Members Call for Fairness in Korean and Japanese Auto Markets

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Washington D.C. – Congressman Sander Levin, Chairman of the House Ways and Means Trade Subcommittee, released a letter today to U.S. Trade Representative Ron Kirk urging that more be done to open South Korean and Japanese automobile markets. During recent Korean and Japanese auto incentive programs, similar to the "Cash for Clunkers" program, market share for all foreign brands declined even further. The letter was signed by Senators Levin and Stabenow; Ways and Means Chairman Charles Rangel; Reps. Dingell, Upton, Ehlers, Kildee, McCotter, Peters, Sutton and Miller.

Text of the letter is also located at:

http://www.house.gov/apps/list/press/mi12_levin/PR110609.shtml

The Honorable Ronald Kirk
United States Trade Representative
Office of the U.S. Trade Representative
600 17th Street, N.W.
Washington, D.C. 20508

Dear Ambassador Kirk:

It is time for South Korea and Japan to treat U.S. and other automakers fairly. As highlighted by South Korea's and Japan's version of "Cash for Clunkers," market share for all foreign brand autos in these two countries has been extremely low. In fact, foreign market share has declined even further, contemporaneously with the implementation of their auto incentive programs. We therefore urge you to work to open both markets so that American auto companies can compete against South Korean and Japanese automakers on a level playing field.

For years, South Korea has used a menu of rotating non-tariff barriers to keep foreign autos out of its domestic market. As a result, South Korea has competed with Japan for the lowest rate of foreign auto market penetration among the 30 industrialized countries who are members of the Organization for Economic Cooperation and Development (OECD). In recent months, foreign market share has decreased markedly in South Korea from 5.3 percent in 2008 to only 4.5 percent in the first seven months of 2009. This drop appears to coincide with South Korea's implementation of its version of a "Cash for Clunkers" program. Under their program, an owner of a car at least 10 years old receives significant tax breaks if they trade their car in and buy a new one. At the very least, the South Korean program perpetuates the discriminatory treatment that foreign automakers face in the South Korean market. In other words, because there are so few foreign autos available for sale in South Korea, domestic automakers are by and large the only car makers benefitting from the government's "Cash for Clunkers" program.

South Korea, in turn, exports more than 70 percent of its total auto production to the United States and the rest of the world. In 2008, South Korea exported 616,000 cars and light trucks to the United States, but imported just 10,377 cars and light trucks from the United States. The result: 78 percent of the United States' $13.4 billion 2008 trade deficit with South Korea was in autos, trucks and parts.

The recent decline in foreign market share also reinforces points made in comments submitted to the Federal Register regarding the United States – South Korea Free Trade Agreement: the trade pact must be modified to address the non-tariff barriers used by the South Korean government to shut U.S. automakers out of the market. We urge you to consider the March 2, 2007, Auto Caucus proposal, which proposes modifications to the trade pact that will help ensure that U.S. autos get fair market access to the South Korean market.

As noted above, historically, Japan has had one of the two lowest rates of foreign auto market penetration among OECD members. For years, the foreign market share of Japan's auto market has been at or below 5 percent. Most disturbingly, that already-low share has been shrinking for the past two years, falling from 5.0 percent in 2007 to 4.3 percent in 2008, to only 3.9 percent in the first seven months of 2009.

Like South Korea, the decline in foreign market share in the Japanese market seems to coincide with the implementation of Japan's auto purchase incentive program. Under the initiative, varying incentives are available to consumers purchasing vehicles that meet certain fuel economy criteria. However, incentives are not available for the purchase of vehicles entering the market through the "Preferential Handling Procedure (PHP)," which includes most foreign autos, including U.S. autos. Thus, while 87 percent of Japanese autos are eligible for the program, only 38 percent of foreign autos – and no U.S. autos – are eligible. For instance, while a consumer can use the incentives to purchase a Toyota Land Cruiser, a consumer cannot use them to buy a Ford Explorer. Unsurprisingly, the program's major benefactors are thus Japanese automakers.

By comparison, consistent with our trade obligations, all foreign autos were potentially eligible for the U.S. Cash for Clunkers program. As such, South Korean and Japanese automakers benefitted accordingly from the initiative. These facts clearly demonstrate the level playing field and fair market access that the United States affords foreign autos and we urge you to take the appropriate action to ensure that U.S. automakers enjoy the same level playing field and fair market access.

Market access issues relating to South Korea and Japan are not new. In fact, some of us have been raising these issues for decades. The problem is that both South Korea and Japan persist in shutting U.S. autos out of their domestic markets. Under any circumstances, this would be extremely troublesome. But especially now, given the current economic crisis, the Obama Administration must do everything it can to ensure U.S. auto exports can compete on a level playing field. Provided that opportunity, we are confident that American automakers can succeed in these markets. We therefore urge you to take all steps necessary to open the South Korean and Japanese markets to U.S. autos.