

(Translation)

October 6, 1999

**SUBMISSION BY THE GOVERNMENT OF JAPAN TO THE
GOVERNMENT OF THE UNITED STATES REGARDING
DEREGULATION, COMPETITION POLICY AND OTHER
GOVERNMENT PRACTICES**

The Government of Japan(GOJ) transmits its submission regarding deregulation, competition policy and other government practices as follows to the Government of the United States of America(USG), at the beginning of the third year of the deregulation dialogue under the "Enhanced Initiative", which was agreed at Japan-U.S. summit held on the occasion of the Denver Summit in June 1997, and whose continuation was confirmed in the Second Joint Status Report compiled at Japan-U.S. summit held in May 1999. As two sides launch the third year of the dialogue, GOJ believes that, for the dialogue in its third year under the "Enhanced Initiative" to be successful, it is essential for USG to seriously consider the following submission and to produce tangible results on these issues, based on the principle of two-way dialogue confirmed by the Prime Minister of Japan and the President of the United States in the Joint Statement at the Denver meeting.

I. DEREGULATION, COMPETITION POLICY AND OTHERS

1. Preferential Treatment for the U.S. Products and Services

(1) Federal, State and Local Buy American Legislation

(a) GOJ requests USG to abolish Buy American legislation, which accord a favorable treatment to U.S. products, for the federal government procurement including procurement which are not covered by the WTO Government Procurement Agreement (GPA), to ensure an equal business opportunity for both the U.S. and foreign enterprises, from the viewpoint of fully applying the principle of non-discriminatory treatment in government procurement. As for the local government procurement as well, GOJ requests USG to take necessary measures as the Federal Government to ensure the principle of non-discriminatory treatment and an equal business opportunity for both the U.S. and foreign enterprises.

(b) GOJ also requests USG (i) to abolish provisions which require the use of U.S. products as a condition for receiving grant from the federal government in such projects as mass transit and highway construction. Pending such abolition, GOJ requests USG to take the following two interim measures in reference to the requirement that more than 60% of the cost of components and subcomponents must be produced in the U.S. to be considered a rolling stock produced in the U.S., since this requirement hampers efficient procurement of components and subcomponents by enterprises, (ii) to reduce the required U.S. contents ratio; and (iii) to allow to count final assembly cost including labor costs into the calculation of the U.S. contents ratio.

(2) American Automobile Labeling Act of 1992

(i) The American Automobile Labeling Act requires labeling year and other information including the contents of domestic parts of the U.S. and Canada for each automobile. Such a requirement of labeling may implicitly encourage the sales of the U.S. made automobiles and hamper fair competition. GOJ requests USG to abolish the act through a review including the

evaluation, which is currently conducted by the National Highway Traffic Safety Administration (NHTSA). (ii) As measures for the transitional period pending the abolition, GOJ requests USG to take following actions in order to alleviate the burden on the firms: introduction of de minimis rule (not to require a detailed calculation when U.S. and Canadian contents ratio is low enough); abolition of obligation on suppliers to provide the proof of the U.S. and Canadian content for each component; and adoption of alternative calculation method of contents ratio such as the calculation method used in Corporate Average Fuel Economy (CAFE) regulation.

(3) Differentiation of Domestic and Foreign Made Automobiles in Corporate Average Fuel Economy (CAFE) Regulation under Energy Policy and Conservation Act of 1975 The current calculating system of the value of CAFE requires manufacturers to determine the ratio of domestic production for each automobile line and to achieve certain fuel economy value for domestic and imported automobiles respectively. This system virtually permits discriminatory treatment between domestic and imported like products, and may hamper fair competition. GOJ requests USG to abolish the regulation.

(4) NAFTA Rules of Origin for Textile and Apparel Products

(i) GOJ requests USG to reach a conclusion to amend NAFTA rules of origin for textile and apparel products to accommodate its rule to the rules that confer NAFTA origin status to assembled products only if the assembling process is conducted within NAFTA territory, and to propose to other NAFTA members to accept such conclusion with an intention to amend the rule.

(ii) GOJ requests USG to agree to hold an expert level consultation regarding GOJ's requests mentioned above, between Japan and the U.S. in an appropriate forum. The progress of the expert level consultation should be confirmed in the dialogue under the Enhanced Initiative.

(5) Requirement of Local Employment in Public Works

In the state of Michigan, it is required in public works that not less than 50% of the persons working on a project and employed by contractor or subcontractor of the contractor be resident of the state for not less than 1 year (Sec. 241a, Management and Budget Act). GOJ asks USG to request to the relevant agencies of the State of Michigan to abolish this requirement, since this requirement is not a necessary requirement to perform public works, and it imposes excessive burden on out-state firms, especially on foreign firms, which have less contacts with the state residents compared with in-state firms.

2. Trade Related Measures

(1) Re-export Control

The U.S. re-export control is problematic in terms of international law, since it could be an extraterritorial application of the U.S. domestic law which is unpermissible under general international law. In addition, re-export control on exports from countries including Japan which participate in various international regime and implement fully effective export control is not necessary. GOJ requests USG to exempt from its re-export control exports from these countries without exception. As measures for the transitional period pending the change mentioned above, GOJ requests USG to take following measures to improve the operation of the re-export control from the viewpoint of reducing burdens of foreign export companies:

(i) to implement without delay the measures which USG committed to take in the Second

Joint Status Report on the U.S.-Japan Enhanced Initiative on Deregulation and Competition Policy. These measures must fundamentally enhance transparency of the U.S. re-export control regulation and increase the utility for Japanese exporters;

(ii) to exempt foreign exporting firms from obligation under the regulation, when the firms are not able to receive necessary information to observe the regulation;

(iii) to establish and publish the guidelines demonstrating how to determine the content ratio of software and technology; and

(iv) not to require an export permission from the U.S. authority when an export firm determines that its own case falls under the de minimis rule by its own calculation following the guidelines mentioned in (iii) above.

(2) Regulations on Commercial Satellites and Related Items

As a result of the transfer of jurisdiction for the export of commercial satellites from the Department of Commerce to the Department of State (DOS) in March 1999, the approvals from DOS are currently required for the export and technical information transfer of commercial satellites and related items.

(a) Transfer of jurisdiction has resulted in longer wait for Japanese satellite communications carriers to obtain technical information on the satellites which these carriers ordered for themselves, thus causing difficulties on their satellite launching schedules. GOJ requests USG (i) to reduce the period necessary for procedures for processing the export licenses and TAA approvals to the extent possible to enable Japanese firms which ordered commercial satellites to obtain technical information on these satellites as early as possible; and (ii) to streamline the procedure for prior approvals by the government agencies necessary for receiving each individual technical information even after TAA approvals.

(b) It may possibly cause problems for Japanese firms in importing related items of commercial satellites from the U.S., in the case that the regulation strengthened through the transfer of the jurisdiction on the export of related items of commercial satellites is applied to Japan. (i) GOJ requests USG to take appropriate measures to avoid taking long time for Japanese firms obtaining technical information on related items of commercial satellites which they ordered. (ii) According to FY1999 National Defense Authorization Act (PL105-261), the strengthened regulation on the export of commercial satellites and related items shall not apply to a country that is a member of NATO and a major non-NATO ally of the U.S. (sec. 1514. b). GOJ requests USG to clarify the extent of the application of the strengthened regulation.

(3) Anti-Dumping Measures

GOJ requests USG to take an active part in the discussion in WTO to clarify and strengthen the discipline of the Anti-Dumping Agreement to improve the operation of anti-dumping measures. GOJ asks USG to confirm the result of the discussion in a dialogue under the Enhanced Initiative.

(4) Import Tariff Calculation Method for Clocks and Watches

GOJ requests US International Trade Commission (USITC) to fully examine "Comments by the Government of Japan on the Draft on Simplification of the Harmonized Tariff Schedule of the United States by the United States International Trade Commission", which GOJ transmitted to USITC on June 29, 1999, with a view to reviewing comprehensively the draft on simplification of the Harmonized Tariff Schedule, and to reach a conclusion that the

USITC will simplify the procedure of trade by abolishing levying tariffs on each part of clocks and watches and determining tariff rates on HS categorization 6-digit basis.

(5) Labeling Requirements of Origin to Clocks and Watches GOJ requests

USITC to fully examine "Comments by the Government of Japan on the Draft on Simplification of the Harmonized Tariff Schedule of the United States by the United States International Trade Commission", which GOJ transmitted to USITC on June 29, 1999, (i) to limit labeling requirements of origin to finished products of clocks and watches, and; (ii) to leave the choice of labeling methods, such as carved seals, tags, etc. at the discretion of manufacturers.

(6) Metric System (SI Unit)

USG committed in the Second Annual Report of Structural Impediments Initiative (SII) Followup in 1992 that Federal departments and agencies must use the metric system of units in procurement, grants, and other business-related activities, and that the Department of Commerce (DOC) will continue to study the ways to induce the private sector to expand and increase significantly the use of the metric system. In addition, USG committed certain measures in the Second Joint Status Report on the U.S.-Japan Enhanced Initiative on Deregulation and Competition Policy. GOJ requests USG to take following measures based on these commitments:

- (i) USG to report in the dialogue under the Enhanced Initiative the progress of the commitment that USG made in SII regarding the adoption of the metric system;
- (ii) The National Institute of Standards and Technology (NIST) to amend the Fair Packaging and Labeling Act to permit the option of metric-only labeling on products covered by the Act;
- (iii) The National Conference on Weights and Measures to amend the Uniform Packaging and Labeling Regulations to permit manufacturers the option of metric-only labeling on products that are regulated only by the states. In addition to above, GOJ requests USG:
- (iv) to make standards in house building in the U.S. metric (SI Unit) only; and,
- (v) to shift to SI unit in defining allowable unit stresses of structural materials such as NDS on lumber, and to indicate the schedule of the shift.

(7) The U.S. Patent System

(a) Shift from the First-to-Invent System to the First-to-File System The U.S. is the only country in the world which employs the First-to-Invent System. This system has several inherent problems, namely that it lacks certainty and predictability in the sense that a patentee's status can be overturned by the appearance of the prior inventor afterwards, and that inventors are required to prepare and keep documentary evidence to prove the date of invention. GOJ requests USG to shift from the First-to-Invent to the First-to-File System.

(b) Introduction of an "Early Publication" System

Although USG agreed to introduce an early publication system by January 1996 at the Working Group on Intellectual Property under the U.S.-Japan Framework Talks in August 1994, USG has not yet fulfilled this commitment. Even though Patent Reform Bill H.R.1907 passed the House of Representatives in the 106th Congress on August 4, 1999, the proposed early publication system in the Bill falls short of fulfilling the agreement. For example, an application not filed with a country other than the U.S. does not have to be published under the proposed system. Absence of the early publication system causes serious social and economic losses. Without the early publication system, it would, for example, be difficult to

avoid investing in R&D without knowing whether or not another application is already on file for the same invention. GOJ urges USG to promptly fulfill the commitments in the agreement on the early publication system.

(c) Revision of Reexamination Procedures

At the Working Group on Intellectual Property under the U.S.-Japan Framework Talks in August 1994, USG also agreed to review the existing reexamination procedures. The agreement includes the expansion of the grounds for requesting reexamination, and of the opportunities for third parties to participate in procedures to contend the validity of patents. USG has failed so far to revise these procedures. The current reexamination procedures in the U.S. are advantageous to patentees, and do not serve well for third parties wishing to raise an objection. For example, a request for reexamination can be filed only when prior art is made public in such media as printed publications, and requests based on such grounds as inadequacy in specification are not regarded as receivable. Moreover, third parties are not allowed to participate in reexamination procedures under the current system. Although Patent Reform Bill H.R. 1907 passed the House of Representatives in the 106th Congress on August 4, 1999, GOJ does not consider that this bill fulfills the agreement. For example, expansion of the grounds for requesting reexamination is not included in this bill. GOJ urges USG to promptly fulfill the commitments in the agreement on reexamination procedures.

(d) Unity of Invention

Under the U.S. patent system, a strict criterion is adopted with regard to unity of invention, and the scope of the inventions which can be included in a single application is narrower than that under the systems of the Japanese Patent Office (JPO) and European Patent Office (EPO). Even though inventions claimed in an application are a group of inventions so linked as to form a single inventive concept, applicants are often required by the U.S. Patent and Trademark Office to restrict them to a smaller group. In that case, applicants have to file divisional application(s) for the inventions which were not elected as a part of the group, which imposes a heavy burden on applicants. Therefore, GOJ requests USG to apply to U.S. national applications the criterion of unity of invention for Patent Cooperation Treaty (PCT) application, which was adopted on the basis of the memorandum of the Trilateral Offices in 1988, as has already been done by the JPO and the EPO.

3. Sanctions Act

(1) Iran and Libya Sanctions Act(ILSA)

Sanction measures based on the Iran and Libya Sanctions Act of 1996 (ILSA) could constitute an extraterritorial application of domestic laws which is not permissible under general international law, and they may cause a problem in relation to the WTO Agreements.

(i) GOJ requests USG to be deliberate in implementation of the Act, ensuring a consistency with international laws, and especially to avoid applying the Act to enterprises of any third countries.

(ii) GOJ also asks USG to confirm that enterprises of all foreign countries including Japan are exempted from the application of the Act, as were three foreign firms in May 1996 for their investment contracts in gas exploration.

(2) Cuban Liberty and Democratic Solidarity Act of 1996(Helms-Burton Law)

Cuban Liberty and Democratic Solidarity Act of 1996, which applies the U.S. domestic Act

on enterprises of third countries, could constitute an extraterritorial application of domestic laws which is not permissible under general international law. It may also cause a problem in relation to the WTO Agreements. GOJ requests USG to be deliberate in implementation of the Act, ensuring a consistency with international laws, and especially to avoid applying the Act to enterprises of any third countries.

(3) Myanmar Sanctions Act

It is a possibility that Myanmar(Burma) Sanctions Acts in states, cities and counties in the U.S. constitute an extraterritorial application of domestic laws which is not permissible under general international law. These acts also form entry barriers in tender procedures for government procurement, not only for Japanese and other foreign firms but also for the U.S. firms. In particular, the sanctions acts of Massachusetts and of the city of San Francisco have actually some negative impacts on economic activities of Japanese firms. In addition, sanctions act of Massachusetts may cause problems in relation to provisions of GPA (national treatment, non-discriminatory treatment, etc.) depending on the operation in each individual procurement. The Federal District Court has found the act to be unconstitutional, which was upheld by the Federal Court of Appeals. GOJ requests USG (i) to ensure that similar problems as ones mentioned above will not arise in the states and municipalities which have already enacted sanctions measures, by starting or reinforcing an approach to these local governments and assemblies, and (ii) to convey the Federal Government's concerns over the problems caused by the sanctions measures of local governments, to all state and local governments including those which have not enacted sanctions measures, in order to prevent recurrence of similar problems.

4. Distribution

(1) Customs Clearance

GOJ requests USG to conduct a detailed survey concerning the time for customs clearance in the U.S. actually took, and to ascertain the time spent in each step of the procedure, from cargo arrival to import permission and from import declaration to import permission.

(2) Abolition of Maritime Security Program

USG should abolish the program which annually provides 100 million dollars of maritime subsidy for the period of ten years, since it is obvious that infusion of such a huge amount of subsidy distorts conditions for free and fair competition in the international maritime market.

(3) Abolition of Cargo Preference Measures including the Law

Lifting the Ban on the Export of Alaskan Oil USG should abolish the Cargo Preference Measures, such as the requirement to use U.S. vessels for the exports of Alaskan oil which are commercial cargos. These protectionist measures are inconsistent with the principle of national treatment, which is a basic principle of the General Agreement on Trade in Services (GATS).

(4) Merchant Marine Act of 1920 (The Jones Act)

(a) Unilateral Sanctions based on the Act The Federal Maritime Commission (FMC) is authorized by sec. 19 (1)(b) of the Jones Act to make rules and regulations affecting shipping in the foreign trade. Based on the Act, FMC made a rule which provided a ground for the unilateral sanctions it imposed on Japanese carriers in September 1997. The rule (which was

withdrawn in May 1999) was a violation of the Treaty of Friendship, Commerce and Navigation between the United States and Japan, which provides for national treatment and most-favored-nation treatment. GOJ requests USG to ensure that such unilateral measures will not be taken.

(b) Provisions for the Coastal Shipping Service USG should abolish the requirement that vessels for the coastal shipping service shall be built in the United States.

(5) Ocean Shipping Reform Act of 1998

The Act allows the Federal Maritime Commission (FMC) a discriminatory treatment against Japanese and other foreign shipping firms by unilateral regulations on their pricing practice and others. GOJ requests USG to abide by the principle of non-discriminatory treatment, and, in light of the principle of liberty of maritime transportation, to minimize the regulation by the government on commercial maritime activities, so as not to allow FMC to unilaterally impose such regulations on the pricing practice and other elements of Japanese and other foreign shipping firms in disregard of the reality of the market.

(6) Licenses for Sales of Liquor

In the State of California, "Soju", a Korean alcoholic beverage, which contains not more than 24% of alcohol by volume, is the only spirit among all distilled spirits which can be provided by those who have on-sale beer and wine licenses, which are issued with no restriction on the number of licenses issued per a definite population. This treatment may cause problems in relation to WTO Agreements. GOJ asks USG to request to the executive branch agencies of the State of California to extend equal treatment to the like products including Japanese "Shochu".

5. Competition Policy

Antitrust Law Exemptions

GOJ has been undertaking a comprehensive review on the Antimonopoly Act Exemptions to strengthen its competition policy, which resulted in abolition of many exemption provisions and reduction of the scope of rest of the existing provisions. GOJ requests the U.S. competition policy authorities (Antitrust Division of the Department of Justice / Federal Trade Commission) to lead a review process in the USG, and to call on other relevant government agencies and Congress for the review, in order to reduce the Antitrust Law exemptions.

6. Legal Services

(1) Expansion to All States of Acceptance of Foreign Lawyers as Foreign Legal Consultant (FLC)

In order to expand the acceptance of foreign lawyers to all States, GOJ requests USG to take necessary measures, such as offering suggestions to the relevant State governments.

(2) Reduction of Period of Practicing Experience Required for Acceptance of Foreign Lawyers as FLC

In order to reduce the period of practicing experience requirement to three years in all States, GOJ requests USG to take necessary measures, such as offering suggestions to the relevant State governments.

(3) Including Practicing Experience in Third Countries in Practicing Experience Requirement for Acceptance of Foreign Lawyers as FLC

In order to allow the inclusion of the practicing experience in third countries into the practicing experience requirement in all States, GOJ requests USG to take necessary measures, such as offering suggestions to the relevant State governments.

7. Consular affairs

(1)H-1B Visa

Due to the annual total quota placed on H-1B visa and to the lengthy processing period for the procedure to obtain H-1B visa, Japanese firms have been facing difficulties in timely transfer of necessary staffs from Japan to the U.S. offices. Many U.S. firms, especially of high technology industries willing to hire alien citizen with expertise, also seek expansion of the quota. GOJ calls on USG to consider the followings; (i) to expand the quota by reasonable number in and after FY2000, (ii) to establish and issue visas of new category for those who continue to stay in the U.S. to be employed in high technology industries after graduation from institutions of higher education in the U.S., (iii) to introduce a standard processing period for the application procedure of H-1B visa and make it public, which would help to reduce the processing period, to streamline the procedure, and to enhance predictability and transparency of the procedure.

(2) F-1 Visa

Amendment on Immigration Reform Act in September 1996 has denied F-1 visa (student visa) to students of public elementary school, and to public junior high and high school students, except for those who will be enrolled not more than one year, and already paid a full cost for providing education. GOJ asks USG to include following two measures in its consideration, which USG committed in the Second Joint Status Report of the Enhanced Initiative; (i) to abolish the requirement of full payment of fees, and (ii) to expand enrollment condition from one year to two years, so as to enable foreign students who have already completed one year in public high school to continue their education in the school until their graduation. (iii) GOJ also requests USG to indicate the result of its consideration by the end of March 2000. (iv) GOJ also calls on USG to consider the abolition of both full payment requirement and the expansion of enrollment condition for public elementary and junior high school students.

(3)Permission for Stay (I-94)

An application for the extension of I-94 to the Immigration and Naturalization Service(INS) is currently accepted four months before its expiration and thereafter. In reality, it often takes more than four months to complete the procedure from acceptance of application to issuance; for instance, it takes about ten months to one year in Chicago, and about eight months in New Orleans. As a consequence, many Japanese staffs working for Japanese firms in the U.S. are forced to go back to Japan once only to obtain a new I-94 and reenter the United States. (i) GOJ requests USG to consider measures to make the expiration date of stay permitted by I-94 automatically agree with the expiration date of visa, since dual restrictions on the length of stay by I-94 and by visa are unreasonable and unnecessary. (ii) In the case that the above mentioned measure is not possible or that it takes long time to be realized, GOJ requests INS to establish and announce a standard processing period for the procedure of the extension of I-94, which should be uniform in all INS offices. This would help to reduce the processing

period, to streamline the procedure, and to enhance predictability and transparency of the procedure.

(4) Social Security Numbers (SSN)

The amendment of the rule of the Social Security Administration (SSA) in February 1996 made it impossible to issue SSN to alien residents without employment-based visas. This change of the rule has caused inconvenience to dependents of Japanese staff working for Japanese firms in the U.S., as presenting SSN is necessary on various occasions in a daily life in the U.S.; i.e. application for a driver's license or a credit card, opening a bank account, and lease contract of housing. (i) GOJ requests SSA to amend the rule again so that legal residents can obtain SSN. (ii) In the case that the amendment of the rule is unfeasible, GOJ requests SSA to take measures to inform private enterprises about the amendment of the rule limiting the issuance of SSN, and to ask them to avoid discriminatory treatment of legal residents on the basis of SSN.

(5) Driver's Licenses

Although there are many legal residents in the U.S. who cannot obtain SSN as mentioned above, Immigration Reform Act of 1996 requires each state to inscribe SSN on driver's licenses from October 1, 2001 (Art. 656). (i) GOJ requests the Department of Transportation (DOT) to establish a rule so that aliens who have legal resident permission but cannot obtain SSN can obtain driver's licenses by presenting I-94 in place of SSN. (ii) GOJ requests USG to request to relevant executive branch agencies of each state to allow legal residents who cannot obtain SSN to drive motor vehicles with international driver's license, pending the adoption of the new DOT rule.

II. HOUSING

Harmonization of Housing Test Methods with International Standards

GOJ requests USG to complete the introduction of performance based regulation including the test methods on the structural methods and building materials in the U.S. in the year 2000, thereby harmonizing with international standards. The U.S. test methods on non-combustibility, which is prominently disharmonious with international standard, should be harmonized with the international standard as a first priority. Note: International standards ISO1182, ISO5560, ISO9705.

III. TELECOMMUNICATIONS

1. Entry to the U.S. Telecommunications Market

(1) Certification and Licensing Criteria for foreign carriers' entry to the U.S. Telecommunications Market

With regard to foreign carriers' entry to the U.S. Telecommunications Market, Federal Communication Commission (FCC) has the power to refuse the issuance of certification or license by reasons of "public interest" ("foreign policy" and "trade concerns") and "very high risk to competition," which are the Certification and Licensing Criteria prescribed in the FCC order. Japanese telecommunications carriers have faced long delays in obtaining certification for international telecommunications services in U.S. on the basis of "trade concerns."

In the process of U.S.-Japan dialogue under the Initiative, USG has not responded to GOJ's repeated requests to clearly indicate USG's understanding of "refusing the issuance of

certification or license by reasons of trade concerns." GOJ requests USG to abolish these discretionary criteria which can be applied arbitrarily.

(2) FCC Order Concerning International Settlement Rate Benchmark

At the Telecommunication Standardization Study Group of the International Telecommunication Union (ITU), the draft recommendation on international settlement rates has been prepared. In light of this development, GOJ requests USG to abolish the following, both of which are unilateral measures.

(i) FCC Report and Order (FCC 97-280) on international settlement rates and

(ii) FCC Report and Order (FCC 97-398) Paragraph 179-214 on foreign carriers' participation in the U.S. telecommunications market.

(3) State-Level Regulations

In the U.S., each state has different application procedures and forms for certification, report forms and contents required, etc. These impose excessive burdens on carriers who seek new entry to the U.S. market.

USG should take appropriate measures to address these problems.

2. Interconnection

(1) Inter-state Access Charge

In Japan, GOJ intends to submit a bill necessary to amend the Telecommunications Business Law to the ordinary session of the Diet in the Spring of 2000 in order to implement Long Run Incremental Cost methodology (LRIC) as early as possible. In the process of U.S.-Japan dialogue under the Initiative, USG claimed that the introduction of LRIC is the most appropriate way to reduce interconnection charges, and that Japan should introduce it as early as possible. In the U.S., however, the introduction of LRIC to inter-state access charge is scheduled to be considered after Local Exchange Carriers complete the cost research which is due on February 8, 2001. GOJ requests USG to accelerate the process in order to decide on the introduction of LRIC to inter-state access charge at the same time GOJ decides its policy on the introduction of LRIC (i.e. before the submission of the bill in the Spring of 2000).

(2) Transparency of the LRIC Model Development Process

In Japan, GOJ released a draft report and a draft model of LRIC of the Study Group on Long-Run Incremental Cost Model, and invited public comments last July. In the U.S., FCC invited public comments only on the subscriber line part of the LRIC model, which FCC itself had developed, but for network part such as switch and transmission equipment FCC adopted the HAI model, which private consultants had developed upon request of some telecommunications carriers as the LRIC model without inviting public comments. We are of the view that transparency of the LRIC model and data development process has not been ensured.

GOJ asks USG to ensure transparency of the LRIC model development process at FCC.

In particular, GOJ requests USG to commit itself to a definite development schedule, to release programs and data of all models including HAI, and to invite public comments.

(3) Access to Calculating Methodology of Access Charges

In Japan, access charges for Designated Facilities of NTT EAST and NTT WEST and their calculating methodology are available publicly through documents such as articles of

agreement concerning interconnection and MPT's ordinance, and articles of agreement concerning interconnection (both Japanese and English) is on the Web Site. CD-ROM in English is also available.

In the U.S., Telecommunications Act prescribes that state utility commission should make interconnection agreement available for public inspection and copying within 10 days after approval. However, how to gain access to information on access charges and calculating methodology are not clearly explained, and it is difficult to obtain information on them.

GOJ requests USG (Federal Government) to ensure interested foreigners' easy access to access charges and calculating methodology in each state (including the model used).

3. International Charging Arrangements for Internet Services

Internet has spread worldwide, and there should be considerable amount of access from the U.S. to other countries. At the moment, however, non-U.S. Internet Service Providers (ISP) are made to bear all the cost of international circuits for internet connections. GOJ and Asian telecommunications carriers have been requesting USG and U.S. telecommunications carriers to change that. The Joint Status Report in May 1999 prescribes that USG will actively participate in the APEC's effort to study the traffic flow and cost structure of the Internet.

USG should expeditiously take measures to improve the international charging arrangements for Internet Services based on the result of the APEC study in order to rectify the current situation.

4. Fair and Competitive Environment for the registration and control of domain names

Domain names with generic Top Level Domains (gTLD) such as ".com", ".org" and ".net" are common assets for the world, and should be registered and controlled in fair and competitive environment under the new control regime of the Internet Corporation for Assigned Names and Numbers (ICANN), which is a non-profit and international private organization. However, the Network Solutions Inc. (NSI) of the U.S. does not operate under the ICANN control regime, and maintains its de facto dominance. In addition, all new registrars are required to make license agreements with NSI when they wish to use the Shared Registration System (SRS) for registration services by sharing NSI's database. These factors can lead to NSI's abusing its dominant position, in the absence of safeguard against discriminatory behavior.

For the sake of introducing fair competition to gTLD registration and control services under the ICANN control regime, which was established by the private sector initiative, USG should take necessary measures such as introduction of safeguards against NSI's abusing its dominant position.

IV. MEDICAL DEVICES AND PHARMACEUTICALS

(1) GMP Mutual Recognition

The negotiation for the Mutual Recognition on GMP of pharmaceutical and medical device between Japan and the U.S. should be promoted.

(2) GCP Mutual Recognition

GOJ proposes to begin an exchange of views on possibilities of the Mutual Recognition of the GCP between Japan and the U.S.

(3) Timing of Stability Data Requirement for NDA

USG requires applicants for New Drug Application (NDA) to submit stability testing data of three months period on full manufacturing scale products as site-specific stability data. GOJ proposes that USG accept stability testing data on pilot-plant scale products in the NDA.

V. FINANCIAL SERVICES

(1) Abbreviated examination system for licensing foreign securities representatives

GOJ welcomes the introduction by SEC of the abbreviated examination system for licensing Japanese and other foreign securities representatives: prompt finalization of the procedure for the new system is requested, since the preparation has been delayed.

(2) Restriction on transaction of newly issued foreign bonds

Today, the transaction of securities which are not registered at the Securities and Exchange Commission (SEC) is restricted by the Securities Act of 1933. Without registering at SEC and issuing prospectuses to customers, even selling Japanese bonds in the United States is forbidden within 40 days after the issue. Considering that foreign bonds are issued under credibility of each country, GOJ requests to deregulate the restriction or to make foreign bonds an exception.

(3) Examination of Foreign Banks

It is stated in the Second Joint Status Report that public comment is requested on a proposal to expand the examination frequency cycle from every 12 months to every 18 months. GOJ requests the USG to update the progress regarding this issue.

(4) Amendment of Regulation K

It is stated in the Second Joint Status Report that the Federal Reserve Bank had proposed amending Regulation K in December 1997. GOJ requests USG to update the progress regarding this issue.