

PREPARED STATEMENT

OF

JANET STEIGER

CHAIRMAN
FEDERAL TRADE COMMISSION

BEFORE THE

COMMITTEE ON THE JUDICIARY
OF THE
U.S. HOUSE OF REPRESENTATIVES

FEDERAL TRADE COMMISSION

JUN 04 1990

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Mr. Chairman and Members of the Committee: I am pleased to appear before you today to discuss the Federal Trade Commission's plans with respect to the subject matter of this hearing.

You have asked the Commission to undertake an investigation of certain business practices of foreign automobile manufacturers operating in the United States. In particular, you have expressed concern that Japanese auto companies may have adopted in this country a variation of the "keiretsu"¹ system as it is

¹ Keiretsu has been defined as an interweaving of companies through equity exchanges, interlocking directorates, intra-group financial commitments, joint R&D efforts, and membership in exclusive management councils or clubs. In the auto industry, these relationships are usually between manufacturers and their suppliers. See U.S. Global Competitiveness: The U.S. Automotive Parts Industry, USITC Publication 2037, December 1987.

practiced in Japan, and that this system may be having an adverse effect on the domestic auto parts industry. As you may also know, the Senate Commerce, Science and Transportation Committee has requested a similar investigation, and we have met with members of both Committees' staffs to clarify the issues and the scope of our inquiry.

As you are aware, related questions are now being addressed by other Government agencies in the Structural Impediment Initiative and the Market Oriented Sector Selective talks, which deal with overall trade relationships, trade imbalances, and the access of U.S. companies, including auto parts manufacturers, to Japanese markets. We will naturally consult these sources for information relevant to our inquiries. Moreover, a number of recent trade and press reports² have indicated that the government of Japan intends to make keiretsu more open and competitive. In the context of what may be an evolving

² E.g., Joint Press Release, Interim Report and Assessment of the U.S. - Japan Working Group on the Structural Impediments Initiative (April 5, 1990).

structural situation and a broad and coordinated U.S. Government program of inquiries, we believe we will make our best contribution by focusing on the economic implications of the keiretsu system for the auto manufacturing and auto parts industries in the United States, and on the question of whether the actual practices adopted by the Japanese automobile firms in this country constitute violations of the laws that the Commission enforces.

The investigation you have requested will be pursued by the Commission's Bureaus of Competition and Economics in a complementary fashion. In response to your more general questions about the keiretsu system, the Bureau of Economics will take the lead in gathering and analyzing publicly available information. The economists, in consultation with Bureau of Competition attorneys, will use the information to analyze the organizational structure, the nature of the interrelationships among keiretsu members, and other factors that may help explain the keiretsu system and its economic effects. The available data

will also be assessed with respect to the particular practices you have identified: interlocking ownership of stock, long-term and perhaps exclusive supply relationships, and the possibility of discriminatory pricing.

The lawyers of the Bureau of Competition, aided by economists, as is our normal practice, will undertake to discover what is actually happening in U.S. markets and measure those practices against the requirements of the law. In this phase as well, we will look particularly at ownership interests, supply contracts, any evidence of discriminatory pricing and the possibility that, singly or in combination, these tactics may produce exclusionary effects that limit the ability of U.S. firms to compete effectively. As in our usual course of inquiry, we will contact a broad array of persons who may have relevant information, including trade associations, suppliers of the relevant products, the buyers of those products, and other government agencies.

As is the case in any non-public Commission investigation, it would not be appropriate for me to elaborate on any single theory of violation at this early stage of the inquiry -- to do so could be misinterpreted and might compromise the investigation. However, you may be assured that, as in any FTC investigation, the conduct complained of will be examined to see if it fits within any of the categories of traditional antitrust violations.

Although we have investigated the automobile and auto parts industries in the past, we would appreciate very much any information concerning specific practices that can be provided by your staff and that of the Senate Commerce Committee and Consumer Subcommittee. Often the best initial indication of unlawful conduct comes from complaints by consumers or businesses, explaining how the practice in question may eventually result in higher prices to buyers and consumers.

We also hope to benefit from our experience investigating whether other practices of foreign companies may have

anticompetitive effects in the U.S. In fact, we have conducted and are conducting a number of non-public investigations that involve foreign entities. Some of these matters involve structural analysis of mergers and acquisitions as part of our ongoing statutory responsibilities. Others involve investigation of anticompetitive behavior under various theories of distributional restraints and agreements affecting price or output.

From past and present practice at the FTC, you may be assured that there is no exemption from the antitrust laws for foreign companies whose conduct harms, or threatens to harm, markets and consumers in the U.S. Most recently, last month the Commission directed the staff to file a federal court preliminary injunction action to block Bayer A.G.'s acquisition of Columbian Chemicals, Inc.'s synthetic iron oxide business. The parties thereupon abandoned the acquisition. In Nippon/Libbey-Owens-Ford, the Commission approved a consent order prohibiting a Japanese company from limiting capacity for float glass

manufacturing in the U.S. or from restricting imports to North America. In 1984, the Commission approved a consent order in connection with the joint venture of General Motors and Toyota to produce a new automobile in the United States. That order placed certain limitations on anticompetitive conduct that might arise from the joint venture, including information exchange in other areas not directly related to the joint venture. In the acquisition of Marschall Dairy by Rhone-Poulenc, a French company, the proposed consent requires Rhone-Poulenc to license dairy cultures and to obtain Commission approval before making acquisitions of other dairy culture manufacturers.

Where the investigation you have requested will take us is impossible to predict at this point, and consequently we cannot be sure how much time will be required. An inquiry of this scope will require a considerable commitment of time and resources, and you are aware of the significant budget constraints that have limited us even before the onset of this investigation. We will certainly report on our progress.

I will be glad to answer any of your questions.