

**TAB N**

**Side Letter On Pricing**

Assistant Secretary Alan P. Larson  
Bureau of Economic and Business Affairs  
Room 6828  
U.S. Department of State  
2201 C Street, N.W.  
Washington, D.C. 20520

Dear Ambassador Larson:

The Ministry of Transport of Japan recognizes the importance of liberalizing the pricing regime. We are studying price liberalization in our domestic market and have initiated a consultative process to consider steps in this direction. In the discussions that will begin no later than May 1, 1998, the Ministry of Transport expects that experts consider steps with due attention paid to this ongoing domestic process.

Until such a time as a new bilateral agreement is reached, the Ministry of Transport of Japan, consistent with this agreement, intends to exercise to the maximum extent possible the flexibility accorded by Japanese law in order to approve reasonable filings of airfares proposed by airlines. We intend to approve filings by airlines to introduce lower rates of fares provided that they are consistent with domestic laws and regulations. In particular, we will not interfere with offerings by airlines that match those permitted to be offered in the marketplace.

Sincerely,

Hikomichi Toya  
Vice Minister  
Ministry of Transport

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9/8/98

Dear Vice Minister Hiromichi Toya:

We have just concluded a U.S.-Japan Civil Aviation agreement that states in part:

"2. "Experts of both Parties will meet by May 1, 1998, to consider steps to liberalize pricing, including zone pricing.

3. Until such time as a new agreement is reached on pricing, aeronautical authorities of each Party will flexibly approve filings of air fares proposed by airlines. This would require, for example, at a minimum, approval of a proposed fare or rate of airlines of either Party that matches any competitive fare or rate which is permitted under the current regime."

We look forward to the consultations that will begin no later than May 1, 1998, and expect to propose substantial price liberalization measures.

For the U.S., the provisions of paragraph 3 mean that the U.S. Department of Transportation will flexibly approve prices proposed by U.S. and Japanese airlines that are not unreasonably discriminatory nor unreasonably high due to abuse of a dominant position. In particular, it will approve fares and rates of U.S. and Japanese airlines that match lower or more competitive fares and rates in the marketplace for transportation between our countries, or between one of our countries and a third country.

I would appreciate information on how Japan interprets and intends to implement these provisions of our agreement.

Sincerely,

Alan P. Larson

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