



**October 12, 2005**

**Statement by the  
Coalition of Service Industries on  
United States-Japan Economic and Trade Relations  
Ways and Means Committee Hearing  
September 28, 2005**

The Coalition of Service Industries (CSI) appreciates this opportunity to convey its concerns about the effect of Japan Post's operations on market access for US firms. Japan Post's monopolistic behavior and discriminatory treatment of competing private sector companies have long been a serious concern for US providers of financial, courier, and express delivery services.

Japan remains an important services trade partner, however, growth of our exports to Japan has been marginal. In the last decade, US services exports grew only 11%, from \$26.7 billion to \$29.8 billion. For the same period, US exports to the UK, France and Germany grew 100%, 61%, and 54% respectively. Meanwhile, Japanese exporters were able to take advantage of the open US services market and increase their sectoral exports by 47% to \$17.4 billion.

Japan Post's reform is an important outstanding issue in US-Japan bilateral services trade. The private sector has been working with the USTR and other US Government agencies to impress on Japanese leadership the value of a non-discriminatory environment and full market access in insurance, banking, and express delivery services. We greatly appreciate US Government efforts and the resolve of the Koizumi Cabinet, which has made Japan Post's reform one of its fundamental policy priorities.

Japan Post's present operations are contrary to the WTO principle of national treatment and US-Japan bilateral commitments. Currently, Japan Post's entities operate as government enterprises and enjoy favorable treatment, including tax exemptions, full government guarantees, exemptions from payments into funds to protect customers, and more lenient regulatory oversight. Japan Post's savings operation is even exempt from meeting risk-based capital requirements, which creates a significant threat of growing non-performing loans due to imprudent lending.

CSI members strongly believe that the proposed postal reform presents an opportunity to bring Japan into compliance with its GATS and bilateral obligations, and create a level playing field between the postal entities and private sector competitors from the finance, insurance and express delivery industries. Private companies will remain at a severe

disadvantage with the overwhelming size and market power of *Kampo* (postal insurance), *Yucho* (postal savings) and *Yubin* (postal delivery) unless Japan Post's corporations are required to meet the same regulatory, financial, tax, transparency and prudential requirements as their private sector competitors.

As part of this reform, CSI members would like to ensure that Japan Post is prohibited from expanding into other products and services offered both domestically and internationally until their current privileges are completely eliminated. Japan Post's entities should also be prohibited from all forms of cross-subsidization.

Postal reform is an enormous undertaking that will greatly benefit the Japanese economy. According to a Teikoku Databank study, 64% of Japanese companies share this view. A fair and competitive environment in finance, insurance and express delivery services is necessary to ensure the efficiency of Japan Post's entities and the Japanese economy, and provide Japanese consumers with the best service at competitive prices.

As a result of the proposed reform, a truly non-discriminatory national treatment and market access for all participants should be established through removing the sectoral barriers described below.

## **FINANCIAL AND INSURANCE SERVICES**

Japan Post's *Kampo* is the largest insurance corporation in the world, managing about \$1.1 trillion, and *Yucho* is the largest bank with \$1.9 trillion in assets. *Kampo* and *Yucho* were formed a century ago as a government response to a public need for services that the private sector was unable to provide. Now, such services are available from private companies. In line with its GATS commitments, the Japanese Government must ensure that treatment accorded Japan Post's financial institutions is no more favorable than treatment accorded foreign suppliers of similar services. Thus, the reform should accomplish the following sectoral priorities:

**Eliminating *Kampo*'s and *Yucho*'s privileges.** Privatization must ensure that the successors of *Kampo* and *Yucho* are subject to the same level and type of regulations as private competitors. Specific measures should require that both entities pay the same taxes as private sector companies, eliminate government guarantees on financial products, including insurance policies, and require establishment of a safety-net system to protect policyholders from potential failure. The new companies should also be placed fully under Financial Services Agency (FSA) supervision and subject to the Insurance Business Law (IBL) and Banking Law, respectively.

Given the size of *Kampo*'s and *Yucho*'s operations, it is essential that activities of Japan Post's insurance and savings arms are restricted to ensure that they do not abuse their market power, even inadvertently.

**Prohibit expansion of new products until equal treatment is granted.** Until *Kampo* and *Yucho* and their private-sector competitors are treated in accordance with national treatment, expansion of new postal insurance and savings corporations' product offerings should be prohibited. This includes new hybrids of existing products or riders that do not require Diet approval. Such interim measures are essential to limit the damage to the private sector until a regulatory level playing field and equal conditions can be established.

In 2004, *Kampo* introduced a new postal life insurance product, which was in direct competition with US companies' services. This infringement on US companies' market share violated Japan's bilateral and GATS commitments, and was done in spite of strong objections from the US government and private sector.

CSI members are especially concerned with Japan Post executives' recent statements that, in order to survive, Japan Post must begin selling products developed by private companies. It is vital that U.S. market participants are reassured that Japan will comply with its bilateral and international trade obligations before new or modified postal financial services products are introduced.

**Establish an independent regulator.** The Financial Services Agency (FSA) should be the sole independent regulator of *Kampo* and *Yucho* successors, as it is for other financial services companies. The ongoing supervisory role of the Ministry of Internal Affairs and Communications during the transition period provided in the postal privatization legislation will allow postal insurance and savings companies to continue receiving favorable treatment compared to the rest of the industry. Subjecting *Kampo* and *Yucho* successors to the oversight of the Financial Services Agency will bring Japan into compliance with international regulatory standards.

### **EXPRESS DELIVERY**

**Separate basic postal service and express delivery.** The reform should result in a clear division between Japan Post's universal service obligation for basic delivery and any competitive businesses in which Japan Post is involved, including express delivery services and logistics.

Japan Post's business alliances to supply express delivery services should be fully transparent and competitive.

**Eliminate postal subsidies.** The government should not provide any subsidies or benefits to the competitive businesses of Japan Post through tax or fee exemption, or special treatment by government agencies in the transport of goods. Japan Post should not be exempt from the costs of Customs operations or administrative requirements that must be paid by private entities providing similar services.

**Eliminate cross-subsidization.** Appropriate measures should be taken to prevent cross-subsidization between Japan Post's businesses, and enforce Japan's Antimonopoly Law rigorously, in a manner consistent with global standards of competition. All transactions between the delivery business and the other three businesses of Japan Post, insurance, savings, and postal network, must be conducted on an arms-length basis. The same principle applies to all transactions between Japan Post's universal service business and its other delivery services.

**Ensure fair competition with the postal monopoly.** In determining the scope of the postal monopoly, the government should maintain the principle that the only reason to create a monopoly or reserved area is to ensure provision of a basic and essential universal postal delivery service. To stimulate economic efficiency and increase consumer choice through competition, the postal delivery monopoly should be defined in the narrowest possible way. This should be based on a reasonable combination of price and weight thresholds for letters to exclude all value-added services, such as express delivery services, from the postal monopoly.

**Create an independent regulator.** An independent regulatory authority for Japan Post's postal delivery business is required to ensure a complete and transparent separation between it, the national postal operator, and government authorities. The postal regulator must have jurisdiction only over the services provided by the universal postal service provider, Japan Post. The general transportation and express industries, both domestic and international, should remain outside the authority of the postal regulator.

Given the magnitude and complexity of this reform, CSI members urge the Japanese Government to make all decisions and deliberations fully transparent and subject to public participation at every stage. The process can be enhanced through close consultations between the Government of Japan and the private sector. Many US companies and business associations have accumulated valuable experience from helping other countries reform government-operated postal monopolies. Allowing these companies and organizations to participate in the privatization discussion would contribute to a successful outcome.

Japan Post's reform is an important precedent-setting event. Many countries, such as China, are also going through postal monopoly reforms, which may be greatly influenced by Japan's example. Therefore, it is essential that Japan complies with its GATS commitments and principles, and proceeds with meaningful pro-competitive reform expeditiously.

CSI also urges Japan to commit to meaningful services trade liberalization under the WTO Doha Round that should bind improved market access and national treatment resulting from Japan Post's reform. During the Doha Round negotiations, Japan should specifically provide broader, more ambitious commitments in insurance and banking. Japan's revised offer in communication services should also be expanded to include commercially valuable commitments in express delivery.