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WITHDRAWAL SHEET

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File Folder JAPAN - U.S.-JAPAN - TRADE POLICY (3)

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15

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
162535	REPORT	RE U.S. TRADE POLICY TOWARD JAPAN	4	ND	B1

The above documents were not referred for declassification review at time of processing

Freedom of Information Act - [5 U.S.C. 552(b)]

B-1 National security classified information [(b)(1) of the FOIA]

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DEC 20 1982

MEMORANDUM FOR Gaston Sigur
 Director
 East Asian Affairs
 National Security Council

FROM: Lionel H. Olmer
 Under Secretary for
 International Trade

SUBJECT: Trade Desiderata for Nakasone Visit

The following represent priority U.S. trade concerns which should be addressed by Prime Minister Nakasone during his meeting with the President.

I have already advised Ambassador Matsunaga that in view of the current state of our relations, it will not be sufficient for the Prime Minister to merely sound positive.

Although not all items can be resolved in the short term, it should be possible for the Prime Minister to announce resolution of short term issues; to make a commitment to resolve medium-range problems; and to give convincing evidence that the resolution of long-range trade problems will be a major objective of his government.

Short Term Issues: Between now and January 18, it should be possible for the new Japanese government to:

- [decide not to authorize formation of import consortia in petrochemicals and lumber, and inform these industries that collusive behavior will be subject to particular scrutiny by the JFTC.
- [resolve the outstanding soda ash case.
- [gain Tariff Council approval for U.S. tariff requests, including specific computer items, lumber, tobacco and seafood products. (The tobacco tariff should be eliminated entirely.)
- improve and strengthen OTO by providing the power to negotiate solutions where import barriers exist, and an effective appeals mechanism.



*of facilitate
have appearance
of imports not
helpful*

** ✓*

- announce that any renewal of depressed industry legislation or any formation of depression and rationalization cartels will include strict sanctions against import inhibiting behavior and specific mechanisms to ensure that views of foreign firms participating in an industry are adequately represented.

- reaffirm the commitment to make NTT procurement as open as the U.S. telecommunications market, including a specific commitment to work with NTT management to ensure that all steps are taken to provide foreign bidders with equitable access to NTT.

** ✓*

- announce a third year of voluntary restraints on Japanese automobile exports to the U.S.

- provide written guidance to all ministries that foreign firms will henceforth be admitted to participation in standards setting bodies.

- adopt the recommendations of the Work Group on High Technology Industries.

Medium Term: Over the next year, the Japanese government should:

Product sectors

- provide full, equitable access to Japanese product certification procedures, including self-certification (especially in autos) where practical.

- complete legislative and administrative changes necessary to achieve transparency and openness of standards setting procedures consistent with Standards Code requirements.

** ✓*

- announce a plan to expand quotas on beef and citrus in the context of a long-range plan to eliminate quotas entirely.

** ✓*

- permit foreign tobacco manufacturers to establish their own distribution system in Japan.

- complete the JFTC investigation of intra-group preferences in the keiretsu system and devise a plan to overcome the barriers to trade that arise as a result.

** ✓*

- provide access to Government-sponsored R&D projects to qualified resident foreign firms based on worldwide research capability.

- initiate an affirmative program to facilitate foreign investment, including access to industrial/regional development programs and assistance in areas such as the distribution system.

Long-Term: The following measures will take longer, but the Nakasone government should now give us a commitment to a sustained and continuing effort in these areas:

- open target industry programs to qualified foreign firms, beginning with foreign representation on Industry Councils.
- dismantle anti-competitive barriers in the distribution system, including space limitations and administrative guidance pursuant to the Small Stores Law.
- [full internationalization of the yen.]

???

MEMO

WILLIAM E. TIMMONS
PRESIDENT

Chuck →

This is my
product solely and
not cleared or approved
by anybody on either
side. I think it
reasonable, however,
but almost impossible
to accomplish. Bill

TIMMONS AND COMPANY, INCORPORATED
1850 K STREET, N.W., WASHINGTON, D.C. 20006
(202) 331-1760

BACKGROUND

The United States is currently experiencing a massive trade imbalance with Japan. It will be over \$20 billion this year and could go as high as \$30 billion in 1983 because the dollar is strengthening vis-a-vis the yen making Japanese products relatively less expensive.

There are two choices: The U.S. can restrict imports or Japan can allow U.S. products better access to its markets. We prefer the latter.

Unfortunately, the positions of both sides seem to be hardening with little prospect for short-term solutions. Frankly, even if Japan allowed the U.S. the same market freedom we permit, the imbalance would not come close to being corrected. Therefore, there is strong likelihood there will have to be severe restrictions on imports from Japan - voluntary or mandatory! The challenge of the U.S. Government will be to control the restrictions.

There is only one viable way to recycle dollars, and that is heavy Japanese investment in the United States including purchase of substantial quantities of coal and helping build the infrastructure to transport it (railroad lines, port improvements, loading facilities, etc.)

My current view is that minor adjustments here and there coming out of the Reagan-Nakasone visit will not accomplish the fundamental problems that exist.

TOBACCO

Phased Reduction of Tariffs and Increase in Retail Outlets:

<u>Tariff</u>		<u>Outlets</u>	
1982	35	20,000	
1983	25 (-10)	100,000	(+80,000)
1984	15 (-10)	180,000	(+80,000)
1985	05 (-10)	All	(+70,000)

CHOCOLATE

Phased Reduction of Tariff:

1982	30
1983	20 (-10)
1984	10 (-10)
1985	05 (-5)

WOOD

Phased Reduction of Tariff:

1982	10-20
1983	7-17 (-3)
1984	5-15 (-2)
1985	05 (0,-10)

PAPER

Phased Reduction of Tariff:

1982	10-18
1983	7-15 (-3)
1984	5-13 (-2)
1985	05 (0,-8)

OTHER

Substantial Acceleration In Tariff Cuts for 28 Items Previously Announced

CERTIFICATION

Permit foreign plant inspection (not lot inspection) for all U.S. goods in same manner as U.S. permits Japan

GOVERNMENT PROCUREMENT

N.T.T. must let contract to U.S. firm under existing procurement agreement. There is danger agreement will not be renewed in 1984 if progress isn't made.

BEEF

Best to move to deficiency payment system which could compensate farmers without import quotas. Otherwise, should phase out quotas:

1982	135,000	Tons Worldwide
1983	160,000	Tons (+25,000)
1984	185,000	Tons (+25,000)
1985	235,000	Tons (+50,000)

ORANGES

<u>Quota Reduction</u>		
1982	77,000	Metric Tons
1983	87,000	Metric Tons (+10,000)
1984	97,000	Metric Tons (+10,000)
1985	117,000	Metric Tons (+20,000)

ORANGE JUICE

<u>Quota Reduction</u>		
1982	6,000	Metric Tons
1983	7,000	Metric Tons (+1,000)
1984	8,000	Metric Tons (+1,000)
1985	10,000	Metric Tons (+2,000)

AUTOMOBILES

Extend voluntary quotas for a third year but reduce export level by 100,000 cars (to 1,580,000).

COAL

Commit to purchase significant quantities of U.S. steam coal

OIL

Commit to purchase significant quantities of Alaska oil if the legal restrictions are removed.

7

DEFENSE

Maintain .9% of Japan's GNP for self defense expenditures.

TRANSFER OF TECHNOLOGY

Agree to assist and expedite transfer of certain technology when applications made through private sector joint ventures.

INVESTMENT

Agree to jointly eliminate barriers to Japanese investment in the U.S. and American investment in Japan and to encourage the same.

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Dear *Dr. Sigur,*

I take pleasure in informing you that as part of the measures to further open up the Japanese market, the Customs Tariff Council of Japan reached the following conclusion on December 24, 1982.

1. Tariff reductions for the 215 items contained in the May 28 announcement by the Japanese Government were approved as originally announced.

2. In addition to the above, taking into consideration the request made by the United States, the Council approved tariff reductions for such items as tobacco products, chocolate confectionary, 47 agricultural products, and 28 industrial products including 18 items of U.S. interest. To quote some figures for your reference; Cigaretts from 35% to 20%, chocolate confectionary from 31.9% to 20%, kraft paper from 11.8% to 9.3%, farm tractors from 5.9% to 0%, numerically controlled machine tools from 7.5% to 0%.

The conclusion of the Council will be submitted to the Diet in the form of a bill and upon the approval of the Diet it will be effectuated from April 1, 1983.

These decisions on tariff reductions have been unilaterally taken by the Japanese Government without obtaining any corresponding concessions from other trade partners, and must be seen as a result of the Japanese Government's maximum

efforts in spite of serious difficulties at home. It is my strong wish that the Japanese efforts will be duly appreciated in the United States.

I wish you a Merry Christmas
and a Happy New Year.

Yoshio Okawara
Ambassador of Japan

Japan's Tariff Reduction
on Items of US Interest

December 25, 1982
Ministry of Foreign Affairs
Tokyo, Japan

I. General Statement

1. Customs Tariff Council held its general meeting on the 24th of December and decided on the tariff reductions to be made for FY 83.

Main features of the recommendation are as follows:

- a) reduction and elimination of tariff on 228 items announced in the May 28 package (the so-called "second package").
- b) reduction of tariff on tobacco products, chocolate and biscuit.
- c) reduction and elimination of tariff on additional agricultural products including 35 items (40 on 7 digit basis) of US interest.
- d) reduction and elimination of tariff on additional industrial products including 18 items of US. interest.

The Government of Japan will seek the Diet approval of these reductions by the end of March 1983 so that the recommendation of the Customs Tariff Council will come into effect as of April 1, 1983.

2. This decision by the Customs Tariff Council only came to be

possible by the strong leadership of Prime Minister Nakasone, who put the most importance on the maintaining and strengthening of Japan-U.S. relationship as well as the free trading system of the world.

3. The decision includes not only the follow-up measures announced in the "second package" but also a significant number of items of US interest which were not included in the "second package".

4. The decided measures are of unilateral nature without demanding comparable tariff reduction by other countries, which is the normal practice of tariff cuts in the GATT. This unilateral decision is all the more significant today when the world economy is in stagnation and protectionistic movement is emerging over the world.

5. The decision includes substantial reduction on major items of U.S. interest including tobacco products, chocolate and biscuit, and is expected to practically help the promotion of U.S. exports to Japan when it comes into effect on April 1, 1983.

6. The decision was taken in spite of the mounting domestic difficulties causing pain on many Japanese farmers and producers concerned. It is strongly hoped that the U.S. people fully

take advantage of the decision and redouble their export efforts to the Japanese market.

II. Details

1. Tobacco

- Tariff rate on cigarettes is to be reduced from 35% to 20%, and tariff rates on other tobacco products are to be reduced accordingly.
- A steady increase of the imported tobacco products in the Japanese market is right under way as a result of market opening measures by the Japanese side including tariff reduction and expansion of retailer outlets handling foreign tobacco products.
- Regarding tariff, the Government of Japan reduced tariff on imported cigarettes from 90% to 35% as of April 1, 1981. Since then, the total sales of imported cigarettes increased in the Japanese market by 21.7% in 1981 over the previous year, whereas Japanese cigarettes increased only by 1.4% in the same period.
- Further reduction of tariff from 35% to 20% is such substantial one as to level down the Japanese tariff rates on tobacco products below those of many other countries.

Tariff rates on imported cigarettes in the foreign countries:

* Australia	207%	* Hong Kong	53%
** Singapore	155%	** Canada	52%
EC	90%	** U.S.A.	20-21%

(* specific tariff)

(** ad valorem tariff)

- Trade Coverage of tobacco products:

global ¥16.46 billion

US ¥15.17 billion

2. Chocolate Confectionery

- Tariff rate is to be reduced from 31.9% to 20.0%

- Chocolate Confectionery is of great interest to the US, particularly in the states of NY, New Jersey, Pennsylvania, Massachusetts, Connecticut, Illinois, Wisconsin and California.

- Trade Coverage (1981)

global ¥5.48 billion

US ¥2.63 billion

3. Biscuit

- Tariff rate is to be reduced as follows:

Sugared 36.3% → 24%

Unsugared 31.9% → 20%

- Biscuit is of great interest to the E.C. and to the U.S.

- Trade Coverage (1981)

	Global	U.S.
Sugared	¥3.53 billion	¥0.62 billion
Unsugared	¥0.08 billion	¥0.05 billion

4. Agricultural Products

- Tariffs on 47 agricultural products (55 on 7 digit basis) are to be eliminated or reduced.
- These products include 35 items (40 on 7 digit basis) of U.S. interest. Their trade coverage is ¥30.37 billion.
- The reductions and eliminations are to be implemented in addition to those on 17 agricultural items (including Chocolate and Biscuit) announced earlier in May.
- The United States has shown considerable interest in improving the access to the Japanese market of these agricultural products on a number of occasions, and this measure reflects the U.S. interest to the maximum extent possible in terms of tariff.
- The following are main examples covered by this measure (products with U.S. trade coverage over ¥1.00 billion in 1981).

Dried Grapes	3.1%	->	2.0%
Papaya	6.3%	->	4.0%
Berries	13.8%	->	10.0%
Prunes	6.3%	->	4.0%
Vegetable seeds for sowing	1.9%	->	0%
Cotton seed oil	18.13 yen/kg	->	17 yen/kg

Fatty alcohols	5.4% → 5.0%
Peaches (prepared, preserved)	16.9% → 15.0%
	18.8% → 18.0%
Vegetable proteins	11.3% → 10.4%

5. Industrial Products

- Tariffs on 28 items are to be eliminated or reduced.
- These items include as many as 18 items of U.S. interest including kraft paper, kraft liner, tractors for agriculture, magnetic tapes (unrecorded), cash register, etc.

Trade Coverage of 18 items

U.S.: ¥43.00 billion

- Particularly, kraft paper and paperboard are well-known as products of U.S. great concern.

Trade Coverage

Global: ¥49.23 billion

U.S.: ¥31.91 billion

- The "second package" of May 28 included elimination and reduction of tariffs on 211 industrial products including 47 items of U.S. interest. Elimination and reduction of tariff on the above 28 items are to be implemented in addition to the "second package".
- The average tariff rates of Japan for industrial products has already been quite low in comparison with other industrialized countries as is indicated in the following estimate by the GATT Secretariat for the year of 1987.

Japan:	2.8%
U.S.	4.4%
EC :	4.7%

6. Farm Equipments

- Tariff on agricultural tractor is to be eliminated.
- Tariff exemption on the following agricultural equipments is to be renewed for another 3 years from FY 1983.
 - Hay balers
 - Forage harvestors
 - Mower conditioners
 - Air-tight silos
 - Hay cubers
 - Automatic feeders
- Total trade coverage of the above items was ¥8.5 billion in 1981 and the United States has significant competitive advantage on these mechanical equipments.

7. Items included in the May 1982 package

1) Second package of market-opening measures

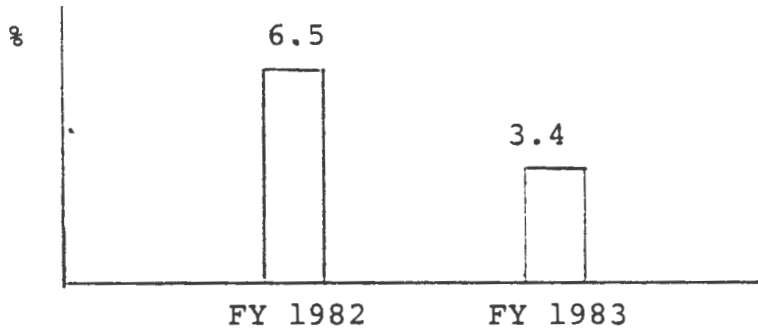
	Agricultural products	Manufactured and mineral products	total
Elimination	--	97	97
Reduction	17	114	131
Total	17	211	228

The above products include:

Tariff elimination: Machine tools, consumer electronics
boilers and electric generators,
cut diamonds.

Tariff Reduction: computers, auto parts, photographic
film, nuclear power equipment,
cookies, chocolate confectionery,
lemons and limes, almonds.

2) Average tariff rates for products covered by the measure



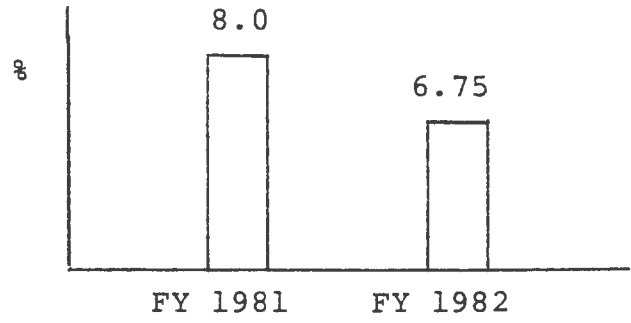
Note:

First Package (1981.12.16); Advanced implementation of
tariff reductions under the MTN Agreement on 1,653 products

1) Number of products on which tariffs are to be reduced
across the board by two years in advance of the schedule
agreed to in the Tokyo Round

Agricultural products	114
Mining and manufactured products	1,539
Total	1.653

2) Average tariff rates
for products covered
by the measures



Trade Coverage of Items of US Interest

(billion yen)

	Global	U.S.
Agricultural Products	55.38	30.37
Industrial Products	70.88	43.00
of which:		
Tractors for Agriculture	(4.28)	(0.45)
Cash Register	(1.44)	(1.35)
Parts of Calculating Machines	(0.03)	(0.03)
Magnetic Tape	(15.90)	(8.90)
Lead-acid Batteries	(0.78)	(0.36)
Kraft Paper	(22.47)	(11.17)
Paperboard & Coated Paperboard	(26.76)	(20.74)
Tobacco Products	16.46	15.17
of which:		
Cigarettes	(16.00)	(15.00)
Cigars	(0.20)	(0.09)
Pipe Tobacco	(0.23)	(0.08)
Other	(0.03)	(-)
Chocolate Confectionery	5.48	2.63
Biscuit	3.61	0.66
Total	151.81	91.83

WANG #4373q

I. SUBJECT: U.S. Trade Policy Toward Japan

II. ORIGINATOR: Malcolm Baldrige

III: ACTION FORCING EVENT: Japan has been unwilling to undertake fundamental structural reforms in order to provide open and equitable access to its markets. As a result, our bilateral trade deficit has grown rapidly and there has been a sharp increase in political pressures to take trade-restrictive measures which would limit Japanese exports to the United States.

IV. STATEMENT OF ISSUE: Japan's markets are much less open to imports than those of the United States or other OECD countries. Japan's limited market access is the result of a complex and pervasive set of formal government policies and informal government-sanctioned practices which reflect a deep-seated national bias favoring Japanese products over foreign goods. U.S. trade policy toward Japan must be geared toward requiring Japan to undertake fundamental structural reforms to dismantle these policies and practices, and to provide meaningful access to the Japanese market.

V. ANALYSIS: Despite assertions that Japan's markets are open to foreign goods, the Japanese market has a fundamental bias against imports. Japan's trade and industrial development

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policies since World War II have reflected the widely-held belief that government and business should work together, both formally and informally, to protect local producers and to limit foreign goods. Thus, despite the liberalization of many Japanese formal tariff and non-tariff barriers as a result of the Multilateral Trade Negotiations and various bilateral negotiations, the Japanese market in large part remains closed to U.S. and other foreign manufactured products.

Imports have been restricted by such fundamental structural factors as the longstanding "buy Japanese" ethos of Japanese society, government-approved private or semi-private cartel arrangements which protect inefficient industries, exclusive wholesaler-retailer relations within the Japanese distribution system, and the close ties existing between major manufacturers and their domestic components and parts suppliers. These factors combine with restrictive standards, customs clearance, licensing, investment, and other practices to restrict the Japanese market for imports.

The growth in our bilateral trade deficit from \$10 billion in 1980 to an estimated \$15-16 billion in 1981 and \$20 billion or more in 1982 reflects the fundamental imbalance in access to the U.S. and Japanese markets. The Japanese have argued that our bilateral trade deficit reflects the strong U.S. dollar, failing U.S. competitiveness, and U.S. apathy in developing the Japanese market. The growth of the trade imbalance, however, predates the strong dollar, and Japan is

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simultaneously running a proportionally larger surplus with the EC, where currencies have been weak. Moreover, even highly competitive U.S. industries are denied access to the Japanese market. While the United States has a substantial 34 percent share of the Japanese market for manufactured imports, Japan's total imports of manufactures are extremely small. Japan is the second largest economy in the free world, but its imports of manufactures are roughly equivalent to those of Switzerland.

A new approach is needed to ensure that Japan undertakes the structural changes that will increase substantially access to the Japanese market. Without such measures to encourage imports, the Japanese market will remain closed, our large bilateral trade deficit will continue to grow, and attendant political pressures for major restrictive actions to redress the trade imbalance will increase.

This new strategy could be centered on obtaining from Japan a global import commitment. Such a commitment should represent a national consensus within Japan. The global import commitment would place the burden for structural reform on the Japanese. It would be consistent with GATT principles, and we likely could count on support for a global solution from other key nations. This would increase the pressure on Japan and not allow Japan to play off one of its trading partners against another. It would also allay any fears in Europe or elsewhere that the United States might resort to "bilateralism" and resolve our trade problem with Japan at the expense of other nations.

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A new approach based on Japanese assumption of a global import commitment is also necessary to head off the implementation of U.S. protectionist measures against Japan. It is much more preferable to increase our exports to Japan rather than to restrict Japanese exports to the United States.

What we are seeking from Japan is nothing less than a fundamental reorientation of its economic policies, which will be difficult for Japanese leaders to accept. To succeed, this strategy will require substantial sustained pressure from a unified and determined Administration. It will also require agreement on measures the United States may need to take if Japan is not prepared, on its own, to accept a commitment to import more globally. Some of these measures could be initiated easily (such as pursuing GATT cases on illegal Japanese quotas or initiating cases against unfair Japanese trade practices under Section 301 of the Trade Act). Stronger measures, representing higher risk in terms of our overall trade policy, also may be necessary to get Japan to assume a global import commitment (such as limiting Japanese access to the United States or controlling U.S. exports to Japan of certain raw materials). Before pursuing a global import commitment strategy, therefore, further study of the overall approach is needed.

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VI : RECOMMENDATION: A study should be initiated within the framework of the CCCT to develop a comprehensive strategy aimed at obtaining Japanese agreement to assume a global import commitment. The study should address current impediments to market access in Japan, our overall trade goals vis-a-vis Japan, and alternative points of leverage the United States could use in order to obtain a Japanese commitment to undertake structural reform consistent with such an obligation.

VII: DECISION:

_____ Approve	_____ Approve as amended
_____ Reject	_____ No action.

Drafted by: IEP/TA/OTP/BPD/SO'Leary

IEP/PPA/OIER/JPN/PAggress/12-9-81/mc/jc