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DEEP INTEGRATION IN MEGA TRADE AGREEMENTS:
WHAT ROLE FOR JAPAN AND THE UNITED STATES?

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Introduction and Moderator:

MIREYA SOLIS
Senior Fellow & Philip Knight Chair in Japan Studies
The Brookings Institute

Panelists:

AMBASSADOR JOHN K. VERONEAU
Partner
Covington & Burling LLP

MICHITAKA NAKATOMI
Consulting Fellow
Research Institute of Economy, Trade And Industry
Japan External Trade Organization

BRUCE STOKES
Director of Global Economic Attitudes, PEW Research Center
Nonresident Transatlantic Senior Fellow, German Marshall Fund

YORIZUMI WATANABE
Professor of International Political Economy
Keio University, Japan

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P R O C E E D I N G S

MS. SOLIS: Good morning, everyone. My name is Mireya Solis. I'm a senior fellow and Knight Chair in Japan Studies at Brookings Center for East Asia Policy Studies. It is a pleasure to welcome you to this panel on "Deep Integration in Mega Trade Agreements: What Role for the United States and Japan?"

Let me provide a little bit of context before we have the presentations and I would like to start by saying that this month has been an eventful one for the world of international trade with two very important ministerial meetings, one for the World Trade Organization in Bali and the other one for the Trans-Pacific Partnership negotiations in Singapore.

The Bali package delivered the first membership-wide agreement since the WTO was created almost 18 years ago. And this is certainly very good news because it reassures us that it's not yet time to write the obituary of the WTO as a negotiation forum. This is, indeed, very positive news.

But I think if you follow closely what transpired at Bali, actually there is still reason for concern regarding the future of the Doha Round in the sense that the Bali success was indeed a very close call. At several points in time, the talks almost collapsed even though we're talking about an agreement like the one on trade facilitation where the gains are actually very wide, very high and the implementation costs are not considered to be so onerous.

So, even with an agreement like this, it was very difficult to reach an agreement.

And so, as the WTO negotiations have stalled, the agenda for the negotiation of deep integration standards and rules, for example, on intellectual property, data flows, labor and environmental standards, investment, and so forth, has migrated to these mega trade agreements such as the Trans-Pacific Partnership, the Trans-Atlantic Trade and Investment Partnership, and the Japan-EU Free Trade Agreement.

But I think that the second meeting that I referred to, the one in Singapore, also tells us how difficult, how challenging the negotiations in the mega trade arena is going to be.

So, let me highlight some of the issues that I have asked the presenters to address today. Japan is the second largest economy participating in the TPP and yet we know very little about what are the core priorities for Japan in the rules area of trade negotiations. And to what degree do Japan's objectives align or not with the goals that the United States is also trying to pursue through these mega trade negotiations. So, I think one first objective for this panel is to understand what are the central priorities and goals for both the Japan and the United States, and whether there is potential for fruitful collaboration in these mega trade negotiations.

A second issue that I would like to discuss this morning is that these mega trade agreements are important not only because they represent large shares of world output or because they have an ambitious agenda in rules and market access, but also because they're taking place simultaneously.

I think we're witnessing a very important moment in time in terms

of trade negotiations because we have not had these very large trade negotiations taking place simultaneously and this creates an opportunity about trying to negotiate consistent rules across agreements so that what we end up having are global standards capable of dissemination more widely so that they can encourage market reform and regulatory transparency in emerging economies.

I think we do not want to see as the end result of these mega trade negotiations, the emergence of a de facto Pacific standard or an Atlantic standard but rather a high quality global standard. How do we come up with strategies to have this consistency across negotiations?

And finally, and I did not warn the speakers, I guess, ahead of time, but I think it's inevitable that we talked about this. We're meeting just one week after the Singapore meeting and therefore it would be important to discuss what are the consequences of the inability to reach a deal in the Trans-Pacific Partnership by the end of 2013? In Singapore it was not even possible to reach an agreement in principle. This negotiation is still wide open, they're still continuing.

So, should we think about this just as a bump in the road or does this process really reflect broader challenges to the conclusion of these mega trade agreements?

So, that is, therefore, the set of issues that we're going to cover today and I think we're very fortunate that we have a panel of true experts to cover these issues. Let me introduce them very briefly in the order in which I will

ask them to come to the podium to present, and after all the presentations are done, then I'll ask all the speakers to come with me to the stage so we can have the Q&A with all of you.

So, Ambassador John Veroneau is partner at Covington & Burling and he was Deputy USDR between 2007 and 2009. This is very important because this is precisely the time when the United States decided to join the P-4, which eventually became the Trans-Pacific Partnership. So, Ambassador Veroneau was a key person when this strategic decision was made for the United States to advocate this proactive trade policy. And he previously also served as USDR General Counsel.

Another position of his is that he served as Assistant Secretary of Defense in the Clinton Administration.

Mr. Michitaka Nakatomi is consulting fellow at the Research Institute of Economy, Trade, and Industry and advisor and former president of the Japan External Trade Organization. He has a long career in the Ministry of Economy, Trade, and Industry having participated in the negotiation of five free trade agreements and the negotiations on the Information Technology Agreement and the Anti-Counterfeiting Agreement.

Mr. Yorizumi Watanabe is professor of international political economy at Keio University and has served as Deputy Director General of Economic Affairs at the Ministry of Foreign Affairs and has had diplomatic postings in Brussels and Geneva, was the chief negotiator for the Japan-Mexico Trade Agreement, and his book on TPP has been one of the best-selling books

in Japan.

And Mr. Bruce Stokes hardly needs an introduction to a Washington audience. He is the director of Global Economic Attitudes at PEW Research Center and nonresident transatlantic senior fellow at the German Marshall Fund. Previously he was international economics correspondent for *The National Journal*.

So, I think it is now time to begin with the presentations.

Ambassador Veroneau, please?

MR. VERONEAU: Good morning. Thank you for being here.

So, let me talk about a few things. I'm going to frame sort of the politics and the policy issues behind some of these trade agreements and then touch upon some of the ones that have been mentioned and that are on the agenda.

Global trade continues to expand, you know, for good, sound economic reasons. You know, the percentage of global GDP that's related to trade and cross-border transfers of goods, services, investments, continues to grow, and I don't know anyone who thinks that will reverse any time soon, at least until 3-D printers make trade rules completely obsolete and we go back to the old days.

So, the question that we're talking about today, well, are policy issues, policy initiatives, are they helping or hurting the economic momentum for further global integration? And I think it's kind of a mixed message. On the one hand we're seeing more of these regional trade agreements that are leading to

lowering barriers and encouraging trade, and that's all to the good, but I think we're also seeing some policy trends in the other direction of state intervention, especially since 2007 and '08, the economic meltdown globally, I think there was a lot of pressure on governments in every country affected to do something, you know, the old adage, don't just stand there, you know, do something.

So, governments, I think, through different measures of local content requirements and other steps, and just making things more difficult for cross-border transfers, I think, have had a discouraging affect on globalization.

The real problem, though, is if you're a CEO today and you're looking across the world and saying, I want to go global, it's a -- and you say, well, what are the policy problems and obstacles that I have to face? You know, 30, 40 years ago, most of those policy problems that you'd face were border measures. You know, you go, well, the tariffs are really high in country X or Y that I'm interested in, or country A or B have import quotas that are a problem.

So, they were kind of traditional border measures and fortunately they were traditional policy responses to those, you know, the GATT and NAFTA, other major traditional trade liberalizing policy initiatives got at these border measures and frankly did a pretty good job at reducing those.

Now a CEO looks out at the world and says, I want to take my business global, and they are facing a world where countries are flexing their regulatory muscles in a way that they hadn't before.

Now, countries are entitled to flex their regulatory muscles. Every country has an obligation, responsibility, to protect the health and welfare of its

citizenry, so no one is suggesting that China, Brazil, India shouldn't start flexing their muscles in the way that Europe and Japan and the US have done for many years, but it's just creating a much more complicated global network for CEOs looking out to bring their businesses global. They have to understand a tremendous amount of regulatory law in all these jurisdictions.

So, I think we're in a bit of a transition globally. We have, every day, more and more a global economy that's integrated, but global governance is still lagging behind and no one -- you know, we throw the term around, global governance. We're not really sure what it means beyond the concept, but we don't yet have the right size governance, I think, to reflect the global economy.

I liken it to having a 3 x 5 carpet that you move around a 9 x 12 room and you sort of put it over here when you're addressing food safety issues and you move it over on the other side of room to address some other issue, but together we just have this lacking governance structure.

So, the question is, how do we fill that in? The WTO provides a path, but the WTO and the GATT from which it grew, the legitimacy and the competency of the WTO as an organization is largely surrounding border measures. So, as you look more and more to the regulatory barriers that companies face -- food safety, technical standards -- those really aren't issues that the WTO itself has the competency for.

I suspect over time that competency will grow, not necessarily from a perspective of the WTO becoming a food safety expert organization, but I do think it will provide more and more of a convening role where it is sort of

marshaling other organizations, other international organizations, to reduce barriers, simplify safety rules -- product safety rules, food safety rules, et cetera, so that it can lower -- meet its broadest mission, which is lowering barriers that discourage cross-border flows.

So, regional trade agreements, do they help or do they hinder?

The classic question that's always surrounded these, you know, are they stumbling blocks or building blocks? I guess my perspective is they're a little bit of both. I don't think it's fair to suggest that these regional trade agreements compete with Doha. I was there in Cancun when we weren't able to get things off the ground. That was obviously preceded by Seattle in '97 where there was tremendous unrest about advancing globalization through these trade agreements.

I think the floundering of Doha is actually -- was predicted and could have been predicted by the fact that it began with, frankly, a lack of strong consensus about what it wanted to do. There are many members of the WTO, with all due respect, that don't seem to fully embrace the idea that lower barriers to trade is a good thing. So, it's floundered for many years and I think even despite the great success in Bali, and I think Azevedo deserves great credit, trade facilitation is relatively low-hanging fruit. The fact that it took so long to get countries to agree that they should cut red tape tells you something, so I take nothing away from his skill. It was low-hanging fruit, but when there's 159 pairs of hands even picking low-hanging fruit can be a challenge.

But I think, you know, over time, I think they will become ultimately

building blocks because I think the arc will be more and more these regional trade agreements, the spaghetti bowl that is talked about and the complexity of all these agreements, I think will fall of its own weight at some point and at some point there'll be a turning point and countries will say, look, why don't we just convert all of these hundreds of trade agreements with complicated and sometimes competing rules of origins, et cetera, and trade in the spaghetti for a big, flat pizza that covers the world and we have simplified rules?

But I think we will see a proliferation of these regional agreements for a while more.

TPP, I think, is a critically important agreement. I think Japan's participation in the agreement is essential. One of my last errands when I was at USTR as a deputy was to go to Tokyo to encourage the government to join what were then the P-4, P-5 negotiations. It obviously took some time to develop a political consensus in Japan to join TPP. Without Japan, frankly, TPP couldn't meet its aspiration of being a game changing agreement. Most of the parties before Japan joined -- other than probably Vietnam -- already had fairly liberal trade rules amongst each other. So, Japan is really an important game changer.

There are others on the panel today who know Japan far better than I do, but it seemed from the outside that TPP is playing an important role of spurring some domestic economic reform that is needed and wanted at this point.

Lastly, I think I would just say that -- we were talking about this just before the panel got underway -- economic inequality and the growing

income inequality that we're experiencing I think will continue to shape -- certainly in the U.S. and I think in all countries -- the political framework for these trade agreements and trade negotiations

Something is happening. It can't all be blamed on trade, but between technology and globalization generally, you're just seeing more and more of this bifurcation of those who are doing exceedingly well in a global economy and the opportunities it provides, and those that are not participating very much in that global economy. And as that income inequality continues, if it does, I think that will frame the political debate of every major policy issue from tax policy to social safety net issues, but also trade policy and that is, to me, the most interesting political space to watch as we go forward.

But why don't I stop there.

MR. NAKATOMI: I am Michitaka Nakatomi, consulting fellow, RIETI and thank you very much for inviting me to this interesting and very important panel.

I would like to speak on my own view. I used to be with the government, but now I left the government, everything is my personal view.

First, I'd like to reply to Japanese, I think, contribution in trade areas. It's a little known fact that Japan contributed to many areas doing trade rules, and we have a very firm commitment to establishing better trade rules.

First, specifically regarding investment, while Japan promoted investment and trade issue in the agenda of Doha Round, unfortunately the agenda was dropped in Cancun, and we have very good FTA investment

chapters and also bilateral investment agreements.

We already have Japan, China, Korea agreement and so forth, and we are promoting both protection and liberalization in that regard.

And we have invested to state dispute settlement provisions in all FTAs except for the Japan Free (inaudible) EPA (ph.).

I was unfortunate that I couldn't get ISDS provision in Philippines FTA. (Inaudible) was against the idea. That became a political issue.

In services area, Japan is a member of the (inaudible) good friends of services group in TSAP (ph.), which is (inaudible), I think, trial to come up with a high level rules, and Japan recently submitted its proposal. Not many countries have submitted proposals in TSAP. And we are introducing a (inaudible) approach, not in all FTAs, but in the case of Chile, Switzerland, Peru, and Mexico we have a negative risk approach.

And at the same time, we are using a positive risk approach in our agreements with Asia. We have flexibility there.

And one thing very important for us is that Japan has no MFN (ph.) exemptions in their GATTs.

Trade facilitation together with, I think everybody here, I would like to congratulate the success of the Bali meeting in that regard. It's, I think, a very important achievement. Japan cooperated with the U.S. to come up with an agreement at the WTO.

Issues related to digital economy, actually I can speak about many, I think, productive results coming from Japan. First, ITA. ITA was realized

in 1997 by a very close collaboration with Japan and the U.S. I was Japanese negotiator (inaudible) and at this moment Japanese are working hard to come up with the expansion (inaudible). I may call it ITA-2, ITA-3, ITA-4. But I don't know the name.

But anyway, I'm hopeful that in the future by the close collaboration with Japan and the U.S., we can realize new ITA.

ECOMAS (ph.), regarding the concept of a digital product, that's been incorporated in U.S. FTAs with various countries. That originally came from Japan.

We are pursuing customs duty moratorium on electronic transmissions with various parties. We have ECOMAS (ph.) in Japan-Switzerland EPA. I inserted that chapter in Japan-Switzerland EPA.

And recently, Japan-U.S. accepted trade principles for information and communication technology services confirming common positions of Japan and the U.S. in this area. And Japan has trade principles for ICT services cover these areas -- transparency, a free flow of cross-border information, open networks, network access and use, assuring interconnection, and (Inaudible) of network elements, local infrastructure and local presence, but localization is not required, foreign ownership, effective use of broad spectrum, regulatory authorities -- independent regulatory authorities, and so on and so forth.

That's, I believe, the basis for TPP talks and ahead.

And in the area of intellectual property rights, as Mireya explained, I was the negotiator of an anti-counterfeiting trade agreement, which deals with

the enforcement of copyright and trademark protection. Japan has worked hard to realize that. Unfortunately at this moment, Japan is the only country that has ratified the act.

In other areas of intellectual property we have very high standards legislation. Regarding technical values to trade, I would like to speak about second triennial review that took place around year 2000 that dealt with the definition of international standards that spoke about technical -- I'm sorry, (inaudible) standards, market relevance, and so on and so forth, and putting emphasis on the (inaudible) standard development of organizations. As Japan attempted to bring the (inaudible) issue into the Doha Round agenda, which was not successful.

Regarding competition, Japan promoted to put a competition issue in Doha Round. Again, the issue was dropped from the coverage of the negotiation in Cancun.

About procurement, Japan is a party to the agreement on government procurement and we have one-stop website for information on procurements by local governments. That includes, I think, entities not (inaudible) by GPA (ph.) as well.

And we've concluded various high-level FTAs and EPAs. We have a very good network of FTAs in Asia and elsewhere, and trying to seek to expand networks of FTAs and EPAs.

This is what we are doing. We've already concluded 12 FTAs covering Asia, Latin America, and with Europe, we have one with Switzerland.

Now we are also trying to have TPP, RSEP (ph.), Japan-EU EPA and China-Japan-Korea FTA. All these four mega FTA negotiations are going on. And regarding China-Japan-Korea FTA and regarding RSEP (ph.), we are aiming at high level FTAs.

In the case of CJK, we are pursuing goods, services, investment, trade facilitation, SPS, TPT competition, and possibly we may include intellectual property, e-commerce, procurement, and the environment. In the case of our RSEP, we are pursuing goods, services, investment, intellectual property, competition, we may include other sectors as well.

Japan is trying to have high level FTAs everywhere.

Next, I would like to speak about Japanese commitment to global rules. The WTO and the FTAs, the two pyramids (ph.) of Japan's trade policy that will continue to be the case in the future.

(Inaudible) recently proposed I think concept of unified access, a coherent approach in its recommendation in addition to (inaudible) regional FTAs, (inaudible) speaks about establishing a common approach, as in unified access, as the basis for future multilateral regime. And it also speaks about pursuing plurilateral agreements such as ITA and TSAP (ph.). They are thinking about the global system.

Next I'd like to speak about the importance of global value chains. As Ambassador Veroneau spoke, companies I think working globally, we need to think about the implication to global value chains all the time. WTO and (inaudible), I think, compiled their famous report in 2011 and we are carrying out

connectivity support, especially in Asia, supporting physical, institutional, and people-to-people connectivity to realize global value chains.

This is WTO (Inaudible) report that speaks about the interdependence of, I think, business and trade using an input/output table. The report speaks about issues related to global value chains and vertical specialization. That speaks of the importance of lowering trade barriers and that refers to the fact that a new trade regime is needed as firms go beyond national boundaries.

Because of the brevity of time, I will skip the details, but it's a very interesting report.

Next, I would like to move on to Japanese contribution to the TPP. What I have spoken about Japanese contribution to (inaudible) area, also speak about Japanese possible contribution in the TPP. Key priorities in the rules areas are, first, not only market access, but also trade rules behind the border measures are quite important. Second, we put emphasis on investment rules, liberalization protection, and we put emphasis on services, not only market access, national treatment, there may be other elements there.

Fourth, protection of intellectual property, TBT (ph.) and also we are pursuing rules for information society in ECOMAS (ph.) telecommunication data (inaudible) and so forth. ON these areas, I believe, Japan-U.S. cooperation is possible and also very important.

Next, I'd like to speak about direction for cooperation in the future. I will try to speed up. First, GBC (ph.) perspective is essential. Spaghetti bowl of

rules (inaudible) is a very serious program. We should not, I think, create a spaghetti bowl in rules. Spaghetti bowl (inaudible), rules of origin is digestible, perhaps, but spaghetti bowl trade rules are not digestible.

And next, Japan-U.S.-EU need to cooperate. We have many mega FTAs. There is a possibility of creation of spaghetti bowls in rules. Harmonization with mega FTAs is an urgent issue. And we need to think about supply chain. And a concept of connectivity is quite useful.

We, of course, needed to address 21st century challenges. We need to cover various areas and we need to be quick. And at the same time, we need to think about global solution and the perspective of making multilateral rules for the future. We need to put emphasis on WTO as well.

To realize these, I strongly believe full-scale government-to-business and business-to-business cooperation is necessary. In particular, it's essential for the Japanese and U.S. business communities to strengthen cooperation. That's not still yet there, but we need to consolidate the collaboration further.

And one more thing, which is useful, is to prove economic benefits of FTAs, not only the effects of tariffs, but also we need to think about the implication created by non-tariff barriers. And regarding our approach to developing countries, if we create a good agreement, that incentive for the European countries to be on board, but specifically I (inaudible) capacity building, technical assistance, connectivity.

Regarding dispute settlement, we need to be careful and

(inaudible) whether we can introduce discriminatory agreements or (inaudible) extension benefits.

In the case of ITA basic (inaudible) communication services agreement and financial services agreement, MFN extension was introduced. And that created an international agreement. Securing an appropriate balance between the (inaudible) of rules and prevention (inaudible) is very important.

Finally, I'd like to speak about the three pillars -- ambition level, participation and schedule. This, I think, (inaudible) chart is used by myself in (inaudible) negotiation.

Quite often, these three sorts of acts as conflicting. We need to have highly ambitious rules, (inaudible) conclusion, and large number of participants, but that's a very difficult one. But by very close who have (inaudible) the cooperation between the governments and business communities of Japan and the United States, we can realize that. Thank you very much.

(Applause.)

MR. WATANABE: You can keep the screen for me if you like.

Well, good morning to everybody, the excellencies, ladies and gentlemen, it is indeed a great honor and pleasure for me to be here, particularly I am very grateful to the organizers, in particular, Mireya for having me here.

Today I would like to talk about the possible input from Japan-EU FTA to the global rulemaking, and I'm sure that Jennifer is going to replace the slides with the ones for me. Would you please wait for a moment?

Great. Well, thank you very much, Jennifer.

So, let me go on. Today, I am assigned to talk about the possible input from Japan-EU FTA to the making of the global rules in the 21st century. At the outset I would like to share with you the notion of what I would call three mega regions and WTO.

There is a very intensive economic integration going on in EU and also Americas and also East Asia, and very characteristic of the 21st century integration is that not only the intensity of integration in each of those three mega regions, but also what is happening between the mega regions. For instance, the one between Asia-Pacific, that is APEC, we have since 1989 and between EU and East Asia, we have ASEM, which is very much mirror image of APEC. That started back in 1996. And you have also between EU and the Americas, you have Transatlantic Marketplace or Transatlantic Economic Council ever since 1995.

And now all of these inter-regional frameworks are adding new value-added and those inter-regional frameworks are, by nature, non-legal binding -- they are not legally binding, but now they are in the process of making legally binding commitments within the framework of mega regional FTAs. So, that is, in the case of APEC, we have TPP, and in the relation between EU and East Asia, the one is Korea-EU that has been already in place and Japan and EU are now engaged in bilateral discussions on FTA.

And now you have also TTIP, between EU and United States.

So, what is important is that kind of common background of all these development that is certainly the WTO. The WTO provides the essential

foundation for the making of those regional initiatives as well as inter-regional initiatives.

That is to show you to what extent Japan has been engaged in the development of making of FTAs or EPAs. And there are 13 EPAs that Japan has concluded and additional 10 negotiations that we are now being engaged including six bilateral negotiations, on top of it we have the TPP negotiations. Through the TPP framework we are negotiating with the United States and also with the European Union we have no bilateral engagement of FTA negotiations all together with 28 member states of the European Union.

So, Mr. Nakatomi has already explained to a great extent about what Japan's FTA is. We call it EPA, Economic Partnership Agreement, that is certainly going beyond the traditional market access -- free trade agreement, both trading goods and services, but we have also government procurement, movement of natural persons, competition policy harmonization, and also the improvement of business environment after an investment being done, and also we have the bilateral cooperation with our partner countries. And, maybe most importantly, we have investment chapter in our EPA framework, and this is the substance of Japan's EPA to be covered issue-wise and also by the respective bilateral EPAs that you have now on this slide.

And achievement so far is at -- we have done 13 bilateral EPAs including one with ASEAN as such and I'm very glad to tell you that just two days ago we have the heads of the state meeting, the leaders meeting of Japan on one hand and all the ten ASEAN countries back in Tokyo, and there was

(inaudible) that the Japan ASEAN Comprehensive Economic Partnership Agreement now includes also the services and also the investment. So, that's a new development with regard to Japan-ASEAN EPAs.

So, this is now I would like to talk about Japan-EU EPA and this is the impact of Japan-EU EPA. As you see, particularly on the bottom part of this table, the European Union is the third largest trading partner for Japan and for Japan, the EU is the sixth largest trading partner for the EU. When it comes to investment, the EU is the largest investor to Japan and Japan, the EU is the second largest destination for Japanese investment after the United States being the first destination for Japanese investment.

So, the magnitude of possible Japan-EU EPA could be very important, potentially very important, covering about 36 percent of the world trade. And I would like to show you this slide to what extent Japanese companies are present in Europe and also when you take the auto maker's production sites and also research and development facilities in the EU, it is also quite extensive, about 13 plants in eight countries of European Union and for research and development, 20 centers for R&D in five different countries in the EU, and directly employed people were about 150,000, so that's quite a significant number.

So, Japan and EU had a very difficult time back in the 1980s, so the trade frictions, same thing happened with United States as well, but the first turning point was the 1991, we have the joint Japan-EU declaration. That was adopted in the Hague, and one decade later, ten years later, we have Japan-EU

action plan between Mr. Kouzumi and Mr. Prodi of the European Commission president at the time.

Then we have now engaged -- well, later on there was what we called a scoping exercise, there was a kind of pre-negotiation phase to determine the level of ambition and coverage of Japan-EU EPA.

The EU Foreign Minister's Council adopted the draft directives for the EU-Japan FTA back in November 2012 and that was followed by the start of negotiation in March this year. Interest of the parties, Japan certainly interested in very much the (inaudible) of duties, industrial tariffs in particular, for instance the EU import tariffs on cars is 10 percent and -- sorry, 14 percent on TV or electronics, and trade and services, for instance, the maritime services, that's also the area that Japan is interested in, and also investment agreement.

The European Union, on the other side, the MTMs is the most important area, you know, processed food, food additives, pharmaceuticals, and so forth, because 70 percent of the EU export Japan is already duty free.

Government procurement or railway equipment procurement, that also constitutes a very central part of their interests as well.

Agenda for negotiation, those are the 14 areas, and those are written with the red color, seems to be a kind of difficult point such as (inaudible) measures, trade and services, and garment procurement. The central objectives -- objective is a little too much, maybe central issues that Japan and the EU are now struggling around is maybe the auto area and the other area is railway equipment.

For the auto, the EU has been constantly asking Japan to accelerate its speed of adopting UNECE. UNECE is the United Nations Economic Commission for Europe and the regulations on technical standards on safety and environment, and Japan is now accelerating this process, and they offered already the kind of roadmap to adopt a UNECE regulation on that.

The international (inaudible) type approval that was also pushed forward by EU and Japan and EU jointly, they are going to introduce this by 2016.

Other areas, such as zoning, zoning allows the auto makers to establish the maintenance shops in the residential area, that has been offered to European side as a compromise made by Japanese.

On the railway equipments, that's maybe a difficult area as well. The clarification of safety exception that is very important area. The transparent application of the safety exception clause that has been very much within the interest of the European side.

The procurement rules that Japan is very much interested in on this procurement rules on privatized entities, such as JR Tokai (ph.) or JR East or JR West Japan because those entities already graduated from the application of WTO GPA.

And this table shows you that despite the strong demand from European Commission for this opening up of railway market, actually when you look at the trade balance, Japan is in deficit in bilateral railway equipments trade. Only country that Japan enjoys surplus is only with UK. With French or with

German, the Japanese have been running a deficit. So, it indicates somewhat the openness of Japanese railway equipment market.

And those are the other areas like water supply services that have been awarded to a French company, Verolia (ph.) for water supply system in Matsuyama City in Ehime Prefecture in Shikoku and those are just for your reference.

And this is also what Mr. Nakatomi mentioned about this, the procurement in Japan is very much with the line of WTO GPA obligation and not only central government or 47 prefectural governments, but we have also the main cities, core cities are also subject to WTO GPA if the value of procurement goes beyond the threshold value stipulated by WTO GPA.

So, the other rules that Japan would be interested in is investment, competition, geographically indication, perhaps, because there seems to be a big sort of confrontation between EU and U.S. and while Japan is now negotiation U.S. through TPP and also bilateral context with the EU, so maybe geographical indication is the area where Japan can play an intermediary role.

Trade facilitation already examined and explained by Mr. Nakatomi and certainly Japan and EU could make a follow up to make the straight facilitation attached to the annex of WTO agreement.

So, coming back to this picture again, you see now we have the three mega regions, but in between them we have the three inter-regional frameworks, which become more and more legally binding. So, I think in this

way we can talk about multilateralizing regionally.

Convergence of liberalization efforts in three mega regions certainly would create new momentum to reinforce trade multilateralism embodied in the WTO. So, in that sense, Japan, EU and the U.S. should work together for multilateral as well as inter-regional trade and investment liberalization.

Thank you very much indeed. That is the end of my speech.

Thanks.

(Applause.)

MR. STOKES: There must be something about the fact that the two American speakers don't have PowerPoints and the two Japanese speakers do, but I can't figure out what that says about our cultures anyway.

My name is Bruce Stokes and it's an honor and a privilege to be here and I appreciate the invitation.

I'd like to make a couple of general points about the political environment, especially in the United States, for deeper integration between the U.S., Europe, and eventually Japan, and then talk specifically about TTIP and what it may mean for the U.S. and Europe and Japan.

First off, I'd like to disabuse you of a common perception I think held especially outside the United States but also in Washington that Americans are basically protectionist. In fact, we now have more than a dozen polls over the last three or four years that show that about two-thirds of Americans actually support trade and think it is good for the country.

Now, I will admit to you that that's the lowest percentage of any industrial country, most industrial countries are up about three-quarters of the population support trade, but in principle, Americans are supportive of trade. They have questions about its impact on jobs, a question about its impact on income, but we're starting, I think, from a very good starting point in terms of Americans' perception that globalization is here to stay.

In terms of TTIP, we have -- the good news is that half of the American public now say that Europe is the most important partner for the United States, contrary to the pivot to Asia, and contrary to what people were saying just a few years ago. So, Europe is on the rise in terms of public perception. Fifty-eight percent of Americans want to increase trade with Europe, and 76 percent of Americans say that regulatory cooperation with Europe would be good for the United States. So, they get what is the central element of the TTIP, which is regulatory cooperation.

And if you ask people who say they're in favor of the U.S. and Europe working together more closely, this is based on some German Marshall Fund data, people say it's because they see the value of Europe and the United States working closely together to establish global standards to improve the economies of both Europe and the United States. So, people get the central rationale for the regulatory cooperation that is so central to TTIP.

At the same time, Americans are more supportive of increasing and improving trade with Japan than they ever have been in the past. Sixty percent of Americans say they would like to increase trade with Japan. I dare

say, in the worst days of the 1980s when a number of us first got into the trade game, you would not have found 60 percent of Americans saying they wanted increased trade with Japan. This is in part because 63 percent of Americans say that Japan now trades fairly. That's up from 47 percent a decade ago, so there's a sense that Japan is a fairer trader than it was in the past, among the American public, at least, and that this helps with TPP.

So, the public opinion predicate, the political predicate for these kinds of mega trade deals, I think, exists in the United States, at least in principle. Obviously when we get into negotiating the details, that's going to become a much more dicey political issue. And as you well, now, and as really the thrust of the discussion here today is, these deals are not about tariffs, especially the TTIP. It is about regulatory harmonization and this is where the rubber hits the road in this negotiation and things get very difficult.

For those of you who aren't old enough to remember, we have been talking to the Europeans about regulatory cooperation since 1995 and in those discussions we have had almost no success. You can count the number of successes on one hand. To give you a sense of the complexity of these issue, in the late 1990s we thought, well, wouldn't it be great, since the Europeans build cars in the United States and Americans build cars in Europe, we'll come up with common standards for certain auto parts. Let's start with headlamps for these cars.

When we got into the negotiation -- I mean, the thinking was, this would make it more efficient, companies would save money. What we found was

that American cars' headlights thrust their light up above the road because that's where a lot of American signage is. European headlights thrust their light to the side of the road, that's where a lot of European signage is. So, while we would save the companies money by having common standards for headlights, we would cost the taxpayer millions of dollars because somebody would have to move their signage.

So, we have to understand there are limitations here that we have to live with because of these -- the infrastructure that we now have. So, we decided to focus these negotiations on emerging technologies, such as nanotechnology or electrical vehicles, things that didn't exist, the thinking being we could come up with common standards and going forward there would be great efficiencies. Even there we found there were problems.

The U.S. and Europe wanted to develop common standards under the hood of electrical cars, in other words, the different plugs that went into each other in these electric cars, let's make them common because BMW is making electrical cars, Ford was making electrical cars. In fact, those two companies were pushing hard for these common standards.

General Motors opposed it. Why did General Motors oppose it? Because their biggest market is China and they said, if we're going to have common standards, let's have common standards with the Chinese, not with the Europeans.

So, even in these emerging technologies, it is a problem and will continue to be a problem going forward because we have different comparative

and competitive interests in these negotiations.

But that is a reminder, it seems to me, that example of electrical vehicles is a reminder of why we're engaged in this process to begin with and it's because of China, that if we do not -- the Europeans and the Americans and the Europeans, Americans and the Japanese, come up with common standards, the Chinese may very well come up with the standard that will be the common standard for the world, and so there is a competitive race here to see who establishes the technical standards that will govern industry in a global economy.

To give you an example of why this is so important, I was recently talking to a member of the European Parliament who had headed the Korea-European caucus in the European Parliament through the negotiations of the EU-Korea Free Trade Agreement. When that was completed, he got a call from the CEO of Samsung. He thought, well, this guy's going to call me up and congratulate me for doing such a wonderful job ushering -- getting this through the European Parliament. He said, the CEO of Samsung had already moved on. He didn't want to talk about the EU -- European Free Trade Agreement. He said, you Europeans and the Americans have to come up with a common standard for the next generation of cell phones or else I'm going -- I, Samsung -- are going to adopt the Chinese standards for cell phones. This is what's at stake in these negotiations, it is the common standards for the future technologies.

If we can establish those kind of common standards, we have a \$30 trillion market across the Atlantic, roughly \$15 trillion in the U.S. and \$15 trillion in Europe. The Chinese market is only \$8 trillion. So, there are huge

economies of scale to be gained for companies -- for European companies and American companies, for Japanese companies if they join in, in terms of establishing the future technical standards for the products that will be those that our consumers use for the next decades.

There's a second advantage that applies in the TTIP on technical standard setting that we should not discount. If you talk to American companies, they will tell you that the technical standards that are now set are often set at the International Organization for Standardization in Geneva, which the American companies believe are dominated by the Europeans.

So, the Americans want to change the venue for the setting of these standards into a more trans-Atlantic venue where the Americans think there will be a level playing field. So, this is another advantage that at least Americans foresee in the TTIP in terms of addressing these standards issues.

A second goal for TTIP is common testing to ensure that standards are maintained. Common testing in pharmaceutical safety or food safety or product safety are at stake here.

To give you a sense of why this is important, a couple of years ago there was a scare about lead-based paint on children's toys that were made in China. At the time that scare emerged, the U.S. Product Safety Commission would not share its findings with its European counterpart. This was obviously not in the interest of consumers on either side of the Atlantic. Eventually after the Product Safety Commission in the United States was beaten up a bit, they shared this data, but this kind of thing should not happen in the interest of

consumers in the future, we should be able to cooperate more in terms of the testing of products.

The challenge going forward is that in the United States alone, 10 percent of all food we consume is now imported. Eighty percent of all seafood is imported. Forty percent of finished drugs are imported. And 50 percent of all medical devices are imported. None of this is adequately inspected. If American consumers fully appreciated how poorly inspected much of these imports were, there would be outright rebellion. We are pleased to be ignorant about these things. It's a danger that we should not have to risk in a global economy, but the cost of doing this, the complexity of doing this, needs to be shared and one of the goals of the TTIP is to begin to share these inspections and testings with the European Union. We already do this, to a certain extent, in China, for example, the Europeans have begun to inspect some plants, the Americans will inspect other plants, they'll share their data.

This kind of cooperation can be facilitated through TTIP and would be of great advantage especially in an era when our regulatory budgets are being cut. And the cost of this is quite prohibitive.

The third goal of regulatory harmonization is regulatory process harmonization and I don't think it gets enough attention. The U.S. has an Administrative Procedure Act that requires notification of intent to regulate, a comment period, publication of proposed regulation, and further comment. It is deeply embedded in our regulatory culture.

The Europeans until recently did not have the same set of

procedures. Through pressure from the United States and pressure from their own consumers, they've begun to develop this. We need to accelerate that process.

Both of these efforts are based on shared concepts of due process, transparency, and rule of law, all aspects of regulatory procedure that we do not share with the Chinese, which is another reason why we need to cooperate more closely.

This said and done, it won't be easy. We can get into that in the discussion section, but we have to acknowledge that if this were easy, it would have happened in 1995. The fact that it hasn't happened means that there are real challenges ahead, and we can get into that more, I think, in the discussion session. Thank you.

(Applause.)

MS. SOLIS: Thank you so much. I think that was a terrific set of presentations that have laid out the richness and the complexity of the issues at hand and I think, you know, it's incredible that we have reached a stage where when you ask what are the most fundamental market access barriers, you come across with the term technical barriers to trade, and that has become the reality of where we are in trying to integrate and eliminate all these barriers that prevent further economic efficiency and trade.

So, we're going now to move to the Q&A and I'm going to ask you please to wait for the microphone and to identify yourself and I'm going to take two questions at a time to make sure that everybody has a chance to ask their

questions and to ask you please to refrain from lengthy comments and to pose really concise questions so that most people have a chance to participate.

But before I do that I want to take the opportunity to ask the first question and I think that, you know, we have talked in depth about the rules components of these trade negotiations, but I want to bring it back to what just happened last week in Singapore and what are the next challenges in trying to finalize the TPP, because in my mind the TPP is a pioneer agreement in this crop of mega trade agreements, so it can be the bellwether about what lies ahead for these other very ambitious trade negotiations.

And my point being that I would like the panelists, if they could address the interaction between the rules negotiations and the market access talks because frequently when people talk about the elimination of tariffs, they describe that as a 20th century trade agenda and we talk about rules, they talk about that as a 21st century, and whether that description is accurate or not, the fact is that the 20th century agenda seems to be hindering the ability to make progress in the 21st century agenda. And repeatedly, reports of what transpired in Singapore point towards this interaction, that some countries -- developing countries in the TPP for example, do not perceive sufficient willingness in terms of market access from industrialized partners, and therefore they hold back in giving the concessions on state-owned enterprises, intellectual property, and so forth.

So, I would like if the panelists could address, what is your sense about what happened in Singapore? What does this portend for the future of the

TPP? And the interaction between market access and rules negotiations?

Any takers?

MR. VERONEAU: Well, as I said in my comments I thought, you know, it's low-hanging fruit, the trade facilitation, but it was still an accomplishment that hadn't occurred before. But I'm afraid we can't draw too much hope for what's next. I mean, the problems that are there in the other major issues -- market access, and as you said, the 20th century issues that still encumber the negotiations, I think, are still there, and I think the WTO negotiations will continue to be hampered by two major problems, one is a governance problem -- 159 parties with equal power makes for a very challenging governance structure.

And secondly, I continue to believe there's just not a policy consensus right now about liberalizing trade fully, so every step of the way is a hard fought battle.

MS. SOLIS: Thank you. Any other comments?

MR. NAKATOMI: Regarding the status of the WTO. Certainly, we still face continuing difficulties, but we very much (inaudible) the involvement of members to come up with good results in the WTO. Trade facilitation is very important result, but we need to think about the way to deal with the important issues in the future in WTO. Consensus by 159 members is a difficulty.

We may need to think about the plurilateral approach as in the case of ITA TISA (ph.). We succeeded in ITA telecommunication agreement -- financial services agreement. As I indicated, the issue of rewriting the MFN (ph.)

extension needs to be thought about very carefully by the members.

We need to have both carrots and whips. Discrimination may be in some cases necessary, but that to put so much emphasis on the risk of rewriting is sometimes a hindering creation of global. Thank you.

MR. WATANABE: Thank you, Madam Chair. I think it is not really appropriate to over exaggerate the success of the Bali ministerial meeting, but at the same time I would like to mention that this agreement on trade facilitation was a good starting point or re-starting point creating some good atmosphere about confidence building, so hopefully I would like to see further development having this Bali package being a good success for the very immediate future to wrap up the Doha Development Agenda, DDA, so called, Doha Round negotiations.

But at the same time I would like to also point out that since 1994 there is no multilaterally agreed international agreement on trade rules and since then, we have a lot of development or the problems like the Lehman shock or emergence of the emerging economies such as China. So, I think the -- what we need is making a kind of critical mass to the new rules such as those subjects that we missed occasions since Cancun meeting -- Cancun ministerial September 2003, namely investment, competition, and transparency in the government procurement.

So, what we need is maybe we have to make a critical mass through different avenues, the one may be TTP and the other is TTIP and also Japan-EU FTA. Those are the three different avenues to make a kind of

stepping stone farther to accelerate making of new trade rules for the 21st century. Thank you.

MR. STOKES: If I could, I'd like to address, I think, your question in the context of TPP. And I think you're right, there are market access issues that have gotten in the way of some of the 21st century issues, but I think that we need to unpack each of those issues to fully understand why things are gummed up, basically, because some of these market access issues, I think, are irresolvable and they merely -- the agreement will have to go forward without them.

Our Japanese participants here could comment more directly on this than I could, but I do think that the issue around access to the Japanese auto market, which is not an issue of tariffs, it's an issue of alleged non-tariff trade barriers by the U.S. auto industry, I think is probably one of those irresolvable issues. At least my discussions with the U.S. auto industry are that they will not support this deal no matter what because whatever the Japanese government promises, they don't trust. Now, whether they should or they shouldn't, whether that's fair or unfair is irrelevant.

They feel that concessions they made at the end of the U.S.-Korea Free Trade Agreement were concessions they would never like to make again. So, that issue is going to be a problem and I think it's irresolvable and the TPP will go forward or not without it.

There are market access problems for textiles and apparel from Vietnam. Non-textile and apparel business leaders in the United States tell me

this is something they think the U.S. has to be more forthcoming on. Obviously, the textile and apparel people don't think that, but it is -- it may in fact mask a more difficult issue, which is one of the gets for the United States in TPP is stricter rules on state-owned enterprises and the activities on state-owned enterprises.

It's not at all clear that Vietnam can accede to those kinds of rules given the nature of their economy, so we have to be careful that lack of access to the U.S. economy for Vietnamese textile and apparel products may be an excuse for Vietnam not to move forward on other things, which they couldn't anyway, even if the U.S. did everything on textiles and apparel that Vietnam wants. Again, only the negotiators know the details of this, but I think we need to unpack that.

Similarly, the New Zealand milk producers want greater access to the U.S. milk market. That's a very difficult political issue for the United States because so many congressional districts have milk production and we have a very extensive milk subsidy program. But, again, those are the kinds of issues that we need to unpack and look at individually, I think, to understand.

And finally, there's the issue, which will become, I think, huge here, at least the NGOs are already trying to make it a huge issue, which is investor-state relations and the fears that corporations will use investor-state dispute resolution to attempt to undermine domestic regulation.

As someone who's looked at this very closely, because it does seem to me it's a very serious issue, and bearing in mind that corporations are

willing to cut all sorts of corners to try to increase their bottom line, the number of disputes under the North American Free Trade Agreement that actually led to these horrendous outcomes of corporations overturning domestic rules is very limited, so it is a problem, maybe, that sounds worse than it is. But it will become a huge political issue in the United States, I would predict, as we move forward on TPP.

MS. SOLIS: Thank you very much. That was really interesting. So, now the floor is open and since time is short I'll try to take two or three questions. Yes, please.

MS. HUDES: Karen Hudes. I'm a refugee from the World Bank legal department for 20 years. I'm also known as the World Bank whistle blower, and my question is about regulatory and state capture and how do the panelists address the growing recognition of what's called the super entity in the Federal Institute of Technology Study, which posits that there are many banks that are really one cartel?

MS. SOLIS: Thank you. And then I'll take those two questions, Jennifer. Those two ladies right close by.

MS. WHITE: Good morning. I'm Robin White. I'm a retired Foreign Service officer and participated in a number of very painful bilateral and multilateral negotiations. So, I'd like the panelists to comment a little more on trade and services. In my experience, just defining which services will be covered can be quite difficult. Maritime, for example, is a third rail for the U.S. and financial services has gotten even more complicated.

MS. PORGES: Hi. I'm Amy Porges. I'm a trade lawyer.

Question for Mr. Nakatomi about -- I'm interested in your perspective on the negotiations about state-owned enterprises in the TPP, particularly Japan's perspective on getting better disciplines on state-owned enterprises and on dealing with the impact of these disciplines in Japan.

Also, Professor Watanabe and Mr. Nakatomi, the EU has a really active agenda, the Commission certainly has a very active agenda on state-owned enterprises. They have state aids law, which has rules on state-owned enterprises, government actions toward SOEs, and is the EU seeking state-owned enterprise disciplines in the Japan-EU FTA?

MS. SOLIS: Thank you very much. So, panelists?

MR. WATANABE: So, I would like to speak about two things. One, on the trading services, in TPP and elsewhere -- well, in the case of Japan, Japan is pursuing to get the high-level liberalization in various fields, and services, I think, agreement covers very wide range of issues, but in WTO they (inaudible) 155 items there.

But services, I think, commitments in GATT (ph.) are not necessary enough. So, we needed to, I think, concentrate in certain important sectors, but another, I think, way of looking at things is so how we can, I think, create the scheme for binding, whether we can use positive risk approach or negative risk approach, and that's an important issue.

I don't have, I think, detailed information, but basically, I guess, TPP is based on, I think, negative risk approach to try to cover, I think, various

areas.

But still there are exceptions and the exemptions there. So, on MFN and (inaudible) so we try to cooperate with the U.S. to come up with the best solutions, but certainly I think they're a sensitive sector there as in the case of market access and goods. That, generically I can say at this moment.

About SOE, (ph.), first, so regarding competition rules, I think, well, there is a fair amount of, I think, well, a conversion among the members. That's my understanding, but the definition of an SOE hasn't been discussed in the past.

TPP, the first trial to define SOE, and of course at the same time in an SOE chapter in addition to definition -- the cover (ph.) patterns of behaviors which should be regulated also are discussed. Again, that's, I think, very new and difficult trial. And Japan-U.S.-Vietnam-(inaudible), all the countries are negotiating hard to come up with, I think, balanced, I think good solution. And at the same time, while I don't know the exact status of the discussion between Japan and the EU, in that regard, certainly we will be negotiating competition chapter.

And I believe, I think, our discussion on SOE will be covered by TTP as well. We don't want spaghetti bowl in rules, but we needed to have a common solution everywhere. That's my strong wish.

But about the details of the status of negotiation in TPP and EAA, I don't have detailed information. Just generically I can say here.

Thank you very much.

MR. WATANABE: Thank you, Madam Chair. I would like to take up this question concerning this Japan-EU FTA and to what extent state-owned enterprises or issues have been dealt with.

There is no (inaudible) discussion on SOE with regard to Japan-EU FTAs. SOE, as such, has not been dealt with, but maybe within the context of government procurement or the public procurement, the European community, European Union has got a dialectic on public procurement, and on the same discipline they would like to also extend the scope of government procurement to public procurement, and those entities who provide the public utility services to be included within the disciplines of public procurement.

So, European Union might be interested in discussing the fair competition environment in both markets, Japan and EU, likewise. And also this issue could be also dealt with under the chapter of competition. Japan and EU has already -- we have mutual -- the anti-monopoly cooperation treaty, that's our legal framework for anti-(inaudible) agencies cooperation, but we would like to move forward from negative committee to positive committee, that kind of thing.

So, we will see some development there.

With regard to the services, the services that you mentioned, beyond that perhaps Japan would be interested in educational services or even catering services. The small retail services like convenience shops, those are the areas where Japanese service providers are extremely active particularly in our neighboring countries, and these areas are very much encouraged because a lot of SMEs, small and medium-sized enterprises are involved. So, those are

the new sort of areas of services that Japan would like to address. Thank you, Madam Chair.

MS. SOLIS: Thank you. I think we have time for a couple of quick questions from the audience. Yes, sir.

MR. O'NEAL: My name is Dan O'Neal. I'm with WBC Global here in Washington. First of all, thank you very much for the presentations one and all. I'd like to pick up on just a comment that Bruce made and that is, you know, within TPP, I mean, we can look at the areas of cooperation between the United States and Japan and they're extensive, I mean, overwhelming in terms of the areas in which they are going to be working together to reach consensus in these things.

But when we look at some of the bilateral issues, those negotiations that are taking place outside of TPP on non-tariff barriers in autos, we get into some very, very difficult issues both in terms of policy and substance as well as in terms of politics, and Bruce said, you know, these may be areas that we just cannot overcome.

So, I'd like to have the panel address both sides of these issues, both from the U.S. side, the ability to overcome some of the political challenges, whether it be autos or agriculture or other areas, as well as on the Japan side. You know, the LDP has laid out specific areas that they expect to remain outside of these negotiations and the ability of the Abe administration to address those politically and to move forward with concluding TPP. Thank you.

MS. SOLIS: Anyone? One last question? Yes.

MR. THOMPSON: Hi. My name is David Thompson. I'm unaffiliated at the moment, but a question I had is more regarding to what Mr. Stokes had also mentioned, and that was talking about the different -- what ideas do the panelists have when it comes to trying to get over these differences in perspective on best testing practices, for example, when it comes to food or product safety or pharmaceutical safety, between the U.S. and EU specifically? The perspectives that they have are radically different and so what ideas do the panelists have in addressing this? Thank you.

MS. SOLIS: Thank you very much. So, I'll just go from the panel in this order, one minute or less each if you have comments on the questions raised.

MR. STOKES: On the latter question, I think we first have to disabuse ourselves that because of the GMO dispute, there's this perception in the U.S. that Europeans are risk averse and Americans aren't. In fact, if you look issue by issue, we are more risk averse on some issues than the Europeans. Fifty percent of Americans use bicycle helmets, only about 20 percent of Europeans use bicycle helmets. I mean, basically you have to go issue by issue in terms of -- we've developed different cultures on these things.

I do think that that will be a major dispute that we probably can't resolve immediately. I would predict in TTIP that we will create study groups to study these issues and kick the ball down the road a bit. And on the politics of the bilateral issues, there are trade ways to approach this, tried and true trade ways to approach this.

My guess is that we will have a 20-year phase-out of the auto-truck tariff that the United States has in return for which the Japanese will want a 20-year phase-out on their tariffs on rice. Will that mollify Detroit? Probably not.

That's why I meant that I thought we're going to have to have a political fight over this without those kind of deals being done.

MR. WATANABE: Well, thank you, Madam Chair. Talking about this, you know, overcoming difficulties in market access, I am more optimistic than Bruce is. You know, looking at past evolution or development of bilateral Japan-U.S. trade relations or Japan-EU trade relations, I think difficulty has been more or less overcome, not really in the trade matters, but in the investment. For instance, nowadays, Japanese auto makers produce here more cars than they export from Japan. You know, they produced in 2012, 2.5 million units of cars and 1.68 unit of cars to be export from Japan to U.S.

So, that's one way to alleviate the difficulties of bilateral trade relations. So, I think the investment is really kind of key to solve the very imminent difficulties of market access.

So, yeah, the testing procedures, also you kindly suggest "alleged" non-tariff measures, yes, I think there are many alleged non-tariff measures or non-tariff barriers, but I think one by one, you know, we can discuss and we can engage those parties concerned through the legal framework such as FTA or EPA. That is the best way to solve through rule orientated approach, not by (Inaudible) oriented approach. Thank you.

MS. SOLIS: Thank you. Very briefly if you could, Ambassador?

MR. VERONEAU: One quick point on sort of regulatory convergence. I actually think consumers in many countries have the same interests and goals. The governments tend to get in each others' way. I actually think we're going to see over time more stakeholders, private sector stakeholders, companies, NGOs, consumer groups collaborating to forge more and more of these standards.

When Wal-Mart decided it wanted to start selling organic foods, it knew it would face some criticism. It knew it needed to have a common definition of what is organic food. I dare to say that if, you know, five governments got together and tried to define organic foods and how to assure that the food, through the process, stays organic, I don't think -- I think they'd still be debating it. Wal-Mart just said, you want to sell to us, this is the definition. They developed it with some private sector stakeholders, and that's the definition, and you meet it or you don't meet it. That's the kind of efficient rules development that I think we're going to see more and more of.

MS. SOLIS: Thank you. Mr. Nakatomi if you can very briefly.

MR. NAKATOMI: Yes, so what mega FTAs need to seek creation of global rules and what we need to create common public rules (ph.) based on global value chain. That would be benefitting everybody, not only Japanese makers, but also U.S. and the EU makers as well.

That's the basis of the importance of our discussing mega FTAs.

Today I hear standards issues, but in the case of Korea, I hear that the Korea accepted a different definition of international standards in

KORUS and their Korea-EU agreement.

In the case of KORUS Korea accepted ISO/IEC ITU (ph.) standards, the international standards in electronics and auto. And in the case of KORUS, Korea's standard is the same as the TBT (ph.) standards, which is basically supplemented by what I said, the trial and annual review.

And trial and annual review speaks about international standards based on neutrality and the market relevance. That, I think, puts emphasis not on the ISO/IEC-ITU type of a thing, but at the same time a standards development organization. Competition with standards is important. That's the gist of the discussion, which Japan triggered after around year 2000.

We need a convergence of this system and that's necessary for us and Japan-U.S. collaboration, EU collaboration, it's definitely necessary.

Market access and negotiation is certainly difficult, but I hope politicians and the negotiators will need it to find answers (inaudible) possible.

Regarding auto issue, for example, as Watanabe explained, now Japan invested quite a lot in U.S. market and EU market, and now we have almost a trade balance with EU. The export amount of auto from Japan to EU is around the same as their export to Japanese market. Unfortunately, that didn't happen with the U.S.

MS. SOLIS: Thank you so much. This has been a terrific discussion. We are way past our ending time so we have to wrap it up here, and if you could please join me in thanking the panelists for an excellent presentation. Thank you.

(Applause)

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