Committee on Balance-of-Payments Restrictions

1962 CONSULTATION UNDER ARTICLE XII:4(b) WITH JAPAN

Basic Document for the Consultation

1. Legal and administrative basis of the restrictions

The statutory basis of foreign exchange and foreign trade controls is the Foreign Exchange and Foreign Trade Control Law, No.228 of 1 December 1949, as amended.

This Law provides for the control of foreign exchange, foreign trade and other foreign transactions necessary for the proper development of foreign trade, for safeguarding of the balance of international payments and the stability of the currency as well as the most economic and beneficial use of foreign currency funds, with a view to rehabilitating and expanding Japan's economy.

The Law sets up a Ministerial Council, which is responsible for the drawing up of the Foreign Exchange Budget, and other subordinate organs.

Among the more important Cabinet orders and ordinances of basic relevance to import controls issued pursuant to the Law are:

(i) Import Trade Control Order (Cabinet Order No.414 of 29 December 1949);

(ii) Cabinet Order Concerning Control of Foreign Exchange (Cabinet Order No.203 of 27 June 1950);

(iii) Cabinet Order for Ministerial Council (Cabinet Order No.376 of 1 December 1949).

The provisions of the Law itself and of the orders issued pursuant thereto are subject to review from time to time in order to ensure relaxation or elimination of restrictions as circumstances permit.

The responsibility for all foreign exchange and foreign trade matters rests with the Ministry of Finance, the Ministry of International Trade and Industry (MITI) and the Ministerial Council. Under delegation of authority from the Ministers of Finance and of International Trade and Industry, the Bank of Japan administers some of these controls. Authorized foreign exchange banks conduct exchange transactions as authorized dealers, and function as organs of foreign exchange and foreign trade control in the capacity of agents of the Government.
2. Methods of restriction

Legally, all imports continue to be subject to an individual import licence. Except in the case of the Fund Allocation System (see below) the licensing requirement is a mere formality. As from April 1962 basically all imports are liberalized except those items which appear on the "negative list". Prior to April 1962 basically all imports had been restricted, with liberalized items appearing as exceptions in the positive list.

There are five types of import procedures: (1) the Automatic Approval System, (2) the Automatic Fund Allocation System, (3) the Fund Allocation System, (4) imports not requiring an outlay of foreign exchange, (5) licence-free imports.

(1) All commodities except those classified under (2) and (3) below are placed under the Automatic Approval System. For the importation of the commodities covered by this system individual licences are issued freely on application to the authorized banks. Foreign exchange is appropriated in the budget for all eligible items and may be supplemented if found inadequate. All of the items are on an all currency-area list.

(2) For the importation of items covered by the Automatic Fund Allocation System importers are automatically allocated by the MITI the amount of foreign exchange applied for. There has been no case where the application was rejected. The budget may be supplemented if found inadequate. In substance the Automatic Fund Allocation System is similar to the Automatic Approval System. The Automatic Fund Allocation System was introduced in November 1959 with a view to further accelerating trade liberalization. Items placed on the Automatic Fund Allocation List may, after a certain experimental period, be deleted from the list.

(3) Commodities designated as non-liberalized items in the Import Announcements of the MITI are covered by the Fund Allocation System. For the importation of items falling under the Fund Allocation System importers have to obtain foreign exchange allocation certificates from the MITI to apply for individual licences to the authorized banks. Global quotas are established for the commodities covered by the Fund Allocation System. Remaining single country quotas, namely those for sugar, rice and pineapple, have been abolished since the time of the last consultation.

(4) Imports which do not require any outlay of foreign exchange are admitted under a special licensing system and require prior approval of the MITI. This import procedure applies mainly to: (i) imports for public welfare, charity, religious activities, educational and scientific purposes, (ii) gifts, (iii) commercial samples (except those types which do not require licences) and (iv) fuel oils for ships and airplanes.

1 A list of products falling under the Fund Allocation System (i.e. the "negative list") will be distributed separately.
(5) Certain types of imports are exempt from licensing requirements. These include relief goods, commercial samples up to a specified value, certain products in non-commercial quantities for personal use, articles for the personal use of foreign diplomats, and certain materials, specimens or objects of reference donated for exhibition in schools, museums and research institutes.

Advance deposits are required when application for import licences is made. The deposit may be made in cash, designated bonds or bank guarantees. The deposit is refunded after goods accounting for 80 per cent of the value of the licence have been imported or when the import transaction is cancelled for a reason acceptable to the control authorities. The deposit rates now temporarily in effect are 5 per cent for most raw materials and industrial machinery, 10 per cent for a number of business machines and 35 per cent for consumer durables and for most other goods.

A foreign exchange budget is drawn up each half fiscal year (April to September and October to March) by the Ministerial Council with a view to realizing the most efficient use of foreign exchange reserves. With the progress of import liberalization the foreign exchange budget has at present the nature of an import estimate rather than serving the function of import planning. The budget has no restrictive effect on imports except in the case of the Fund Allocation System.

Details of the budget and of import procedures are given in Import Announcements and Import Notices issued by the MITI.

3. Treatment of imports from different sources

No discrimination is exercised as to sources of supply. Only with South Korea is an open account agreement still in force. It is the intention of the Japanese Government to discontinue this arrangement as early as possible. Trade with North Korea is still conducted under barter arrangements.

4. Commodities or groups of commodities affected by various forms of restrictions

On the basis of 1959 imports, import liberalization reached 73 per cent in April 1962.

The following table shows the proportion of imports under each of the three principal categories.
Foreign Exchange Budget for Commodity Imports 1960-62
(in million dollars)

<table>
<thead>
<tr>
<th>Period</th>
<th>Total Amount</th>
<th>Automatic Approval System</th>
<th>Fund Allocation System</th>
<th>Automatic Fund Allocation System</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>%</td>
<td>Number of Items</td>
<td>Amount</td>
</tr>
<tr>
<td><strong>1960</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st half final</td>
<td>2,624</td>
<td>970</td>
<td>40</td>
<td>1,067</td>
</tr>
<tr>
<td>Budget commitment</td>
<td>2,150</td>
<td>819</td>
<td>38.1</td>
<td>1,340</td>
</tr>
<tr>
<td>2nd half final</td>
<td>2,800*</td>
<td>1,100</td>
<td>42.4</td>
<td>1,340</td>
</tr>
<tr>
<td>Budget commitment</td>
<td>2,490</td>
<td>1,076</td>
<td>43.2</td>
<td>1,370</td>
</tr>
<tr>
<td><strong>1961</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st half final</td>
<td>3,272*</td>
<td>1,850</td>
<td>56.5</td>
<td>1,998</td>
</tr>
<tr>
<td>Budget commitment</td>
<td>3,115</td>
<td>1,764</td>
<td>56.6</td>
<td>2,317</td>
</tr>
<tr>
<td>2nd half final</td>
<td>3,526*</td>
<td>1,800</td>
<td>54.1</td>
<td>2,393</td>
</tr>
<tr>
<td>Budget commitment</td>
<td>2,647</td>
<td>1,440</td>
<td>54.4</td>
<td>1,060</td>
</tr>
<tr>
<td><strong>1962</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st half original budget</td>
<td>3,114+</td>
<td>1,650</td>
<td>56.6</td>
<td>1,044</td>
</tr>
</tbody>
</table>

* The amount includes contingency reserve.
** If the 497 items 327 are partially liberalized.
+ According to "statistical classification of commodities for Japanese Foreign Trade".
++ According to Brussels Nomenclature (4 digits).
5. Use of state trading or government monopoly in restricting imports

Salt and tobacco are under State Monopoly. The Japan Monopoly Corporation, a Government agency, for revenue purposes, was given the exclusive right for the manufacture, import and sale of these products.

The Government controls the price and the marketing of rice. It buys all homegrown rice with the exception of the portion retained by farmers for their own consumption. The Government regulates imports of rice and also buys all imported rice. Homegrown rice and imported rice (used for food) so purchased are rationed to the consumer.

In order to stabilize the price of wheat and of barley the Government adjusts supply-demand relations through intervention in the market. Wheat and barley producers are not legally bound to sell their products to the Government. However, the Government purchases an unlimited quantity upon sales application and, in practice, most of the wheat and barley entering the market are purchased by the Government.

The Government also purchases all imported wheat and barley and, in turn sells them to processors. Production and distribution of wheat and barley are free from control.

Imports of the above-mentioned products in recent years (calendar years) according to customs clearance records were as follows:

<table>
<thead>
<tr>
<th>Product</th>
<th>1959</th>
<th>1960</th>
<th>1961</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salt (including refined salt)</td>
<td>16,177</td>
<td>20,980</td>
<td>22,256</td>
</tr>
<tr>
<td>Tobacco (including manufactured tobacco)</td>
<td>12,121</td>
<td>15,717</td>
<td>24,426</td>
</tr>
<tr>
<td>Wheat</td>
<td>160,600</td>
<td>176,851</td>
<td>179,427</td>
</tr>
<tr>
<td>Rice</td>
<td>37,693</td>
<td>19,566</td>
<td>16,570</td>
</tr>
<tr>
<td>Barley</td>
<td>28,311</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
6. Measures taken in the past year in relaxing or otherwise modifying restrictions

In July 1960 the Japanese Government announced a trade and payments liberalization programme designed to implement liberalization to the fullest extent. Further, in September 1961, the Japanese Government adopted a programme for an accelerated implementation of trade and payments liberalization. The Government of Japan has continued its endeavours to accelerate the liberalization programme as far as circumstances permit. As a result, the percentage of liberalization, on the basis of 1959 imports, which was 65 per cent as of July 1961 rose to 68 per cent as of October 1961, to 70 per cent as of December 1961 and to 73 per cent as of April 1962. Under the programme of accelerated trade liberalization, a liberalization percentage of about 90 per cent is envisaged to be reached by the end of September 1962.

Progress made in the relaxation of restrictions

Additions to the list of items falling under the Automatic Approval System were made as follows:

<table>
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<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Commodities</td>
<td>Benzine, toluene and most oil-seed cakes.</td>
<td>Some 350 items including:</td>
<td>Approximately 40 items including:</td>
<td>About 600 tariff items and sub-items including:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>shrimps and prawns; edible nuts (excluding walnut); peanut butter; lumber; lecithin; pianos and other musical instruments; rubber fabricated materials; various zinc and zinc alloy products; viscose staples, staple yarns and filament yarns; various textile made-up goods and clothing; alloy steel and high carbon steel ingots; stainless steel pipes; railway locomotives and cars.</td>
<td>oatmeal; vegetables soups and juices in airtight containers (excluding tomato juice); curry and spices (excluding mustard); baking powder; certain flat sheet glass; marble; printer's ink; various nickel products; silk fabrics; wool yarns not put up for retail sale; certain types of stainless steel; high carbon spring steel and high carbon steel.</td>
<td>coconut and copra oils; palm kernel oil; linseed oil; cocoa paste (sugarless); refractory bricks; petroleum cokes; rayon pulps; jute yarns and fabrics; paperboard (excluding kraft paperboard); various alloy steels; steel wire netting.</td>
</tr>
</tbody>
</table>
The following commodities were added to the list of items falling under the Automatic Fund Allocation System on the dates shown below:

### Commodities

- **July 1961**
  - Instant coffee, coffee extract and other coffee preparations, and lake colours.

- **October 1961**
  - Some 330 items including:
    - Certain sportswear;
    - Cellophane manufactures;
    - Inorganic detergent preparations;
    - Rattan manufactures;
    - Lamps and other lighting apparatus;
    - Certain carpets, rugs and mats;
    - Sulfamid and its preparations;
    - Polyamide resin;
    - Ice cream freezers;
    - Bottling machines;
    - Pulp making machines;
    - Switch-boards;
    - Tape recorders.

- **December 1961**
  - Some 130 items including:
    - Leather gloves and mittens;
    - Steel furniture;
    - Dental cream;
    - X-ray films;
    - Men's underwear;
    - Road rollers;
    - Graders;
    - Lawn mowers;
    - Shapers;
    - Pneumatic machines;
    - Vacuum cleaners;
    - And cine-cameras.

- **April 1962**
  - Some 170 items including:
    - Seedlac;
    - Shellac;
    - Newsprint;
    - Art paper;
    - Black-and-white film for 8mm cine-camera;
    - Coal cutters;
    - Washing machines;
    - Automatic planers;
    - Electric generators (under 1,000kw);
    - FM radio receivers;
    - Fork lift trucks;
    - And watch movements.

7. **Effects of restrictions on trade and general policy in the use of restrictions for balance-of-payments reasons**

   (Statement by the Japanese authorities to be distributed separately).