### TRADE POLICY REVIEW MECHANISM

JAPAN

MINUTES OF MEETING

Chairman: Mr. A. Lecheheb (Morocco)

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1. **INTRODUCTORY REMARKS BY THE CHAIRMAN OF THE COUNCIL.**

1. The Chairman (Mr. Abdelkader Lecheheb), introducing the third review of Japan recalled that this joint meeting of the TPRB and the 1947 GATT Council was taking place under the procedures of GATT 1947 as the review of Japan had been postponed from 1994. He welcomed the Japanese delegation headed by Mr. Jun Yokota, Minister of the Permanent Mission of Japan, members of the TPRB and the 1947 GATT Council, and the discussants, Mr. Stuart Harbinson and Mr. Pierre Gosselin. As usual, the discussants would speak in their personal capacities.

2. The Chairman recalled the objective of the Trade Policy Review Mechanism, as decided by the CONTRACTING PARTIES on 12 April 1989 (BISD 36S/403). The meeting was to base its work on two reports, one submitted by the Government of Japan (C/RM/G/57) and the other by the GATT Secretariat (C/RM/S/57). He reminded members of the procedures for conducting reviews, introduced in May 1993 (document L/7208).

3. Australia, Canada, the European Communities, Hong Kong, New Zealand and the United States had given advance notice in writing of points they wished to address during the meeting. These had been conveyed to the Japanese delegation and copies were available to participants.
II. OPENING STATEMENT BY THE REPRESENTATIVE OF JAPAN

4. The representative of Japan expressed the hope that, after completion of this third Trade Policy Review on Japan, together with the results of the past reviews, everyone would have a better understanding of Japan's trade policy. The documents prepared by the Secretariat for the meeting were comprehensive and informative, but contained some factual inaccuracies, as well as perceptions that did not exactly reflect what the Government of Japan perceived.

5. Japan's basic trade policy was to maintain and strengthen a free and non-discriminatory multilateral trading system, and it had consistently supported the GATT system since its accession. Japan sincerely hoped that under the WTO, world trade would grow further and bring prosperity, and Japan would make a positive contribution toward this end.

6. The Uruguay Round Agreement had strengthened the dispute settlement system. Japan's basic policy was that trade disputes should be solved on the basis of the multilateral rules of the WTO, and Japan would continue to make efforts to further strengthen these rules in the future. At the same time, Japan's bilateral negotiations with the United States, the European Union and other countries would help facilitate free trade and economic activities; the results of these negotiations would benefit the entire world economy.

7. The promotion of co-operative economic relationships among the nations of the Asia-Pacific region, through forums such as APEC, would vitalise world trade and contribute to the development of the world economy by enabling this region to fully grow into an open, regional, economic community. Detailed proposals for seeking free and open trade and investment in the Asia-Pacific region would be discussed at the APEC Economic Leaders Meeting in Japan in 1995.

8. Japan was deeply concerned about the recent increase and enlargement of regional arrangements, which now covered a considerable portion of world trade. They could undermine the principles of the free and non-discriminatory multilateral trading system of the GATT/WTO and lead to the segmentation of the world economy. From this viewpoint, the Government of Japan believed that regional trade arrangements must not impair the rights under the GATT/WTO of the third countries; that they must be open to countries outside the region; that they must strengthen the multilateral trading system of the GATT/WTO; and that they must contribute to further liberalization and vitalization of world trade.

9. The Japanese economy went through a contraction from May 1991 to October 1993. The growth rate of real GDP was 4.3 per cent in 1991, 1.1 per cent in 1992 and -0.2 per cent in 1993. In order to achieve a steady recovery led by domestic demand, the Government of Japan announced various economic packages, in March 1992, August 1992, April 1993, September 1993, and February 1994, and had steadily implemented them. The discount rate had been reduced seven times since July 1991, and stood at 1.75 per cent since September 1993, which was the lowest level in Japan's history.

10. Partly due to these efforts, the Japanese economy had been gradually heading toward recovery since October 1993; real GDP growth was 0.6 per cent in 1994. Meanwhile, Japan's current account surplus in 1993 showed a slight decline from the previous year on a yen basis. However, on a dollar basis, the 1993 surplus was larger than that in 1992 as a result of the J-curve effect. In view of this development, the Government of Japan had incorporated import promotion measures into the series of economic measures mentioned above, and further strengthened these policies in March 1994. Japan had also implemented various measures to promote deregulation and to strengthen its competition policy.
As a result, and also due to an increase in the volume of imports caused by further appreciation of the yen, Japan’s current account surplus had decreased in 1994.

11. Based on the recent economic environment in Japan and its foreign trade trends discussed above, the "Outline of External Economic Reform Measures" was approved by the Cabinet in March 1994. Under the Outline, the following concrete objectives were adopted as basic policy:

   (a) It was necessary to advance reforms that would bring about a high-quality economic society, open to the international community; and

   (b) Effective means had to be devised to bring about a significant and meaningful mid-term reduction in the current-account balance surplus, and to increase considerably imports of competitive foreign products and services.

Specifically, the following steps were important:

   (i) Promoting deregulation to bolster market mechanisms in Japan;

   (ii) Making standards and approval systems conform with international norms; and

   (iii) Supporting measures for promotion of imports in various sectors.

12. Since the previous TPR meeting, Japan had made continuous efforts to strengthen import promotion policies. Major efforts had been made in implementing taxation and financial measures to promote imports, supporting the endeavours of foreign companies and governments to increase exports to Japan, and improving the import promotion infrastructure.

13. The Secretariat’s report stated that "tax incentives offered by Japan’s import promotion programmes are applied only to those manufactured products already entering Japan on a duty-free basis" and "products subject to tariffs - implicitly, those in which Japan is less competitive - are excluded". It went on to say that "selective import promotion is likely, by reducing the level of protection on duty-free items to negative levels, to increase the effective level of protection on already-protected products" and that it is "likely to bring about distortions in resource allocation". The representative of Japan noted that the tax incentive was given, not to imported products, but to traders and manufacturers who increased the total import value of products covered by this measure (such as electronics products and machinery). The rationale was that the importation of those manufactured products would require additional costs over domestic products through identifying what foreign products are better suited for the Japanese market, as well as through marketing them in Japan, due to language difficulties, differences in business practices, local characteristics and so on. Therefore, these import promotion measures would give foreign firms an equal competitive footing with their Japanese counterparts and would promote competition in the Japanese market. As a result, this policy could help realize efficient resource allocation in line with the objectives of the GATT.

14. As the data submitted to the Secretariat indicated, the "import penetration ratio" was lower for the zero-tariff manufactured products than for the products subject to tariffs, such as agricultural products. This demonstrated that the additional costs mentioned posed impediments to importation. Therefore, it was rational and necessary that import promotion programmes focus mainly on the zero-tariff manufactured products. Secondly, the import promotion of those manufactured products would not lead to increased protection of other products, because of the demand substitution effect.
When incentive was given to certain products, purchasing costs would decrease and the directly competing products would benefit from a substitution effect.

15. Competing products were domestically manufactured products in the same sector rather than "protected products" in other sectors. Thus, the tax measure entailed an increase in the penetration ratio of those manufactured products. Japan's import promotion programmes were supported by its major trading partners, such as the United States, the European Union and others. They had expressed strong interest in the continuation of these measures when they were to expire at the end of FY 1994.

16. The Japanese Government considered deregulation as one of the highest priorities of national policy, and had been making continuous efforts to promote deregulation. Recently, the Government designated over 1,000 categories for deregulation in its three deregulation programmes. Building on the results of these deregulation measures, the Government established on 31 March a five-year "Deregulation Action Plan" to engage in the further promotion of deregulation in an active and structured fashion.

17. These deregulation measures were decided upon after a comprehensive study of requests and opinions expressed by domestic and foreign interested parties, and covered a wide range of areas. The "Deregulation Action Plan" defined as clearly as possible specific details of each measure and its implementation period, with a view to enabling consumers and foreign and domestic entrepreneurs to respond easily to such measures. These policies demonstrated clearly how seriously Japan was improving its economic structure, and promoting harmony with international norms. As part of such efforts, the Government of Japan decided to publish a Deregulation White Paper every year with a view to providing easy-to-understand information about deregulation measures, and was now working on a draft for FY 1995.

18. Japan was also currently implementing regulations designed to provide protection in such areas as life and health, consumer benefits and environment, through individual laws and ordinances of the responsible Ministries and Agencies. Pursuant to the Agreement on Technical Barriers to Trade, the Government had made prior notification to the Secretariat of standards, technical regulations and certification systems concerning these laws, and had also published them in official bulletins. Japan was also taking measures to bring these standards into conformity with international standards and to promote the acceptance of foreign experimental and examination data. Japanese standards and certification systems were now comparable with those of other countries in terms of transparency and conformity with international standards.

19. Since 1992, the Office of Trade and Investment Ombudsman (OTO) had initiated a process to determine necessary policy measures, following the recommendations of the Market Access Ombudsman Council concerning complaints raised by foreign firms and others. In February 1994, measures had been taken to upgrade the OTO to its present form and the Prime Minister became the Chief of the Office of Market Access. In the middle of March 1995, the Market Access Ombudsman Council submitted its third report to the Office of Market Access. In this report, the Council put forth recommendations for a total of 19 items. The Government had determined the policy measures to be taken, respecting these proposals to the utmost extent. Many of them were included in the Deregulation Action Program established by the Government.

20. Recently, Japan faced the major challenge of promoting domestic economic reforms to realise a high standard of living, as well as to make its market more open to the world. The rôle of competition policy was becoming increasingly important in this context. Besides promoting deregulation, the Government was committed to an active implementation of competition policy. In the "Deregulation
Action Plan" decided by the Cabinet Meeting on 31 March 1995, the Government had displayed its commitment to actively implement competition policy along with promoting deregulation, with a view to making Japan's market more competitive and more open through promoting fair and free competition.

21. The Fair Trade Commission (FTC) was making efforts to actively implement competition policy. In doing so, the FTC put emphasis on addressing strictly Anti-monopoly Act violations, enhancing transparency of law enforcement and strengthening deterrence to violations by establishing various guidelines and making them public, and also by reviewing the government regulatory system and the system of exemptions from the Anti-monopoly Act.

22. On 1 March 1995, the FTC had established a task force to specifically deal with the issues of import restrictions and price differentials caused by Anti-monopoly Act violations. On 6 March 1995, the FTC had filed criminal accusations with the Prosecutor-General against nine electronics companies engaged in rigging bids for orders from the Japan Sewerage Works Agency concerning the construction of electronic equipment. On 31 March, the FTC had issued a policy statement entitled, "Regarding the Active Implementation of Competition Policies on the Occasion of the Establishment of the "Deregulation Action Plan". This aimed at further strengthening competition policy, by striving further to make various guidelines public knowledge with a view to strengthening deterrence to Anti-monopoly Act violations, as well as by addressing actively and strictly acts of violation, including criminal procedures, and by further expanding information gathering and analysis.

23. Acceptance of the Uruguay Round Agricultural Agreement was a politically very sensitive issue. However, Japan had accepted it for the sake of successful conclusion to the Uruguay Round negotiations despite various domestic difficulties. In December 1994, the Diet had approved the WTO Agreement, including the Agricultural Agreement and the necessary amendments of the relevant laws. Japan had commenced to fully implement its commitments under the Agricultural Agreement since 1 April 1995.

24. In particular, in order to stabilise the supply and demand and prices of staple food, such as rice, wheat and barley, the Law for Stabilization of Supply-Demand and Price of Staple Food contained provisions to implement the Uruguay Round Agricultural Agreement, including the acceptance of a minimum access for rice. In addition, mandatory sales of rice to the Food Agency were to be abolished, and the current designation and permit system would be replaced by a registration system for traders who handled the shipment and sales of voluntary-marketed rice and government-marketed rice.

25. Japan had improved the market access of agricultural products and was the largest net importer of foodstuff in the world. The food self-sufficiency rate in Japan was 46 per cent on a calorie basis and 29 per cent on a cereal basis, the lowest among developed countries. Given such circumstances, Japan had explored and implemented measures enhancing the multifaceted benefits which agriculture provides, such as conservation of national land and environment, development of the rural economy, and the stable supply of food. Japan had emphasized in the course of the Uruguay Round negotiations that such a policy direction should be fairly appreciated.

26. Reflecting Japan's concerns, the Agreement on Agriculture contained provisions related to non-trade concerns including food security and the necessity of environmental conservation. Provisions related to disciplines in export prohibition and restriction were further specified. The incorporation of stock-holding for food security and environmental measures into a "Green Box" was another example.

27. Considering the above, Japan found some problems with the Secretariat's assessment:
(i) The report assessed, using PSE analysis, that the support level in the agricultural sector in Japan was high despite the shortcomings of the PSE. The PSE did not measure the multifaceted benefits, such as the conservation of national land and environment, and its figures were influenced directly by the exchange rate fluctuation. Japan believed that such assessment should be made on the basis of the AMS analysis, a tool provided in the agriculture agreement.

(ii) The report criticized the level of tariff equivalents, which were derived through the agreed procedures of the Uruguay Round. In addition, the report missed the important fact that Japan was the largest net importer of food and that Japanese agriculture was going through a reform process to establish a market-oriented structure, by reducing tariffs and relaxing distribution controls.

(iii) The report stated that liberalization of agricultural trade would lead to enhancing the efficiency of agriculture, without taking into account the specific circumstances of agriculture in each country. Agriculture in Japan faced difficulties arising from its mountainous geography and exceptionally high land prices. The multifaceted benefits of agriculture, such as the conservation of environment, should also be taken into account.

28. The representative of Japan concluded that Japan, which became an original member of the WTO this January, believed that the TPRM played an important rôle in ensuring the full implementation of the Uruguay Round results, and in enhancing mutual understanding among countries and regions. It was his Government's sincere wish that the TPRM would contribute to strengthening an open and free multilateral trading system.
III. STATEMENT BY THE FIRST DISCUSSANT

29. The first discussant (Mr. Harbinson) noted that the review took place against a rather different background to its predecessor; specifically, there had been a protracted economic slowdown since 1991/92. The Secretariat and Government reports both noted that initial signs of recovery had emerged during 1994, in which personal consumption and investment began to pick up. However, events moved quickly: in particular the appreciation of the yen had accelerated, particularly vis-à-vis the U.S. dollar; and a major earthquake occurred in the Kobe region, entailing appalling loss of life and physical destruction.

30. He was therefore interested in an up-to-date assessment of the economic effects of these phenomena, especially the appreciation of the yen, and whether they had caused any reassessment of the overall outlook. For example, what were the official figures for the outturn in real GDP growth in 1994, and did the estimate for 1995 - put at 2.5 per cent in the Secretariat report - remain the same? Furthermore, to what extent was the projected growth in 1995 expected to be driven by domestic, as against external demand?

31. Noting that Japan's "Outline of External Economic Reform Measures" had stated "it is necessary to proceed with reforms that will bring about a high-quality economic society, open to the international community", he asked if the representatives of Japan could expand on this vision of the country as it approached the 21st century. The popular impression of outsiders was that the Japanese Government and people traditionally placed a high priority on social harmony, achieved to a degree by social and economic regulation. He wondered if there was any apprehension that deregulation in the Western sense would upset the traditional harmony or affect the speed of the progress?

32. He noted that the yen had risen in value from about 145 to the U.S. dollar in 1990 to the present rate in the mid-to high eighties - an appreciation approaching nearly 40 per cent over a five-year period. This must have had, and be having, a profound effect on the Japanese economy.

33. The continuing appreciation, combined with the recession, put renewed pressure on Japanese industry to control costs and improve productivity. Opportunities for export-led growth were presumably still there in high value, high technology fields, but it was clear that Japan was in the process of switching from export-led to domestic demand-fuelled growth. It would be interesting to have an account of how the continuous currency pressure was affecting the structure of the economy. For example, were there indications that domestic industrial investment was on hold as a result of worries about the value of the currency, even now that domestic demand was picking up? The recent fall in the Nikkei index would appear to indicate that industrial confidence was indeed being eroded.

34. Japanese outward foreign direct investment (FDI) had peaked in 1989, followed by declines in 1990, 1991 and 1992, and a modest recovery in 1993. The authorities ascribed the decline to a number of factors, including high start-up costs, the generally low profitability of Japanese subsidiaries abroad and the economic downturn in many markets in the early 1990s.

35. However, an associated trend was the increasing share of FDI going to South and East Asia, up from 12 per cent to 18 per cent in 1989-93. Within that region there was increased focus on China, which saw a very large increase from US$349 million in 1990 to US$1.76 billion in 1993. In this field one would expect the appreciation of the yen also to have its effect; with many parts of the world emerging or having emerged from recession, with the South and East Asian regions continuing to prosper, and with investment abroad becoming ever more attractive in yen terms, FDI might again be expected to take off. He wondered if there was any evidence of this, or any indication of such
an emerging trend. He was also interested to learn whether China continued to be such an attractive
destination for Japanese investors.

36. Japan's current account and merchandise trade surpluses had remained at very high levels during
the past three years. Part of the reason for this was said, in the Secretariat report, to be the combined
"J-curve" and valuation effects of yen appreciation. As the yen's appreciation continued, it was becoming
difficult to see the likely longer-term picture regarding these components of the balance of payments.
He asked if the Japanese delegation could offer any enlightenment in this regard. Conventional wisdom
would indicate that at some point the effect of yen appreciation would feed through into reduced
surpluses, but this seemed to be long in coming, even taking into account the J-curve effect.

37. He also noted that the BOP figures circulated by the Secretariat showed an extremely large
figure of over US$18 billion for "errors and omissions" in 1994, and asked what this involved.

38. At the last review many members had called attention to Japan's apparent readiness to respond
to external pressure from major trading partners by concluding bilateral arrangements. Some still retained
a degree of doubt as to Japan's resolve to resist bilateralism in practice; the Secretariat report noted
some thirty trade arrangements concluded with the United States alone over the past three decades.
He thought, however, Japan should be given some credit for continuously reaffirming its support for
the m.f.n. principle. As the Secretariat report observed, almost all Japan's international trade was
conducted on an m.f.n. basis. Furthermore, he was heartened by Japan's resistance to numerical targets
and managed trade in the context of the negotiations under the "Japanese-U.S. Framework for a New
Economic Partnership". He encouraged the Japanese authorities to maintain a steadfast attitude not
only in this specific context but also as a general principle of international trade policy.

39. As regards regionalism, Japan had been at the forefront of those members who worried that
the rapid trend in favour of regional trading relationships was undermining the multilateral system.
Japan itself did not belong to any customs unions, free-trade areas or other preferential regional
arrangements. This healthy scepticism was good: as Japan was constantly reminding member countries,
Article XXIV of the GATT was, after all, supposed to be an exception to the m.f.n. rule. It sometimes
appeared as if m.f.n. was now the exception.

40. The Secretariat report noted that the scale of net benefits under Japan's GSP was estimated
to be relatively small. This was ascribed to the large number of products ineligible for GSP benefits
and to the presence of binding ceiling quotas on some products of interest. Although quota ceilings
had been eliminated for 20 product groups in 1993 and for one group in 1994, a total of 125 product
groups were still subject to ceilings. He hoped that Japan, as one of the leading and richest members
and economies in the WTO, would try to set an even better example; this could be achieved by relaxing
the ceilings and making more products eligible for GSP benefits.

41. He concluded by saying how very admirable the Japanese economic miracle remained to all;
there was no doubt in his mind that this accomplishment was due, above all, to the talent and industry
of the Japanese people, who had truly earned their success.
IV. STATEMENT BY THE SECOND DISCUSSANT

42. The second discussant (Mr. Gosselin) noted that in both previous reviews Japan’s economy was praised for its remarkable capacity to adapt to change; this review brought no different conclusion. Japan had had to cope with a severe economic downturn at home and in its main export markets, as well significant appreciation of its currency.

43. A complex of forces accounted for the ability of Japanese producers to adapt quickly, by reducing costs and restructuring production patterns, to preserve their international competitiveness. In addition to the supply side, some important demand forces needed to be taken into account, such as the limited flow-through of the benefits of yen appreciation and the regulatory, access and distribution rigidities that contributed to maintaining a structural current account surplus.

44. By analogy, the same could be said about Japan’s trade policy framework. No-one could question Japan’s dedication to a free and multilateral trading system; in all their major economic policy statements, the Japanese authorities underscored the importance attached to the objective of achieving harmonious external relations, strengthening the multilateral system, contributing to global economic welfare and more recently re-orienting the economy towards greater reliance on domestic rather than export demand. Here again, however, the reality was more complex. Despite apparent efforts, progress remained slow in a number of structural reforms designed to achieve the effective market access improvements expected by trading partners. Among these reforms were deregulation, the promotion of imports, streamlining administrative practices and improving transparency and otherwise strengthening the market mechanism. All were ultimately aimed at achieving improvements in the quality of life, consumer welfare and better housing standards. The same themes had also been mentioned in the previous review, and it was worthwhile to take stock of progress.

45. Japan had initiated a vast deregulation programme as one means of addressing the market access concerns of the international trade community. While the list of measures being reviewed was impressive - more than one thousand - tangible results in terms of improving access, reducing bureaucratic red tape and, above all, ameliorating the well-being of Japanese consumers, had yet to crystallize. Japan should provide a more systematic evaluation of the deregulation action plan; not necessarily to report on what happened to regulatory measures themselves, but rather to assess the extent to which the deregulation initiative had had a real impact on the marketplace, including where relevant whether it had led to a greater alignment of domestic to international prices. Otherwise, deregulation might be a misnomer for re-regulation.

46. Examples related to housing and building codes were worth singling out as this was the single most important expenditure a consumer would make in a lifetime and since there was substantial pent-up demand in Japan. With very strong demand for new housing and a positive response of Japanese consumers to imported, affordable products, it was amazing to note that in an annual market of more than 1.5 million housing units, imports of price-competitive prefabricated houses had only reached a meagre one-tenth of 1 per cent of the market. The efforts of the Japan External Trade Organization (JETRO) to promote imports had run into a complex web of regulations which took away any competitive advantage from the imported product. Many of these regulations went beyond necessary and understandable performance requirements for materials to those covering aesthetics or process. Perhaps equally damaging to international competition was the confusion that resulted from having a large number of government bodies overseeing different parts of the housing sector. Efforts to clarify, rationalize and make fully transparent the rules in these areas would go some distance to improving competition and efficiency in this key sector.
47. In this regard, the strengthening of the functions of the OTO and the Market Access Ombudsman Council noted in the Secretariat report was welcomed. However, participation of foreign enterprises remained largely embryonic and this might require further action, such as expanding the role of the OTO in decision-making, ensuring availability of information in timely fashion, and encouraging participation of foreign enterprises in Japanese business associations. However, any consultative process was costly and time consuming. This was more acute in the case of foreign suppliers which might not have an in-depth institutional knowledge of the domestic policy process. Greater reliance on international experience could speed up regulatory reforms and also ensure that the process would remove market access impediments. The Secretariat had noted that Japan undertook to simplify test and inspection procedures, including by accepting results from foreign testing organizations and foreign manufacturers. Numerous complaints still existed, however, notably with respect to building materials, medical equipment and processed food where mutual recognition of standards did not exist, seriously impairing market access.

48. In standards, generally, structural reforms seemed to advance at a snail’s pace. The last review noted that only 5.2 per cent of Japan’s industrial standards coincided with international norms; the proportion had now been increased to 10.4 per cent according to the Secretariat report. Admittedly this represented a doubling and a significant improvement, but it still amounted to an insignificant proportion for an economy of the size and importance as Japan. More revealing was the fact that only one quarter of the 8,184 Japan Industrial Standards (JIS) related to matters covered under international standards. These figures contrasted radically with deregulation plans which “only” targeted approximately 1,000 measures, of which only a small proportion would immediately be acted upon. One would thus question whether the deregulation plan was as comprehensive as depicted by the Government of Japan or whether it was not, in reality, just a good first step along a long road. It seemed appropriate therefore to ask what regulatory imperatives the other 6,000 Japan-specific standards responded to; and if there were concrete plans to eliminate this apparent excessive regulation and to achieve greater convergence with international norms?

49. Japan had introduced import promotion programmes, including financial incentives, to reduce market entry costs of imports and thus accentuate import penetration to enhance competition and consumer welfare. However, the beneficial impact of such measures had yet to be demonstrated. The trade pattern of eligible products was marginally different from the overall pattern, and may even have been due to factors other than the incentive programme. There was always a risk that the selective subsidization of imports could lead to other distortions, and simply divert attention from the need to further liberalize non-competitive sectors. Japan’s economy, and a fortiori that of its trading partners, would stand to benefit more from eliminating or reducing current trade barriers that impeded access of competitive imports than from artificially bolstering selective imports. Moreover, the import promotion programme, where it only applied to duty-free products, might have the perverse effect of increasing the relative protection afforded to more sensitive products.

50. Considerable attention had been given in both the Secretariat and Government reports to competition policy. In recent years, and to some extent as a result of international pressures, several positive steps had been taken to strengthen the power and influence of the Japanese Fair Trade Commission. However, the enforcement record remained modest and the preference to use administrative guidance rather than judicial enforcement might leave trading partners perplexed as to whether the end result might not be the creation of another layer of regulatory intervention. Nonetheless, the curb on cartels was welcomed, even though one could question why it took so long to eliminate a practice, recognized worldwide as being clearly anti-competitive and detrimental to consumer interests. The tolerance, if not encouragement, of resale price maintenance (RPM) was also questionable.
51. A related question was vertical arrangements and their impact on market access. This had sparked considerable debate as a source of concern. Again, stiffer price competition at the distribution level could help stimulate demand for price-competitive imports. From a systemic standpoint, differences of treatment in competition laws among major trading partners and their potential impact on market access might underscore the need to reflect further on the desirability of integrating multilateral rules on competition in the trade policy framework.

52. Other structural initiatives to facilitate imports, such as technical assistance to exporters and improving import-related infrastructure were worth noting. In this regard, the decision to create Foreign Access Zones (FAZs) and computerize the customs clearance process was welcome news. The FAZs already operating had demonstrated their effectiveness and contributed greatly to reducing the time required to complete import formalities. The expansion of that system and completion of customs computerization would also answer some criticisms raised at the last TPRM regarding the costs, delays and complexities of customs clearance.

53. As the Secretariat report noted, tariffs were generally very low and Japan had made further significant cuts as its contribution to the Uruguay Round. Nonetheless, there were a number of areas where tariffs were unusually high and with significant tariff escalation. As the incidence of these peaks was almost exclusively in the consumer goods sectors it would seem that they were excellent candidates for reform to improve "the quality of life ... and increase consumer welfare", one of the principal trade policy objectives set in the Twelfth Five-year Economic Plan.

54. There was evidence that it would not be appropriate for Japan to encourage domestic production and promote self-sufficiency in agriculture. Despite such evidence, Japan persisted in maintaining excessive protection in this area. Japan's concern with food security was understandable, but given limited overall production potential in a small land area, food security would best be served through more open, secure access to the market and the new disciplines on export prohibitions and restrictions imposed by the WTO Agreement on Agriculture. It was clear that Japanese consumers and the Japanese economy in general would benefit from a reallocation of resources from production and processing of food products to other economic sectors.

55. In addition to the peaks for food products and the food manufacturing sectors, high out-of-quota rates of tariffied agricultural products, ranging from 170 to over 600 per cent, guaranteed that no competitive products would enter beyond the minimum or current access levels. Significant tariff escalation also provided additional protection in this already heavily protected sector. The fact that production controls were necessary in order to prevent over-production in excess of domestic requirements was an indication that producer prices and other production incentives must be too high.

56. On issues related to sanitary and phytosanitary (SPS) measures and technical barriers to trade (TBT), concerns continued to be voiced about cumbersome procedures, delays of several years in some cases, and excessively stringent requirements, notably for plant products and processed food. Japan should be encouraged to conform fully with these WTO Agreements, in particular with respect to increasing its use of internationally agreed standards, accepting the equivalence of SPS measures implemented by other Members, and ensuring that product packaging and labelling requirements and quality standards did not constitute unwarranted trade restrictions.

57. Finally, there was the matter of State trading. The within-quota portion of tariffied agricultural products would be imported exclusively by State-trading entities. There should be some assurances that these minimum quantities would be imported and that these agencies would act in a transparent and business-like fashion. For example it would be helpful to know why import performance fell so
far short of permitted levels in the past. One could not help noting that in the administration of the quotas there was no penalty for non-performance.

58. It was evident that much had been accomplished since the last review, but there was much left for the Japanese authorities to do. In his view, the key to dealing with structural imbalances was deregulation and strengthening the functioning of the market, to provide effective market access and enhanced competition. How vigorously and completely the Japanese authorities pursued those objectives would determine the harmony they enjoyed with their trading partners. Failure to act aggressively would undermine the multilateral trading system that Japan so staunchly supported.
V. STATEMENTS BY MEMBERS OF THE COUNCIL.

59. Participants commended Japan’s active participation in the Uruguay Round and continued support for the m.f.n. principle. They also expressed their appreciation for the reports prepared by the Secretariat and the Japanese Government.

60. The representative of the European Union (EU) shared the Secretariat’s view that, since the last trade policy review, Japan had taken steps in the direction of greater integration into the global economy. Japan’s current account surplus had declined slightly; its level, however, remained high. The EU had repeatedly reminded Japan that too large a current account surplus risked creating serious strains between interdependent economies and had asked the authorities, on many occasions, to adopt adequate measures at the macro- and micro-levels to reduce the imbalance. In this regard, he was encouraged by recent Japanese Government pledges, as embodied in the "Outline of External Economic Reform Measures" adopted in March 1994.

61. While the EU recognized the contributions made by Japan in successive rounds of multilateral trade liberalization and the efforts made to introduce autonomous liberalization, difficulties of access to the Japanese market continued to be of serious concern not only to the EU but also to the vast majority of Japan’s trading partners, developed and developing alike.

62. Despite relatively low average tariffs on industrial products, access to the market continued to be hindered by exclusionary business practices and various non-tariff measures. These included burdensome testing, inspection and customs clearance procedures, the use of complex standards, and difficulties of access to distribution networks; they hindered access for a wide variety of products ranging from pharmaceuticals and medical equipment to motor vehicles, car components and construction equipment. Only 2.5 per cent of JIS standards were the same as existing international standards. The EU welcomed measures taken by Japan in recent years to allow more transparent standards and greater use of foreign certification and testing of goods. It encouraged Japan to take further steps towards harmonization with international standards.

63. Agriculture continued to enjoy very high protection by a combination of tariff-rate quotas, very high tariffs for above-quota volumes, differential tariffs, technical requirements and inspection procedures. Japan’s plant and animal health regulations had, in particular, unduly hindered access to the market, for example, in the case of the zero tolerance policy for insects and plants. Access for fishery products was also severely limited by import quotas. In general, access to the Japanese market was not consistent with the possibilities of access that Japan enjoyed in other markets, nor with the access that could be expected by a country at its advanced stage of development.

64. The EU welcomed the deregulation policies of recent Japanese Governments. The four deregulation packages adopted in 1993 and in 1994 were preliminary steps in the right direction. However, these were limited in their scope and failed, in most cases, to include concrete measures and precise timetables for implementation. Although the EU was still studying the details of the five-year deregulation programme recently announced, its preliminary view was that the programme, although a substantial step in the right direction, must be extended and reinforced.

65. Access to the Japanese market was hampered not just by excessive regulation, but also by deep-seated structural obstacles, such as keiretsu and the complex multi-layered Japanese distribution system. These obstacles made it difficult for foreign firms to penetrate the market and often offset the low level of border measures. The EU strongly encouraged Japan to take further measures to enhance
competition and do away with collusive business practices through more effective and rigorous enforcement of the Anti-monopoly Act.

66. The presence of structural obstacles also hampered the volume of foreign direct investment in Japan, which remained low. Investment disequilibria between Japan and the rest of the world remained very important. The EU welcomed the measures and incentives adopted by Japan to promote FDI and encouraged the authorities to improve the transparency and streamlining of regulations and laws, for example, on mergers and acquisitions.

67. The Japanese Government had introduced a number of changes to its liquor taxation régime. While the EU welcomed these moves towards implementation of the 1987 GATT panel findings, they were not enough to eliminate the substantial tax differentials between liquor types.

68. Another area of concern related to Japan's government procurement practices. The EU fully recognized and welcomed the efforts made in recent years. However, foreign firms continued to face difficulties in acceding to government contracts. Single tendering was substantial and had increased in recent years; qualification requirements were not fully streamlined among central government agencies and between those and local governments; informal arrangements among participants (dango) in submitting bids had been widespread and the penalties foreseen were not sufficient to eradicate such practices.

69. The recent liberalization commitments by Japan in financial services were welcomed. Nevertheless, implementation schedules in several cases remained uncertain and the EU considered that the authorities should make clear commitments in this regard for implementation. It should also be prepared to bind these changes in the GATS negotiations.

70. As regards bilateral relations, the EU was pursuing an approach based on the principle of mutual advantage between equal partners. The EU was not against bilateral initiatives to finding solutions to market access problems with Japan. Past experience had shown that such initiatives allowed progress that would not have happened otherwise. However, bilateral arrangements underpinned by threats of unilateral sanctions and including sector-specific import commitments, or measures to facilitate market access that discriminated in practice in favour of imports from particular third countries, were a source of concern.

71. In concluding his remarks, the representative noted that Japan had benefited considerably from the open world trading system. Such benefits implied a corresponding responsibility to share fully in the work of maintaining an open and stable global trading system. It was not enough for an economic power like Japan to limit itself to the close observance of WTO rules.

72. The representative of Argentina observed that exports from his country to Japan had risen sharply since the previous review. However, his Government felt that remaining trade and investment restrictions, especially those concerning agriculture, were not compatible with Japan's competitive needs. He enquired why remaining VERs had not been removed.

73. Noting Japan's low levels of labour productivity, as indicated in the Secretariat report, in such sectors as agriculture, construction and other services, he asked what measures were being taken to address this issue. For specific issues such as pigmeat tariffs, State trading for cereals and agricultural subsidies, he stated that detailed questions would be submitted to the Japanese delegation.
74. The representative of New Zealand noted the outlook for recovery in the Japanese economy in 1995, stating that a strong Japanese economy was in everyone’s interests. He sought information on the extent to which the outlook had been affected by weaker than expected consumption, the yen’s rapid appreciation, the Kobe earthquake and other factors.

75. There had been positive developments in New Zealand’s trade relationship with Japan since the last trade policy review, in particular agreement on access for apples, more regular access for dairy products resulting from the Uruguay Round, and expansion in airline services and airfreight capacity. He thought, however, that progress in some areas should happen faster.

76. He welcomed the reform measures announced by the Japanese Government. With regard to measures announced in March 1994, he asked if Japan could provide further details of achievements of the Trade Conference chaired by the Prime Minister, noting that New Zealand’s experience through Chamber of Commerce submissions to the Import Board had been disappointing. Noting also the difficulty of moving beyond "set piece exchanges" of information through the OTO with domestic interest groups involved in specific trade access problems, he asked if further strengthening of the OTO was contemplated or planned.

77. Information on deregulation in the Secretariat report largely indicated areas or measures for study, rather than concrete results. He asked what deregulatory measures had resulted from the examination by the Japanese Government in 1994. Only two of the 75 notifications made by Japan under the TBT Agreement in 1992/93 listed adjustment to international standards as their objective. By contrast, New Zealand’s programme of comprehensive economic reforms enacted from the mid-1980s, had been applied across the board within a short time-frame to minimize as far as possible any impression that one sector would be favoured over others.

78. Although many tariffs were being reduced and some non-tariff restrictions removed, exceedingly high tariffs or tariff equivalents remained on products of significant interest to New Zealand: dairy products, particularly skim milk powders, and butter, above quota levels, attracted an unacceptably high level of tariff protection; and tariffs on timber products created unfair competition in end-uses, particularly in radiata pine used in construction. Quantitative restrictions remained on fisheries products of particular importance to New Zealand, such as squid and jack mackerel. Quantitative restrictions on leather products also presented difficulties for New Zealand exporters. It was difficult to see how these measures were "ensuring national security, protecting human and others’ life".

79. Quarantine measures continued in force for which New Zealand saw no justification, like fumigation of kiwi fruit for a non-threat pest. Noting that "SPS measures must be adopted and maintained on the basis of scientific principles", New Zealand expected Japan fully to implement its commitment to SPS disciplines. In the process of administrative reform, mention had been made of a need for Japan to consider reviewing, restructuring, or abolishing State-trading organizations. In a market which generally encouraged direct contact between buyers and sellers, the rôle of such organizations seemed an anomaly.

80. Some areas generally under government direction, such as access for racehorses, remained strictly controlled, to the detriment of foreign breeders. Japan Racing Association rules severely constrained the opportunities for New Zealand and other foreign racehorses to compete in races in Japan, and the very high tariff on imports made trade in this area very difficult.
81. New Zealand would be looking to further deregulation by Japan of service sectors at present not open to foreign competition. He asked whether deregulation plans for services were as fully advanced as those for imported products.

82. The representative of Hong Kong commended Japan for strengthening its market mechanisms. He observed, however, that, despite a moderate increase in import volume, Japan's merchandise trade surplus had increased significantly in recent years. This seemed to point towards a certain degree of market failure, as falling import prices appeared not to have been fully passed through to the consumer. He hoped that the packages of deregulation measures launched since September 1993 would improve the situation. He asked whether the Japanese Government had any concrete plans to monitor the effectiveness of these deregulation measures and whether a time-frame had been established to translate the goals and principles for structural reform into specific implementation.

83. While Japan had made extensive commitments in terms of tariff bindings and reductions in the Uruguay Round negotiations, tariff peaks remained in sectors such as footwear and processed foods. In respect to textiles and apparel, it remained to be seen how and when Japan would reduce relatively high tariffs in accordance with the Quad agreement to "work" to cut bound tariffs by up to 50 per cent.

84. In Hong Kong's view, the prior confirmation system (PCS) on silk fabrics was a discriminatory restriction on imports. Indeed, Japan had notified it as such to the Textiles Monitoring Body (TMB). This measure had long been a subject of bilateral discussions and consultations under the standstill and rollback mechanisms under the Uruguay Round. All along, the Japanese Government had claimed that it was for surveillance purpose only. After more than 15 years of surveillance, he felt that it was perhaps time that the Japanese Government considered lifting the PCS for silk fabrics, without recourse to the maximum grace period.

85. He recognized that Japan to date had not taken any safeguard actions. However, the Ministry of Trade and Industry (MITI) had announced in November 1994 procedures for applying quantitative restrictions on imports of textiles and clothing. Two Japanese manufacturers' associations promptly made formal submissions to MITI on 13 February 1995 seeking to limit textile imports from China, South Korea and Indonesia. Separately, but very relevant to the present issue in terms of principle, he noted that MITI had stated in its Report on Unfair Trading Policies by Major Trading Partners that quantitative restrictions or quotas which distort free trade should be removed. It also mentioned in its White Paper on Japan's International Trade 1994 that the Japanese Government intended to contribute to further promotion of free trade and investment in co-operation with the people and governments of other countries, based on achievements of the Uruguay Round. The imposition of any quantitative restrictions would be contradictory to these statements. It would also run counter to the spirit of the Agreement on Textiles and Clothing and indeed the standstill commitment made by Ministers in Marrakesh in April 1994. Given this, he urged the Japanese Government to exercise the greatest care in the administration of these procedures, to respect fully its own policy statements and to adhere closely to the provisions of the Agreement on Textile and Clothing regarding the use of Transitional Safeguards.

86. He noted that the number and scope of export cartels had declined in recent years in Japan, but that one legal import cartel on silk products still persisted. He sought the rationale behind maintaining this import cartel and details of any plan for its removal.

87. The Secretariat report had pointed out that the vertical distribution affiliation system posed a structural obstacle to imports. He urged the Japanese Government to conduct an in-depth study on the anti-competitive effect of this distribution network in a comprehensive manner.
88. The representative of Thailand (on behalf of ASEAN member States) commended Japan’s new economic policies aimed at greater openness, and hoped that import promotion and deregulation plans would be speedily implemented, taking into consideration the concerns of developing countries. He welcomed efforts to bring Japanese standards and certification systems into conformity with international standards.

89. In regard to international co-operation under ASEAN and APEC, he welcomed the recent trends in Japan’s trade and investment patterns. He expressed concern that such issues as export duties on logs by Indonesia and mining and manufactured good restrictions in Malaysia had been included in the Japanese Government report prepared for the meeting, stating that these countries had considered the issues to have been resolved during the negotiating process in the Uruguay Round.

90. The representative of India expressed appreciation of Japan’s continued commitment to the m.f.n. principle, adding that his country shared Japan’s concerns that the application of regional arrangements should not undermine this principle. He appreciated Japan’s earlier decision to renew GSP benefits for an additional 10 years, as well as the fact that Japan had never applied safeguard measures against textile imports.

91. In the area of services, especially the movement of natural persons, he hoped that India’s concerns would be taken into consideration by Japan in the ongoing negotiations.

92. The representative of Hungary stated that the importance of Japan in the world economy and the world trading system had been shown both in the reports and in statements of previous delegations. Some of these concerns expressed by Hungary in the last review of Japan were covered by the undertakings Japan had made in the Uruguay Round, and he hoped that the full implementation of the agreement would settle them.

93. Certain administrative procedures, including standards, SPS, distribution and related import procedures, had been improved, but still appeared strict when compared to internationally applied rules. He welcomed the initiative of the Deregulation Action Program to review and harmonize specifications and standards with international norms. Tarification of non-tariff measures on agricultural products improved market access possibilities; however, there were some agricultural products for which the applied tariff equivalents were extremely high.

94. During the previous TPR of Japan, Hungary had expressed appreciation to Japan for extending its GSP scheme to Hungarian products. However, despite the recent improvements of the system, limited coverage and the restrictive quota ceilings on some goods still reduced benefits.

95. The representative of the United States said that fundamental economic asymmetries existed in Japan’s economic relations with the rest of the world. The Japanese market was arguably the most difficult to penetrate among industrialized countries, taking into consideration the current account surplus, the stock of inward direct investment, international pricing differences, and imported manufactured goods as a percentage of GDP.

96. Specific sectors where differences existed between the performance of the Japanese economy and the performance of comparable economies included auto parts, telecommunications equipment, and insurance. Statistics for these sectors raised significant concerns and indications that there were serious problems with Japanese trade policies and practices.
97. Over the past year, the United States and Japan had reached eight separate market opening agreements under the "United States-Japan Framework for a New Economic Partnership". The two countries had also reached agreements outside the Framework on two additional sectors. Although these agreements were reached bilaterally, it was important to understand that benefits under the agreements would be on a most-favoured-nation basis.

98. The current agenda with Japan centred on the automotive sector, and deregulation. U.S. concerns in the automotive sector focused on improving access for foreign vehicles to the Japanese market and reducing regulations limiting foreign access to Japan’s market for replacement parts.

99. On deregulation, the United States focused on the generic process and specific sectors. Administrative reform related to deregulation was of great concern, including implementation of the new Administrative Procedure Law, use of rule-making procedures, and transparency of formal and informal advisory committees. Genuine deregulation in Japan could only occur in conjunction with more effective competition policy enforcement.

100. The Japanese Government had just issued its five-year deregulation action plan. The United States had not yet fully analyzed this plan, but earlier documents, including the January and March interim plans, had been criticized not only by his Government and the EU, but also by major business organizations, political leaders and media in Japan. These earlier interim plans were essentially void of substantive commitments, lacking a clear timeframe for actual deregulation, and generally did not provide enough content for an outside observer to make educated comments.

101. The Secretariat report might have left readers with the impression that the recommendations of the Hiraiwa group had become formal Japanese government policy. The group made recommendations to Prime Minister Hosokawa, who merely accepted receipt of the report; thus, it had no official status in relation to government policy in Japan. Also, the Secretariat report incorrectly stated that the focus of U.S./Japan bilateral arrangements had shifted recently from restraint of Japanese exports to opening Japanese markets. On the contrary, this had clearly been the U.S. focus in Japan negotiations since at least the early and mid-1980s.

102. Japan was the second largest economy in the world and its growth had been nothing short of phenomenal over the past half century. Much of this growth had depended on open markets elsewhere, in particular, the American market. Growth in the rest of the world, and especially continued growth of Japan’s Asian neighbours, now depended on an open Japanese market.

103. The representative of Norway, after observing that Norway’s exports of both agricultural and industrial products to Japan had shown steady increases, noted that since the last review Japan had experienced a dramatic change in its economic performance, characterized by a combination of domestic recession and appreciation of the yen. During this difficult period Japan had contributed actively to the conclusion of the Uruguay Round and its follow-up process by assuming considerable commitments on deregulation and market access. His delegation trusted that the same spirit would apply to negotiations on the remaining areas.

104. In bilateral dialogue with major trading partners, the Japanese Government had emphasized a firm respect for the m.f.n. principle. For smaller trading partners, it was reassuring to observe the seriousness with which Japan maintained that all concessions given bilaterally should be extended to everyone. Still, the intensive nature of Japan’s trade policy dialogue with a few big trading partners, had in practice resulted in some erosion in the observance of m.f.n.
105. Japan was gradually coming to accept testing, certification and factory approval carried out abroad. This was an encouraging development for potential exporters to Japan from small countries. However, the best news would have been that all such national particularities and technical specifications had been abolished on an m.f.n. basis.

106. Another, and more general, issue was Japan's agenda for liberalization and deregulation. Major trading partners had the resources to study in depth Japanese regulations and make detailed proposals to the Japanese Government on measures that should be initiated. Thereby, they were also given an opportunity to influence future Japanese policies in a way that was favourable to their exporters. Here too, it could be argued that smaller trading partners would not have the necessary resources for in-depth studies of what should be internal Japanese policy matters.

107. He noted that there was broad agreement internationally, and also increasingly within Japan, that it should undertake a radical effort to further deregulate, in its own interest, not only for the sake of opening up markets but also to give new dynamism to the Japanese economy, including an improved situation for Japanese consumers. Allowing only more dominant and vociferous trading partners to set the agenda for Japan's deregulation efforts would reward aggressivity and undermine the observation of the m.f.n. rule.

108. The representative of Switzerland welcomed the emerging economic expansion in Japan, noting the beneficial effects this would have on other economies. Although there was a long list of trade liberalization and deregulation measures mentioned in the Government report, the impact of these measures, both internally and externally, was not yet clear. In the case of government procurement, for example, foreign contracts were primarily awarded to the two largest commercial powers. He urged that all Japan's liberalization measures, including any bilateral arrangements, be strictly implemented on the basis of multilateralism and transparency.

109. He commended the tariff reductions made by Japan under the Uruguay Round noting, however, that tariff peaks remained in textiles and other sectors, and that tariff escalation on semi-processed manufactures had negative effects, not only for trading partners but for intra-industry trade and the domestic economy as well.

110. The representative of Australia stated her agreement with the main themes presented by the discussants. She noted that Japan had played a leading rôle in many areas of the Uruguay Round negotiations, and commended Japan's trade policy for continuing to move in a positive direction, if at times slowly, despite domestic and other difficulties. She also warned against attempting to directly link Japan's trade surpluses with particular trading partners to its level of market openness.

111. Australia had previously offered suggestions for improvements in the standards area in connection with Japan's deregulation programmes. Further reforms were desirable in such areas as food import regulations, State-trading practices and construction regulations.

112. In agriculture, tariffication was an important first step. However, Australia hoped to see major structural reforms take place in Japan, as well as closer integration into world trade. Japan's implementation of the Uruguay Round agreements was important. For example, the criteria recently imposed for rice and other food importers appeared to be excessively strict. In concluding, she noted that while much progress had been made in reforming Japan's trade policies, more was needed.

113. The representative of the Republic of Korea acknowledged the important contribution that Japan had made to the successful conclusion of the Round. Korea regarded the direction of Japan's deregulation
and liberalization policies as desirable. Korea believed that the deregulation of various sectors of the Japanese economy, including foreign investment, along with the simplification of customs clearance procedures, would benefit not only foreign investors and exporters but also Japanese consumers.

114. Some items of Korean concern were not included in Japan's Uruguay Round package of tariff cuts, while reductions on other items were far smaller than expected. Korea hoped that these items would receive due consideration in the future. Regarding import quotas on fishery products, while this issue was not included in the Uruguay Round agricultural negotiations, Korea hoped that, in line with the spirit of the WTO, this quota system would be phased out in the near future.

115. Korea was interested in how Japan would manage the tariff quotas on imports of agricultural products. Japan had stated that it would present a phase-out programme to the TMB on silk imports from Korea; Korea viewed this decision with great pleasure and expected to be informed of the programme as soon as it was prepared.

116. A rise in bilateral trade volume was desirable when it occurred in a balanced manner for both sides. Unfortunately, Korea's trade deficit with Japan had doubled from 1990 to 1994 and, in spite of Japan's "Government Action for Import Promotion in 1994", it was expected again to increase in the current year. It was true, in a sense, that the trade imbalance between Korea and Japan stemmed from structural problems on the Korean side. Nevertheless, Korea expected that Japan's various import promotion programmes would be successfully accomplished so that balanced trade between Japan and other trading partners, including Korea, could be achieved.

117. The representative of Indonesia referred to the mention in Japan's report of the Indonesian export duty on logs. He recalled that during the negotiations of the Uruguay Round the two parties gave serious consideration to the matter, and to the tariff rates imposed by Japan on that product. These considerations were reflected in the respective countries' schedules of commitments. Therefore, he was surprised that Japan was again raising this issue, and wondered whether the present forum was appropriate for such a discussion.

118. He asked for clarification on the tariff rates imposed on Indonesian logs. Japan applied different tariff rates on particular types of plywood; 9-10 per cent for softwood and 10-15 per cent for hardwood plywood. In this regard, he asked whether there was a plan to impose the same tariff rates on softwood and hardwood plywood, taking into consideration that those products were categorized as like products falling under HS category 4412. Furthermore, he wished to learn more about the certifications issued under the Japan Agricultural Standard, which were required for plywood imported for government projects, and whether there was any plan to remove this non-tariff barrier.

119. The representative of Canada stated that Japan's imports had grown little since the previous review, in part because of the continuing economic downturn. This should, to some extent, have been counteracted by the appreciation of the yen. The general stagnation of consumption had been exacerbated by the resistance to price reduction inherent in the Japanese distribution and regulatory system. Steps had been taken to address this problem (such as the reduction of retail price maintenance) but he urged an acceleration of the entire deregulation programme.

120. He commended Japan for its efforts to date toward deregulation, but the evidence indicated there was still a long way to go. The openness of the Government of Japan to consultation and the obvious political commitment to reform were indeed welcome. It was obviously too early to know what the true effects of the Deregulation Action Programme would be, but he feared that it might offer only incremental change in the near term.
121. Japan was to be commended for taking initial steps towards changes in building codes and standards that might lead to better housing at lower cost. The steps toward recognizing testing facilities and standards of other countries were a positive move, as was the acceptance of more international standards in a number of areas. Nonetheless, standards remained, in many cases, clear barriers to market access. They should be reorientated toward achieving rational, transparent objectives. As one of the discussants had pointed out, the Ministry of International Trade and Industry encouraged the adoption of imported housing that met Ministry of Construction Standards, while the Government Housing Loan Corporation imposed different standards for eligibility for financing. This lack of co-ordination undermined the positive effect of market-opening measures.

122. He noted that Japan had long maintained strong support for a predictable, rules-based, and clearly multilateral trading system. This implied transparency in the domestic market-place and resistance to measures that might distort the operation of the system. A huge trade surplus brought unrelenting scrutiny by Japan’s trading partners that should help Japanese authorities resist pressures toward any solution that strayed from most-favoured-nation principles. But this did not always appear to be the case. He hoped, for example, that in the future Japan would open its procurement of wheat under its aid programme to all producers.

123. There were several other examples in which Japan had acted in apparent contradiction to its stated policy by choosing unilateral "grey area", or bilaterally negotiated, solutions to problems of wider multilateral commercial and policy interest. Canada supported, in principle, agreements that increased world trade, but was concerned that past agreements and those currently being negotiated on trade in automobiles and automotive parts could have the potential to favour enhanced bilateral, rather than multilateral, trade even though the agreements would ostensibly be applied on an m.f.n. basis. His understanding was that the success of the existing arrangement was measured through periodic reports of the volume of auto parts sold from U.S.-based suppliers to Japanese manufacturers, and not from all foreign suppliers.

124. Assessment of Japan’s post-Uruguay Round tariff was complicated by the fact that commitments were related to rates bound in the GATT. In many cases, bound rates differed from applied rates, which could be much lower. Thus the impact of Uruguay Round reductions was not always apparent, and market access was not necessarily improved to the extent suggested by the figures emerging from the Round.

125. He recognized that Japan had relatively low tariffs, especially for industrial products. However, there continued to be tariff peaks and unbound tariffs in sensitive areas that prevented or inhibited trade. These would be improvements as a result of the Uruguay Round, but the representative was disappointed in the lack of progress on wood products and fish. He thought that Japan would have supported efforts to lower, or even eliminate, tariffs on wood and wood products since this would have helped achieve one of the three major objectives of economic policy stated in the Twelfth Five-year Economic Plan, namely "an improvement in the quality of life ... through better housing standards."

126. Canada welcomed Japan’s "Action Plan" introduced in 1994 as a first step in opening up public works projects to foreign bidders by clarifying and improving procurement procedures. However, opportunities for Canadian contractors to penetrate the Japanese market might remain limited in the short term, due to incomplete bidding information provided to foreigners and the quantity of administrative work required. Canada was pleased to learn that the scope of "Resale Price Maintenance" (RPM) and the number of exempted cartels had been steadily reduced over time and that, as part of the July 1994 deregulation package, Japan announced that the remaining exemptions of cartels would be reviewed with a view to abolishing them within five years. Notwithstanding those changes, he shared
the concerns expressed by the discussants and others over the trade-defeating effects of keiretsu and other domestic practices.

127. Canada continued to have concerns regarding Japan's phytosanitary regulations and practices. In regard to edible oils, he believed the Secretariat report did not provide enough details on the specific tariffs applied in the sector, ranging up to 30 per cent in terms of ad valorem equivalents.

128. Fisheries were not included in the agricultural negotiations of the Uruguay Round. As a result, Japan maintained, and planned to retain, quantitative restrictions on imports of a substantial portion of all fish and seafood. During the Uruguay Round negotiations, Canada and a number of other fish-exporting countries unsuccessfully pressed Japan to remove these restrictions. This made fisheries an unfortunate exception to the general rule of tariffication. In practice, Japan operated its import quotas to allow considerable market access for imported fish. However, these arrangements still impeded trade by introducing an element of uncertainty for individual requests to import.

129. The representative of Egypt stated that the trade policy review of Japan had special importance not only because Japan was one of the largest trading economies, but also because of its responsibilities in the multilateral trading system through active participation in ensuring international stability and economic growth, taking into consideration the interests and circumstances of small economies in developing countries.

130. Noting the low level of Japanese investment in Africa and the Middle East, he emphasized that such investments were essential for the economic development of both regions. He asked for detailed information about possibly increasing imports of manufactured goods, from African countries in particular and developing countries in general, to the Japanese market. He also asked for clarification on tripartite co-operation in the field of investment and trade.

131. The representative of the Czech Republic noted Japan's strong commitment to further strengthening of the multilateral trading system, which had been demonstrated repeatedly in the final phase of the Uruguay Round by taking sometimes rather painful decisions. Its general support for liberalization of international trade had, however, been to a certain degree in contrast with a relatively frequent resort to various bilateral arrangements having potentially trade diverting effects.

132. He asked what measures, if any, Japan intended to introduce in order to accommodate its trade policy to the commitments resulting from respective provisions of the Agreement on Safeguards, according to which "grey-area measures" should be terminated or brought into conformity within a specified period of time and according to which members should refrain from taking new ones.

133. Tariffs, apart from peaks in some sectors, had ceased to play their previous rôle in Japan's trade policy. Practical experience as reported by Czech exporters showed, however, the relevance of non-tariff measures which were still applied widely, and which represented obstacles and additional burdens incurred by both exporters and consumers. In particular, these included the complex system of sanitary and phytosanitary measures, technical regulations and certification or marking requirements, as well as difficulties in establishing a distribution network, for example, in the case of agricultural products such as beer.

134. Both the Government and Secretariat reports described in detail measures taken to lower the number of non-tariff barriers. However, he did not find explanations of steps envisaged after April 1995 in those sectors in which non-tariff protection was still high, and asked for more detail on Japan's intention to enhance liberalization through dismantling quantitative restrictions.
135. Various studies had attempted to assess the impact of non-tariff barriers on Japanese society, namely on consumers. In spite of the fact that their rôle could not be overestimated, some of them were worth consideration. He asked what evaluation the authorities gave to studies which described the present level of non-tariff barriers as excessively high, and whether the Japanese Government could provide its own assessment of the impact of existing non-tariff measures. He also asked what instruments or methods the authorities used in measuring the positive effect of its deregulation and liberalization efforts.

136. His Government appreciated that the Japanese authorities had included the Czech Republic in its GSP scheme. Although it was a very useful instrument, his authorities believed that benefits might be further increased through enlargement of the list of products eligible for GSP treatment and through the elimination of quota ceilings.
VI. REPLIES BY THE REPRESENTATIVE OF JAPAN AND ADDITIONAL COMMENTS

Macro-economic developments

137. The representative of Japan stated that the last trough in the Japanese business cycle had been in October 1993, and that the economy had since been gradually heading toward a recovery. The Kobe earthquake and the most recent yen appreciation would both have positive and negative effects on the economy; therefore, the overall significance of these events was not yet clear. Plant and equipment investment, which was a key factor in the business cycle, had shown a sign of recovery.

138. The pass-through of yen appreciation to domestic prices was becoming quicker and smoother. As the exchange rate appreciated, the rate of inflation measured by consumer price indices had been stable (around 1 per cent) reflecting the reduction in import prices. It had been more than 3 per cent at the beginning of the 1990’s. In addition, partly due to deregulation measures, prices of several goods had been substantially reduced. Japan’s price level was cited as one of the highest in a report by the OECD; however, looking at the opposite side of the coin, the current exchange rate was also well over the purchasing power parity (PPP) rate.

139. Since the beginning of the 1990’s, the ratio of Asian countries in the total outward FDI of Japan had been increasing, compared with those of North America and Europe. As the Secretariat report showed, import-stimulation was strong for Asian-directed FDI because goods produced in Asia were imported to Japan, while the export-substitution effect was strong for North America. As a result, the expansion of FDI to Asia increased Japan’s total imports in the 1990’s, as well as the ratio of manufactured product imports.

140. The first discussant said he had hoped for some more specific details of the emerging reassessment of Japan’s economic outlook, for example new GDP estimates. He also asked what was expected to be the effects of the most recent yen appreciation on FDI to Asia.

141. The second discussant noted that changes in Japan’s wholesale and consumer price indexes were significantly different, and stated that the relevant issue was the apparently still inadequate pass-through to consumers of the benefits of yen appreciation. Concerning the purchasing power parity (PPP) estimate, he said this might also indicate the rigidities and inefficiencies within the economy. He had also hoped for more discussion of the main reasons why FDI into Japan was uncharacteristically low.

142. The representative of Japan stated that in the medium and longer terms the positive and negative economic effects of exchange-rate appreciation (i.e. lower consumer prices but reduced net exports) roughly offset each other; however, the pass-through to consumer prices usually took longer, leading to a negative economic effect in the short term.

143. The representative of the European Union asked if increased Japanese FDI resulted only in increased keiretsu-based transactions by Japanese companies. If this was the case it was in conflict with the basic principle of sourcing intermediate inputs from the most competitive sources, regardless of corporate nationality.

144. The representative of the United States agreed with the EU comments, and asked if, correspondingly, higher Japanese FDI in Europe and North America was likely to have only export substitution effects, or to result in increased exports to Japan from these regions?
145. The representative of Japan stated that low FDI into Japan was due to factors such as high land prices, the longer period required for returns on investment, and employment practices.

**Structural Questions**

146. The Japanese current account surplus in 1994 was US$129 billion, slightly below the US$131 billion of 1993. However, on a yen basis, it was substantially reduced from 14.6 trillion in 1993 to 13.2 trillion in 1994. Moreover, the ratio to GDP fell from over 3 per cent in 1992 and 1993 to 2.5 per cent in the fourth quarter of 1994. This was historically low, as the level over the previous decade had been between approximately 2 per cent and 4 per cent.

147. It would take some time for Japan's reform measures to have their intended effects on the economy. He believed that, by and large, this was an experience common to any country striving to achieve economic reform. The fact that the Government had undertaken successive economic measures in recent years demonstrated that Japan was firmly determined to bring about a high-quality economic society, open to the international community.

148. Both of the discussants and many delegations had emphasized the importance of advancing the deregulation efforts currently underway in Japan. He was encouraged that "The Deregulation Action Program" announced on 31 March had generated much attention. It was difficult to present quantitatively the economic effects of deregulation beforehand. However, deregulation had great effects in vitalizing the economy through the creation of new businesses and expansion of existing businesses; promotion of competition and furtherance of market efficiency through price elasticity; promotion of imports by improving market access; expansion of consumer choices; and reduction of economic costs by mitigating the burdens of applicants.

149. As the effects of deregulation gradually became obvious with the passage of time, it was important to make continuous efforts to remove regulations as much as possible. As part of such efforts, the Deregulation Action Program provided deregulation in many areas, such as distribution, standards and certification, and import procedures.

150. In the "Deregulation Action Program," the Government had displayed its commitment to actively implementing competition policy along with promoting deregulation with a view to making Japan's market more competitive and more open through promoting fair and free competition. The Fair Trade Commission (FTC) was making efforts to actively implement competition policy. In doing so, the FTC had put emphasis on strictly addressing Anti-monopoly Act violations, enhancing transparency of the law enforcement and strengthening deterrence to violations by establishing various guidelines and making them public, and also by reviewing the government regulatory system and exemption system from the Anti-monopoly Act. The number of recommendations against violations issued by the FTC in recent years had been as follows: 34 in FY 1992, 31 in FY 1993, and 30 in FY 1994.

151. There were two important bodies in the organization of the Office of Trade and Investment Ombudsman (OTO). One was the Office of Market Access (OMA) headed by the Prime Minister. The other was the Market Access Ombudsman Council (MAOC) whose members were learned persons from the private sector. The latter differentiated the nature of the OTO from other governmental bodies and assured independence from the Government. The MAOC played an important rôle as Ombudsman by making recommendations on market opening measures to the Government. The OMA determined policy measures, respecting the Council's recommendation to an utmost extent. As a result, the Japanese system, including laws, ordinances and others had been amended when appropriate.
152. It was true that recommendations by the MAOC were not legally binding. However, generally speaking, due consideration was needed to decide deregulation measures and, in addition, Japanese society gave importance to harmony. Therefore, the functions that the MAOC provided were suitable, in order to promote deregulation slowly but steadily. The OTO had continued strengthening its functions, for example full utilization of electronic mail systems such as the Internet. In addition, a data base would be prepared in which information concerning receipt and processing of complaints by the OTO were available.

153. The first discussant noted the impressive list of benefits that might result from Japan's deregulation programme. Why, he asked, did the programme need to proceed so slowly? Was social harmony a factor?

154. The second discussant observed that less than 1 per cent of total investment in Japan was made by foreign companies and asked if there were additional reasons other than those previously given. The decline in Japan's current account to the 2.5 per cent level continued to be an unacceptable imposition on Japan's trading partners. He agreed with the concern over the slow pace of deregulation voiced by the first discussant. He pointed out that even the over 1,000 items addressed under the reform measures appeared small relative to the total number of regulations in place.

155. In regard to Japan's competition policy reforms, he wondered whether powers to prosecute violators were granted to the FTC, in addition to the power to make recommendations, and whether violations of the Anti-monopoly Act were criminal actions, as in many western nations. He also noted that no responses had yet been given to earlier questions concerning resale price maintenance and cartels.

156. The representative of Japan replied that, in regard to social conditions connected with Japan's deregulation programme, unofficially speaking, the speed of reforms was the best possible to date. He pointed out, however, that once the implementation stage of new programmes was reached, Japan typically moved at a much faster pace than in the policy formulation stage. In terms of Japan's current account surpluses, he stated that no economic theory specified a "correct" level.

157. The representative of the United States said that the slow pace of change had been used as a frequent justification by Japan over the previous two decades. In regard to Japan's competition policy reforms, he noted that only three cases since 1990 had been criminally prosecuted, and said the maximum fine levels were too low. He asked when criminal violations would result in jail sentences being imposed.

158. On the OTO, he found the Japanese responses disappointing; equally disappointing, he stated, was the OTO's response to the cases it was presented. He regretted there was no apparent plan to grant the OTO enforcement powers. On the deregulation programme, he said that important details concerning implementation were missing, making useful analysis impossible.

159. The representative of Australia agreed with the concern expressed by previous speakers over the slow pace of reforms, and stated that New Zealand's experience had shown that a faster pace was possible when a wholehearted commitment was made. Japan's competition law, she said, needed to be tightened significantly, and was currently having negative effects on market access. She pointed out that Japan benefited from the stronger level of enforcement in many of its trading partners.

160. Concerning the low level of FDI into Japan, she asked to what extent this was negatively affected by the regulatory system, especially in the services sector. For standards, she warned that unless current regulatory practices were altered under the deregulation and liberalization programmes, Japan might face challenges under the new WTO procedures.
161. The representative of Hong Kong asked what had been the response of private sector firms to Japan's deregulation programmes, and whether these firms had contributed to the programmes.

162. The representative of Japan replied that deregulation was a top priority of the Murayama administration, and that there was widespread acceptance in Japan of the need for reforms. Within the private sector, the rôle of the Keidanren business federation was the most prominent example of that sector's contributions to Japan’s deregulation programmes. In regard to inward FDI, Japan had adopted deregulation-related measures to promote such investment, and had removing the prior notification requirement in the mining field.

163. The representative of the European Union said his delegation believed that bilateral trade flows were not a proper subject of discussion in the TPR. He was concerned over Japan's apparent preference for increased imports of U.S.-made products, e.g. automobile parts, despite the m.f.n. nature of the agreements reached. He asked Japan to be more careful in its public statements regarding bilateral issues; such government statements, he said, had a strong influence over private sector behaviour.

164. The representative of the United States agreed that Japan's overall trade flows and current account balance were the main issues, and that all nations would benefit, either directly or indirectly, from increased manufactured imports by Japan.

165. The representative of Canada said he agreed with the comments of the EU representative, especially in terms of automobiles and automobile parts, concerning the risks of failing to multilateralize bilateral arrangements.

166. The representative of Japan said that questions concerning Japan's competition policy would be answered at a later time.

Specific points

167. In reference to high tariff rates and tariff escalation, the representative of Japan pointed out that many of these were the result of the Uruguay Round negotiations and would be reduced as agreed. The effective period for GSP had been extended for ten years until 31 March 2001, paying attention to requests from developing countries. Japan had been making efforts to improve its GSP system as much as possible, and in FY 1995, expanded the quotas under GSP treatment and reduced preferential tariff rates for 12 items of tropical products such as mangoes and guavas.

168. Japan intended to carry out its agricultural pricing policy by making efforts to reduce production costs through realizing a structure in which efficient and stable farming bodies played a major rôle in production. At the same time, it intended to set price levels reflecting the supply and demand situation so that such structural adjustment would be facilitated. It was important to keep a balance between price reduction and production cost reduction.

169. As foodstuffs were essential for the people's livelihood, it was the basic rôle of the Government to ensure stable supply. To this end, Japan considered it necessary to appropriately combine domestic production, imports, and stockholding. Given the instability of international supply and demand, domestic production was the most reliable among these three sources. Furthermore, agriculture played an essential rôle in the development of rural economies and the conservation of national land, environment, and landscape. Thus, Japan considered that border measures were needed to maintain a certain level of domestic agricultural production and supply capacity.
170. Food consumption in Japan was highly dependent on imports with a calorie-based self-sufficiency rate of 46 per cent in 1992, which was extremely low among the developed countries. Further decreases in self-sufficiency would pose a serious problem to the stable supply of food. Concerning the guaranteed price scheme of calves, it was important for Japanese bovine meat production, and Japan did not have any plans to make modifications.

171. Japan had implemented its agricultural commitments since April 1995, based on its Schedule, which included tariff reduction, tariffication of certain non-tariff measures, establishment of tariff quotas, and reduction of domestic support. Some delegations had stated that the tariff equivalents were too high, and reference was also made to high tariff rates and tariff escalation. These were the result of the Uruguay Round negotiations and would be reduced as agreed. As regards the operation of tariff quotas, Japan had provided access opportunities according to the Uruguay Round agreement, and would make notifications within the time schedule as agreed in the agricultural committee.

172. For products subject to State trading (except rice), measures such as the import quota system were replaced with a scheme under which anyone could import any volume by paying "tariff equivalents". State enterprises were not involved in any way in the marketing or distribution of over-quota imports, except to collect tariff equivalents and inspect the quantity, quality and safety of such imports. As regards the applicant eligibility of rice importers with which the Food Agency could make contracts, Japan did not discriminate against foreign companies.

173. For dairy products subject to State trading, the Livestock Industry Promotion Corporation would import skimmed milk powder and whey from April to May. As regards dairy products not subject to state trading, Japan made public specific quantities for each product in the official bulletin at the end of the previous month; such information would be notified to the WTO within the time schedule as agreed in the agricultural committee.

174. Concerning tariff reductions on vegetable oils, Japan had made every effort possible in the Uruguay Round, resulting in the concession of a 36 per cent reduction for soybean oil and rapeseed oil, and more than 50 per cent for other vegetable oils.

175. For wood products, Japan's efforts had resulted in approximately a 50 per cent reduction from the base rates. The first reduction was made in January 1995, and subsequent reductions would be made according to the Japanese tariff schedule. Referring to the tariff gap between SPF plywood and that of hemlock, Japan said they differed in the extent of competition with domestic plywood. The industry in Japan had seriously suffered, as imports of tropical plywood had increased rapidly. However, Japan had made every effort possible in spite of such circumstances, agreeing to tariff reductions of 33 per cent to 50 per cent from the base rates. With regard to the export duty on logs imposed by Indonesia, Japan still had serious concerns. Japan had raised the issue on various occasions including the Uruguay Round, and would continue to do so in the future.

176. Japan maintained SPS measures on a scientific basis, consistent with the basic principles of the SPS agreement. According to the agreement, if relevant international standards did exist, national SPS measures would be harmonized with international standards; if risk-assessment techniques developed by an international organization existed, members would also take them into account. Concerning animal or plant quarantine, however, these were not fully developed. Japan would contribute to the development of international standards and risk-assessment techniques. In addition, Japan intended to harmonize national SPS measures with international standards, according to the development of international standards. There were some cases where technical consultations had already taken place.
177. For wood products, certain quality guarantees were needed for construction materials. Every country maintained standards suitable to its climate; For Japan, it was considered appropriate to use the Japanese Agricultural Standard (JAS). As there was no discrimination between domestic and foreign products when the criteria of JAS was applied, Japan did not think that the application of JAS was a non-tariff measure.

178. Concerning restrictions on foreign horses in Japanese races, the Japan Racing Association had been gradually increasing the number of races in which foreign horses could participate. In Japan, the Japan Racing Association operated horse races as a private business, therefore, the Government could not compel the organizers, through administrative action, to increase participation by foreign horses. However, Japan would reduce the import tariff on live horses by 15 per cent over 6 years, as agreed in the Uruguay Round.

179. Concerning fishery products, Japan believed its measures were admissible under the GATT. Japan operated import quotas in a flexible manner and would implement tariff reductions as agreed in the Uruguay Round.

180. The main purpose of the prior confirmation system on silk fabrics, was to supplement the bilateral quantitative agreements on silk with China, South Korea and Taiwan in order to confirm the actual origin of goods and avoid import circumvention. Accordingly, there was no restrictive or discriminatory effect. Japan had notified the prior confirmation system to the WTO and would also notify a phasing-out programme by the end of June.

181. No decision had been made concerning safeguard measures on textile and clothing. However, such measures were admissible under WTO rules and an established right of the importing country, as long as they were administered in conformity with the rules. Japan had abided by those rules and would continue to do so in the future.

182. In 1989, Japan revised the Liquor Tax Law to eliminate the grading system and the ad valorem tax, and to reduce the tax differentials between liquor types. The Japanese Government had taken necessary measures in line with the GATT Panel recommendation. In 1994, Japan had once again changed the law to increase the liquor tax on shochu by 30-44 per cent, while the tax on whisky remained at the same level. Accordingly, tax differentials between these two types of liquor were further reduced.

183. Differentials still remained, but Japan did not regard those differentials as being an impediment to foreign whiskies' penetration of the Japanese market. By comparison with 1987, the year when the Panel recommendation had been made, consumption of imported whisky by 1993 had increased by about 50 per cent, while that of domestic whisky had considerably decreased. As for shochu, consumption had remained at the same level. Therefore, the Japanese Government had taken full consideration of international requests and taken action accordingly.

184. The EU and Japan shared forecasts of automobile demand and exports from Japan. Based on the forecast, Japan monitored the amount of automobiles exported to the EU. The monitoring was not of a mandatory nature; however, given the broad scope of "grey-area measures" in the Safeguards Agreement, the EU had notified the measures to the WTO. Exports to five member countries of the EU were also monitored by Japan, but measures to control the amount to each country were handled by the EU side.

185. Exports to the EU in 1994 were 818,000 units, below the forecast of 993,000 units. Accordingly, Japan did not think that the present level of supply was "limited". Experts believed that yen appreciation
and increases in local production by Japanese affiliated companies suggested this would represent a long-term trend. It was Japan’s understanding that the objective of monitoring was to co-operate with the EU in implementing structural adjustment, in order to achieve full liberalization of the auto market within the phase-out period by the end of 1999, while the Japan-U.S. auto talks were aimed at improving market access in Japan for foreign automobiles, as well as expanding the opportunities for foreign auto parts purchases by Japanese car makers.

186. Negotiations in the areas of insurance and financial services under the Japan-U.S. Framework consultations were completed in October 1994 and January 1995. The measures Japan had promised to take as a result would be applied to third countries on an m.f.n. basis. Japan could not indicate the applicable dates of these measures because they varied according to the measure, some of which had already been implemented. It was very difficult to reflect these measures in Japan’s schedule of commitments, both from a technical and political point of view. Japan was still deliberating on its final schedule of commitments to be submitted by June, and would be taking into consideration other countries’ commitments.

187. To increase transparent access opportunities for competitive foreign suppliers to the Japanese market, the Government of Japan had adopted, during the past several years, unilateral measures in relation to the procurement of general products, medical technology, telecommunications products and services, and of construction services. Japan had implemented the measures on a non-discriminatory basis, maintaining consistency with the GATT Agreement on Government Procurement.

188. The representative of Japan, adding the topic of Japan’s JIS standards to his earlier responses, said that other countries had similar standards. JIS standards were not regulations, he stated, and were therefore not mandatory. Among mandatory Japanese regulations, however, some did quote JIS standards. An example of JIS standards not corresponding to international norms was gas appliances, where no international standards existed. Of the approximately 6,000 JIS standards not fully corresponding to international norms, a substantial share did correspond to at least a partial degree.

189. Leather and leather footwear, were principal industries in regions which had traditionally faced social and economic difficulties. Their competitiveness was weak, but Japan had made its utmost efforts to reduce tariffs in these sectors.

190. The first discussant appreciated the ten-year extension of Japan’s GSP programme, but asked if, as one of the organization’s wealthiest members, Japan could "look again" to increase its GSP coverage and reduce ceiling restrictions, especially for products of greatest interest to developing countries.

191. The second discussant said that Japan’s tariff peaks on consumer goods conflicted with its stated social welfare objectives. On tariffication, he asked why it was necessary to place in-quota imports in the hands of State monopolies, and pointed out that the issue of above-quota imports was essentially irrelevant, as the tariff equivalents were prohibitive for most of the items. For fish, he asked what the WTO justification was for operating flexible import quotas.

192. Many JIS standards were related to manufacturing processes or aesthetics, and therefore could not be justified under international norms. In financial services, he hoped for greater transparency under the recent agreement with the United States and, reminding the Japanese delegation that the deadline for the GATS negotiation in the sector was 30 June, asked for some early indications that Japan was willing to incorporate measures from the agreement into its schedule of commitments.
193. The representative of the European Union stated that the increase in imported whisky consumption was as expected, following the elimination of tax differentials with domestic whisky, and that the reason shochu consumption had not declined was the continuing tax discrimination.

194. The representative of Canada agreed with the EU comments on whisky, but could not agree with the Japanese response concerning plywood products. He asked if differing levels of competition with domestic products was also the reason for differences in tariff treatment for other construction lumber. He also commented that, saying JIS were not mandatory did not mean they were not important in practical trade terms, and noted the importance and effects of voluntary standards in other countries.

195. The representative of Australia agreed with the Canadian remarks. On agriculture, she said a significant bilateral agenda still remained, including SPS restrictions, and noted the importance of ensuring proper implementation of Japan's Uruguay Round undertakings. Concerning State trading, she said that the Secretariat documentation understated the rôle in Japan; for example, the official criteria for regulating rice importers had been released only two weeks earlier, with at least one important requirement backdated to the beginning of the year.

196. In regard to fish, she asked for a definition of the flexible import quota. On Japan's food security arguments, she noted her disagreement with the Japanese explanation.

197. The representative of Argentina asked what the "special situation" was regarding international markets in connection with Japan's food security. He also asked if there was any conflict between maintenance of the environment and Japan's agricultural requirements, specifically the need for a high output per hectare.

198. The representative of Egypt asked why Japan continued to maintain restrictions on trade in certain "dual-use" chemical materials.

199. The representative of New Zealand said that he agreed with Australia's comments on continuing SPS problems with Japan. For example, the continued prohibition on non-threatening pests was not justified on a scientific basis. On fish, the quotas for squid and jack mackerel were not in WTO conformity.

200. Japan's import tariffs on horses were very high, while reforms by the Japan Racing Association were progressing extremely slowly. To illustrate the importance of Japan's voluntary timber standards, he asked what proportion of Japanese houses was constructed with timber not meeting the JAS standard.

201. The representative of the United States noted that, in relation to Japan's concerns for food security, Japan was highly dependent on the use of imported agricultural fertilizers. On race horses, he said that larger issues were involved, the first being that private associations were allowed to exclude foreigners, and the second that private industry associations were given de facto regulatory powers without formal legislative authority.

202. Concerning deregulation, he was glad to hear that issues concerning legalization of holding companies would be studied over three years. Before such holding companies were allowed, he urged that changes be made to strengthen the FTC. He welcomed the recently increased ability to export processed foods to Japan. Changes to date to the Large-scale Store Law, had expanded the total market, for example in toys. As a result, he recommended that the law be fully abolished.
203. In reply, the representative of Japan stated that flexible quotas on fish referred to quota levels, and not to discretion in administration. Concerning the relation between environment and agriculture, certain levels of agricultural production activities had beneficial effects on environmental preservation in countries like Japan. He also noted, unofficially, that for agricultural-use fertilizers, no country had ever imposed a ban on exports to Japan, unlike the case for food products such as soybeans.

204. State-trading companies made purchase commitments in reality for specific products. On regulation for rice importers, further discussion for better understanding could take place. Concerning SPS issues, consultations between specialists were underway.

205. Japan believed that its recently announced agricultural support measures were all within the "green box" category, and would notify the WTO as necessary. Regarding mixing requirements, as mentioned in the Secretariat report, they were necessary for stabilizing domestic supply and demand, and therefore Japan did not have plans to remove them. On differential tariffs for pork, the representative noted that the import system for pork had been tarifized and a specific duty equal to the tariff equivalent was imposed on pork imported at a price lower than certain gate prices.

206. Regarding JIS, harmonization efforts were to be further accelerated. Specific information on trading practices for dual-use chemical products, following clarification, would be provided later in writing. Concerning the Large-scale Store Law, such negative effects as traffic jams and environmental damage must also be considered.

207. For Japan’s GSP programme, the representative said the scheme was reviewed every year. Thirteen countries had been added in the current fiscal year; as a result, the implications on Japan’s domestic companies needed to be considered.

208. The representative of the United States expressed surprise over the previous mention of traffic jams and the need to "stabilize" supply and demand in Japan. He also stated that virtually everyone in the United States would agree that the earlier temporary soybean embargo was a serious mistake and would never be repeated. If there was a lesson from the experience, he stated, it would be that food security was best achieved by diversification of foreign suppliers.

209. The representative of Australia said that justifications from 20 or more years before were no longer valid for defending Japan’s agricultural trade practices. In regard to traffic jams and the Large-scale Store Law, she noted that, in Australia’s capital, some of the largest traffic jams were caused by a Japanese-owned department store at sale times. No-one, however, had suggested that consumers were upset as a result.

210. The representative of Japan welcomed the comments that the U.S. soybean embargo would never be repeated, but noted that concern was still justified as certain countries close to Japan were currently maintaining an embargo on exports of certain products.

Japan’s Rôle in the International Trading System

211. The representative of Japan stated that his Government fully realized its responsibilities for maintaining and strengthening the free and open multilateral trading system. Japan had done its best to contribute to the successful conclusion of the Uruguay Round negotiations. In the same spirit, Japan was resolved to fulfil its responsibilities in order to strengthen the newly-established WTO.
212. He reiterated that Japan was firmly committed to the m.f.n. principle; in fact, that principle was the underpinning of the GATT/WTO. Just as all countries engaged in bilateral negotiations, Japan was doing so with the United States, the European Union and others. However, the results of these negotiations would be applied on a m.f.n. basis to third countries, and Japan had every intention to uphold the m.f.n. principle.

213. In expressing concerns about the proliferation and enlargement of regional arrangements, Japan fully subscribed to the views voiced by some delegations that regional arrangements should be an exception to m.f.n., and not vice versa. As Japan hosted this year's APEC Economic Leaders Meeting in November, it would keep this basic principle in mind, and make sure that APEC's fundamental nature of open, regional co-operation would remain intact. At the meeting, APEC Economic Leaders were expected to discuss proposals on trade and investment liberalization. In this regard, he pointed out that the Bogor Declaration, adopted by APEC economic leaders the previous year, stipulated that this would be done in conformity with GATT/WTO provisions.

214. The first discussant welcomed Japan's commitment to the m.f.n. principle, and said that Japan was now expected to live up to, both in letter and in spirit, the expectations it had raised.

215. The representative of the European Union also appreciated Japan's commitment to the multilateral system. In regard to regional integration, he asked what Japan's position was on NAFTA and the EU, taking note of Japan's positive comments on APEC, together with concerns over regional integration, expressed in the Government's report. He stated that Article XXIV of the GATT had the same status as the other Articles.

216. The representative of Japan said that Japan's concern with regional arrangements was the possible "setting aside" of large amounts of trade from m.f.n. principles. For APEC, such concerns were not present as the main objective was regional co-operation, with benefits to be extended to non-members. In addition, the substance of the agreement had yet to be determined.

217. The representative of Australia stated that Japan should not "rest on its laurels" of Uruguay Round achievements, and that its trading partners would be looking to Japan to continue liberalization within the multilateral framework of the WTO.

218. The representative of Canada also welcomed Japan's commitment to the m.f.n. principle, and noted that financial services and auto parts would be test cases for Japan.

219. The representative of the European Union expressed dissatisfaction with the Japanese response on regional integration, stating it implied criticism of the European Union arrangements.

220. In reply, the representative of Japan stated that he understood the position of the European Union, and that further discussion would be pursued in the relevant working parties.

221. The representative of Australia stated that the rules under the GATT concerning free-trade agreements did not work very well, partly because they had not been well looked after and consequently required strengthening.

222. The representative of the United States concluded by stating that the greatest contribution Japan could make to the international trading system was further deregulation and domestic liberalization, and that he was discouraged by the formal responses of the Japanese Government to the concerns expressed during the review by member countries.
VII. CONCLUDING REMARKS BY THE CHAIRMAN OF THE COUNCIL

223. This joint meeting of the Trade Policy Review Body of the WTO and the Council of GATT 1947 has now completed the third review of Japan’s trade policies and practices. These remarks, made on my own responsibility, summarize salient points raised during the discussion; they are not intended to substitute for the collective evaluation and appreciation of Japan’s trade policies and practices. Details of the discussion will be reflected in the minutes of the meeting.

224. The discussion developed under four themes:

(a) Macroeconomic developments

225. Participants welcomed the signs of emerging recovery in the Japanese economy, partly attributable to Japan’s continued ability to adapt to a changing external environment. Questions were raised on the expected macroeconomic effects of yen appreciation, as well as the economic consequences of the recent Kobe earthquake.

226. Participants welcomed the efforts by the authorities, inter alia, through deregulation, to encourage a shift from export-led to domestic demand-led growth. Members asked for further information on how the currency appreciation was affecting the structure of the domestic economy, external trade and investment patterns. Some questioned how far the effects of the appreciation were being passed through to domestic prices. The view was expressed that asymmetries in trade and investment patterns, and significant differences in price levels, between Japan and the rest of the world, reflected continuing difficulties of access to the Japanese market. Some participants also associated low productivity in agriculture, construction and certain other services with the presence of trade and investment restrictions.

227. Members commented on recent changes in the geographical and sectoral structure of Japan’s trade and investment, especially noting an increased concentration on Asia. Some wondered whether the yen appreciation would further boost external investment and whether China continued to be an attractive destination.

228. In response, the representative of Japan said that plant and equipment investment had recently shown signs of a gradual recovery. The recent yen appreciation and the Kobe earthquake would have both positive and negative effects; however, their overall significance was not yet clear.

229. He noted that the pass-through of yen appreciation to domestic prices was becoming quicker and smoother; the low, stable level of inflation reflected a reduction in import prices. Deregulation had also served to reduce some prices. Although Japan was cited as having a high price level, it was important to note that the exchange rate did not reflect purchasing power parity.

230. The percentage of foreign direct investment going to Asian countries had increased. As a result, Japan’s imports from the region were increasing, particularly of manufactured goods. The low level of FDI into Japan could be related to high land prices, long payback periods for investments or traditional employment practices.

(b) Structural questions

231. Some participants observed that the trade and current account surpluses, measured in yen terms, had narrowed in recent years; others queried whether structural factors were at the base of the apparently slow response of these accounts to yen appreciation.
232. Participants welcomed the strengthening of institutional structures concerning trade, including the Office of Trade and Investment Ombudsman (OTO) and the Trade Conference, but wondered if their functions should be further expanded.

233. An apparent contrast between the general thrust of Japanese deregulation policy and its limited implementation in practice was noted, with housing cited as a specific example. Participants sought information on the concrete effects of past deregulation programmes and, while welcoming the new deregulation package recently announced, emphasized that it should lead to measurable results. A question was raised concerning possible conflicts between deregulation and social objectives in Japan.

234. Some participants welcomed Japan's import promotion efforts; others noted the possible distortive effects of such measures, if applied on a selective basis.

235. The importance of strong enforcement of competition policy was stressed, including the need for further pro-competitive moves in areas where vertical alliances persisted and in distribution.

236. The Japanese representative responded that the current account surplus was at a recent low of 2.5 per cent of GDP. In yen terms, the surplus had narrowed by 10 per cent in 1994, although the decline in U.S. dollar terms had been marginal.

237. As a result of market-opening recommendations by the OTO's Market Access Ombudsman Council (MAOC), various Japanese laws had been amended. In general, the OTO was strengthening its functions. Further comments were then made by participants concerning the effectiveness of the OTO, including the weakness of legal provisions and enforcement possibilities, and the potential importance of the Office in promoting good relations with trading partners.

238. The Japanese representative stated that, while deregulation was a top priority for the Government, it took time for reform measures to have their full effect on the economy. Deregulation was expected to vitalize the economy through promotion of competition, improvement of market access and expansion of consumer choice.

239. The Deregulation Action Program announced on 31 March 1995 covered areas such as distribution, standards and certification, and import procedures. Freedom from economic regulations was a basic principle of the programme; regulations of a social nature would be those minimally required to serve legitimate policy objectives. The programme would be reviewed and revised, as needed, on an annual basis.

240. In addition, the Government was committed to active implementation of competition policy. Thus the Fair Trade Commission had put emphasis on addressing Anti-monopoly Act violations, enhancing transparency of law enforcement, and reviewing the regulatory system.

241. Participants emphasized the need for much greater speed and clarity in deregulation, particularly in applying the new programme at the detailed level and in gaining the support of the business sector.

(c) Specific points

242. Participants commended Japan's significant contribution in all areas of the Uruguay Round negotiations. While the depth of tariff reductions by Japan was recognized, concerns were expressed over remaining tariff peaks and remaining tariff escalation in such sectors as leather, footwear and processed food products.
243. Members welcomed Japan's earlier ten-year extension of its GSP scheme; some participants, however, urged that ceilings on imports of products of interest to developing countries be removed.

244. While welcoming Japan's comprehensive commitments in agriculture, the negative trade effects of continued protection in the sector, including high out-of-quota tariff rates were noted. Several participants commented that food security could be enhanced by more liberal market access and diversification of supply, reinforced by the Uruguay Round disciplines on export prohibitions and restrictions. Some members regretted that fisheries had not been included in the Uruguay Round tariff binding process; noting that Japan's fisheries policy would continue to be based on quotas and high tariff levels, they hoped for further liberalization in this sector.

245. Specific concerns were expressed over access for dairy products, wheat, meat, and fruit, where such factors as State trading and restrictive quarantine/SPS regulations appeared to persist. Participants urged Japan to conform fully with the relevant WTO agreements, in particular through the use of internationally agreed standards.

246. Some participants commented on the continuation of different levels of liquor taxation; full application of the previous GATT Panel recommendations was urged.

247. The restrictive effects on trade of Japanese industrial standards, including building codes, were noted. Participants called attention to the low number of such standards coinciding with international norms. In government procurement, foreign firms still faced access difficulties, despite recent liberalization; the incidence of single tendering was still substantial, qualification requirements had not been fully streamlined, informal arrangements were widespread and penalties for violations appeared insufficient.

248. Questions were raised about Japan's consensus on automobile exports with the European Union.

249. The restrictive effect of the prior confirmation system for imports of silk fabrics was noted and a participant requested that it be abolished; some participants also urged Japan to avoid using safeguard measures under the Agreement on Textiles and Clothing.

250. Japan's recent bilateral agreement on liberalization measures in financial services was welcomed; however, participants urged Japan to multilateralize the agreement. Full consideration of the interests of developing countries was urged in regard to Japan's position toward the movement of natural persons.

251. In response, the Japanese representative noted that Japan's tariff structure had been negotiated in the Uruguay Round; rates would be reduced as agreed. In fiscal 1995 Japan had expanded GSP quotas, increased the number of beneficiaries, and reduced rates on 12 tropical products.

252. In agriculture, Japan considered border measures necessary to maintain a certain level of domestic production. A stable supply of food was important for Japan. It intended to set price levels to reflect supply and demand and facilitate structural adjustment. Japan's self-sufficiency was very low in relation to other developed countries. Access opportunities were extended according to Japan's Uruguay Round commitments, under which tariffication was also established. State-trading enterprises were used to ensure that Japan's purchase commitments were met; State enterprises were not involved in marketing or distribution of over-quota imports. For rice, the Food Agency did not discriminate between domestic and foreign importing firms. Specific dairy product quotas would shortly be notified to the WTO as required.
253. Japan had made tariff reduction commitments for vegetable oils and wood products; remaining differences in tariffs on plywood reflected differences in the degree of competition with the local product. Imports of tropical plywood had grown rapidly, seriously affecting the Japanese industry. The JAS standard was regarded as appropriate for wood construction materials in Japan's climate, with no discrimination between domestic and foreign supplies.

254. SPS measures were scientifically based and would be harmonized with international standards where these exist, including risk assessment techniques.

255. The import quota for fish was flexibly applied; in recent years it had not been filled. Tariff reductions agreed in the Uruguay Round would be duly implemented.

256. The prior confirmation system for silk fabrics was not restrictive or discriminatory; its phase-out programme under the Agreement on Textiles and Clothing would be notified by the end of June 1995. No decision had been taken on the invocation of the textiles safeguard procedure.

257. Liquor taxes had been adjusted in line with the GATT Panel recommendation. Remaining differentials were not an impediment to market access and consumption of imported whisky was growing rapidly.

258. Monitoring of automobile exports to the European Union was not mandatory, although it had been notified by the EU as a grey-area measure; exports were below the forecast level. Full liberalization was to be achieved by the end of 1999.

259. Measures to be taken by Japan on financial services would be implemented on an m.f.n. basis; Japan's final schedule of commitments in this area would be submitted by June 1995.

260. A number of unilateral government procurement liberalization measures had, in recent years, been undertaken on a non-discriminatory basis.

261. JIS standards were not mandatory, although some Japanese technical regulations referred to such standards. In some cases, no international standard was available; in others, Japanese standards were not substantially different from international norms.

262. Despite the weaknesses of the leather and footwear industries, tariff reductions would again be made according to the Uruguay Round.

(d) Japan's rôle in the international environment

263. Participants stressed that Japan, as one of the largest members, bore a major responsibility for the smooth functioning of the international trading system, including the implementation of the Uruguay Round.

264. The importance attached by Japan to the m.f.n. principle was welcomed; participants stressed its importance for Japan, for smaller trading partners, and for the system as a whole. Some members shared Japan's concern about inward-looking regionalism and welcomed the statements made by APEC members in the Bogor Declaration.

265. Japan was urged to continue to ensure the m.f.n. application of all bilaterally agreed measures; the need for full transparency and participation of all trading partners was stressed.
266. In response, the Japanese representative stated that Japan fully realized its responsibilities to the multilateral trading system. Japan had done its best to contribute to a successful conclusion of the Uruguay Round and, in the same spirit, it was resolved to meet its responsibilities in order to strengthen the WTO.

267. Japan was firmly committed to the m.f.n. principle. Thus, although it engaged in bilateral negotiations, the results of such negotiations would be applied on an m.f.n. basis. He fully subscribed to the view that regional arrangements should be an exception to m.f.n.. With Japan hosting the 1995 APEC meeting, his Government would keep this principle in mind and make sure that APEC's fundamental nature of open, regional co-operation would remain intact. He recalled that under the Bogor Declaration, trade and investment liberalization would be done in conformity with WTO provisions.

Conclusion

268. This review has been a constructive debate on Japan's trade policies. The importance of Japan to the international trading system has been underscored, and Members welcomed Japan's expressed attachment to the most-favoured-nation principle and its resolve to contribute to strengthening the WTO. They also encouraged Japan to pursue its commitment to domestic deregulation and stressed the importance for Japan and its trading partners of clear and concrete progress in this regard.
VIII. FURTHER REMARKS BY MEMBERS OF THE COUNCIL

269. The second discussant expressed some disappointment that so few countries had participated in the current review of Japan's trade policies. He was also disappointed in the transparency and the answers provided by the Japanese delegation, which was perhaps due to the problems of language and the shortness of the time available. He looked forward to receiving additional information in the form of written answers.

270. The representative of Japan said he thought the exercise had been useful, both in informing Japan's trading partners of the country's economic and trade policies and in conveying to Japan the concerns and perceptions of its trading partners. He stated that healthy, constructive criticism of Japan's trade policies was always welcome.

271. The representative of the United States concluded by stating his Government could not accept the Chairman's concluding remarks. Although there was nothing in the remarks with which he disagreed, he felt the concluding remarks had not adequately reflected the vigorous comments made during the review of Japan.