. Mr. Lamar, you have five minutes.

MR. LAMAR: Thank you, Mr. Chairman and members of the committee.

As you mentioned, my name is Steve
Lamar. I'm with the American Apparel and Footwear Association. We're the national trade association representing apparel, footwear, and other sewn products, companies, and their suppliers. And you're going to hear a lot similar from what my co-panelist just talked about.

Through the power of global value chains, our members employ millions of Americans in such diverse areas as design, manufacturing, compliance, logistics, and retail. Their products, be they clothes, shoes, fashion accessories and materials from which those products are made, are designed, made, and sold in nearly every country around the world, including the United States and Japan.

While international trade has enabled our members to serve an ever-growing market, the persistence of high trade barriers, either in the form of tariffs, onerous customs requirements, or burdensome regulations, continue to inject unnecessary costs into our supply chains.
Trade agreements are opportunities to reduce these costs and to expand the U.S. jobs our global value chains support. It is through this lens that we view the U.S.-Japan trade agreement.

An overarching goal of the negotiations should be to craft an agreement that expands trade between the United States and Japan while reducing regulatory and market access costs currently associated with those trade links.

Growing both sides of the trade equation with Japan will translate directly into growth at home and our ability to sustain and grow the millions of U.S. jobs created and supported by trade.

At the same time, we want to make sure that trade, that this trade is expanded responsibly by facilitating legitimate trade for these activities and recognizing domestic sensitivities. We've got six recommendations to achieve this goal.

The first is to eliminate duties. We
support the immediate and reciprocal elimination
of the high duties that both countries maintain
on textiles, travel goods, footwear, and apparel,
especially since most of these duties were
targeted for early elimination during the Trans-
Pacific Partnership talks and will start to be
phased out for countries taking part in the
successor of the TPP at the end of this month.

Similarly, as Rich mentioned, we request
the immediate elimination of the Japan leather
footwear TRQ. This is a restrictive practice
that Japan has maintained since 1952, and as Rich
pointed out, was removed immediately in the TPP,
which we're currently not party to.

Number two, we'd like to see flexible
rules of origin. We support high usage of this
agreement by making sure the rules of origin
reflect the realities of the industry today. The
yarn-forward rule of origin, which is what we
typically use in free trade agreements, can be
burdensome and stifle trade.

We need to incorporate sufficient
flexibilities into those rules so that different supply chains and the U.S. jobs they support can take advantage of the agreement. There are lots of precedents in past agreement, including cut and sew provisions, tariff preference levels, and cumulation that all can be incorporated here.

We'd like to see the inclusion of smart customs provisions. We can promote usage of this agreement by including facilitative customs procedures, such as those that draw upon the trade facilitation agreement, to speed legitimate goods across borders and provide predictability and transparency to regulations, rulings, and border operations.

While we strongly support measures to ensure proper enforcement of the agreement, such provisions should treat trusted traders as partners and focus enforcement activities on traders who are more likely to present risks.

And as Julia mentioned, we further urge that customs provisions apply to the whole agreement and not single out one industry. We'd
like to see regulatory harmonization for our industry.

Japan and the U.S. both maintain an extensive array of product safety, chemical management, and labeling requirements regarding apparel, footwear, textiles, and travel goods. In many cases, these are intended to achieve the same goal, yet they often contain different requirements, such as testing or certification, that greatly add compliance costs.

We believe the U.S.-Japan trade agreement presents an important opportunity to achieve harmonization or alignment for these regulations and recommend incorporation of a process to help us achieve this.

Fifth, we support strong intellectual property rights. The U.S. and Japan have a shared commitment to the protection of IP, which are critically important for our industry.

We support provisions in the U.S.-Japan agreement that reflect this shared commitment, clearly articulated requirements to easily record
and register IP, commitments to enforce against
counterfeiting, including through third-party
marketplaces, and cooperation on international
efforts to thwart IP rights theft.

Sixth, our final point is we support the
Berry Amendment. Like all our recent trade
agreement, including the TPP and the USMCA, the
U.S.-Japan trade agreement should reflect the
current U.S. law that requires all clothing,
textiles, and footwear purchased by the Defense
Department to be made in the U.S. in a manner
consistent with our international trade
obligations.

Thank you, again, for providing us this
opportunity to testify. And I look forward to
answering any questions.

MR. BURCH: Thank you, Mr. Lamar. Our
next panel witness is Falan Yinug with
Semiconductor Industry Association. Mr. Yinug,
you have five minutes.

MR. YINUG: Thank you. Good afternoon.
My name is Falan Yinug, Director of Industry
Statistics and Economic Policy at the
Semiconductor Industry Association. On behalf of
SIA, thank you for the opportunity to testify
today.

SIA welcomes the opportunity to provide
comments on negotiating objectives for a U.S.-
Japan trade agreement. SIA is the voice of the
U.S. semiconductor industry, one of America's top
export industries and a key driver of America's
economic strength, national security, and global
competitiveness.

Semiconductors and its value chain are
the bedrock of the modern American economy,
powering virtually everything digital from cell
phones and cars to supercomputers and military
systems.

International trade is vital to the U.S.
semiconductor industry. And thus, we welcome the
administration's decision to enter into
negotiations for a U.S.-Japan trade agreement.
SIA strongly encourages the U.S.
government to prioritize negotiating objectives
that strengthen digital trade and combat the rising trend of digital nationalism in third countries.

We encourage the U.S. government to pursue the following five product-specific negotiating objectives.

One, ensure access to global markets for innovative encryption products. SIA is concerned about encryption related practices and regulations in some regions that act as non-tariff barriers, such as regulations that directly or indirectly favor specific technologies, block companies from using the strongest available security technologies in the marketplace, or force disclosure of sensitive information.

We recommend that all U.S. trade agreements contain specific commitments preventing parties from placing discriminatory restrictions on commercial foreign products with encryption, such as those incorporated into the comprehensive and progressive agreement for Trade
Pacific Partnership, CPTPP, and the U.S.-Mexico-Canada agreement or USMCA.

Two, ensure that state-owned enterprises or SOEs compete fairly and transparently based on market considerations and without undue government advantage.

SOE activity guided or aided by government influence rather than by commercial considerations can cause harmful market and investment distortions. The inclusion of strong SOE and government assistance disciplines in a future U.S.-Japan agreement will send an important message to our other trading partners with large SOEs in the electronics sector that governments cannot use SOEs to discriminate against U.S. companies.

SIA encourages the administration to prioritize the inclusion of SOE and government assistance disciplines that align with the U.S., Japan, EU trilateral work to strengthen WTO subsidy rules and the Government and Authorities Meetings on Semiconductors, or GAMS, guidelines
and best practices for regional support. More
detailed recommendations are included in our
written comments.

Three, strengthen trade secret
protections. Trade secrets represent core
business assets for semiconductor companies. Yet
despite their tremendous importance, trade
secrets remain extremely vulnerable, especially
in jurisdictions with weak laws and/or
enforcement practices.

More problematic is the misappropriation
of trade secrets enabled or encouraged as a
result of government industrial policy.

We applaud the strong trade secrets
disciplines in the USMCA. And we call on the
administration to maintain a strong focus on the
misappropriation of trade secrets by including
strong protections in the U.S.-Japan trade
agreement.

Four, prevent forced localization of
digital infrastructure and technology transfer.
Governments are increasingly using, quote, forced
localization tactics to advantage domestic companies and/or force foreign investors to use domestic technology, transfer their own technology, localize data storage and processing, or build expensive infrastructure in a region as a condition of market access.

These rules raise costs, distort markets, reduce global interoperability, and increase the risk of unauthorized disclosure or theft of IP.

SIA applauds the strong digital trade outcomes incorporated in the USMCA to counter these measures and encourages the administration to prioritize similar disciplines in the U.S.-Japan negotiations and all future U.S. trade agreements to protect and strengthen digital trade.

And finally, permanently eliminate duties on electronic transmissions of data, data flows, or digital downloads. Some governments are challenging the WTO e-commerce moratorium banning customs duties on electronic
transmissions, a ban that has been in effect on a
rolling two-year basis since 1998.

Noting the effort by some governments to
let this moratorium expire and establish duty
tariff mechanisms on data flows, we encourage the
U.S. and Japan governments to establish a clear,
unified position supporting duty-free treatment
for digital goods, i.e., apps, e-books, music, by
including a permanent commitment to not impose
customs, duties, or fees on trade in electronic
transmissions and digital products in a U.S.-
Japan agreement.

In conclusion, we urge the
administration to pursue these and other strong
digital trade outcomes as described in The
Semiconductor Seven: SIA's Top Priorities for
Trade Agreements on SIA's website in the U.S.-
Japan negotiations.

Firmly establishing digital trade rules
will help counter growing restrictions on U.S.
trade and set examples for other countries
developing their own digital trade rules. SIA
looks forward to working with the administration on these important issues.

MR. BURCH: Thank you, Mr. Yinug. Our next panel witness is Jay Chittooran with SEMI. Mr. Chittooran, you have five minutes.

MR. CHITTOORAN: Thank you very much for the opportunity to present testimony on the negotiating objectives for a U.S.-Japan trade agreement.

My name is Jay Chittooran. And I'm a public policy manager at SEMI, the global electronics manufacturing industry association.

With more than 2,100 member companies worldwide, that's including 430 in the U.S. and another 350 based in Japan, we represent designers, equipment makers and materials producers, chip makers, and, of course, end use consumer electronics companies.

Our member companies are the foundation of the $2 trillion electronics industry. And SEMI members support about 350,000 high scale and high wage jobs here in the U.S.
Semiconductors are essentially the brains of all electronics, making possible countless products on which we rely for business, transportation, communication, entertainment, and virtually all activities of modern human endeavor. These products have boosted economic growth, enhanced productivity, and driven innovation.

This industry, of course, operates across the global economy relying heavily on trade and a vast network of supply chains. Last year, for example, more than 90 percent of semiconductor equipment produced here in the United States was exported.

And as we've heard, Japan is a very important market to this industry. It's the fourth largest export market for U.S. semiconductor equipment companies. And to contextualize that, U.S.-Japan bilateral trade volume just in equipment represented about a fifth of all U.S. total trade in this segment.

In fact, right now as we speak, SEMICON
Japan, one of SEMI's seven annual expos, is taking place in Tokyo bringing together 30,000 attendees, underscoring the importance of this bilateral relationship.

Reducing tariffs, eliminating regulatory barriers, and ensuring a level playing field exists would benefit both U.S. and Japanese semiconductor companies, the industry writ large, and the global economy. It's because of this that SEMI supports the administration's willingness to open bilateral trade talks with Japan.

SEMI has included ten guiding principles in our written comments, which include language on SOEs, development of market-oriented standards, and, of course, provisions on non-discrimination. I'd like to focus on four specific ones.

Maintaining strong respect for IP and trade secrets through robust safeguards and significant penalties for violations. As companies in our industry invest about 15 percent
of revenues into R&D every year, protection of this valuable IP is paramount.

SEMI supports robust copyright standards, strong patent protections, and regulations that safeguard industrial design. We also support strong rules that enhance trade secret protection, including establishing criminal procedures and penalties for theft.

Two, remove tariffs and end technical barriers on semiconductor and related products. Of course, ICT tariffs have largely been removed. SEMI believes this should extend to all products that rely on chips and all products that are used in the chip making process. This also includes establishing permanent duty-free treatment of all digital transmissions.

Removing tariffs and technical barriers is crucial for all businesses and especially the small and medium-sized businesses, especially the 85 percent of SEMI membership, which is the small and medium-sized business, in penetrating new markets.
Three, enabling free flow of cross border data and combating any attempts of forced tech transfer. All industries, including the semiconductor industry, rely on data. Countries should refrain from putting those -- putting in place unjustifiable regulations that limit the free flow of info and that includes data localization measures.

To this end, we support the creation of clear and firm rules that prohibit countries from acquiring the transfer of any proprietary information.

Fourth, establishing protections that balance security with privacy. Any trade deal should have firm consumer protections but should not forego security. Key to this is the use of encryption products.

We also believe that parties should work to advance efforts on cyber security through self-assessment, declaration of conformity, increased cooperation, and information sharing, all of which we believe would help prevent
cyberattacks and stop the diffusion of malware.

In closing, SEMI strongly supports a bilateral deal between the United States and Japan. And we urge negotiators to include high standards in this agreement. This will, of course, further growth in this microelectronics industry and, of course, fuel each country's broader economy.

I look forward to answering any questions you have. Thank you very much for the opportunity.

MR. BURCH: Thank you, Mr. Chittooran. Our next panel witness is Ed Brzytwa with American Chemistry Council. Mr. Brzytwa, you have five minutes.

MR. BRZYTWA: The American Chemistry Council appreciates the opportunity to testify in the U.S. chemical industry's priorities for a potential trade agreement with Japan.

The success of the U.S. chemicals industry hinges on our ability to engage with global markets. U.S. chemicals exports last year
reached $130 billion, accounting for 10 percent
of all U.S. exports and 9 percent of all global
chemicals exports.

Thirty percent of our workforce is in
export-dependent jobs. And even more are
dependent on imported inputs and intermediate
goods.

A trade agreement between the United
States and Japan could precipitate a larger
package of U.S. trade agreements with the EU, UK,
and other markets and could provide substantial
benefits to U.S. chemical manufacturers.

We would ask that the administration
open markets through its trade agreement program
to facilitate the export of U.S.-made chemicals
around the world.

To that end, ACC and our members have
identified eight priorities for a beneficial
trade agreement with Japan. I will summarize
them briefly for you today, while a more detailed
account can be found in our public comments.

In several instances, ACC recommends
that the U.S. and Japan draw inspiration from the newly inked U.S.-Mexico-Canada agreement, USMCA, while avoiding some of the pitfalls of that agreement.

The first priority for ACC and our members is the immediate elimination of tariffs on all chemicals trade between the United States and Japan.

With nearly $12 billion in total chemicals trade between the U.S. and Japan annually, a significant portion of which is between related parties, U.S. chemicals manufacturers stand to benefit from additional duty savings.

Our second priority for the trade negotiations is enhancing regulatory cooperation and implementing good regulatory practices for chemicals.

The U.S. and Japan both recognize the value of a science and risk-based chemical regulatory system. The sharing of chemical safety data and information can help create
greater efficiencies for both regulators and the
regulated community while continuing to ensure
that human health and the environment are
protected.

We recommend that the two countries draw
from the sectoral annex on chemical substances in
the proposed USMCA as a model for this provision.

Our third priority is optimizing the
rules of origin for chemical substances. Again,
we recommend that the U.S. look to the rules of
origin outcomes of the USMCA as a starting point
for a potential trade agreement with Japan.

Trade facilitation is the fourth area of
concern for ACC and its members. We recommend
that the U.S. and Japan pursue a WTO trade
facilitation agreement plus approach to customs
and trade facilitation efforts.

In the same vein as, excuse me, in the
same vein as trade facilitation, our fifth
priority is facilitating digital trade. To both
facilitate and protect digital trade, ACC
recommends that the U.S. and Japan start with the
digital trade outcomes of the USMCA, building
upon and strengthening them where possible.

Our sixth priority is for the U.S. and
Japan to agree on binding and enforceable dispute
settlement procedures. We urge both parties to
accept investor-state dispute settlement
provisions for all sectors without limitations on
the claims that investors can make on specific
investment protections. We would expect these
protections to be the highest standard of
protections in the world.

Our seventh priority is agreeing to a
trade agreement that can stand the test of time.
Chemical manufacturers and our investors thrive
under conditions of maximum predictability and
certainty.

We support making improvements to a
U.S.-Japan agreement as international trade
evolves. But we would strongly urge against
provisions regarding early termination or
sunsetting.

Finally, ACC recommends that a U.S.-
Japan trade agreement include provisions to address the ongoing issue of plastic waste in our oceans. There's a global need to support infrastructure development to collect, sort, and process used plastics.

We recommend that the U.S. and Japan use a potential trade agreement as a way to build on the marine litter language in the USMCA environment chapter. We also recommend that the U.S. and Japan use the agreement to promote global and regional cooperation in facilitating trade in used plastics.

We look forward to working with USTR and interagency staff across all eight priorities as you prepare for the negotiations ahead. Thank you, again, for the opportunity to provide input on behalf of ACC members and the business of chemistry in the United States.

MR. BURCH: Thank you, Mr. Brzytw. Our next panel witness is Stephen Flippin with CSX Transportation. Mr. Flippin, you have five minutes.
MR. FLIPPIN: Good afternoon. And thank you for the opportunity to share CSX Transportation's concerns.

CSX applauds the Trump administration's plan to negotiate a bilateral trade agreement with Japan. As a removal of barriers to trade, it will strengthen the U.S. economy and increase bilateral trade with a key U.S. ally.

During these discussions with Japan, CSX asks you to consider the impact that continued Section 232 tariffs on key premium rail imports could have on the U.S. economy, public safety, national security, and transportation infrastructure.

CSX is the largest class 1 railroad on the east coast with a network that encompasses 21,000 route miles of track in 23 states, the District of Columbia, and two Canadian provinces. CSX employs more than 24,000 people and provides safe, economical, and reliable freight transportation services for businesses across the eastern United States, making us a critical
partner in the success of U.S. manufacturers and farmers.

We serve major consumption markets with nearly two-thirds of Americans living within our service territory and have access to over 70 ocean, river, and lake port terminals.

CSX is the largest hauler, outside the military itself, of U.S. military equipment and munitions. We transport two-thirds of all automobiles manufactured in the United States, carry for UPS everything shipped three days or longer.

And we safely haul hazardous materials, such as ammonia and chlorine, essential to fertilizers and clean water, as well as pharmaceuticals.

Reliable access to premium Japanese rail is critical to CSX's development and maintenance of a safe freight rail system in the eastern United States.

CSX deploys in locations with heavy tonnage, steep grade, and high curvature sections
of track because its failure rate is much lower than that of U.S.-produced rail. This rail is produced from steel created in a blast furnace, meeting specific chemical specifications in 480-foot lengths.

The superior performance in the Japanese steel is due to higher purity and superior strengthness characteristics. Domestic rail uses scrap as a base material. And Japanese rail is rolled into longer lengths prior to being cut, which leads to its superior strengthness and ability to hold a weld. These characteristics create a highly weldable rail needed for high-stress applications, which is the most critical location for failure.

Based on data collected over the last ten years, the Japanese rail, which is used in far more stressful locations of track, produced a failure rate of just 12 percent, while domestic suppliers used in less stressful locations accounted for 52 percent of total rail defects.

Rail defects are the primary cause of
rail breaks, which can lead to dangerous
derailments and costly downtime on the rail
system.

CSX is actively reducing the risk of
derailments in many ways, one of which is the use
of Japanese premium rail in areas of high
curvature, high grade, and heavy tonnage.

As you consider the objectives for these
negotiations, CSX urges USTR to seek a resolution
of the Section 232 steel tariffs currently
imposed on imports of high performance rail
products from Japan.

In the short-term, we remain hopeful
that Commerce will grant CSX a similar exemption
of the one it granted Union Pacific in August
regarding high performance Japanese rail.

Longer term, the continued application
of 25 percent duties on imports of premium rail
from Japan is an important trade barrier to a key
product, America's freight rail transportation
system, and impacts the economy, public safety,
and national security. Thank you.
MR. BURCH: Thank you, Mr. Flippin. Our last and final panel witness for the day is Tariq Albazzaz, individual entrepreneur. Mr. Albazzaz, you have five minutes.

MR. ALBAZZAZ: I first want to thank the USTR for allowing me to speak and also being very responsive to my comments.

Being in Japan was a very eye-opening experience. And it was one that I felt should be addressed for the benefit of not only large industries such as that represented here today, but also for those like myself conducting small business in Japan.

As an individual, you need an investor visa. For this, a Japanese bank account is required. I visited branches of SMBC, Mizuho, MUFJ, Shinsei, and others. I visited probably at least 15 different branches and was told I could not open an account for different reasons by different branches even within the same banking companies.

I tried to get help from the JETRO
offices, who recently set up a program to help foreign entrepreneurs setting up companies in Japan. They simply told me to keep trying.

Another requirement is setting up a company. Unlike in the U.S. where you can simply pay a fee online and have an LLC registered quickly and painlessly, in Japan the fees for a legal professional to do this are several times more expensive, even though I later found that the process was not sufficiently more complicated than that required in the U.S.

I did successfully set up a company with help from Japanese friends. And together we filed the appropriate documents.

After my visa application was approved, I bought property and began the rental business as stated in the business plan on my application, as well as looking into other opportunities.

One of the other things I looked into was opening a Japanese language school. Japan has had an issue of labor shortage, especially in many retail businesses. Many Southeast Asian
students have been coming over on student visas. And this had resulted in more and more schools opening and more and more visas being issued.

My idea was to rent a small space and hire Japanese people I knew who could speak both English and Japanese unlike many of the teachers that I had seen in schools that I had gone to and attended classes.

However, the law requires that to do this you have to either own the building of the school or own 50 percent of the equity in the building. You have to get written contracts from a headmaster with relevant certification. So I couldn't hire just any Japanese person that I wanted to even if I felt they were more qualified.

And it also required getting a permit from the immigration bureau. You can only apply for this permit in April or October. And the process takes at least one year.

So, for me, this meant tying up a large amount of capital in a property in Tokyo and then
probably being at least one and a half to two
years before I could start cash flowing.

I started to find similar problems in
other things I looked into, like setting up a
small capacity wind farm or running Airbnb home
stays. The regulatory processes were
bureaucratic and slow with rules many times not
even easily identifiable.

Instead of setting up a new company, I
decided it may be better to purchase one.

Japanese newspapers like the Nikkei had been
running articles on a business succession crisis
whereby old owners of mostly manual labor
businesses, such as job shops, could not find
successors and were having to shut down their
companies.

I contacted several business brokerages
and was even told explicitly that because I was a
foreigner it wouldn't be possible. I even had
Japanese friends try to do the same. And they
ran into other problems.

This crisis was supposedly so bad that
the chambers of commerce in Tokyo and around
Japan had set up programs to connect buyers and
sellers. Here I was told the same thing and was
even simply refused access to listings. Even in
things like housing I was told openly that
because I was a foreigner I couldn't rent this
apartment or that apartment.

And all of this is completely and
totally legal. You can even find Japanese-only
signs on the doors of bars in Tokyo. What I
learned over time was that in Japan social
cohesion rather than economics is common sense.

I started reading complaints by other
companies, many of which were addressed in the
1980s. I couldn't help but notice the
similarities, American contractors denied to bid
on the Kansai International Airport's foundation
because the ground was special, foreign-made skis
banned because Japanese snow was unique, and
foreign beef restricted because the intestines of
Japanese people are different.

All the meanwhile, Japan had supposedly
embraced free trade, and news headlines were saying the U.S.'s actions were protectionism.

I felt that I needed to say something about my experience. It may be that of a very small player in the market. But this was, nonetheless, the basis of the United States. We embrace risk and tell people to go out and try. And we celebrate those people who both fail and succeed.

In Japan, failure is a huge embarrassment. And those who make mistakes are shunned.

Our economy operates much more strongly on commerce. If you have money, there is always someone willing to take it and be on the other side of that trade. A risk taken is a reward captured.

In Japan, having money is not what's so important, but rather knowing the right people and following the traditions and rules set out by the people before you.

I realized over time I was trying to
take risk in an inherently risk-averse society.

The administration is not wrong. They are absolutely right.

A famous Japanese phrase I repeatedly heard was sho ga nai or shikata ga nai, which means it cannot be helped. The implication is that people should simply accept the way that things are and nothing can be done about them.

I disagree with that. We can change things and it can be helped. We can't change the past, but we can do everything in our power to build a more free, fair, and reciprocal tomorrow.

Thank you.

MR. BURCH: Thank you, Mr. Albazzaz.

And, Mr. Chairman, that concludes the direct testimony from this panel.

MR. BARZDUKAS: Hello, I'm Danius Barzdukas from the Japan desk at the Department of Commerce. My first question is for Mr. Harper.

In your written comments, you note that regulatory harmonization with Japan could greatly
benefit outdoor companies.

Could you please provide additional information on some of the regulations and testing standards where harmonization would benefit trade, particularly those where U.S. exports are most impacted?

MR. HARPER: I'd be happy to. We are pinging our membership to get additional details that we can share with you.

Previously, we had an issue with U.S.-made camp stoves getting into Japan. That is an issue that has since been resolved. But we are pinging our membership to provide additional details. I'll be happy to share those with you.

MR. BARZDUKAS: Thank you very much. My next question is for Ms. Hughes.

Somewhat similar, in your written comments you say that an objective of the negotiations with Japan should be to harmonize rules and regulations such as those related to product safety.

Could you please provide specific
examples of product safety rules and regulations
that should be reviewed for possible
harmonization?

MS. HUGHES: We'll definitely provide
those in follow-up statement.

What I've heard from members, a lot of
the things that have complained about are mainly
that there are slight differences between
what standard might need to be proven or what
test might need to be run on a garment that's
going into Japan versus what might be needed to
import to the United States.

So what we're really looking for is can
we have some kind of mutual recognition,
understanding that many companies have different
standards, but the end goal is the same. You
don't want the garment to be flammable. You
don't want the buttons to have lead in them, that
kind of thing.

So we'll provide more details in our
follow-up statement.

MR. BARZDUKAS: Thank you very much.
MR. BOLING: So my question is for Mr. Yinug and Mr. Chittooran. In both of your testimonies, you spoke about what I'll describe as sort of broad, general rules, trade secret protection, strong intellectual property rules, bans on forced localization, things of that sort.

I would like to give you this opportunity to identify any Japan-specific problems that you may be encountering with Japan.

MR. CHITTOORAN: Thank you very much for the question. So, as noted by the previous panelist actually, a lot of the differences we face are in terms of standards small and kind of different measurements or different tools that are being used. So there's slight differences that encumber the process.

And I want to point out that in the manufacturing process for chips this is not something that easily is, another widget can kind of be replaced, can be entered into the process. For an equipment, for leading-edge semiconductor chip making technology, it's an 18-month process.
to get the piece all the way certified, all the
way qualified, from sending it to the customer,
getting it approved, getting both parties on
board, signing off, and then getting it fully
into a FAT.

So I would say that while that's a
specific example, I would look at the U.S.-Japan
trade agreement as more of a, as a way to codify
additional global trade rules that we see as
being something to aspire to.

So there's no certainly, no broader and
wholly egregious issues with Japan right now.
But that's not to say that there's not areas for
improvement.

MR. YINUG: Yeah, I would just like to
underscore that on an industry basis the U.S. and
Japanese semiconductor industries I think
probably have a pretty strong understanding of
the importance of free trade and have operated as
such.

You know, the semiconductor industry is
pretty global. I think I mentioned that, you
know, global supply chains are very important.

And so there is I think more -- my testimony tried to emphasize that these were, this could be a very good model for future trade agreements and certainly for codifying good practices in this agreement for future agreements.

But I don't think there are any Japan-specific issues with regard to kind of created with the, in the semiconductor industry that I can think of now. But I'd be happy to provide any other thoughts in the post-hearing.

MR. LOWE: Hello, my name is Erik Lowe. I'm with the Office of Trade Policy at DHS. And my question is for Mr. Yinug with SIA.

SIA recommends that any trade agreement contain commitments preventing parties from discriminating against foreign products with encryption.

Do you have any examples of maybe some measures that you've seen and any examples of the type of commitments that SIA is proposing? Thank
you.

MR. YINUG: Thank you for that question. I don't have any examples right now. But I'd be happy to provide anything in a future post-hearing comment.

MR. BOLING: I have a question for Mr. Lamar. In your association's written comments, you noted the need for reducing regulatory and market access costs associated with trade in apparel and footwear. I think also during your testimony you talked about regulatory harmonization issues.

So could you provide more specific examples about these regulatory costs and things that you would identify for regulatory harmonization, as well as these market access costs, which I expect are associated with TRQ and other things?

MR. LAMAR: Right. Well, for the market access costs, I mean, I think we're looking more at the regulatory issues. The TRQ is entirely a separate animal that's unique and, you know, is
an extra tariff associated with the export of certain products, primarily leather products.

The regulatory costs that we're talking to are ones that relate primarily to different requirements that exist in the U.S. for the Japanese market to achieve the same outcome.

So, for example, we both have care labeling requirements. The care labeling requirements, in fact, try to get beyond the problem associated with the different language, the language barriers by allowing us to use symbols. So that sounds like a great idea except when you realize the symbols are slightly different.

So we now have a system where we've got slightly different symbols and the infrastructure behind the symbols is slightly different. The testing requirements to establish whether you can put a particular symbol on might be different in the United States versus Japan.

And this isn't a problem that's just unique to the U.S. and Japan. This is really
sort of a global issue.

But one of the things we can do with the U.S.-Japan agreement and, of course, with the U.S.-European agreement is to try to tackle that and have a more common system in place or to at least have some alignment where we can recognize each other's care labels and systems so you can pick which one you want to use and then use it. They basically accomplish the same goal.

We have similar things in product safety, chemical testing, chemical management issues.

MR. BOLING: My next question is for Mr. Brzytwa. In your written comments and in your testimony today, you recommended that the U.S. and Japan build on and strengthen the sectoral annex on chemical substances and then also the good regulatory practices chapter of USMCA.

Could you give more details on what you would like to see added there?

MR. BRZYTWA: Well, certainly I think when you look at any new negotiated text you can
find issues that maybe could be improved upon. I mean, I think we would want some of the language to be tightened up in the sectoral language, you know, annex, so some shoulds becoming some shalls.

There might be issues that arise with respect to the regulatory systems of U.S. and Japan that lead to other ideas about how to pursue a regulatory cooperation approach in an annex.

So I think we're still kind of looking at that relationship. And we're also talking with Japanese industry on what they might want in a regulatory cooperation annex.

So, at some point in the future, similar to our approach in the USMCA, we will put forward our joint ideas for what we would want in a regulatory cooperation annex.

And I think when it comes to the good regulatory practices chapter, look, in my view what was accomplished in the USMCA was, it's probably state-of-the-art.
You know, negotiating similar provisions with Japan might be a different animal. But certainly we want USMCA to be the starting point, particularly when it comes to, you know, public consultations, regulatory impact assessment, anything that improves the process of regulation, which I think Japan also has an interest in promoting in other parts of the world. So there's a good focal point for cooperation there as well.

MR. BARZDUKAS: I have a question for Mr. Flippin. Your testimony has focused on issues related to Section 232 tariffs on steel rail imports.

Are there any other areas or issues you would like to see addressed in an agreement that are focused on securing better access for yours or other transportation companies in Japan?

MR. FLIPPIN: That's the one that we're here to discuss today. We haven't really looked at other issues other than watching what the trade negotiations do, because again, we've
benefit both ways with the transport of goods both from Japan and from the U.S. So --

MR. BARZDUKAS: Thank you.

MS. BONNER: This question is for Mr. Albazzaz. Thank you so much for making the time to share your experiences with us. And we appreciate the effort that you put into your submission.

It sounded like a lot of the issues and perceived complex challenges you faced as an individual foreign investor and entrepreneur may not, or we're not sure if they're based in regulation or law.

It would be very helpful if you could help identify either today or in writing later any ideas, tools, mechanisms that could be put into a trade agreement that would have helped you. If you have thoughts now, we'd love to hear from you.

MR. ALBAZZAZ: Sure. You know, personally, I am of the opinion that the issue with Japan and what I was really trying to get
across in what I said in my testimony is that the fundamental issue is a cultural difference. And I don't think if you try to attack that from a specific legal perspective that you're really going to remedy that problem.

I read over a lot of the materials from the negotiations in the '80s. And after the '80s and after the Plaza Accord and all that, there was only a small blip where the deficit decreased and then came back.

So I really think that what the U.S. should do is actually form a working body and look at what is it that we can produce in the United States or elsewhere. For example, consumer electronics is one of the big things that they export, autos, integrated service, and stuff like that. But there's a lot of consumer electronics there.

I remember I read in a book about how for military applications we did not have the capacity to procure the digital equipment that we would need if we were to not be able to import
from abroad.

So I believe that the U.S. has an upper hand in that, well, number one, we run a deficit. But I think that the U.S. should really focus on making them reform from the inside, because I really do not think that if you just try to get it from a legal standpoint and tell them that, you know, well, change this rule, change that rule, I don't think that's something that's really going to end up with the desired result.

So I really think that what the USTR and the Commerce Department should do is really play their hand on automotives.

And, you know, even I was listening to the guys earlier on panel I think it was 4 or 5 who were talking about agriculture. You know, I grew up in, and right now I'm staying in a very small town in Georgia. And, you know, those people can't really come up here. They don't have the, you know, wherewithal to speak here. But agriculture is a very important industry for us.
And, you know, I was hearing these guys talk about how in the CPTPP there would be, you know, a different preferential tariff for the EU and the other TPP parties. And, you know, it's kind of scary, because I heard about the rust belt emptying out and now I look at Moultrie where I'm from. If you take agriculture out of Moultrie, Moultrie will cease to exist.

And I really think that the U.S. should look at managing their trade balance. I mean, this has been talked about for years. And now because of the president we have, I think people tend to not look at it objectively anymore.

Warren Buffett did Thriftville and Squanderville. Mr. Lighthizer has talked about that. You know, Ben Bernanke, the ex-Fed chairman, has talked about how Germany's trade surplus is toxic within the Eurozone and how it depletes wealth and doesn't work very well.

But somehow when the U.S. starts talking about trade deficits, you know, somehow they're bonkers for saying that. And I think that's kind
of ridiculous.

And I really think that the U.S. should look at protecting its markets, because just like that town that I'm staying at, Moultrie, and grew up in, that's the story of broader America.

You know, we don't have a Google office down there. And those people can't retrain because there's no jobs for that there and they already have roots there. And Google is not going to put an office there. So our whole life is based around agriculture and these kind of bread-and-butter industries.

And so, I don't know, that was a very long answer to your question. But that is really what I think the U.S. government should do.

I think that we hold the cards at the table. And I honestly think that tough love is the best way to go about it, because I do not think that the Japanese are going to change if we just, you know, try to get something down in writing, because that's not how they do things. They don't do it like that. And they have more
of a word is my bond type of system.

So I hope that answers your question.

MS. BONNER: Mr. Harper, we understand that a great many of your member companies represent small firms. Would you please comment on the impact of both the tariff and non-tariff or regulatory obstacles faced by this key group within your membership that's exporting to Japan?

MR. HARPER: Well, I mean, we have a number of members that -- as I mentioned, Japan is a growing market for U.S.-made manufacturers. And a lot of these are small and medium-sized businesses, and so looking for additional opportunities to explore made-in-the-USA products. And they're impacted by the barriers on products such as ski bindings and ski accessories and ski poles.

And so there are a number of smaller outdoor companies that are looking to expand, you know, their export opportunities. And Japan is a thriving, growing market.

And even for on the leather footwear
issue and Japan's TRQ on leather footwear,
they're all small and medium-sized businesses
that are looking to expand their opportunities in
that market. And that TRQ is a very restrictive
quota and tariff on U.S.-made products.

But likewise, we also have a number of
small and medium-sized businesses that are
looking for new sourcing opportunities on the
import side and looking to diversify their supply
chains, looking to diversify their sourcing
options, and so looking at Japan as a possibility
for things like bikes, shoes, for things like
apparel and high-performance outerwear.

And lowering tariffs or eliminating
tariffs on those products will help these small
and medium-sized businesses based in the U.S.
create new jobs in design, development, testing,
marketing, supply chain management. So this is a
new opportunity for companies to find new
sourcing options.

So it's not just the bigger brands and
the global recognized brands. It's the small and
medium-sized businesses as well that are looking
to diversify their supply chains and find new
opportunities. And Japan is a key opportunity.

MR. BARZDUKAS: I have a question for
Mr. Chittooran. Okay. I understand that SEMI
represents companies throughout the semiconductor
production chain, including semiconductor
manufacturing equipment, materials, semiconductor
packaging, semiconductor design, micro-
electromagnetic systems, and sensors.

When your submission refers to the
semiconductor industry, do you mean the entire
SEMI coverage or just semiconductors? And if
it's broader, can you elaborate a bit on the
interests of the broader industry?

MR. CHITTOORAN: So, when I refer to the
semiconductor industry, I refer to the entire
industry. Because we have members from each part
of the segment, as you rightfully noted, we refer
to the whole membership, all 2,110 members.

Thanks.

MR. BARZDUKAS: Okay. Thank you.
CHAIRMAN GRESSER: I think that exhausts our questions. Does anyone, since we have two or three minutes left in our session, have any last thoughts or observations?

MR. BRZYTW: Thank you. One thing that we did not include in our public comments, but I think it's important to address since my colleague at CSX raise this, is the Section 232 tariffs. I think we've been fairly vocal in saying that for our allies that these tariffs shouldn't exist.

You know, Japan has not published a retaliation list yet. But chemicals so far have featured very prominently in the retaliation lists from Canada, the EU, Turkey, and India.

So, you know, if this negotiation is going to really be of value, this issue has got to be taken off the table from our perspective. So, you know, we'd be happy to talk about that further.

CHAIRMAN GRESSER: Okay. Mr. Lamar?

MR. LAMAR: And we would like to align
ourselves with those remarks.

In addition, we have members that have reported that through the higher costs of steel and aluminum, whether they import or whether they buy domestically, that's impacted their operations as well.

So, although there's no retaliation on the Japan side, there is in other places that affects our products. So should there be a Japan retaliation list, you know, we'd be worried that we would be on that list.

But even in the absence of retaliation, the mere fact that we're charging tariffs on steel and aluminum not only raises the cost of imported steel and aluminum, but it raises the cost of domestically-produced steel and aluminum, which then has an impact on our members' supply chains, whether it's the girders they use for their distribution centers or the steel they use for the buttons and snaps that they make in the United States.

CHAIRMAN GRESSER: Okay. With those
taken on board, again, thank you all to our witnesses. And thanks to the U.S. International Trade Commission. And this hearing is adjourned.

(Whereupon, the above-entitled matter went off the record at 5:19 p.m.)
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CERTIFICATE

This is to certify that the foregoing transcript

In the matter of: US-Japan Trade Agreement

Before: USTR

Date: 12-10-18

Place: Washington, DC

was duly recorded and accurately transcribed under my direction; further, that said transcript is a true and accurate record of the proceedings.

[Signature]

Court Reporter