

**OPENING STATEMENT
CHAIRMAN RICHARD G. LUGAR
SENATE COMMITTEE ON FOREIGN RELATIONS
JAPAN TAX TREATY AND SRI LANKA TAX PROTOCOL
FEBRUARY 25, 2004**

It is my pleasure to welcome our distinguished witnesses and guests to our hearing on the Japan Tax Treaty and the Sri Lanka Tax Protocol.

As the United States considers how to create jobs and maintain economic growth, we must strengthen the ability of American business to operate successfully in foreign markets. To this end, the U.S. government has attempted to facilitate exports through a number of strategies, including bilateral and regional free trade agreements, favorable outcomes in the World Trade Organization, and -- under the purview of this Committee -- bilateral investment treaties and tax treaties, such as the ones before us today.

It is important that we try to eliminate impediments that prevent our companies from fully accessing international markets. These impediments may come in the form of regulatory barriers, taxes, tariffs, or unfair treatment. In the case of taxes, we should work to ensure that companies pay their fair share, while not being unfairly taxed twice on the same revenue. Tax treaties are intended to prevent double taxation so that companies are not inhibited from doing business overseas.

As chairman of the Senate Foreign Relations Committee, I am committed to moving tax treaties as expeditiously as possible. Last year, this Committee and the full Senate approved three tax treaties. I encourage the Bush Administration to continue its successful pursuit of tax treaties that strengthen the American economy and benefit workers, investors, and businesses.

The Japan Tax Treaty is particularly significant due to our expansive trade and investment relationship with Japan. The United States and Japan are the two largest economies in the world, and account for approximately 40 percent of the world's gross domestic product. Japan is the fourth largest source of imports to the United States and the third largest export market for U.S. goods. The treaty, signed on November 6, 2003, by Treasury Secretary Snow and Japanese Ambassador Kato, will improve the ability of U.S. businesses to expand and prosper in Japan. It also will continue to encourage Japanese investment in the U.S. that contributes to the growth of our economy.

The original Japan Tax Treaty was signed in March 1971 and went into force in January 1973. Since then, both U.S. and Japanese domestic tax laws have changed dramatically. Until now, the 1971 treaty has not been amended to reflect those changes or the monumental expansion of the U.S.-Japanese commercial relationship.

American companies doing business with Japan are eager for this update of the bilateral tax treaty. It will guarantee more equitable treatment for U.S. corporate investors and relief from double taxation; it will strengthen dispute resolution mechanisms related to tax issues between

our countries; and it will eliminate withholding taxes on all royalty income, certain interest income, and dividend income paid to parent companies.

The overall benefit of the treaty is that our companies will become more competitive in the Japanese market. Japan is currently a party to tax agreements with several other nations that reduce double taxation for companies from those nations doing business in Japan. Consequently, without this treaty, U.S. businesses will continue to face a competitive disadvantage in the area of taxation.

Since transmittal to the Senate this past December, the Committee has been engaged in a thorough review and analysis of the treaty. Officials from the Department of Treasury have briefed the Committee extensively on the impact of the treaty on business relations between the United States and Japan. The Committee also has consulted with numerous commercial entities with operations in Japan. These entities all have indicated that the treaty will make them even more competitive in a market where they already are successful. In addition, the Committee has had meetings with commercial officers from the Japanese Embassy to discuss ratification and implementation of the treaty.

I understand that the timing of enactment of the Japan Tax Treaty is critical. Therefore, I have prioritized it on the Committee's agenda, and I will seek to move forward expeditiously on the Senate's advice and consent procedure in cooperation with the Senate Leadership. I also have written to the Japanese Finance Minister and leaders of the Diet to inform them that we intend to take action on the treaty quickly. I am hopeful that the entire Senate will join this Committee in promptly considering this agreement.

In addition to the Japan Tax Treaty, today we will be considering the protocol amending the 1985 tax treaty with Sri Lanka. The United States is Sri Lanka's largest export market. Almost 40 percent of Sri Lanka's exports are destined for the United States, while American businesses sell significant amounts of wheat, electrical machinery, textiles, medical instruments, and other products in Sri Lanka. About 90 U.S. companies have more than \$500 million invested in that country. These companies would reap benefits from the protocol's prevention of double taxation on revenue earned.

Sri Lanka was one of the first nations in the South Asian region to open up to foreign investment. It currently has a projected economic growth rate of more than 5 percent. Its developed port facilities and demonstrated desire to form positive trading relationships gives it significant potential as a U.S. foreign investment destination.

Strong commercial relationships also can help improve internal stability in Sri Lanka, which has suffered from two decades of ethnic insurgency in the northeast part of the country. During the last Congress, I sponsored, and the Senate passed, a resolution which recognized the positive relationship between the United States and Sri Lanka. This resolution denounced the ongoing violence, called for the observance of human rights and suggested that the efforts of the international community could be useful in promoting a peaceful resolution to the conflict.

I am pleased to welcome our distinguished witnesses. On our first panel, we will hear from Ms. Barbara Angus, the International Tax Counsel from the Department of the Treasury and the chief negotiator of the tax treaties before us. Also on our first panel is Mr. George Yin, Chief of Staff to the Senate Joint Committee on Taxation. The Joint Committee is responsible for providing a comprehensive evaluation and scoring of the treaties. On our second panel, we will hear from witnesses representing companies doing business in Japan. Mr. Bill Reinsch, is the President of the National Foreign Trade Council, and Mr. Jim Fatheree (FA-ther-ee), is the President of the U.S.-Japan Business Council. Both organizations have been supportive of the Japan Tax Treaty and its prompt ratification.

The Committee looks forward to the insights and analysis of our expert witnesses.

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