

Subject to Legal Review for Accuracy, Clarity and Consistency

[Date]

Dear Ambassador Froman,

In relation to Article 4 of the Appendix between Japan and the United States of America on Motor Vehicle Trade attached to Annex 2-D of the Trans-Pacific Partnership Agreement, I would like to respond to your inquiries during the course of negotiations concerning the view of the Government of Japan concerning certain issues, including the future treatment of motor vehicles imported into Japan under the Preferential Handling Procedure (PHP vehicles) with respect to requirements of Japan's fuel efficiency regulation and the scope of the term "any financial incentive measures".

First, with regard to paragraph 1 of Article 4, I would like to inform you of the view of the Government of Japan regarding the treatment of PHP vehicles with respect to requirements of Japan's fuel efficiency regulation based on the Energy Conservation Act.

The purpose of the Energy Conservation Act is to take necessary measures required for the rational use of energy, in order to contribute to securing the effective utilization of fuel resources according to the economic and social circumstances concerning energy in and outside Japan.

Currently, the fuel efficiency standards and efficiency disclosure requirements under the Energy Conservation Act do not apply to PHP vehicles. With no fundamental shift in the relevant factors at this time which may result in the application of the aforementioned standards and requirements under the Act to PHP vehicles, there is no plan to change the current treatment provided to PHP vehicles under the Act and the current treatment will continue for the foreseeable future.

Second, with regard to paragraph 2 of Article 4, during the course of the negotiations, our respective delegations discussed financial incentives in accordance with the April 12, 2013, Motor Vehicle Trade Terms of Reference. The Government of Japan confirms that, for purposes of paragraph 2 of Article 4, which provides that Japan shall ensure that the Preferential Handling Procedure (PHP) and its relevant regulations shall be adopted and applied in a manner that does not preclude the eligibility of PHP vehicles for any financial incentive measures of central government bodies with respect to motor vehicles, the term "any financial incentive measures" includes, but is not limited to, tax incentive measures of central government bodies.

In addition, when implementing a financial incentive measure in accordance with Article 4, to the extent otherwise consistent with the Agreement, Japan may apply requirements for motor vehicles, including PHP vehicles, necessary to determine whether a motor vehicle satisfies the criteria of that financial incentive measure.

Lastly, with regard to the treatment of motor vehicle fuels, I would like to inform you of the view of the Government of Japan that the term "motor vehicle product" in paragraphs 3 and 4

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of Article 3 does not include fuels or fuel additives.

Sincerely,

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Dear [],

Thank you for the clarification on the treatment of PHP vehicles with respect to requirements of Japan's fuel efficiency regulation based on the Energy Conservation Act. I would also like to confirm that the Government of the United States of America shares the view of the Government of Japan with respect to financial incentive measures and the treatment of motor vehicle fuels and fuel additives.

Sincerely,

Ambassador Michael B.G. Froman