AMERICAN AUTOMOTIVE POLICY COUNCIL

To: Interested Parties

From: Matt Blunt, President of the American Automotive Policy Council

Re: Japanese Prime Minister's Visit to Washington

Date: February 21, 2013

The Japanese Prime Minister is expected to meet with the President Obama in Washington on Friday. The auto industry believes there are key issues that should be considered in advance of that meeting.

Japan has indicated it may soon formally seek to join the Trans-Pacific Partnership (TPP). The U.S. auto industry supports the negotiations among the current group of TPP countries, but opposes Japan's inclusion at this time.

Japan has historically used non-tariff measures, including currency manipulation to protect its market from competition and to unfairly promote its exports at the expense of other trading partners, like Europe, and the United States. Given this history, adding Japan to the TPP now will delay the conclusion of the negotiations, undermine the completion of a high quality agreement and jeopardize making a trans-pacific free trade region a reality that can sustain and create jobs and economic opportunity throughout the region.

Please consider the following background in advance of the meeting between the U.S. and Japanese governments.

If you have any questions or wish to speak to someone further on this issue, please be in touch.

BACKGROUND:

There is increasing attention and concern over Japan's currency intervention. G-7 and G-20 countries are zeroing in on currency intervention as a key issue in trade. And media reports are highlighting that Japan is cheapening the value of the yen to promote their own economic growth at the expense of its trading partners

BLOOMBERG: Japan Currency Chief to Join Abe in U.S. Visit Amid Yen Friction

Prime Minister Shinzo Abe will be accompanied by his top currency official when he visits the U.S. to meet with President Barack Obama, as Japan tries to limit international friction over a weakening yen.

Read more here

WSJ: Former USTR and World Bank President Robert Zoellick identified currency intervention as a "danger" in 21st century trade.

"Second, the extraordinary monetary policies of late, led by the Federal Reserve's continued near-zero interest-rate policy, are taking us into uncharted territory. Central banks have tried most every tool to stimulate growth; if Japan is any warning, the next tactic is competitive devaluation, which risks a new protectionism. "Currency manipulation" could become a danger that reaches far beyond the debate about Chinese policies. The world economy will need at some point to withdraw the drug of cheap money and negative real interest rates. The U.S. should anticipate these dangers…. The International Monetary Fund also could help set standards about exchange-rate policies and serve as a referee that blows a whistle, even if it cannot penalize. The IMF and the World Trade Organization should anticipate this risk and give effect to the existing WTO agreement that economies must "avoid manipulating exchange rates...to gain an unfair competitive advantage."

Read more here.

Media have recently reported on how Japanese auto companies are benefiting from weakening yen.

BLOOMBERG Mazda Soars with Fuji Heavy as Yen Boost Forecasts.

Mazda Motor Corp. and Fuji Heavy Industries Ltd. climbed in Tokyo trading after the automakers, which have the Japanese industry's highest ratio of domestic production, benefit from a weakening yen. Mazda soared 12 percent, the biggest gain in four years, to 317 yen at the close of trading in Tokyo. Fuji Heavy rose 1.4 percent to a record 1,390 yen. The benchmark Nikkei 225 Stock Average fell 0.9 percent. The two automakers join Toyota Motor Corp. in raising their profit projections as the weakening yen makes Japanese products more profitable overseas. Japan's exporters are benefiting as the currency touches a 2 1/2 year low as Prime Minister Shinzo Abe pushes for monetary easing to end deflation.

Read more here.

BLOOMBERG: Toyota Outlook Brightens as Yen Revives Confidence in Japan Inc.

Japan Inc. is coming back at the expense of Korea Inc. Twelve analysts covering Toyota Motor Corp. (7203), Japan's largest manufacturer, have raised their earnings estimates for next fiscal year as the yen dropped against all major currencies in the past month. By contrast, shares of Hyundai Motor Co. (005380) and Samsung Electronics Co. (005930) fell after the South Korean exporters voiced concerns about the rising won…The ratio of Toyota's share price to sales has gained 49 percent since Oct. 11 and is near the highest level since March, according to data compiled by Bloomberg. The Japanese carmaker's price-to-sales ratio is double that of General Motors Co. (GM), the biggest premium versus the Detroit-based rival since September, and 1.6 times that of Ford Motor Co., the data shows.

Read more here.

BLOOMBERG: Abe Euphoria Lifts Toyota, Weaker Yen Revives Japan Inc.

Toyota Motor Corp. (7203), the world's largest carmaker, counts on the Camry sedan and the Prius hybrid to outsell other automakers. For profits, it's counting on Prime Minister Shinzo Abe and his campaign to cheapen the yen…. Toyota, which yesterday raised its profit forecast to a five-year high, is leading the revival of Japan Inc (NKY) as the weakening local currency attracts investors and drives up stocks to levels last seen in 2008. Behind the recovery is the new prime minister, whose calls for monetary easing have helped the yen weaken against all other currencies since mid-November, making Japanese products from cars to vacuum cleaners more profitable overseas.

Read more here.

POLITICO: The American Automotive Policy Council President and Former Missouri Governor Matt Blunt explains how currency manipulation exacerbates Japan's one-sided trade practices.

Japanese automakers must play by world rules: Worldwide currency manipulation policies may have already cost the United States significant economic growth and millions of jobs, with Japan playing an important role in that loss, according to a report from the prestigious Peterson Institute for International Economics. As the United States continues to recover from the most significant economic downturn since the Great Depression, we should not allow our jobs and growth to be shipped overseas because Japan refuses to live up to the rules.

Read more here.

INDEPENDENT STUDIES:

The Peterson Institute for International Economics examined the damage done to the U.S. economy by egregious currency manipulators like

Japan. The study bolsters the position of U.S. automakers and many other American manufacturing groups that the U.S. should have no tolerance for egregious trade manipulators when considering countries who want to join free trade agreements such as the Trans-Pacific Partnership.

The study, entitled "Combating Widespread Currency Manipulation," found that countries like Japan and Korea identified as "extreme manipulators" have gained an unfair competitive advantage by willfully weakening their currencies to support their exports and curb imports.

The Peterson Institute concluded that currency manipulation has had an enormously negative impact on trade, costing the U.S. as much as 4 percent of GDP. That would mean the cost of this abuse is equal to millions of lost jobs in the United States.

Read more here.

The Center for Automotive Research (CAR) outlines the projected Impacts of Japan's inclusion in the TPP and a weakening exchange rate on auto industry jobs in an August, 2012 report: The Effects a U.S. Free Trade Agreement with Japan would have on the U.S. Automotive Industry.

Key excerpt from the report (p17): In summary, CAR believes that Japan's inclusion in a FTA will result in the increase in Japanese vehicle exports, all other factors being equal, of about 105,000. CAR's FTA forecast scenario further estimates the loss of 65,000 units of U.S production and 26,500 U.S jobs. However, CAR's forecast of production and employment loss in the case of a change in the exchange rate from 90 to 100 yen/dollar and the elimination of the 2.5 percent tariff as a result of an FTA results in a loss of about 225,000 units of U.S vehicle production and a total loss in U.S employment of about 91,500, 26,500 from the FTA, and 65,000 from an weakening of the yen.

Read more here.