In pursuance of the CONTRACTING PARTIES' Decision of 12 April 1989 concerning the Trade Policy Review Mechanism (L/6490), the Secretariat submits herewith Volume A (Text) of its report on Japan. Volume B (Tables) is presented in document C/RM/S/8B.

The report is drawn up by the Secretariat on its own responsibility. It is based on the information available to the Secretariat and that provided by Japan. As required by the Decision, in preparing its report the Secretariat has sought clarification from Japan on its trade policies and practices.


NOTE TO DELEGATIONS

Until further notice, this document is subject to a press embargo.
## CONTENTS

### I. THE ECONOMIC ENVIRONMENT

1. Major Features of the Japanese Economy
2. Recent Economic Performance
3. Trade Performance
   - Commodity pattern of trade
   - Regional pattern of trade
4. Outlook

### II. TRADE POLICY REGIME: OBJECTIVES AND FRAMEWORK

1. Introduction
2. Trade Policy Objectives
   - General trade policy objectives
   - Objectives in the Uruguay Round
3. General Trade Laws and Trade Legislation
4. Administrative Guidance
5. Structure of Trade Policy Formulation
   - The Diet and the Cabinet
   - Independent review bodies
6. Trade Agreements
7. The Generalized System of Preferences (GSP)

### III. TRADE-RELATED ASPECTS OF THE FOREIGN EXCHANGE REGIME

1. Exchange Rate Movements and Trade
2. Foreign Exchange Allocation
3. Foreign Direct Investment
IV. TRADE POLICIES AND PRACTICES BY MEASURE

(1) Overview

(2) Measures Directly Affecting Imports

| (i)  | Tariffs          | 32 |
| (ii) | Tariff quotas    | 40 |
| (iii)| Customs valuation and clearance | 40 |
| (iv) | Levies and other charges | 40 |
| (v)  | Import prohibitions | 41 |
| (vi) | Import licensing and prior confirmation | 41 |
| (vii)| Quantitative import restrictions | 42 |
| (viii)| Standards, certification and import procedures | 43 |
| (ix) | Other practices addressed by the Structural Impediments Initiatives | 47 |
| (x)  | Government Procurement | 48 |
| (xi) | Safeguard actions under GATT Article XIX | 49 |
| (xii)| Anti-dumping and countervailing duty measures | 49 |
| (xiii)| Import cartels | 50 |
| (xiv)| Voluntary restraints and similar arrangements | 50 |
| (xv) | Countertrade | 50 |
| (xvi)| Rules of origin | 50 |
| (xvii)| State trading | 51 |
| (xviii)| Import promotion | 52 |

(3) Measures Directly Affecting Exports

| (i)  | Taxes and other charges, tax exemptions | 53 |
| (ii) | Export prohibition | 53 |
| (iii)| Export control | 53 |
| (iv) | Export cartels | 54 |
| (v)  | Export restraint arrangements | 54 |
| (vi) | Export credit system | 55 |

(4) Measures Affecting Production and Trade

| (i)  | Subsidies | 56 |
| (ii) | Structural adjustment assistance | 57 |
| (iii)| Research and development (R & D) assistance | 58 |
V. TRADE POLICIES AND PRACTICES BY SECTOR

(1) Agriculture
   (i) Overview
   (ii) Foodstuffs
   (iii) Grains
   (iv) Animals and animal products
   (v) Oilseeds, fats and oils
   (vi) Beverages and spirits
   (vii) Dairy products
   (viii) Fish and fish products
   (ix) Tobacco
   (x) Other products

(2) Industry
   (i) Overview
   (ii) Leather, footwear and travel goods
   (iii) Wood and paper products
   (iv) Textiles and clothing
   (v) Ores, minerals and metals
   (vi) Coal, natural gas and petroleum
   (vii) Chemicals
   (viii) Machinery
   (ix) Transport and equipment
   (x) Other products

VI. TRADE DISPUTES AND CONSULTATIONS

(1) GATT Dispute Settlement Cases

(2) Other Cases

VII. SUMMARY OBSERVATIONS

(1) Japan in World Trade

(2) Institutional Framework

(3) Trade Policy Features and Trends

   (i) Recent evolution
   (ii) Current trade policy instruments
   (iii) Temporary measures
   (iv) New initiatives

(4) Trade Policies and Foreign Trading Partners
I. THE ECONOMIC ENVIRONMENT

(1) Major Features of the Japanese Economy

1. Japan has a population of 123 million people, inhabiting close to 380 thousand square kilometres; on two-thirds of the area of France are living more than twice as many people (Table 1.1). Arable land in Japan is more scarce than in many other developed countries. However, being an island country, Japan has free access to the sea, providing the basis for shipping, fisheries and several other maritime activities and easing transport links with trading partners.

2. The geographic distance to its main trading partners in North America and Europe is large, however. This fact and the size of the domestic market are among the explanations for Japan's relatively small trade to GDP ratio. Nevertheless, trade has been an important factor in spurring Japan's economic growth.

3. In international comparison, the Japanese economy grew rapidly in the 1950s and 1960s. In the two following decades, economic growth slowed down to an annual 5 per cent, half the rate achieved in the 1960s. However, as growth remained well ahead of the average for the OECD-countries, Japan has become the second largest economy in the world. Today, with about 2 per cent of world population, Japan produces about 14 per cent of global output.

4. While in absolute terms Japan's output of agriculture, industry and services all expanded, over the past four decades, substantial structural changes occurred. The pattern of change is in line with that experienced in other industrial countries. The share of agriculture in GDP has been on a secular decline, from about one-fifth in the early 1950, to its current 3 per cent. The share of industry increased in the 1950s and 1960s, peaked around the year 1970, and has been on a gradual decline since, to reach its current 41 per cent. Services have consistently grown more rapidly than overall economic activity so that their share in Japan's GDP has been on a secular rise.

5. Substantial structural changes also occurred within each of the three sectors. For example, output of rice, traditionally the most important agricultural item in Japan, accounted for almost half of total agricultural production in 1960 but only about 30 per cent in 1989. In manufacturing, machinery, electronics and transport equipment have grown particularly rapidly and now make up 40 per cent of output of manufactures. In contrast, several other major industries, including textiles, clothing, steel, wood products and food, have been lagging behind the growth of the manufacturing sector as a whole. In services, banking and insurance as well as the real estate industry have been among the most dynamic segments. Across virtually all sectors, the trend has been towards increasing value added, higher product qualities, more sophisticated product design and innovation.
6. Until the mid 1980s, Japan's economic growth has been export-led. For example, between 1975 and 1984, Japan's merchandise exports expanded, in real terms, twice as strongly as real GDP, while imports grew less rapidly than GDP. Since 1985, the picture has been reversed, with exports increasing less than domestic output and Japan's imports taking the lead.

7. In the expanding world economy, Japan has thus been a particularly dynamic factor. Until recently, its share in world merchandise exports increased trendwise. Its current 9 per cent share in world merchandise exports ranks the country third, behind the United States and the Federal Republic of Germany.

8. Japan's share in world merchandise imports has remained at a relatively low 6 to 7 per cent during the last two decades, though the share has been growing in recent years. In 1989, Japan was the third largest importer in world merchandise trade, just ahead of the United Kingdom.

9. With respect to trade in commercial services, Japan has constantly registered substantial deficits, particularly in passenger transport and travel. In 1988, Japan was the world's third biggest importer of commercial services, closely behind the United States and the Federal Republic of Germany, while its exports ranked sixth in the world. Despite its deficits in commercial services, Japan accumulated current account surpluses in the 1980s (Table I.2).

(2) Recent Economic Performance

10. The large external imbalances were a major concern of the Japanese Government throughout the 1980s. The surpluses on the external accounts reached a peak in 1987, with a current account surplus of 87 billion dollars and a trade account surplus of 96½ billion dollars. In the following time, both surpluses started to decline, and by 1989, Japan's current and trade account surpluses had fallen to 57 and 77 billion dollars, respectively. The ratio of the current account surplus to GNP, which had risen from ¾ per cent in 1982 to 4½ per cent in 1986, shrank to 2 per cent in 1989 (Chart 1.1).

11. The rapid growth of the current account surpluses between 1981 and 1987, and their subsequent decline, occurred in the context of an expansion of real GDP which fluctuated between 2% per cent (1986) and 5½ per cent (1988) annually. Throughout the 1980s, economic growth in Japan was consistently above the OECD average, except for 1986 (Chart I.2).
Chart I.1
Japan's current account surplus, 1982-89

Chart 1.2
Growth of real GNP in Japan and in the OECD area, 1980-90

(Percentage change)

Note: Figures for 1990 are estimates. For the OECD area, the growth rate refers to GDP.


12. Nevertheless, differences in the strength of economic expansion abroad and at home may have contributed, at times, to the development of the current account surplus, in particular in the period 1983-84 when economic growth outside Japan accelerated relatively strongly and in 1986 when the Japanese market was relatively sluggish. Indeed, strong increases in the current account surplus occurred during these years. However, many other factors have affected Japan's current account developments, including the interplay of fiscal and monetary policies in Japan and exchange rate movements of the yen.

13. From the late 1970s to the second half of the 1980s, fiscal policies were generally designed to consolidate the public account. As a result, a peak net public borrowing requirement of 5½ per cent of GNP in 1978 turned into net public financing of ¼ per cent of GNP in 1987. This development was an important factor in explaining the increasing excess of savings over investment in Japan which was reflected in the current account surplus.
14. In 1986, fiscal policy shifted gears towards stimulating domestic demand via increasing public investment and tax reductions. Growth of GDP during the period 1986 to 1989 was largely supported by the expansion of domestic demand, first by private consumption and later by non-residential investment. Due to the strong growth in the domestic economy and burgeoning transactions in the financial market, tax receipts continued to increase, contributing to further reduce the public deficit. However, total domestic expenditure grew more rapidly than output (Tables I.3 and AI.1).

15. Stimulated by the yen's appreciation and the rapid expansion of domestic demand, the volume of merchandise imports grew very rapidly during the period 1986 to 1989 (Table I.4). Import growth was also supported by efforts to improve market access in Japan. Products, both primary and manufactured, which have been subject to recent market-opening measures registered a particularly large increase in their imports. Further elements played a rôle in the recent import boom in Japan, including increasing imports from the rapidly growing network of foreign subsidiaries of Japanese firms and the increasing competitiveness of several Asian developing countries in Japanese markets for manufactures.

16. The volume of merchandise exports from Japan continued to increase between 1986 and 1989, though at a subdued rate. The loss of Japan's competitiveness in foreign markets due to the real effective appreciation of the yen was mitigated by other factors, including accelerated growth of world demand for investment goods and other manufactures in which Japan is specialized.

17. The changes in merchandise trade volume trends are not fully reflected in Japan's current account, partly because they tended to be offset by gains in the terms-of-trade during that period and because of a larger deficit in trade in services in 1987 and 1988. However, as noted above, the current account adjustment process has been under way since 1988.

18. Boosted by domestic demand, in particular business investment, the economy is estimated to have grown by about 5 per cent in 1989. The labour market further tightened, resulting in increasing wage pressures. Inflationary expectations surfaced and the yen began to depreciate (in

---

1Beyond the short-term, improvements in market access are likely to stimulate exports as well, because it reduces the tax on exports that is implicit in barriers to imports. It can therefore by no means be taken for granted that the improvements in market access, on their own, will help to reduce Japan's trade surplus. In any event, improvements in market access will improve, however, the efficiency of the Japanese economy and deepen its integration in the international division of labour.

2See Chapter V.
nominal and real effective terms). In response, the monetary authorities raised the official discount rate three times in 1989 and again in March 1990 to 5.25 per cent, up from an historical low of 2.5 per cent in 1985. However, partly because interest rates abroad also increased, the yen continued to depreciate in the first months of 1990. The adverse impact of the depreciation on import volume was mitigated by continuing expansion of domestic demand. However, in the first three months of 1990, the dollar value of Japan's merchandise exports increased strongly (by 21 per cent on annual basis), while the dollar value of merchandise imports stagnated.

(3) Trade Performance

(i) Commodity pattern of trade

19. Japan's trade growth was accompanied by a gradual but rather fundamental change in its trade structure. Traditionally, Japan had a high propensity to import raw materials and export processed products. In recent years, Japan has been developing a more horizontal trade structure, with an increasing share of manufactured imports and more intense intra-industry trade.

20. Import trends by product group show that the share of fuels declined drastically from 50 per cent in 1980 to 21 per cent in 1988 (Table I.5). Imports of other non-food primary commodities also expanded at a below-average rate so that their share in total merchandise imports fell. In contrast, imports of food and a broad range of manufactures grew relatively strongly. Over recent years, imports of passenger motor vehicles, diamonds, hand paintings, iron and steel, platinum, digital data processing machines, cigarettes and sawn wood increased particularly rapidly. Despite these changes, crude petroleum, coal, gas, shellfish, aluminium and gold continue to lead the current list of Japan's top 40 import items (Table AI.2). However, the share of manufactures in Japan's merchandise imports grew from 21.5 per cent in 1979 to 40 per cent in 1988 (Chart I.3). In 1989, further increase in this share occurred.

\[3\] In 1989, there was a one-time impact on the consumer price index resulting from the introduction of a general consumption tax.
Chart 1.3
Trends in Japanese export and import composition, 1979-88

US$ billion

Source: GATT, International Trade.

21. Manufactures have traditionally dominated Japan's export side and, in 1988, accounted for 96 per cent of total merchandise exports. Agricultural exports, mainly certain fishes, tobacco, alcoholic beverages and wheat flour, were a tiny ½ per cent of total merchandise exports. Other export items include non-ferrous metals and some raw materials.

22. Within manufactures, the Japanese export structure remains highly concentrated on a small number of product groups. As Table I.6 shows, office machinery and telecommunications, automotive products and electric and non-electric machinery alone accounted for nearly two-thirds of Japan's merchandise exports in 1988. These product groups were also among the most dynamic export items of Japan over the past decade (Table AI.2 and Chart I.4). In contrast, steel, ships, textiles and several other labour intensive manufactures showed a relatively weak export performance (Chart I.5). Over the past one or two decades, export patterns shifted from traditional light consumer goods, semi-manufactures and traditional engineering products to more sophisticated and technology-intensive manufactures.
Chart I.4
Leading products among Japan’s exports, 1979-88

Source: UNSO, Comtrade data base.
Chart I.5
Lagging products among Japan's exports, 1979-88

<table>
<thead>
<tr>
<th>Percentage of total merchandise exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
</tr>
<tr>
<td>5</td>
</tr>
<tr>
<td>4</td>
</tr>
<tr>
<td>3</td>
</tr>
<tr>
<td>2</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>0</td>
</tr>
</tbody>
</table>


Source: UNSO, Comtrade data base.

(ii) Regional pattern of trade

23. The United States is Japan's most important trading partner both as a source for imports and as an outlet of exports, followed by the European Communities and several Asian economies. Between 1978 and 1988, the share of the United States increased, mainly reflecting the decline in Japan's trade with the Middle East in the wake of developments on the petroleum market. Japan's trade with its partners in Europe and Asia was more dynamic than trade with the United States. Currently, Japan's trading partners, excluding the United States, account for two-thirds of merchandise exports from and three-quarters of imports into Japan (Table I.7).

24. In 1986, the United States reached a peak share in Japan's merchandise exports of close to 40 per cent. More recently, Japanese exports to the European Communities and the member countries of ASEAN grew very rapidly virtually across the entire range of Japan's export basket. Merchandise exports to the United States increased moderately, indeed the value of some export items, such as video tape recorders and automobiles,
declined, partly reflecting increasing production of these products by Japanese firms inside the United States. As a result, the share of the United States in Japan's merchandise exports fell to about one third in 1989. Throughout the past decade, export demand from Africa and Latin America was sluggish, reflecting the weak commodity markets and a heavy debt service burden and the resulting scarcity of foreign exchange available for merchandise imports into these countries.

25. In the 1980s, the value of merchandise imports into Japan increased from all sources, except for a drastic decline in imports from oil-producing countries in the Middle East. Largely due to the lower value of petroleum imports, the share of developing countries in Japan's merchandise imports declined from 53 to 42 per cent between 1978 and 1988. Imports from several other developing economies increased rapidly during that period, in particular imports from the Republic of Korea, Taiwan, Hong Kong and the ASEAN member countries. In 1988, merchandise imports from these Asian economies combined were almost equivalent to imports from the United States, Japan's biggest single merchandise import source (accounting for about one-quarter of the total). Imports from member countries of the European Communities also increased more rapidly than imports from the United States, in particular imports from the Federal Republic of Germany, France, Italy, Belgium and Luxembourg and Denmark. Within ten years, the share of the EC in Japan's merchandise imports increased by five percentage points to reach 13 per cent in 1988.

(4) Outlook

26. The Japanese Government expects that economic growth will continue at a rate of 4 per cent in fiscal 1990⁴, down by 1 percentage point from the performance in the preceding fiscal year. Domestic demand is expected to expand faster than GNP, at 4½ per cent. According to these projections, the external adjustment will slow down in fiscal 1990.

⁴Throughout this report, fiscal 1990 refers to the fiscal year beginning 1 April 1990 to 31 March 1991.
II. TRADE POLICY REGIME: OBJECTIVES AND FRAMEWORK

(1) Introduction

27. The Japanese Constitution (Article 98) stipulates that the treaties concluded by Japan and the established laws of nations shall be faithfully observed. The GATT is deemed by the Japanese Government to be a treaty under the Constitution and, as such, has direct effect domestically. Obligations under the GATT supersede those under domestic laws or ordinances.

28. Under the Constitution, executive power is vested in the Cabinet. Functions of the Cabinet include the administration of laws, the management of foreign affairs, the conclusion of treaties with prior or subsequent approval of the Diet, and the preparation of the national budget.

29. In Japan, there are a variety of laws which are related, in one way or another, to international trade, but there are no general trade laws as such which set out general objectives and modalities of trade policies across-the-board for a specified period of time. Rather, within the framework of existing laws, the Cabinet, in close cooperation with the ruling political party, decides upon major trade policy objectives relevant to specific trade problems facing the incumbent Government.

(2) Trade Policy Objectives

(i) General trade policy objectives

30. Japan's major trade policy objectives were substantially changed in the 1980s, partly due to its growing participation in global markets, and partly because of the large trade and current account surpluses. The Maekawa Report of 1986 noted that "the time has thus come for Japan to make an historical transformation in its traditional policies on economic management and the nation's life-style". Among other recommendations, the report called for the transformation from export-led economic growth to domestic-demand-driven growth, transformation of the trade and industrial structure to a more internationally harmonious one, and further improving market access and encouraging imports of manufactured goods. Various proposals in the Maekawa Report were translated into some of the major elements of a five-year plan, "Economic Management within a Global Context", for fiscal year 1988 to fiscal year 1992, approved by the Cabinet in May 1988.

31. One of the major objectives under the Five-Year Plan is to reduce the Japanese external imbalance, based upon the recognition that the imbalance, if left unchecked, would intensify trade frictions with trading partners

---

and invite protectionism. For this purpose, the Plan called for the expansion of imports in excess of growth in exports. Pledges were made to implement various efforts such as the expansion of domestic demand through structural adjustment measures and the appropriate and timely management of financial and budgetary policies. The Plan enumerated efforts to cope with external imbalances through two major policies: further improvement of market access, and the promotion of overseas direct investment.

32. With respect to the improvement of access to the Japanese market, the Five-Year Plan extended the efforts which had been initiated under a series of economic measures in the 1980s, particularly the Action Programme for Improved Market Access launched in 1985. The general objective of these efforts has been to achieve "a degree of openness surpassing international standards and benefiting the position that Japan now occupies in the world economy" (see Action Programme), based upon principles of minimum government intervention, transparency, fairness and non-discrimination. Under this general objective, the Five-Year Plan set out the following specific objectives regarding the further improvement of access to the Japanese market:

(a) reduction or elimination of tariffs on manufactures through the Uruguay Round negotiations, and, where possible, by unilateral measures and a similar consideration for agricultural products;

(b) active participation in negotiations on agriculture in the Uruguay Round and improvement in market access for restricted items;

(c) improvement of standards, certification and import processes;

(d) improved access to the construction market; and

(e) promotion of manufactured imports through financial and tax incentives, encouragement of firms and consumers, rationalization of distribution systems and government procurement, and strict implementation of the Anti-monopoly Act.

33. Another major objective of Japanese trade policies has been to contribute towards the maintenance and strengthening of the open, multilateral trading system embodied in the GATT, and this objective has been repeatedly emphasized in the Action Programme, the Five-Year Plan, and other Government policy statements. The promotion of the Uruguay Round negotiations is given a top priority. The importance attached to the GATT is derived from the generally shared view in Japan that Japan has "enjoyed maximum benefit from the free-trade system since the last World War to

---

become the second largest economy in the free world* (statement of Prime Minister Nakasone on the Outline of the Action Programme).

34. While supporting the multilateral trading system, Japan has often opted for bilateral solutions in recent years in dealing with its trade disputes, without recourse to GATT dispute settlement procedures or import relief measures under the GATT (safeguard actions, anti-dumping and countervailing duty actions, etc.). The inclination towards bilateralism is particularly evident with respect to Japanese export practices, namely the frequent recourse to voluntary export restraint measures. The Maekawa Report called for prudent behaviour by private companies in view of "the strong possibility of friction caused by the behaviour of private companies which tend to pursue expanded market share at all costs".

35. The export restraint measures have mostly been designed as "a transitional, temporary and exceptional step towards free trade" to avoid "a sharp and disruptive increase" in exports. Domestic laws provide the basis upon which the Government can enforce such export restraints upon private firms.

36. Japan is one of a few countries in the world which do not belong to any preferential regional trade agreements (customs unions or free-trade areas). Closer regional cooperation among the countries in Asia and the Pacific region has been promoted by Japan, but not to the stage of a regional agreement which accords advantages only to its members. Japan holds the view that such regional agreements are by nature discriminatory, and constitute an important exception to the basic rules of the General Agreement. In the Negotiating Group on GATT Articles, Japan has proposed the toughening of procedures under GATT Article XXIV regarding regional agreements.

37. In its trade relations with developing countries, Japan's stated objectives have been to support the economic and social development efforts of developing countries through the expansion of trade, opening of markets, and strengthening of bilateral and multilateral economic assistance. A number of market-opening and aid-expanding initiatives for developing countries have been taken in recent years. Japan has not suspended certain fast-growing developing countries from its GSP scheme, nor has it taken import restrictive measures under the MFA or Anti-Dumping and Subsidies Codes. However, in trade with some countries for certain products, especially textiles and clothing, Japan has been moving away from non-interference with trade flows (see Chapter V).

38. Japanese policy objectives with respect to agriculture and industry are described in Chapter V (see also the TPRM report submitted by Japan).

See the statement by Japanese authorities regarding the export of passenger cars to the United States, February 1985.
(ii) Objectives in the Uruguay Round

39. As a country which heavily depends on the free, multilateral trading system for its economic prosperity, Japan has manifested keen interest in promoting and actively participating in the Uruguay Round. Japan was one of the original proponents of the new round of negotiations after the Tokyo Round. For Japan, important goals of the Uruguay Round include (a) to establish GATT as a régime that looks towards the future, into the twenty-first century; namely to establish rules on intellectual property, to expand trade in services, and to cope with trade-related problems of investment; (b) to invigorate the GATT system so as to enable it to resist protectionism in its various contemporary guises; and (c) to realize further trade liberalization. Japan vowed to make a vigorous contribution to the success of the Uruguay Round.

40. In more concrete terms, Japan has stated its view that greater emphasis should be given to negotiations in rule-making areas such as anti-dumping, rules of origin, safeguards and dispute settlement with a view toward maintaining and strengthening the "rule of law" under the GATT system. In market-access areas, Japan has made initial offers for tariff reductions on tropical products, and called for the termination of the MFA upon its expiration in 1991 and the integration of the textiles and clothing sector into the GATT by the end of 1999 at the latest. However, in the negotiations on agriculture, Japan has particularly stressed the importance of food security with a view to maintaining self-sufficiency of basic food stuffs, in particular rice. In the new areas, it is the view of Japan that unless clear sets of rules and disciplines are established, disputes could get out of hand and might lead to unilateral or bilateral solutions.

(3) General Trade Laws and Trade Legislation

41. The Protocol for the Accession of Japan to the GATT was signed by the Japanese Government and approved by the Diet in 1955. The 1965 Protocol Amending the GATT to Introduce Part IV on Trade and Development was also approved by the Diet in 1965. Through such approvals, the provisions of the GATT are deemed by the Japanese Government to have been sanctioned by the Diet.

42. Obligations under the GATT are implemented through domestic laws or ordinances. When the GATT and domestic laws have conflicting provisions, GATT obligations supersede those under domestic laws or ordinances, as the

---

8 See GATT (1988), Japan, Statement by Mr. Sosuke Uno, Minister for Foreign Affairs, MTN.TNC/MIN(88)/ST/9, 5 December.

9 See Diplomatic Bluebook, 1988, Ministry of Foreign Affairs, Japan.

10 See the statement of Japan at the GNG meeting of 9 April 1990.
Constitution (Article 98) stipulates that the treaties concluded by Japan and the established laws of nations shall be faithfully observed.

43. There are certain laws which establish basic rules for foreign trade. A principle one is the Foreign Exchange and Foreign Trade Control Law (Law No. 228, 1 December 1949), as amended. The law was fundamentally revised in 1980 to change the basic policy of "prohibition in principle" to "freedom in principle" for foreign exchange, foreign trade and other external transactions. The revised law therefore provides for necessary, but minimum, control or adjustment with respect to these external transactions.

44. In exceptional cases, the law requires exporters to obtain licences from the Minister of International Trade and Industry for exports of specific kinds of goods to a specified destination designated by a Cabinet Order as obstructive to the maintenance of international peace and security. The law also allows the Minister, as a Cabinet Order provides for, to obligate exporters to obtain export approval for exports of specific kinds of goods, or to a specified destination, or under a specific way of transaction or settlement, within the necessary limits for the maintenance of the balance of payments and for the sound development of foreign trade and the national economy. With respect to imports, the law stipulates that importers might be obliged to obtain import licences, as a Cabinet Order provides for, for the purpose of sound development of foreign trade and the national economy.

45. In accordance with the Foreign Exchange and Foreign Trade Control Law, the Export Trade Control Order (Cabinet Order No. 378, 1 December 1949), as amended provides for detailed administrative rules and conditions for the export approval system. The Minister of International Trade and Industry is designated as the administrative authority under the Order. COCOM-related export controls and other controls including those for voluntary export restraints are administered by MITI under the Order. Details of the system are described in the section on export control in Chapter IV of this report.

46. With respect to the import licensing system, including the allocation of import quotas, the Import Trade Control Order (Cabinet Order No. 414, December 1949), as amended specifies administrative rules and conditions in accordance with the Foreign Exchange and Foreign Trade Control Law. The Minister of International Trade and Industry is designated as the administrative authority under the Order. Details of the system are described in the section on the import licence system in Chapter IV of this report.

11 For some details of these laws, see the TPRM report submitted by Japan.
47. **The Export and Import Transaction Law (Law No. 299, 5 August 1952), as amended, aims at preventing unfair export transactions (violation of patents, false marks of origin, etc.) and at establishing order in both export and import transactions. For the latter objective, the law provides the legal base for private firms to form export or import cartels upon notification to, or the approval of, the Minister for International Trade and Industry. Approval is accorded in consultation with the Fair Trade Commission. Cartels approved by the Minister are exempted from the application of the Anti-monopoly Act. Many voluntary export restraints have been administered under the law, often under the instruction of MITI (see the section on export restraint arrangements in Chapter IV).**

48. Japanese customs duties are levied under the **Customs Law, the Customs Tariff Law and the Temporary Tariff Measures Law**. The Customs Law stipulates that in all cases where a treaty includes special provisions for customs duties, such special provisions shall apply. In other words, Japanese customs duties cannot be raised beyond the level of bound tariff rates under the GATT. Temporary rates of duty, which means applied m.f.n. rates in most cases (see Chapter IV), are reviewed every year. The Ministry of Finance administers the laws pertaining to customs duties, including the annual revision of the temporary rates in consultation with other Ministries, and with advice from the Customs Tariff Council which is affiliated with the Ministry.

4) **Administrative Guidance**

49. Government offices in Japan often use administrative guidance in carrying out the mandates and functions provided for by the laws which have established those offices. Administrative guidance itself is rarely stipulated in Japanese laws, and is not legally enforceable, that is, acceptance is left up to the recipients. As it is not a legal concept, it is in practice called by various terms such as guidance, advice, recommendations, requests and instructions. It may be conveyed to the private sector orally or in writing.

50. Administrative guidance, nevertheless, has been considered by the Government of Japan as an effective tool to administer various policies including industrial and trade policies. Export cartels, for example, have often been formed under the Export and Import Transaction Law following administrative guidance from the Ministry of International Trade and Industry.

51. Due to its very nature, administrative guidance has often lacked transparency. The problems associated with administrative guidance have been taken up in the Japan-United States Structural Impediments Initiatives talks. The Government of Japan announced in its interim report of April 1990 that in order to ensure the transparency and fairness of administrative guidance, the Government would make certain that administrative guidance is not intended to restrict market access nor to undermine fair competition. The Government of Japan also announced, it would implement its administrative guidance in writing as much as possible,
and unless there are good reasons not to do so, would make the administrative guidance public when it is implemented.

(5) Structure of Trade Policy Formulation

(i) The Diet and the Cabinet

52. The Diet, consisting of the House of Representatives and the House of Councillors, can exert influence on the formulation and implementation of Japanese trade policies through its legislative power. Japanese trade policies are in fact formulated and implemented through close cooperation between the Cabinet and the Diet, particularly the ruling political party. Owing to this parliamentary cabinet system, policy conflicts have rarely emerged between the legislative branch and the executive branch, and the latter has always been given a high degree of discretionary power in formulating and implementing trade policies. Most trade bills have, in fact, been tabled by the executive branch.

53. The Cabinet implements its executive power under the Constitution through Ministries and other Government offices (subsequently referred to as Ministries) which constitute the Cabinet (Chart II.1). Japanese trade policies are generally planned and executed through close cooperation among various Ministries. The Prime Minister, as head of the Cabinet, oversees the Ministries. In the exercise of executive power, the Cabinet is collectively responsible to the Diet.
Chart II.1
Organization of the Government of Japan.

Note: Commission and Agencies marked with asterisks (*) are external organs of the Prime Minister’s Office and headed by Ministers of State.

54. The Ministries which are most frequently involved in trade policy formulation, and their main functions in trade are as follows: The Ministry of Foreign Affairs represents the Japanese Government in negotiations with foreign Governments; the Ministry of Finance is responsible for the Government budget, tariff scheme and other charges; the Ministry of Agriculture, Forestry and Fisheries is responsible for agricultural policies, including exports and imports related to its jurisdiction; the Ministry of International Trade and Industry is responsible for the formulation of trade policies and co-ordinates their implementation, and holds legal power to control exports and imports; the Economic Planning Agency is responsible for formulating and promoting long-term economic plans, stipulating each year's basic policy stance, and co-ordinating the basic economic policies and plans of other Ministries. Other Ministries take part in trade policy formulation according to their portfolios. The Fair Trade Commission oversees, under the Anti-monopoly Act, trade measures and practices from the viewpoint of maintaining competition. These powers of the Ministries must be executed on the basis of laws enacted by the Diet. Trade policy decisions which encompass several Ministries are normally made on the basis of consensus among all the Ministries concerned.

55. There are certain inter-Ministerial conferences and offices which deal with major economic and trade issues involving more than one Ministry. The Councillor's Office on External Affairs in the Prime Minister's Cabinet, the Trade Conference, and the Ministerial Conference for Economic Measures are examples. The Councillor's Office on External Affairs was created in 1986 to co-ordinate policies on specific international issues, including trade matters. These structures act as intermediaries between the Ministries concerned and the Cabinet before major decisions are made by the Cabinet.

56. When major economic and trade issues are to be tackled, the Japanese Government and the ruling party (or parties) have often formed joint headquarters to deal with such issues. The Action Programme for Improved Market Access, for example, was launched in 1985 by the Government-Ruling Parties Joint Headquarters for the Promotion of External Economic Measures. Currently, the Government-Ruling Parties' Joint Headquarters for the Promotion of Economic Structural Adjustment, formed in 1986 and headed by the Prime Minister, are addressing such issues as the expansion of domestic demand, industrial structural adjustment, and further improvement of market access, liberalization in financial market and so forth. In 1989, the Government-Ruling Party Joint Headquarters for Adjustment of Price Differentials between Domestic and Overseas Markets was created to promote comprehensive policy measures for the adjustment of the price differentials from a consumer-oriented standpoint. Guidelines set out by these

12For more details of the Ministries' functions, see the TPRM report submitted by Japan.
headquarters constitute a broad framework within which specific Government trade policies are pursued and implemented.

57. The Ministries are also advised by various advisory councils, committees and study groups, established under the Ministries. Their members include private business leaders, scholars and others. For example, the Economic Council, established under the Economic Planning Agency, is composed of 27 members from industries, banks, trade unions and universities. Upon request from the Prime Minister, the Council advises on long-term or major economic policies. The Customs Tariff Council regularly advises, upon request from the Finance Minister, on modifications in tariff rates. The Industrial Structure Deliberation Council advises, upon request from the Minister for International Trade and Industry, on major issues related to industrial policies. There are also numerous other advisory bodies which are designed to advise the Ministries on various aspects of Japanese trade policies, and they work as one channel of liaison between the Government and the private sector.

58. The functioning of these advisory Councils and bodies, and their rôle in the decision-making of the Japanese Government, have sometimes been enigma to outsiders. In its interim report of April 1990 of the Structural Impediment Initiative talks with the United States, the Government of Japan re-affirmed basic principles that (a) the results of the deliberations of government-sponsored "industry advisory committees and study groups" should be made public, (b) the substance discussed by these groups should not be anti-competitive, and (c) the "visions" developed by the Government with the advice of these groups should not be used to enhance the competitive position of particular Japanese companies.

59. The Japanese business and agricultural communities are well organized. They have many informal, but close ties with the Government and the ruling political party, including participation in the advisory councils and regular meetings with the leaders of the Government and the ruling political party. Through these and other channels the private sector, in particular producers, can exert important influence upon the Government's trade policies. There are various consumer groups in Japan, and while they also participate in various advisory councils, their influence upon Government policies has been relatively limited.

---

13Principal business organization in Japan are Keidanren (the Federation of Economic Organization), Nissho (the Japanese Chamber of Commerce and Industry), Nikkeiren (the Japanese Federation of Employer's Association), Keizai Doyukai (the Japanese Committee for Economic Development), and Kansai Keizairengoukai (the Kansai Economic Federation). In agriculture, Zenchu (the General Union of Agricultural Co-operatives) is the central organization which steers local agricultural cooperatives.
(ii) Independent review bodies

60. Reviews of trade policies in the light of relevant laws are regularly conducted by the Diet. Ministers are accountable to the Diet for their execution of executive power. Apart from the Diet, there is no official independent body which is charged to review trade policies of the Government.

61. As part of their advisory function, the advisory councils, committees and study groups mentioned above conduct reviews of policies under the jurisdiction of the Ministries to which they are attached. The advisory bodies submit their opinions and proposals to the Ministries concerned. As these advisory groups are largely composed of non-Government officials, they also bring to bear the views of the private sector on particular trade policies and practices.

(6) Trade Agreements

62. Japan acceded to the GATT in 1955. The General Agreement applies between Japan and all other contracting parties, except for four Article XXXV cases (Haiti, Botswana, Lesotho and Cyprus). Japan grants m.f.n. treatment to all contracting parties except for Botswana and Lesotho (m.f.n. treatment is provided for Haiti and Cyprus). Japan is a signatory to all MTN Agreements of the Tokyo Round.

63. Japan is a member of the international commodity agreements on coffee, cocoa, jute, rubber, wheat, sugar, tin, tropical timber, and lead and zinc. Japan has also signed and ratified the Agreement on the Common Fund for Commodities.

64. Japan maintains bilateral trade and navigation treaties with a number of countries. It does not belong to any customs unions, free-trade areas, or other preferential regional agreements. Rather, Japan has traditionally been critical of regional agreements on the grounds that they might lead to exclusive economic blocks.

65. Japan is one of the promoters of closer regional cooperation among the countries in Asia and the Pacific region. Various initiatives for regional economic cooperation and promotion of specific projects have been taken by the Japanese Government, but they do not constitute binding international agreements. No preferential trade advantage is accorded to these countries.

---

14 Japan maintains treaties on commerce and navigation with 37 countries (or regions) and trade agreements with 37 countries (some countries are signatories to both the treaties and agreements).
66. Japan was among the first to institute a generalized system of preferences for the developing countries, beginning in August 1971. In 1981, Japan extended the application of the scheme until 31 March 1991. The Japanese GSP scheme covers most industrial products (except for crude petroleum and certain other products), and about one third of agricultural products. The GSP scheme is reviewed every year, together with other tariff rates. In recent years, a number of steps have been taken to enlarge the product coverage and the number of beneficiaries, to reduce GSP rates, to expand ceilings and to change some other provisions, particularly as part of market-opening measures (for details for the Japanese GSP scheme, see Chapter IV). Currently 130 countries and 25 territories are beneficiaries of the scheme. The least-developed countries receive special treatment (duty-free entry without any ceilings). No developing country has been suspended from the Japanese GSP scheme.
III. TRADE-RELATED ASPECTS OF THE FOREIGN EXCHANGE REGIME

(1) Exchange Rate Movements and Trade

67. The exchange rate of the Japanese yen vis-à-vis other currencies is determined by demand and supply conditions in exchange markets. However, the authorities of Japan may intervene to counter disorderly conditions in exchange markets. Since 1985, efforts towards policy co-ordination among the major industrial countries to influence the course of exchange rates have become more frequent.

68. Large movements in exchange rates, both nominal and real, were an important feature of the world economic scene in the 1980s. The exchange rate of the yen against the dollar started to rise sharply after the September 1985 Plaza Agreement of the Group of Five to encourage a further depreciation of the dollar against other major currencies.

69. The yen appreciated against the dollar by 86 per cent during the period 1985 to 1988. However, the nominal effective exchange rate of the yen rose only by about half this amount because currencies of other industrial countries were also appreciating against the dollar during that period. The fluctuations in the real effective exchange rate of the yen were less pronounced. It appreciated by about 33 per cent between 1985 and 1988. Since the beginning of 1989, the exchange rate of the yen, both nominal and real, started to depreciate. Subject to fluctuations, this trend continued throughout the first quarter of 1990.

70. Available data suggest that import demand in Japan was responsive to changes in the real exchange rate of the yen. In 1988, reflecting the sizeable appreciation of the yen and a fall in oil prices, import prices were, in terms of the yen, down by 44 per cent from their 1985 level (Chart III.1). Import volume was up by about 40 per cent. Between 1982 and 1985, a period of comparable economic growth in Japan, yen import

15 The nominal effective exchange rate is a trade-weighted index of the bilateral exchange rates between the yen and the currencies of trading partners (usually, only major trading partners are taken into account). To obtain the real effective exchange rate, the nominal effective exchange rate is adjusted for differences in inflation rate between the domestic economy and those same trading partners. Developments in these exchange rates and trade prices and volumes are presented in Table AIII.1.

16 For certain imports of consumer goods, particularly those of well-known brands, selling prices in Japan remained considerably higher than in other overseas markets. In December 1989, the Government and the Ruling Party Joint Headquarters for Adjustment of Price Differentials between Domestic and Overseas Markets was created to address such price differentials. The issue was also taken up by the Japan-United States Structural Impediments Initiatives talks.
prices declined by 13 per cent and import volume increased by 12 per cent (Table III.1).

Chart III.1
Japan's yen import prices and the nominal effective exchange rate of the yen, 1978-90

Index 1978=100 (log scale)

Source: Table AIII.1

71. The effects of the yen's appreciation on Japan's export volume were apparently less pronounced. While in 1986 the volume of Japanese exports declined slightly, it increased moderately in the following years. The appreciation of the yen tended to raise dollar export prices, but the pass-through of the higher yen into export prices was mitigated by the willingness of Japanese exporters to accept lower profit margins by way of cutting their yen prices (Chart III.2). Reduced costs of imported materials and rationalization of production also helped to cut yen export prices. Nevertheless, Japan's export performance was apparently affected by the exchange rate movement: despite some acceleration in the growth of world merchandise trade between the periods 1982-85 and 1985-88, the growth
in the volume of Japanese exports sharply declined (Table III.2 and Chart III.3).

Chart III.2
Japan's export unit values in yen and dollar, and the nominal effective exchange rate of the yen, 1978-90

Index 1978=100 (log scale)

Source: Table AIII.3.
Chart III.3
Japan's trade volume and the real effective exchange rate of the yen, 1978-90

Index 1978=100

Source: Table AIII.3
72. As noted above, in addition to the movements of the yen, many other factors have affected Japanese export performance in recent years. They include the buoyant world demand for Japanese manufactures, including increasing demand from Asian countries for capital goods, changes in trade barriers and export restraints in a number of areas, and the impact on Japanese exports of the rapid increase in foreign direct investment. Some of these factors have worked to offset the price effects of changes in the exchange rate of the yen on Japanese exports.

73. Moreover, by early 1990, the effective exchange rate of the yen had depreciated by 12¼ and 14¼ per cent in nominal and real terms, respectively, from its 1988 peak. This development tended to dampen the growth of import volume while supporting export performance.

(2) Foreign Exchange Allocation

74. Authorized banks may freely carry out spot and forward exchange transactions. There are no taxes or subsidies on purchases or sales of foreign exchange. There are no restrictions on making payments or accepting receipts in any currency.

75. Non-resident accounts in yen may be opened by non-residents with any authorized bank in Japan. No restrictions on credits to, or payments from, these accounts are imposed.

76. For items which are subject to import licensing and export approval systems, importers or exporters need to obtain relevant authorization from the Government before related payments are effected.

77. There are no limitations on payments for, and receipts from, invisibles. Gifts and donations to non-residents exceeding 5 million yen are referred to the Bank of Japan, which approves the payment after verifying its authenticity.

78. With respect to capital transactions, a distinction is made between direct investment and other capital transactions. Outward direct investment is, in principle, free. However, prior notice to the Minister of Finance is required. Direct investment in Japan is also, in principle, free, although prior notice to the Minister of Finance is required. In most cases, the investment is accepted on the same day as prior notice is made, and actual transactions under the investment can then proceed. Some exceptions are investment in agriculture, forestry and fisheries, oil industries, mining, and leather and leather product manufacturing, which are reserved under the OECD's Code of Liberalisation of Capital Movements; and investment in sectors related to national security and public order.

In these exceptional sectors, the examination of prior notices by the authorities concerned takes longer, but not more than two weeks. Actual transactions to carry out an investment project can proceed after two weeks from the day of prior notice, if an order to modify the contents of the project is not made by the authorities concerned. Other capital transactions are, in principle, free, but in several cases are specifically required to follow certain procedures on prior notice.\[18\]

(3) **Foreign Direct Investment**

79. One of the striking features of Japan’s economy in recent years has been the rapid expansion of direct investment overseas, particularly direct investment in manufacturing industries in North America, Europe and Asia. The appreciation of the yen against the US dollar and currencies linked to it between 1985 and early 1989 made direct investment abroad increasingly attractive, and it was also used as a strategy to undercut the threat of an increase in protection in a number of product areas, in particular in the United States.

80. Japan’s foreign direct investment grew by 83 per cent in fiscal year 1986 (April to March 1987), 49 per cent in fiscal year 1987, and 41 per cent in fiscal year 1988. Main sectors of direct investment abroad were machinery, electric equipment and transport equipment. Overseas production of Japanese passenger cars, for example, now corresponds to about 12 per cent of Japanese exports plus overseas production of these items. This ratio is about 25 per cent for audiovisual equipment, and 36 per cent for watches.

81. The expansion of foreign direct investment has resulted in growing intra-industry trade and, in the short-term, added to Japanese exports of capital goods, parts and other intermediate materials. In the longer-term, it is expected that foreign direct investment will substitute, in net terms, for exports from Japan.\[19\]

---


\[19\] According to an estimate of the Industrial Structure Council, an advisory body to the Minister of International Trade and Industry, Japan’s foreign direct investment in manufacturing is expected to reduce Japan’s trade surplus by 79 billion dollars in fiscal year 1995, largely through substitution effects on Japanese exports and increasing imports into Japan from foreign subsidiaries of Japanese firms, offsetting the export effects of the investment.
82. Foreign direct investment in Japan has also grown rapidly, from below 500 million dollars annually during the 1970s, to 2.2 and 3.2 billion dollars in fiscal years 1987 and 1988, respectively. However, the current level of foreign direct investment in Japan is still less than one-tenth of Japanese direct investment abroad.

83. Most direct investment is made in manufacturing, in particular machinery and chemicals, including pharmaceuticals. In recent years, about two-fifths of total investment came from United States firms. The number of new plants established in Japan by foreign firms was on the rise in the early 1980s, but declined from 29 in 1985 to 15 in 1988, largely reflecting the stronger yen. However, the number of branch and sales offices in Japan increased greatly, in particular offices of firms based in the United States or in Asian economies.
IV. TRADE POLICIES AND PRACTICES BY MEASURE

(1) Overview

84. The most noticeable feature of Japanese trade policy in recent years has been the emphasis attached to the need to expand imports in the light of Japan's huge trade and current account surpluses. To meet that objective, a series of measures to improve market access and to encourage imports have been implemented, such as the seven rounds of external economic measures between 1981 and 1985, the Action Programme for Improved Market Access launched in 1985, and the Comprehensive Import Expansion Measures implemented in March and April 1990. These measures have addressed, among other issues, tariffs, import restrictions, standards and certification systems, other import procedures, government procurement, and import promotion measures.

85. Tariffs on industrial and agricultural products have been considerably lowered through the Tokyo Round negotiations and the recent market-opening measures. The average level of Japanese tariff rates on industrial products is lower than that of the United States or the EEC. Tariffs, however, still remain an important instrument of protection for a certain number of products. Tariff rates on many agricultural products, for example, remain relatively high, and the percentage of bound tariffs for agricultural products is lower than in most other developed countries. The recent removal of a number of import quotas has been accompanied by increases in tariff rates or the introduction of tariff quotas. Tariff escalation is present for a wide range of both industrial and agricultural products.

86. Import quotas on industrial and agricultural products have been largely phased out in recent years, partly as a result of GATT Panel recommendations (e.g. leather, and certain agricultural products), and partly as a result of bilateral consultations (e.g. beef and citrus). Japan maintains certain import quotas for health and security reasons as well as import quotas on coal and on several agricultural products. As of 1 April 1992, the number of agricultural products subject to import quotas (excluding State-trading products) will have been reduced to 13 (in terms of 4-digit CCCN headings).

87. Despite various efforts recently undertaken by the Japanese Government, standards and certification systems, and other import procedures and practices of Japan have been perceived by exporters of trading partners, and also by a number of Japanese importers, as trade-restrictive or trade-impeding, as evident from the 399 complaints filed with the Office of Trade and Investment Ombudsman (OTO) during the last eight years. In many cases, Japan has taken steps to ameliorate the situation through the OTO. More recently, in its Interim Report of April 1990 to the Japan-United States Working Group on Structural Impediments Initiatives, Japan announced various measures to promote the deregulation of the distribution system, and to reduce exclusionary or anti-competitive business practices. Japan has also undertaken a number of
measures to ensure greater transparency and fairness in administrative guidance and other Government practices.

88. Japan is a signatory to all MTN Agreements concluded in the Tokyo Round negotiations and the Multifibre Agreement (MFA). To date, Japan has never taken any anti-dumping action. In one case, Japan initiated a countervailing duty investigation. Japan has not made use of Article XIX safeguard actions, nor concluded any MFA agreements to restrict imports of textiles or clothing into Japan. In some instances, however, mainly involving textiles and clothing imports, Japan has asked developing trading partners to restrain their exports.

89. Several products, mostly agricultural products including rice, beef and milk products, have been subject to State-trading schemes which are largely intended to stabilize domestic demand and supply or to complement price support mechanisms for these products. The schemes result in the protection of domestic producers against competitive imports. Import restrictions administered through State-trading on some milk products were found to be contrary to the General Agreement by a recent GATT Panel. With regard to beef, the Japanese Government announced that the State-trading enterprise concerned will no longer be involved in the pricing, purchase or sale of imported beef as of April 1991.

90. Government subsidies are provided for certain agricultural products such as rice, and milk products to support price stabilization systems or grant structural adjustment assistance. These measures are frequently complemented by import quotas. The Government of Japan does not maintain any subsidies specifically aimed at promoting exports.

91. Japan has been generally receptive to requests from its trading partners for concluding export restraint arrangements, or, in some instances, voluntarily taking such measures out of concerns over trade disputes caused by the rapid penetration of foreign markets by Japanese products. Under Japanese trade laws, the Government has various measures at hand, including administrative guidances, to administer these export restraints. As a result, various forms of export restraints have been spreading over the years from textiles to steel, colour TVs and video tape recorders, machine tools, passenger cars, semi-conductors and so forth. According to data provided by the Japanese Government, in 1989 12½ per cent of total merchandise exports of Japan were subject to export restraining regulations (about 29 per cent of exports to the United States, and 5 per cent of exports to the EC).

92. The overall level of Government subsidies to agriculture and industry has fallen during the 1980s. According to OECD data, subsidies as a percentage of GDP (excluding tax concessions) totalled 1 per cent in 1987, lower than most other developed countries except for the United States.

93. The Government of Japan has implemented certain measures to smooth structural adjustment in the private sector, particularly in eliminating excess capacity and limiting unemployment. The Japanese Government has also promoted research and development (R & D) in the private sector by
various means. Structural adjustment and R & D efforts, however, have been carried out predominantly by the private sector.

(2) **Measures Directly Affecting Imports**

(i) **Tariffs**

94. Japan implemented the Harmonized System on 1 January 1988. In converting the previous tariff nomenclature based on the CCCN into the HS, previous tariff rates were, in principle, maintained. However, a certain number of items was integrated into items with a larger trade value. In 21 cases, in which imports were greatly affected by increases in tariff rates as a result of the conversion, the Government of Japan reduced the tariff rates to the previous levels.

95. There are four different tariff rates in the Japanese Customs Tariff Schedule: "General" rates based on the Customs Tariff Law; "GATT" bound rates; "Preferenceal" rates for developing countries; and "Temporary" rates based on the Temporary Tariff Measures Law. A Preferential rate supersedes all other rates. The GATT rate is applicable, if it is lower than a Temporary rate or a General rate. However, if a GATT rate is higher, the Temporary rate is applicable (if no Temporary rate is provided, the General rate is applicable).

96. For the most part, Japan applies ad valorem duties. Specific duties apply to about 1.5 per cent of all tariff lines. However, in fiscal 1988, specific duties accounted for 27.3 per cent of tariff revenue, largely owing to duties on petroleum and sugar.

97. Bananas, oranges, grapefruit (provisionally preserved) and grapes are subject to seasonal tariffs. Out-of-season tariff rates on these products are generally high, ranging between 13 and 40 per cent. In-season rates range between 20 and 50 per cent. However, since bananas qualify for the lower GSP rates, ranges of actually applied rates of these products are 10 to 20 per cent out-of-season, and 20 to 40 per cent in-season.

98. In fiscal 1988, total tariff revenue amounted to 851 billion yen, accounting for 1.6 per cent of the total revenue of the Government of Japan from duties, taxes, and other charges.

(a) **Average tariff levels**

99. In the industrial sector, Japan made significant tariff concessions during the Tokyo Round. In 1988, the simple tariff average of bound tariff rates (General rates where tariffs are not bound) for industrial products (excluding petroleum) was 6.7 per cent and the weighted average (weighted by 1988 imports from m.f.n. sources) was 2.8 per cent. The post-Tokyo Round average rates are lower than those of the United States and the European Communities. Tariff averages on agricultural products, on the other hand, remain considerably higher than industrial products, with a simple average of 14.7 per cent and a weighted average of 13.3 per cent
100. In recent years, the Government of Japan has carried out a series of unilateral measures, particularly under the Action Programme for Improved Market Access (1985-1988), to reduce or eliminate tariff rates. As a result, the level of applied rates is considerably lower than that of bound rates. At the beginning of 1989, the applied simple average tariff for industrial products (excluding petroleum) was 5.3 per cent, and the weighted average 1.9 per cent. In the case of agriculture, the corresponding figures were 12.1 and 6.6 per cent, respectively (Chart IV.1 and Table IV.1).

20 See GATT (1987), Communication from Japan, L/6108, 13 January.
Chart IV.1
Statutory and applied simple tariff averages for Japan, January 1989
(Per cent)

### Agriculture

<table>
<thead>
<tr>
<th>Category</th>
<th>Statutory Rate</th>
<th>Applied Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary products</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Semi-processed products</td>
<td>20%</td>
<td>15%</td>
</tr>
<tr>
<td>Processed products</td>
<td>20%</td>
<td>15%</td>
</tr>
<tr>
<td>All agricultural products</td>
<td>15%</td>
<td>10%</td>
</tr>
</tbody>
</table>

### Industry

<table>
<thead>
<tr>
<th>Category</th>
<th>Statutory Rate</th>
<th>Applied Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw materials</td>
<td>1%</td>
<td>2%</td>
</tr>
<tr>
<td>Semi-finished manufactures</td>
<td>6%</td>
<td>5%</td>
</tr>
<tr>
<td>Finished manufactures * excluding petroleum</td>
<td>6%</td>
<td>5%</td>
</tr>
<tr>
<td>All industrial manufactures</td>
<td>6%</td>
<td>5%</td>
</tr>
</tbody>
</table>

* Source: GATT Tariff Study. *
101. In addition, in April 1989 Japan implemented its offers on tropical products in the Uruguay Round to reduce or suspend tariffs on 123 items, and in April 1990 Japan suspended tariffs on 1,004 industrial items and reduced tariffs on four industrial items (in terms of tariff lines). As a consequence, applied tariff rates in Japan have been further reduced from their levels at the beginning of 1989.

102. Based on tariff data as of 1988, about 70 per cent of imports of industrial products entered Japan at applied tariff rates of 5 per cent or less (Chart IV.2). About 8 per cent of industrial products were subject to tariffs between 5 and 10 per cent, and about 4 per cent of industrial imports to tariffs over 10 per cent. The rest was accounted for by unspecified dutiable imports. Products with high tariffs included leather, wood based panels, jute and hard fibre fabrics, clothing and clothing accessories, footwear and travel goods.

103. With respect to agricultural products, about 61 per cent of imports entered at tariff rates of 5 per cent or less, 24 per cent of imports at rates between 5 and 20 per cent, and 9 per cent of imports at rates over 20 per cent. Products with tariffs of more than 20 per cent included a number of foodstuffs (prepared or preserved fruit, coffee and tea extracts, chocolate, sugar and confectionery, flour etc.), beverages and spirits, and dairy products.
Chart IV.2
Imports into Japan by tariff range, 1988
(Per cent)

Agricultural
Total Imports: $US 32.73 bil.

Industrial
Total Imports: $US 152.22 bil.

All products
Total Imports: $US 184.95 bil.

Tariff ranges
- Free
- 0.1-5%
- 5.1-10%
- 10.1-15%
- 15.1-20%
- Over 20.1%
- Unspecified

Source: GATT Tariff Study.
104. As Table V.1 shows, large tariff ranges exist in certain categories, particularly agricultural products such as fresh fruits, chocolate, sugar and confectionary, other foodstuffs, grains (maize), oilseeds, beverages and spirits, cheese and other dairy products, leather and leather footwear.

(b) Scope of tariff bindings

105. About 91 per cent of all tariff lines were bound in 1986. For agriculture, the share was 63 per cent (including 3 per cent of the products bound partially), and for industrial products 97 per cent (all fully bound).

106. The percentage of Japan's imports entering at bound rates is lower than that of other developed countries, except for Australia and New Zealand. In 1986, 83 per cent of all imports on an m.f.n basis (excluding petroleum) entered at bound rates. The share of bindings was 66 per cent for agricultural products (including 2 per cent of the products entering at partially bound rates) and 88 per cent for industrial products excluding petroleum (all at fully bound rates).

(c) Generalized System of Preferences (GSP)

107. The Japanese GSP scheme for imports from developing countries was first introduced in 1971 for a ten-year period. In 1981, it was extended until 31 March 1991. In recent years, some major steps to improve the GSP scheme have been undertaken.

108. In fiscal 1988, imports under the Japanese GSP scheme amounted to 14 billion dollars, corresponding to 7.4 per cent of total imports into Japan. Imports under the GSP scheme corresponded to 16 per cent of total Japanese imports from GSP beneficiaries (Chart IV.3).

Chart IV.3
Share of imports under the GSP in total Japanese imports from developing economies, FY 1988
(US$ billion, per cent)

GSP, industrial goods, $11.6 (13)
GSP, agricultural goods, $2.5 (3)
Non-GSP, industrial goods, $64.4 (71)
Non-GSP, agricultural goods $11.8 (13)

Total US$ 90.3 billion (100)

Note: "Imports under the GSP" refers to actual imports, "agricultural goods" refers to those under HS Chapters 1-24, "industrial goods" refers to HS Chapters 25-97.

Source: Notification by Japan to the GATT.

109. The current scheme includes 130 beneficiary countries and 25 territories. The Republic of Korea, Taiwan and China are major beneficiaries of the scheme, followed by Brazil, Indonesia, Singapore, and the Philippines. Among the GSP beneficiaries, 38 least-developed countries are eligible for special benefits.

110. Most industrial products are covered by the GSP scheme, except for 27 HS four-digit items such as crude petroleum. Industrial products covered by the scheme (866 four-digit HS items) are in principle given duty-free treatment with the exception of 67 "selected products", such as leather, for which m.f.n. tariff rates are reduced by 50 per cent. For
about half of the industrial products covered by the GSP, there are ceiling quotas for preferential imports.

111. The GSP scheme covers 77 out of a total of 201 agricultural and fishery products (HS four-digit headings). Various tariff reductions, including duty-free treatment, apply to the agricultural products covered by the GSP. There are no ceiling quotas.

112. The escape clause, under which preferential treatment may be suspended, applies to all agricultural products and those industrial products for which there are no ceiling quotas (Table IV.2).

113. Since 1980, imports into Japan from least-developed countries have enjoyed special tariff treatment within the framework of the GSP scheme. Thirty-eight least-developed countries enjoy duty-free and ceiling-free tariff treatment with respect to all products covered by the Japanese GSP scheme.

(d) Tariff escalation

114. The GATT Tariff Study data on average tariffs for both agricultural and industrial products by stages of processing show the presence of tariff escalation in a wide range of product categories as between primary and semi-processed products (Table V.1). Tariff escalation is considerably steeper for agricultural products than for industrial products. In the case of agriculture, simple average tariffs (applied) rise from 5.6 per cent for primary products to 19.2 per cent for semi-processed products, though tariffs on processed products are a little lower. As for industrial products, tariff escalation is also noticeable between raw materials (0.9 per cent simple average tariff) and semi-finished manufactures (5.9 per cent). In industries with self-sufficiency ratios around 100 per cent, such as leather and footwear, wood products and paper, textiles and clothing, and certain ores and metals, tariff escalation is particularly pronounced.

115. Tariff escalation in the areas of industrial and mining products was addressed in the Action Programme of 1985. In September 1986, the Planning Group of the Customs Tariff Council called for medium-term tariff reductions to redress tariff escalation. A series of autonomous tariff reductions and suspensions for semi-finished and finished manufactured products taken since then by the Japanese Government, particularly under the Action Programme and the 1990 import expansion programme, appear to have helped in reducing tariff escalation (Table IV.3).
(ii) **Tariff quotas**

116. Tariff quotas are applied to imports of 13 products, mostly agricultural commodities. Among them, tariff quotas on leather and leather footwear were introduced in 1986, replacing import quotas. The other recent introduction of tariff quotas is on hi-test molasses and molasses for manufacturing alcohol (1987), food preparations containing cocoa for manufacturing chocolate (1988), certain maize (1989), tomato puree and tomato paste for manufacturing tomato ketchup etc (1989), and pineapple in airtight containers (1990).

(iii) **Customs valuation and clearance**

117. Japan is a signatory to the MTN Agreement on the Implementation of Article VII of the General Agreement (the Customs Valuation Code). In accepting the Code, the Government of Japan revised the Customs Tariff Law to bring it into conformity with the Code. The transaction value of imported goods is basically used as their customs value. As a result of specific measures taken by the Government of Japan in 1982 to simplify and expedite customs clearance procedures, the average time needed for imported goods to clear the customs office has been reduced by half to about 2 hours. In an Interim Report (April 1990) to the Japan-United States Working Group on the Structural Impediments Initiative, Japan announced steps to further improve customs clearance and other procedures for expeditious entry of normal cargo imports into the Japanese distribution system.

118. Complaints about customs valuation and other customs measures can be filed with the head of the customs office concerned within two months, or, with the Finance Minister. If unsatisfied, complainants may seek judicial proceedings. Otherwise, complaints may be filed with the Office of Trade and Investment Ombudsman (OTO).

(iv) **Levies and other charges**

119. In order to support the price stabilization system for sugar, levies are imposed on imported sugar (see Chapter V). Japan does not impose other levies or charges on imported products.

---

22The products subject to tariff quotas are live bovine animals intended to be raised for beef; natural cheese intended for use as materials for processed cheese; oats; maize; malt; hi-test molasses intended for manufacturing alcohol; food preparations containing cocoa for manufacturing chocolate; tomato puree and tomato paste for manufacturing tomato ketchup and other tomato sauces; pineapple in airtight containers; undenatured ethyl alcohol intended for use in distilling alcohol for making alcoholic beverages; heavy fuel oils and raw oils; leather and leather footwear.
(v) Import prohibitions

120. Import prohibitions are listed in the Customs Tariff Law. Currently, the list includes narcotics, false currencies, books detrimental to public order, and goods violating patents and copyrights etc. For products subject to health, sanitary and phytosanitary regulations or other approval systems under laws, imports are not permitted unless the permission or approval under such laws is obtained.

(vi) Import licensing and prior confirmation

121. Japan is a signatory to the MTN Agreement on Import Licensing. Under the Import Trade Control Order, approval from the Ministry of International Trade and Industry (MITI) is required for imports subject to an import quota or specific methods of payments (such as the settlement method by credit or debit to an account or with special settlement period). Prior approval is also necessary for imports of specific goods or from specific countries so designated by the order.

122. For products subject to quotas, an importer must obtain, prior to importation, an import quota from the Minister of International Trade and Industry. The list of items subject to import quotas is published in the Official Gazette, the MITI Official Bulletin and the International Trade Bulletin. According to the information submitted by Japan to the GATT, the overall amount of quotas is published for each item; no allocation of quotas is made on the basis of the country of origin; and the allocation is made on a global basis without discrimination. The quota is usually determined and allocated on a six-monthly basis. About six thousand licences are issued every year.

123. If the demand exceeds the quota, the allocation is made on the basis of (a) past import records on a customs clearance basis (past performance allocation) (b) distribution of equal amounts of the quota to applicants (equal allocation) or a combination of (a) and (b). In the case of quota allocation to users, the allocation is determined on the basis of the import requirement by users. There is no maximum amount of quotas to be allocated per applicant. Where appropriate, new importers, with or without qualifications, are permitted to apply for quotas. In such case, the allocation is usually made evenly to new importers.

124. Apart from the above-mentioned cases, prior confirmation of the Minister of International Trade and Industry is currently required for

---

23 See Article 4 of the Import Trade Control Order.

24 GATT, Replies to questionnaire on import licensing procedures, Japan, L/5168, 20 July 1981, and addendum (L/5640/Add.28, L/5640/Add.28/Suppl.1/Corr.1).
imports of silk fabrics, cocoons, tuna (imported by ship), seaweed (wakame), and certain other products.

125. In addition, a specific import permission or approval is required for a variety of products, due to health, sanitary and phytosanitary regulations such as those under the Pharmaceutical Law, Food Sanitation Law or the Animal and Plants Quarantine Laws.

(vii) Quantitative import restrictions

126. Since the 1960s, Japan has progressively liberalized imports of many products and greatly reduced the number of products which are subject to quantitative import restrictions. In 1986, Japan eliminated quantitative restrictions on four leather and leather footwear products (CCCN 4-digit items), reducing the number of products under quantitative import restrictions to 76 (CCCN 4-digit items).

127. According Japan's notification to the GATT, quantitative restrictions on the majority of the products were justified under the GATT on grounds of either the protection of human, animal or plant life or health under GATT Article XX(b) (e.g. DDT, narcotics, opium, and certain chemical and medical products); the conservation of exhaustible natural resources under Article XX(g) (e.g. ivory and certain animal products); or the protection of essential security interests under Article XXI(b) (e.g. prepared explosives, nuclear reactors, tanks and military weapons). Japan, however, did not claim GATT cover for quantitative import restrictions on coal and 22 agricultural products, known as residual import restrictions.

128. Since then, Japan has taken further steps to liberalize imports of certain items within the 23 residual import restrictions, some in response to GATT Panel recommendations adopted by the GATT Council, and others as a consequence of bilateral negotiations. In July 1988, the Government of Japan decided to terminate:

- quantitative import restrictions on prepared or preserved beef in stages over the period October 1988 to April 1990;
- quantitative import restrictions on fresh oranges and beef on 1 April 1991; and
- quantitative restrictions on orange juice on 1 April 1992.26

---

25 This figure does not include certain items subject to import quotas under State trading, such as rice, wheat and barley.

26 See GATT (1988), Japan: Market-opening measures on beef, citrus and other products, L/6370, 8 July.
As a follow-up to a GATT panel report, the Government of Japan announced in September 1988 that quantitative restrictions on seven agricultural products would be terminated during the period October 1988 to 1 April 1990.  

129. By April 1992, residual import restrictions will remain for 13 agricultural products (CCCN 4-digit headings) and coal (Table V.3).

(viii) Standards, certification and import procedures

130. Imports into Japan are subject to a number of laws concerning health, sanitary and phytosanitary, packaging and labelling regulations. Examples of such laws include the Food Sanitation Law, the Pharmaceutical Affairs Law, the High Pressure Gas Control Law, the Plant Protection Law, the Domestic Animal Infectious Disease Control Law, and the Quarantine Law. Japanese Industrial Standards (JIS) and Japanese Agricultural Standards (JAS) are major certification systems in Japan. Japan has been an active participant in the International Organization for Standardization and the International Electrotechnical Commission.

131. The Government of Japan maintains a large number of public regulations regarding the distribution of goods (e.g. regulations on large-scale retail stores, and liquor and tobacco sales), transportation services, information and telecommunication services, financial services, energy industries, agriculture (e.g. the Food Control System), new businesses, various certification systems and so forth. They may affect both domestic and imported products, and there is no discrimination between them.

132. Following recommendations of the Provisional Council for the Promotion of Administrative Reform, the Japanese Cabinet decided in December 1988 upon the General Plan for the Promotion of Deregulation. Improved access for imports and foreign investment, harmonization of Japanese regulations and standards with international ones, and improved transparency for the administration of various regulations are some of the priorities envisaged in the General Plan. Accordingly, the Ministries concerned have been charged with implementing various measures.

133. Japan is a signatory to the MTN Agreement on Technical Barriers to Trade. A recent series of market-opening measures included, among others,

---

27 The products concerned are processed cheese; other sugars and sugar syrups (excluding lactose); fruit puree and paste; fruit otherwise prepared or preserved; non-citrus fruit juices; tomato juice, tomato ketchup and tomato sauce; and food preparations mainly consisting of sugar. For dates of the elimination of import quotas on these products, see Table V.2. For more details, see GATT (1988), Japan - Restrictions on imports of certain agricultural products, L/6389, 12 September.
numerous measures to improve regulations on standards, certification system, and import procedures.  

134. The Action Programme of 1985-1988 contained the basic orientations of the Japanese Government toward improving the Japanese standards and certification system which had often been criticized by trading partners as one of the main non-tariff barriers to trade. The Government committed itself to drastic changes in the system with a view to "freedom in principle, restrictions only as exceptions". Self-certification systems were introduced. The number of items covered by standards was reduced, as well as the number of certification systems and standards themselves. Foreign test data became accepted for the grading of foreign products covered by JAS and for the approval of foreign companies' use of the JIS mark. The policy-making process was made more transparent. On the whole, ninety-one issues were examined by November 1986, and in almost all cases, improvements were completed by the end of July 1988.

135. The creation of the Office of Trade and Investment Ombudsman (OTO) predates the Action Programme. Based upon the decision of the Ministerial Conference for Economic Measures in January 1982, the OTO was created within the Government in order to facilitate prompt and accurate processing of complaints both from foreign exporters and Japanese firms regarding Japan's import testing procedures, standards and related problems. The complaints are expected to be processed with a view to minimising government intervention; harmonising Japanese standards with internationally recognised standards; accepting foreign test data; clarifying and quantifying import standards and certification requirements; further simplifying inspection procedures; enhancing the transparency of Japan's import inspection system; and clearing up misunderstandings with foreign traders.

136. The OTO, headed by the Deputy Chief Cabinet Secretary, received a total of 399 complaints during the period 1982 to February 1990. They were largely related to requests for simplifying import procedures, relaxing regulations, and accepting foreign test data by the Japanese Government. These issues largely involved the Japanese Ministry of Health and Welfare (152 complaints concerning approval procedures of pharmaceuticals, food sanitation, etc.), the Ministry of International Trade and Industry (80 complaints concerning standards and testing of high-pressure gases,  

---


etc.), the Ministry of Finance (65 complaints concerning customs clearance procedures, etc.), and the Ministry of Agriculture, Forestry and Fisheries (51 complaints concerning animal quarantine, plant quarantine, etc).

137. Chart IV.4 shows the major complaint objectives, categories of issues and products, and source of complaints for the 381 complaints filed during the period 1982 to September 1989 (the most recent month for which data according to these criteria are available).
Chart IV.4
Complaints to the Japanese Office of Trade and Investment Ombudsman, Jan.'82-Sep.'89
(Per cent)

1. **Complaint objective**

   - Acceptance test data (9)
   - Simplified procedure (36)
   - Easing regulation (31)
   - Others (23)

2. **Major categories**

   - Food, pharmaceutical (38)
   - High pressure gases, etc. (20)
   - Customs clearance (17)
   - Animal & plant quarantine (13)
   - Others (12)

3. **Source of complaints**

   - Japanese firms (59)
   - US firms (16)
   - EC firms (12)
   - Others (13)

Source: OTO, 1989; GATT Secretariat estimates.
138. According to the OTO, out of the 399 cases, 384 cases have been processed and in 116 cases the Japanese authorities concerned have implemented measures to facilitate imports. In 150 cases, the OTO cleared up misunderstandings about the Japanese regulations concerned. In the remaining 118 cases, explanations about the regulations concerned were given, but no other remedial measures were taken.

(ix) Other practices addressed by the Structural Impediments Initiatives

139. Certain public regulations and Government and business practices which may affect imports have been subject to discussions between Japan and the United States under the Structural Impediments Initiatives (SII) since September 1989 (see Chapter VI). According to the Interim Report of Japan of April 1990 to the Working Group on SII, Japan announced, among others, a series of measures.

(a) Distribution system

- Expeditious and proper customs clearance procedures and other import procedures to correspond to the increasing trade volume;

- Promotion of further deregulation of the distribution system with regard to laws and regulations, such as the Large-Scale Retail Store Law (shortening of co-ordination processing period, etc.);

- Import promotion through import expansion measures, the OTO, and the review of standards, certification and testing;

(b) Exclusionary business practices

- Enhancement of the Anti-monopoly Act and its enforcement by resorting more to formal actions, raising surcharges and so forth;

- Measures to ensure that administrative guidance does not restrict market access nor undermine fair competition. Implementation of administrative guidance in writing as much as possible;

- Encouragement to private firms to make their procurement procedures transparent and non-discriminatory against foreign goods;

(c) Keiretsu relationships

- Measures to ensure that business transactions between companies with Keiretsu linkages do not hinder fair competition, including the strengthening of the Fair Trade Commission;
(d) Pricing mechanism
- Policies to adjust price differentials between domestic and overseas markets, including collection of information on price differentials, deregulation and strict enforcement of the Anti-monopoly Act, promotion of imports, and formation of more appropriate land prices.

(x) Government Procurement

140. The Account Law of 1947 provides basic rules for procurement by the Government. Upon becoming a signatory to the MTN Agreement on Government Procurement in 1981, Japan has enacted ordinances under the Account Law concerning procedures for Government procurement in line with the Agreement. Basic objectives under the law are to ensure non-discriminatory Government procurement and transparency in procedures. Japan extends the benefits from the Agreement to both members and non-members of the Agreement without discrimination. There are no specific Buy-Japanese provisions in Japanese laws and regulations concerning Government procurement.

141. Under the MTN Agreement on Government Procurement, all Japanese Government ministries and agencies as well as 21 other public corporations are designated as entities covered by the Agreement. The total value of contracts awarded above the threshold of the Agreement reached about SDR 2 billion in 1988; SDR 306 million (about 15 per cent) were procured from outside Japan, largely from the United States (SDR 158 million) and the EEC (SDR 59 million). Data on the total value of Government procurement, or that of local Governments, are not available.

142. In addition to the MTN Agreement, the Japan-US Arrangements on the Procurement of Nippon Telegraph and Telephone Corporation (NTT) (1981-), the Action Program for Improved Market Access (1985-88), the Japan-US agreements of 1987 and 1990 on procedures of the introduction of super computers and the Japan-US agreement on satellites in 1990 are related to procurement by the Government and NTT (NTT was privatized in 1985, but is still covered by the MTN Agreement).

143. The coverage of products under the Arrangements on the Procurement of NTT is wider than the coverage of procurement by NTT under the MTN agreement. NTT procurement procedures under the Arrangements are also applied to other countries on an m.f.n. basis. The agreement is to be reviewed every three years. It has been extended three times (1984, 1987, and 1990).

---

31 The Account Law applies to all Ministries and Agencies under the Cabinet, the Diet, the Supreme Court and the Board of Audit, but not to Government-affiliated agencies.
144. As part of the Action Programme for Improved Market Access launched in 1985, the Government of Japan voluntarily undertook to improve contract procedures for Government procurement so as to facilitate foreign suppliers to participate in tendering on equal terms with domestic suppliers. As a result, the proportion of single tendering has been reduced from 34 per cent in 1984 to 19 per cent in 1987; the bid time has been extended from no less than thirty days to no less than forty days (the average bid time for 1987 was 42.2 days); and some qualification procedures for suppliers have been simplified.

145. As a result of the 1987 Japan-US agreement on supercomputers, the Japanese Government streamlined the procedures for Government procurement of supercomputers. However, the United States was unsatisfied with the results, particularly concerning Japanese practices for technical specifications and large academic discounts, and included the procurement issue in the "priority practices" under the so-called Super 301 process in 1989. In March 1990, after a series of discussions between Japan and the United States, a new Government advisory body to review the procurement process was established. (For the Japan-US issue on satellites, see the section on research and development assistance in this Chapter).

(xi) Safeguard actions under GATT Article XIX

146. Japan's Customs Tariff Law (Article 9-2) provides for emergency safeguard measures on imports in line with GATT Article XIX. Remedies envisaged under the law are either to raise tariff rates within a certain limit, or, in the case of bound tariffs, to withdraw or modify the concession in accordance with GATT Article XIX. No quantitative restrictions or orderly marketing arrangements are provided for in the law.

147. To date, no Article XIX action has been requested by the Japanese private sector, and no Government action has been taken.

(xii) Anti-dumping and countervailing duty measures

148. Japan is a signatory to the GATT Anti-Dumping Code and the GATT Code on Subsidies and Countervailing Duties. In December 1986 the Government of Japan adopted guidelines for the conduct of countervailing duty and anti-dumping investigations.32

149. Anti-dumping petitions were filed against imports of cotton yarn from the Republic of Korea in 1982, of ferro-silicon from Norway and France in 1984, and of knitwear products from the Republic of Korea in 1988. In all three cases, the petitions were withdrawn before the Government of Japan initiated anti-dumping investigations. In the case of imports of knitwear

32 See GATT (1987), Information on implementation and administration of the Agreement, ADP/1/Add.8/Suppl.1, 18 February.
products from the Republic of Korea, the Japanese Knitting Industry withdrew its October 1988 petition, following an announcement by the Korean Garments and Knitwear Export Association, in February 1989, that voluntary export restraints would be applied to the products concerned.

150. No countervailing duty has ever been imposed by Japan. In April 1983, Japan initiated a countervailing duty investigation with respect to cotton yarn imports from Pakistan. However, as Pakistan subsequently withdrew certain measures to assist cotton yarn exports, such as the compensation refund system and the Government financing system, no further countervailing duty action was taken by Japan. In 1984, a petition was filed against imports of ferro-silicon from Brazil. The petition was withdrawn before a countervailing duty investigation was initiated.

(xiii) Import cartels

151. The Export and Import Transaction Law permits, under certain conditions, importers to form cartels with a view to regulating import prices, quantities and other factors so as to avoid excessive import competition or for other specified purposes. The cartels must be approved by the Minister of International Trade and Industry, in consultation with the Fair Trade Commission. Upon approval, the cartels are exempted from application of the Japanese Anti-Monopoly Law.

152. The number of such import cartels has declined from 4 in 1981 to one in 1990, notably the cartel regulating import quantities of silk fabrics from China formed by the Japan Textiles Import Association in 1976.

(xiv) Voluntary restraints and similar arrangements

153. Certain countries maintain or maintained voluntary restraints on exports to Japan. As noted above, since 1989 the Korean Garment and Knitwear Export Association has applied voluntary export restraints to knitwear products. Since fiscal 1976, based upon Governmental consultations, China has restrained exports of raw silk, silk yarn and silk products. The Republic of Korea also maintains orderly exports of silk yarn and silk fabrics, taking into account the result of Governmental consultations. Upon consultations with Japan, Pakistan introduced minimum export prices for cotton yarn between 1985 and 1987.

(xv) Countertrade

154. During the last ten years, there has been no record of countertrade in which the Japanese Government or public enterprises have taken part.

(xvi) Rules of origin

155. For applying GATT bound tariff rates and GSP rates to specified countries, there are two basic rules of origin. With respect to GATT bound rates, the country of origin for imported goods is defined as either the country in which goods are wholly produced, or the country in which the
goods have last undergone a substantial transformation which results in a new essential characteristic being conferred to the goods. For GSP rates, the rules are generally the same as those for GATT bound rates. However, for imports through transit countries and in other specific cases, additional conditions for determining the country of origin are specified. There are also certain other special rules, such as status of ASEAN which is regarded as a single preference-receiving country.

(xvii) **State trading**

156. Japan maintains State-trading enterprises for several products. In most cases, the focus of State trading is to protect domestic producers from import competition, or to complement, or assist, price support schemes for these products. Except for leaf tobacco and raw silk, the products are subject to import quotas. As Table IV.4 shows, the level of imports varies according to product. For most products, there have been no exports.

(a) Leaf tobacco
The importation of leaf tobacco was liberalized in 1985. However, the Japan Tobacco Inc. (JTI) (privatized in 1985) has a monopoly over the production of manufactured tobacco. The importation of leaf tobacco is therefore subject to the subsequent purchase of the product by JTI. The stated purpose of JTI's monopoly is to ensure the sound development of the Japanese tobacco industry.

(b) Salt
The Japan Tobacco Inc. (JTI) has the exclusive right to purchase, import and sell salt (Salt Monopoly Law). Salt can be manufactured solely by JTI or a person authorized by JTI, and be imported solely by JTI or a person entrusted to do so by JTI. The stated purpose of the salt monopoly is to secure a steady supply of salt to consumers.

(c) Opium
The Government (Ministry of Health and Welfare), or a person entrusted to do so by the Government, has the exclusive right to import and export opium in accordance with the 1961 Single Convention on Narcotic Drugs.

---

33 Details of the Japanese rules of origin are contained in the Order of the Director-General, Customs and Tariff Bureau, Ministry of Finance, 1968, and the ordinance to implement the Temporary Tariff Measures Law.

(d) Alcohol
The Ministry of International Trade and Industry (MITI) holds a monopoly for the production, sale and import of alcohol with an alcohol content of 90 per cent or more. The stated objectives of this monopoly are to ensure the smooth and stable supply of alcohol to consumers, regulate the production and sales of alcohol, and separate the distribution of industrial alcohol from that of liquor. Alcohol is imported solely by the Government or by persons entrusted by the Government to the extent that domestic production falls short of domestic demand. There have been almost no exports of alcohol.

(e) Rice, wheat and barley
The Government (Food Agency) holds the monopoly for the import and export of rice, wheat and barley. (For the operation of State trading in these products, see Chapter V.)

(f) Milk products
For certain milk products, the Livestock Industry Promotion Corporation (LIPC) has, under the Law, an import monopoly. (For the operation of state trading in these products, see Chapter V.)

(g) Raw Silk (including dou pion silk)
Imports of raw silk are exclusively entrusted to the Japan Raw Silk and Sugar Price Stabilization Agency under the Cocoon and Raw Silk Price Stabilization Law of 1951. The Agency imports raw silk to the extent that domestic production falls short of domestic consumption and resells it to stabilize the price of domestically produced raw silk. There have been no exports of raw silk in recent years.

(h) Beef
The Livestock Industry Promotion Corporation (LIPC) is involved in the pricing, purchase and sales of imported beef. The import allocation system on beef will be terminated on 1 April 1991.

(xviii) Import promotion

157. As part of recent measures to improve access to the Japanese market and to reduce Japan's trade surplus, the Government of Japan has been encouraging the Japanese private sector to increase imports. On a number of occasions in recent years, the Government has requested leading Japanese private companies to expand their imports. Under the Action Programme launched in 1985, the interest rate of the Export-Import Bank of Japan for import credit on manufactured goods was lowered seven times, to the current 6.7 per cent, and the Government vowed to examine the problems concerning the distribution of imported goods. The problems related to the Japanese distribution system, such as conditions for the establishment of large-scale shops (Large-Scale Retail Store Law), are now being discussed in the framework of the Structural Impediments Initiatives talks between Japan and the United States.
158. In December 1989, the Japanese Government announced a new program of import expansion measures to be implemented from spring 1990. The measures include tax incentives to promote manufactured imports (a tax credit of 5 per cent of the increased amount of imports, etc.), tariff suspensions and reductions with respect to 1,008 products, a budget increase in import expansion programs to about US$100 million, and import expansion loan programs.

(3) Measures Directly Affecting Exports

(i) Taxes and other charges, tax exemptions

159. Japan does not maintain any export taxes. The consumption tax (3 per cent), introduced since April 1989, is exempted for goods to be exported from Japan.

(ii) Export prohibition

160. Products whose export is prohibited are listed in Attachment II of the Export Control Order. They include endangered animals and plants specified in international treaties; narcotics; false currencies and other products which constitute criminal offences in Japan; and national treasures and other important art.

(iii) Export control

161. The Foreign Exchange and Foreign Trade Control Law stipulates that exports of specific kinds of goods to a specified destination, designated by a Cabinet Order (the Export Trade Control Order) as obstructive to the maintenance of international peace and security, need to obtain a licence from the Minister of International Trade and Industry. In addition, the Law provides that the Minister, based on a Cabinet Order, may control exports for the protection of the balance of payments and for the sound development of foreign trade and the national economy. The list of goods subject to export control for security reasons is contained in Attachment I to the Export Trade Control Order, and the list of goods under export control for economic reasons is contained in Attachment II to the Order.

162. Most export controls for security reasons are imposed by Japan in cooperation with other countries, through the Coordinating Committee for Multilateral Export Controls (COCOM). Currently, 209 items are subject to COCOM-related export control. Export controls for other security reasons include missile equipment (33 items), materials for chemical weapons (50 items), arms and arms-producing equipment (15 items), nuclear-power materials subject to the Non-Proliferation Treaty (16 items), and products restricted for export to South Africa by UN resolutions (2 items); most of these products overlap with COCOM-related export control.

163. For economic reasons, approval is required for exports of tungsten ore, crude oil, silk cocoons, rice, wheat and barley, fertilizers and certain other products because of short supply on the domestic market. Exports of other products are controlled to implement voluntary restraint
arrangements or voluntary export restraints. They include cotton yarn exports to the United States and the United Kingdom, other textile exports, certain machine tool exports to the United States, and exports of bearings to the United States, Canada and Australia. Export controls on other industrial and fishery products are maintained for a variety of reasons, including quality control (e.g. second-hand automobiles), and health protection (e.g. certain frozen clams).

(iv) Export cartels

164. The Export and Import Transaction Law permits export cartels by exporters, producers or distributors for the purpose of preventing unfair export practices or establishing order in export practices. Exporters' cartels regarding export prices, quantities and other export-related issues need to be notified in advance to the Ministry of International Trade and Industry, but the Ministry's approval is not required. Other export cartels extending to domestic transactions need to be approved by the Ministry. Subject to consultation with the Fair Trade Commission, and as long as the cartels are formed under the Law, they are exempted from the application of the Anti-monopoly Act. In certain specified circumstances, the Minister can order the modification or abolition of such cartels.

165. In practice, the Ministry of International Trade and Industry often exercises its administrative guidance upon Japanese enterprises to form export cartels in order to implement governmental agreements on Japanese voluntary export restraints. If the export cartels are ineffective in achieving their objectives, the Ministry is also empowered to impose similar disciplines on enterprises which do not take part in export cartels.

166. The number of export cartels reached a peak of 217 in 1969, and then declined to 70 in 1979, and 42 in 1990. Twenty-eight of the existing cartels have been formed by exporters in order to regulate export prices, quantities, product qualities, design, etc. Eleven cartels concern domestic transactions of goods to be exported. The other three cartels have been formed by exporters' cooperative associations. The 42 cartels are active in the areas of exports of textiles and clothing (cotton and wool fabrics etc.), steel, machine tools, cutlery, porcelain and chinaware, pearls and some other products. Most cartels regulate exports to the United States or the EC, others focus on trade with China, the Soviet Union and a number of other countries.

(v) Export restraint arrangements

167. Over the last three decades, Japan has taken various measures to restrain exports of certain products to certain markets, especially the United States and the EC. In most cases, the Government of Japan has taken an active part in concluding voluntary restraint arrangements (VRAs) or administering voluntary export restraints (VERs) by Japanese industries as a means to avoid trade disputes caused, or anticipated, by the increase of certain exports in the markets of certain trading partners.
168. Over the years, the list of products subject to restraints in terms of export volume or prices has become longer: from textiles and clothing (late 1950s) to steel (1966), televisions (1977), machine tools (1978), passenger cars (1981), VTRs (1983), and semi-conductors (1986) (see Chapter V, Chart V.4). It is difficult to assess the exact situation. First, the definition of VRAs or VERs is not established. Second, there are many informal arrangements, details of which are not made public. Therefore, the listing of export restraint measures currently taken by Japan in Table IV.5 is preliminary and may not be complete.

169. As Table IV.5 shows, Japanese export restraint measures are heavily concentrated on exports to the United States, the EEC as a whole and the United Kingdom. All products concerned are industrial products. According to the Ministry of International Trade and Industry (MITI), in 1989, Japanese exports subject to export restraining regulations (automobiles, steel, machine tools, semi-conductors, textiles and clothing, porcelain and chinaware, and metal flatware) accounted for 12½ per cent of Japanese total merchandise exports (about 29 per cent of Japanese exports to the United States, and about 5 per cent of Japanese exports to the EEC).

170. Japanese export restraints have been implemented by various means. In some cases, as already mentioned, export cartels have been formed by exporters, producers or distributors under the Export and Import Transaction Law (for example, the VRAs with the United States on steel and machine tools, and a cartel on export prices of machine tools to the EC). Other products subject to VRAs or VERs have been designated under the Export Trade Control Order as export products which require MITI's approval (for example, exports of textile products under the MFA agreement with the United States, and the VRA with the United States on machine tools). In further cases, MITI has used its authority under the Export Trade Control Order to collect necessary reports from exporters (e.g. the VER on passenger cars to the United States), or its export authority under the Law for the Establishment of MITI (e.g. monitoring of exports of passenger cars to the EEC).

(vi) Export credit system

171. The export credit system of the Government of Japan is operated through the export insurance scheme of the Ministry of International Trade and Industry (MITI), and export credits extended by the Export-Import Bank of Japan. MITI operates insurance schemes to provide protection against risks associated with exports or other international transactions, which

---

35 The MITI's figures do not include exports to the EEC of passenger cars, VTRs and colour TVs, which are subject to monitoring measures.

36 Trade insurance schemes operated by MITI are not limited to export insurance, but also cover imports (Prepayment Import Insurance), and investment (Overseas Investment Insurance).
are not covered by private insurances. Under the system, there are eight insurance schemes, including export insurance for protection against pre-shipment losses and foreign investment insurance for losses due to certain events constituting political risks, such as war or internal disorder, or commercial risks, such as bankruptcy. The Export-Import Bank of Japan extends export credits together with commercial banks, particularly for large sales of capital goods or complete plants. The terms and conditions of these export credits are, according to the Government of Japan, in strict conformity with the OECD Arrangement on Guidelines for Officially Supported Export Credits, to which Japan is a participant. This arrangement is recognized within the terms of the GATT Subsidies Code.

(4) **Measures Affecting Production and Trade**

(i) **Subsidies**

172. The overall level of Government subsidies to agriculture and industry has fallen in Japan in the 1980s. According to OECD data, subsidies as percentage of GDP (excluding tax concessions) declined from 1.6 per cent in 1980 to 1 per cent in 1987, which was lower than for most other developed countries except the United States.

173. The last notification of the Government of Japan to the GATT concerning subsidies dates from June 1989. Accordingly, the following products are subject to Government subsidies:

- Rice, wheat and barley (the deficit in the control account of the 298 billion yen for FY 1989 excluding the deficit incurred from the surplus disposal of rice);
- Sweet and white potato (no financial payment was expected to maintain the price stabilization scheme for FY 1989);
- Sugar (a subsidy of 17 billion yen to the Japan Raw Silk and Sugar Price Stabilization Agency for FY 1988);
- Soybean and rapeseed (subsidies of 25 billion yen to soybean producers and 125 million yen to rapeseed producers for FY 1988);
- Silk cocoons and raw silk (no financial payment);
- Milk and milk products (a subsidy of 29 billion yen to the Livestock Industry Promotion Corporation for FY 1988);

---

37GATT (1989), Subsidies, Notification Pursuant to Article XVI:I, Japan L/6450/Add.10, 19 June.
- Bovine meat and pork (management costs of the price stabilization scheme are borne by benefits derived from the operation of the funds of the Livestock Industry Promotion Corporation).

174. Apart from the above-mentioned product-specific subsidies, Japan maintains a number of other subsidies which may affect production and trade. In agriculture, the central Government provides subsidies to local Governments and various agricultural associations for the purpose of structural improvement (see below), rationalisation of production, prevention of natural disasters, etc. In fisheries, subsidies are provided for the development of infrastructure, improvements in living environment of fishermen, and development of fishing areas. For fiscal 1990, the total budget for Government policies in agriculture, forestry and fisheries amounts to 3,112 billion yen, i.e. 4.7 per cent of the total Government budget.

175. In manufacturing, Government subsidies are provided largely for research and development and for assistance to small and medium scale enterprises. The measures introduced in the mid-1980s to financially assist small and medium scale enterprises suffering from the rapid appreciation of the yen were abolished by the end of 1988. Government subsidies for structural adjustment purposes have been greatly reduced.

(ii) Structural adjustment assistance

176. Structural adjustment in the industrial and agricultural sectors has been carried out chiefly by the private sector. However, the Japanese Government has implemented various measures to promote and smooth the process of adjustment, particularly in eliminating excess capacity of production and in limiting unemployment.

177. Under the Temporary Measures Law for the Stabilization of Specific Depressed Industries (from 1978 to 1983), and the Temporary Measures Law for the Structural Adjustment of Specific Industries (from 1983 to 1988), the Japanese Government implemented various measures to assist structural adjustment in a number of industries such as steel, aluminium refining, textiles, shipbuilding, paper, petrochemicals, sugar refining and so forth. The measures included loan guarantees through a fund specially created by the Japan Development Bank and private sectors, and the arrangement of cartels among private firms with the approval of the Fair Trade Commission. These measures were terminated by 1988.

178. Currently, the Law on Temporary Measures for Facilitating Industrial Structural Conversion (April 1987 - ) is the main tool to implement structural adjustment policies. Unlike previous ones, the law is not intended to assist the modernization of industries under adjustment pressure, but to promote the movement of resources to other sectors or activities. Support is provided if a firm replaces equipment for the manufacturing of steel, textiles, non-ferrous metals, liquid oxygen manufacturing, cement, and some other products, by equipment for other
business. Measures under the law include loan guarantees for the disposal of such equipment, loans from the Japanese Development Bank for introducing new equipment, and tax relief through a special depreciation system. No appropriation for these measures is provided in the Government budget.

179. Government assistance is also available for small- and medium-sized enterprises under the Mechatronics Investment Promotion Tax System which Japan introduced in 1984, with a view to increasing productivity and improving management skills. It gives special depreciation of 30 per cent or a tax credit of 7 per cent to small- and medium-sized enterprises when they purchase mechatronic machines and computers for their operation.

180. The Government of Japan has been promoting structural adjustment of the coal mining industry, currently under the Eighth Coal Policy which entered into effect in 1987.

181. In agriculture, the emphasis in the Government policy has been shifting from price stabilization to structural adjustment, particularly to assist the conversion from rice production into the production of other crops. For conversion, the Government (Ministry of Agriculture, Forestry and Fisheries) appropriated 163 billion yen in the fiscal year 1990 budget. In addition, the Government has been promoting the improvement of agricultural infrastructure with a view to enlarging the scale of production and raising productivity: about 1,070 billion yen was appropriated for such purposes in the fiscal 1990 budget.

(iii) Research and development (R & D) assistance

182. R & D in Japan has been predominantly financed by private companies. The Japanese share of Government-financed in total industrial R & D has been about 20 per cent, considerably lower than in other developed countries (Table IV.6). Table IV.7 also shows that in such leading industrial sectors as electrical and machinery, the Japanese share of Government-financed R & D is very small.

183. The Japanese Government has also been promoting R & D in industries by way of direct research in national laboratories (e.g. MITI's Agency of Industrial Science and Technology (AIST)), contracted research and direct subsidies for basic research conducted by private firms often in collaboration with national laboratories. There are tax privileges for R & D expenditure, and a number of other measures. The basic policies of the Japanese Government in R & D assistance have been to assist individual industries in general, rather than particular firms, and to finance large scale R & D projects which are technologically risky and require a long maturity term and huge costs.

184. In fiscal 1990, the total budget appropriated for science and technology amounted to 1,816 billion yen. Nearly 85 per cent of the R & D budget was appropriated to the Ministry of Education, Science and Technology Agency and MITI. The fiscal 1989 budget for AIST, for example, was 118 billion yen. This budget covers the Superconductivity project (fiscal 1988 to 1997) and other R & D projects on basic technologies, the
High-Speed Computing System for Scientific and Technological Uses
(fiscal 1981 to 1989) and other large-scale projects, the sunshine project
for new energy technology and other projects. A number of Government
projects on basic R & D are contracted to private firms or their
associations, the selection of which is made by means of public offerings.
The results of such projects are made available to the public.

185. Research and development of satellites have been promoted by the
Japanese Government. It has also been the Government policy to allow
Government entities and NTT (the recently privatized telecommunication
company) to procure foreign satellites only when their procurement does not
interfere with indigenous space development objectives (there has been no
restriction on private company imports of satellites). The practice was
listed as one of the "priority practices" announced by the United States in
1989 under the so-called Super 301 process. As a result of talks between
the two countries, Japan agreed in April 1990 that the procurement through
purchase or lease of all satellites (or capacity thereon), other than
R & D satellites and R & D payloads on non-R & D satellites, by or for the
Government of Japan or Government-controlled entities including NTT would
be conducted in accordance with open, transparent and non-discriminatory
procedures.
V. TRADE POLICIES AND PRACTICES BY SECTOR

186. The following analysis of Japanese trade policies and practices by sector is principally based on the product categories of the GATT Tariff Study, which permit analysis of the Japanese tariff in individual sectors by stages of processing. Import statistics (based on the HS) of 1988 have been provided by Japan. Based upon these statistics, the summary of Japanese imports, tariff averages, and tariff ranges according to Tariff Study product categories is shown in Table V.1. Information on Japanese exports in this Chapter is, in general, derived from Japanese trade statistics which are also based on the HS. Data on Japanese production, consumption and employment by product group do not fully correspond with that of the Tariff Study.

(1) Agriculture

(i) Overview

187. Japan's land area amounts to about 38 million hectares, of which 67 per cent are forests, 14 per cent is farming land and the remainder largely residential land and roads. Japan's geography thus puts serious constraints on Japanese agriculture.

188. While agricultural output expanded, the contribution of agriculture to GDP rapidly declined from 9 per cent in 1965 to 3 per cent in 1987. The number of farm households also declined from six million in 1960 to 4.3 million in 1987, with part-time farm households accounting for 87 per cent. More than half of Japan's farming land is used for rice-paddy farming; hence the importance attached by Japan to policy issues related to rice.

189. In terms of agricultural output, rice accounted for the largest share in value in 1988 (29 per cent), followed by vegetables (22 per cent), fruits (7½ per cent), milk (6½ per cent), pigmeat (6½ per cent), beef (5 per cent), and poultrymeat (3½ per cent). While the share of rice in total agricultural output has considerably declined during the last three decades, the shares of livestock products and vegetables have almost doubled.

190. According to Japanese Government data, Japan's overall food self-sufficiency rate declined, on a calorie basis, from 79 per cent in 1960 to 49 per cent in 1988. The food-supply situation is characterized by very high rates of self-sufficiency for some products (e.g. rice, vegetables, livestock products) and very low rates of self-sufficiency for other products (e.g. wheat, soybeans, coarse grain; Chart V.1).
191. Japan continues to be the world's largest net importer of agricultural products. According to trade statistics of the Japanese Ministry of Finance, the value of total agricultural imports was US$30 billion in 1989, accounting for 14 per cent of total merchandise imports. In the same year, exports of agricultural products were 1 billion dollars, accounting for ¾ per cent of total merchandise exports.

192. Imports of fish products have been growing rapidly in recent years. In 1989, they accounted for 36 per cent of total agricultural imports. Imports of beef, pigmeat, poultrymeat, alcoholic beverages, tobacco, fruit and vegetables have also been growing rapidly, while imports of grains have been generally stagnant (Chart V.2).

Source: Ministry of Agriculture, Forestry and Fisheries (MAFF).
Chart V.2
Japanese agricultural imports by major product category, 1983-88

(US$ billion, per cent)

Note: Product categories in this Chart may not strictly correspond to the GATT Tariff Study product categories.


193. The major supplier of agricultural products to Japan has been the United States, accounting for one-third of total Japanese agricultural imports in 1988. The share of South-east Asian countries in Japan's agricultural imports has been rapidly growing, except in 1988 when it dropped from 29 to 25% per cent. According to the Japanese definition of regions, Western Europe accounted for 9% per cent in 1988, the Communist countries for 8% per cent, Oceania for 8 per cent, Latin America for 6 per cent and Africa for 3½ per cent of total agricultural imports in 1988.

194. Fundamental objectives of Japan's agricultural policies are laid down in the Agricultural Basic Law of 1961. They are mainly:
- to raise productivity so that the gap in productivity between agriculture and other industries will be reduced; and

- to enable farmers to enjoy equal standards of living as workers in other industries.

To achieve these objectives, a complex set of domestic and border measures have been implemented for several agricultural products, including price support measures which often involve State trading and Government subsidies.

195. Japan's average applied tariff rate on agricultural products remains relatively high, with a simple average of 12.1 per cent and a weighted average of 6.6 per cent (Chart V.3). As noted in Chapter IV, considerable tariff escalation is present in agriculture.

Chart V.3
Tariff levels for agricultural products in Japan, 1989
(Per cent)

<table>
<thead>
<tr>
<th>Product Category</th>
<th>Simple average</th>
<th>Lowest</th>
<th>Highest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dairy products</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beverages &amp; spirits</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foodstuffs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Animal products</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fish, shellfish, etc.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tobacco</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oilseeds, etc.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grains</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: GATT Tariff Study and GATT Secretariat estimates.
196. In recent years, however, a series of market-opening measures have been taken to reduce or eliminate tariffs on a number of agricultural products. In April 1989, Japan implemented its offers on tropical products in the Uruguay Round negotiations which comprised tariff cuts and suspensions for 123 items on a tariff-line basis.

197. Japan's GSP scheme covers 77 out of 201 agricultural items under HS four-digit headings. Positive GSP rates are applied to many of these items. In fiscal 1988, about 18 per cent of the agricultural imports from developing countries actually benefited from the Japanese GSP scheme.

198. The percentage of bound agricultural tariffs is smaller than in many other industrial countries (66 per cent in terms of 1986 m.f.n. imports, and 63 per cent in terms of tariff lines).

199. Import quotas on agricultural products, once the predominant instrument of protection, have been gradually removed for most products. The number of agricultural products subject to quantitative import restrictions was reduced from 102 (CCCN four-digit headings) in 1962 to 22 in 1974. Market-opening measures announced in 1988 included the termination of remaining import quotas for a number of important agricultural products such as beef, oranges and other agricultural products (Table V.2). Once this programme will be completed (April 1992), 13 agricultural products (CCCN four-digit headings) will remain subject to quantitative import restrictions (Table V.3).

200. State-trading enterprises with exclusive import authority under relevant laws affect Japan's imports of rice, wheat and barley, leaf tobacco, opium and certain milk products. Due to the surplus of rice production in recent years, the importation of rice has been virtually nil. The level of imports of the other products varies. In particular, the share of imports in domestic consumption of wheat and barley is very large. Some market-opening measures have been recently implemented for imports of milk products.

201. A wide range of agricultural products are subject to packing and labelling regulations under the Food Sanitation Law and the law concerning standardization and proper labelling of agricultural and forestry products (JAS). Most agricultural products are also subject to sanitary and phytosanitary regulations under the Food Sanitation Law, the Plant Protection Law, the Domestic Animal Infections Diseases Control Law and others. Fifty-one complaints have been filed with the Office of Trade and Investment Ombudsman (OTO) regarding these regulations, requesting the simplification and speeding-up of inspection procedures, acceptance of foreign test data or results, relaxation of certain requirements and so

---

38 The measures have been taken in the context of the Action Programme, the Market-Oriented Sector-Selective talks with the United States on forestry products, etc.
forth. In response to such complaints, the Government of Japan has taken certain steps to accept foreign test data and to simplify and expedite import procedures in 13 cases, and to clear up misunderstandings in another 13 cases.

202. Price support measures are applied to many agricultural products, such as rice, wheat and barley, sweet and white potatoes, sugar, soybean and rapeseed, milk and milk products, bovine meat and pork. A specific system applies to each product. In many cases, the measures include Government expenditures. For example, in fiscal 1989 Government subsidies (deficit in the control account) amounted to 298 billion yen for rice, wheat and barley (excluding the deficit incurred from the surplus disposal of rice), 17 billion yen for sugar, 26 billion yen for soybeans and rapeseed, and 29 billion yen for milk and milk products. As a result of the price support and other measures, prices of many agricultural products in Japan are considerably higher than in other industrial countries (Appendix Table AV.1). For example, according to estimates by the Government of Japan, the unit retail price of rice in Tokyo is about three times as high as in New York. In terms of Government purchase prices, the price difference of rice between Japan and the United States is 660 per cent. Beef, dairy products, sugar, certain vegetables and fruits are also substantially more expensive in Tokyo than in other major foreign cities.

203. In recent years, however, the support prices have been frozen or lowered for most products. For fiscal 1989, they largely corresponded to the support prices applied about 10 years ago (Table V.4). The focus in Government expenditures has shifted from price support policy to structural adjustment policies, including improvements in infrastructure. The share of expenditures for price support within the national agricultural budget declined from 25 per cent in fiscal 1982 to 13 per cent in fiscal 1990, while the share of expenditure for land-related improvements increased from 13 to 43 per cent.

204. According to the Japanese Government, the total assistance to agriculture has declined since 1986. Japan's total Aggregate Measurement of Support (AMS) declined from 5,107 billion yen in fiscal 1986 to an estimated 4,130 billion yen in fiscal 1989 (Table V.5). According to the OECD, the average net percentage producer subsidy equivalent (PSE) for Japanese agricultural products grew slightly in 1987 (calendar year), but declined in both 1988 and 1989 (Table V.6).

---


(ii) Foodstuffs

205. Tariff Study Category 24 contains various fruits, vegetables, coffee, tea, spices, cocoa and chocolate, sugar, flour, starches and other foodstuffs. In 1988, imports of these foodstuffs accounted for about 18 per cent of total Japanese imports of agricultural products. The share of imports in total domestic consumption varies by individual product (Table V.7). The level of tariffs on these products is generally high (simple average of 16.8 per cent, and weighted average of 11.7 per cent; Table V.1).

206. Recent trade liberalization measures have involved many products in this category (fresh oranges and other fruits, vegetables, sugar products etc.). However, some products, such as rice flour and wheat flour, starch, and other prepared foodstuffs based on dairy products, cereals and seaweed, remain subject to import quotas. Sanitary and phytosanitary regulations under the Food Sanitation Law and the Plant Protection Law apply to most products in this category.

207. Import quotas on fruits and fruit products, such as fresh grapes, apples, grapefruit and their preparations, have been gradually removed during the last two decades. With the scheduled termination of the import allocation system on fresh oranges as from 1 April 1991, all import quotas on fresh, dried, prepared or preserved fruits will be abolished.

208. Tariff rates on a certain number of fruits and fruit products have also been reduced as part of the market-opening measures in recent years. For example, tariff rates on lemons and pistachios have been lowered to zero and the rate on grapefruit to 10 per cent. However, tariff rates on most fresh fruits and fruit products remain considerable, in many cases between 10 and 20 per cent. While many of these products are subject to the GSP scheme, positive GSP rates (mostly below 10 per cent) are applied, except for imports from least developed countries.

209. Seasonal tariffs are applied to bananas (40 per cent m.f.n. and 10 per cent GSP rate from April to September, and 50 per cent m.f.n. and 20 per cent GSP rate from October to March), grapefruit (provisionally preserved) and oranges (20 per cent from June to November, and 40 per cent from December to May) and grapes (13 per cent from November to February, and 20 per cent from March to October). The higher tariffs are applied when like domestic products or domestic substitutes (e.g. mandarin oranges) are marketed.

210. Imports of vegetables have been liberalized except for certain dried leguminous vegetables (excluding green beans), such as small red beans, peas, broad beans and French beans, which constitute the main rotation crops in northern parts of Japan. These products have also been subject to the Government's supply control measures. A GATT Panel report in 1988 (L/6253, page 72) found the import quotas justifiable under the General Agreement as they could be reasonably considered 'necessary' to ensure the enforcement of production restrictions. However, the Panel noted that the burden of proof rested with Japan with respect to the requirement under the
General Agreement to maintain the proportion of imports to domestic production that might reasonably be expected to rule between the two in the absence of restrictions. Subsequently, Japan announced that import quotas on chick-peas and lentils would be removed on 2 October 1988, and that, from fiscal 1988 to fiscal 1990, the minimum import access would be maintained at 120,000 metric tons per year.

211. Although Japan is one of the world's major importers of sugar, and imports represent nearly 70 per cent of total domestic consumption (on a raw sugar basis), Japanese beet and cane sugar producers have been heavily protected by high tariffs and the price stabilization scheme under the Sugar Price Stabilization Law of 1965. The price stabilization scheme is implemented by the Japan Raw Silk and Sugar Price Stabilization Agency.

212. When the price of imported sugar falls below a target price set by the Government, the difference between the two prices multiplied by a certain adjustment rate is levied on imported sugar. When the import price of sugar falls below the floor price of a stabilization range, the difference between the two prices is collected as a fund for stabilizing the price of domestic sugar. The producers of high-fructose corn syrup (HFCS), a substitute for sugar, also share the cost incurred to support domestically-produced sugar prices through the purchase or resale operations by the Corporation; thereby, prices of sweeteners as a whole are intended to be stabilized under the scheme. In addition, the same kind of levy was introduced on imports of HFCS which were liberalized in April 1990.

213. As a result of these measures, the price of refined sugar in Japan is well above the world price. Imports are almost exclusively raw sugar. The sugar consumption tax was abolished in April 1989, in the context of the tax reform which introduced a 3 per cent across-the-board consumption tax for all products and services. Import quotas previously applied to certain sugars (HS 1702 ex, other sugars and sugar syrups excluding lactose) were eliminated on 1 April 1990, and the unbound tariffs on these products were raised. In April 1990, a levy was also introduced on HFCS and mixed sugar which contained sugar and HFCS.

214. In 1988, as a follow-up to GATT Panel recommendations on certain agricultural products (L/6389), Japan announced market-opening measures. They included the following measures on foodstuffs:

- the termination of import quotas on tomato ketchup and tomato sauce (HS 2103 ex) on 1 July 1989, and an increase in tariff rates on tomato ketchup;

- the termination of import quotas on food preparations mainly consisting of sugar (HS 2106 ex) on 1 April 1990, and the withdrawal of tariff concessions on a portion of these products;
the termination of import quotas on whipped cream in pressurized containers (HS 0402.99-010 ex and 1901.90-112 ex) on 1 April 1990;

- the termination of import quotas on stuffed and other pasta (HS 1902.20 ex and 1902.30 ex) on 1 October 1988; and

- the termination of import quotas on ice-cream (HS 2105) and on protein concentrates (HS 2106.10 ex) on 1 April 1990, and an increase in quotas during the period preceding the termination.

215. With respect to imports of starch and inulin (HS 11.08), Japan announced in 1988 that the quotas for these products would be maintained at 150,000 metric tons annually between fiscal 1988 and fiscal 1990. Japan has taken no steps to remove the import quotas, although the GATT Panel did not consider them justifiable under GATT Article XI:2(c)(i). Potatoes and sweet potatoes, which are used to make starches, are mainly produced in the extreme northern and southern parts of the Japanese islands where either the conditions for other crops are poor or potatoes are important rotation crops. Import quotas are therefore considered to be necessary to protect the farmers in these regions.

(iii) Grains

216. Tariff Study Category 25 includes rice, wheat and barley and other grains. Rice, wheat and barley are subject to State trading and import quotas. Imports of rice have been negligible in recent years. On the other hand, Japan imports about 80 to 90 per cent of its total consumption of wheat and barley, and almost 100 per cent of maize and sorghum (Table IV.3).

217. While the share of rice in the total value of Japanese agricultural output declined from 47 per cent in fiscal 1960 to 29 per cent in 1988, rice remains the most important agricultural product in Japan in terms of production, employment, and the main staple food; 3.4 million farm households, about 80 per cent of the total were engaged in rice production in 1989 (the majority are part-time farm households). In 1988, 26 per cent of per capita calorie intake was derived from rice.

218. Under the Food Control Law of 1942 (Law No. 40), the Government is authorized to adjust demand, supply and prices of rice, wheat and barley in order to guarantee food supply, to stabilize the national economy and, ultimately, to ensure their reproduction and to stabilize consumers' household budgets. As part of the Food Control System under the law, the price support system and controls on the export and import of rice, wheat and barley are administered by the Government. Total import requirements for rice, wheat and barley are determined by the Government. Actual import and export transactions are carried out by private traders, subject to Government permission or as agents of the Government. The selling prices of imported rice, wheat and barley are also set by the Government.
219. The main objective of Japan's rice policy had long been the attainment of self-sufficiency. The Government supported this objective through various measures, including high Government purchase prices under the Food Control System until self-sufficiency was realized in the middle of the 1960s. Since then, due to decreasing consumption and increasing production, a huge stockpile of surplus rice accumulated. The Government took various measures to reduce production, including the subsidized diversion of rice production into production of other crops, such as wheat and soybeans, and the freeze and lowering of the Government purchase price (producer price). By 1988, about 30 per cent of the potential rice-planting area had been converted to production of other crops. Due to the surplus of rice, imports of rice have been nil in recent years, with the exception of some imports for special use such as glutinous rice. 41

220. Due to the support system, prices of rice and wheat in Japan are considerably higher than in other countries. For example, in 1989 the Government purchase prices of rice and wheat in Japan were 6.6 times and 7.8 times higher, respectively, than the corresponding Government target prices in the United States. 42

221. In the Uruguay Round negotiations on agriculture, Japan has advocated the maintenance of quantitative restrictions for "basic foodstuffs" such as rice for food security considerations. According to the Government of Japan, there is a solid national consensus that rice should be treated as such an exception and be supplied domestically even if this entails a relatively high cost. 43 The argument against the liberalization of imports of rice is based on the rôle which rice plays in the Japanese diet, agricultural production, community life, preservation of land, and traditional Japanese culture.

222. Japan imports most of its consumption of coarse grains other than barley (rye, oats, maize and grain sorghum). In 1988, the share of coarse grains in total Japanese agricultural imports amounted to about 10 per cent. Coarse grains are mainly consumed by the domestic livestock industry. Imports of oats and maize are subject to tariff quotas. Accordingly, imports covering the difference between expected domestic demand and domestic production are subject to lower tariffs than imports over and above that quantity.

---

41 Between fiscal 1979 and 1982, rice was exported under Government management to dispose of the surplus. The programme was terminated in fiscal 1983.

42 This price comparison is based upon the data provided by the Japanese Ministry of Agriculture, Forestry and Fisheries.

43 In September 1988, both Houses of the Diet unanimously passed the resolution to oppose the liberalization of rice imports.
(iv) Animals and animal products

223. Tariff Study Category 26 includes beef, pigmeat, poultrymeat, live animals and other animal products. In 1988, the domestic production of beef, pigmeat and poultrymeat accounted for 5 per cent, 6½ per cent and 3¼ per cent, respectively, of the total value of Japanese agricultural production. In fiscal 1988, imports of these three products accounted, respectively, for 42, 24, and 16 per cent of their total consumption in Japan. Imports of these products have been growing very rapidly in recent years, as evident from the 28 per cent growth in the volume of beef imports in fiscal 1988 (Table V.8).

224. Beef has been subject to a price stabilization system combined with quantitative import restrictions. In 1988, after a series of negotiations with its trading partners, the Government of Japan announced that import quotas on beef will be terminated on 1 April 1991. The Livestock Industry Promotion Corporation (LIPC), currently responsible for the operation of the beef price stabilization system, will no longer be involved in the pricing, purchase of sales of imported beef after 1 April 1991. During the transitional period preceding the termination of the import allocation system, import quotas will be increased by stages. During that period, the tariff on beef will be maintained at 25 per cent ad valorem; but the tariff will be raised to 70 per cent in fiscal 1991, then reduced to 60 per cent in fiscal 1992, and to 50 per cent in 1993. Emergency adjustment measures may be applied if beef imports reach certain levels.

225. On 1 April 1990, Japan phased out quantitative import restrictions on prepared or preserved beef, which had been found inconsistent with the General Agreement by a GATT Panel. Tariff rates for most prepared or preserved beef are 25 per cent except for certain items: the tariff on beef jerky was lowered from 25 to 10 per cent in April 1989. In April 1990, the tariff on certain prepared and preserved beef was raised from 25 to 70 per cent. This rate is to be lowered to 50 per cent in April 1993, and the Government of Japan announced its readiness to negotiate the tariff rate, at that level, in the Uruguay Round.

226. With respect to pigmeat, imports have been liberalized since 1971, but the tariff is subject to a differential duty system linked with the

---

44 GATT 1988, Japan: Market-opening measures on beef, citrus and other products, L/6470, 8 July.

45 The level for fiscal 1991 is the amount equivalent to 120 per cent of the quota for fiscal 1990 or the actual import recorded in fiscal 1990, whichever the greater, and a similar formula is applied to fiscal 1992 and fiscal 1993.

domestic price stabilization scheme. Duties are either 5 per cent or the difference between the unit value for customs duty and the standard import price, whichever is bigger. The standard import price was annually lowered in recent years, from 650 yen per kilogramme in fiscal 1986 to 482.5 yen in fiscal 1989. Along with the reduction in restrictions, imports of pigmeat grew by 36 per cent in value terms in 1987, and by 16½ per cent in 1988.

227. Imports of poultrymeat are subject to an ad valorem tariff. Tariff rates on chicken with bone-in-legs (fresh or chilled cuts and offal) are bound at 10 per cent, but tariff rates on boneless chicken are an unbound 12 per cent. The tariff difference used to be 4 percentage points, but in April 1989 was narrowed to the present level at the request of Thailand, Japan's main import source. The difference is intended to protect domestic processors of chicken who are less competitive than their overseas competitors due to the high labour costs in Japan.

228. Imports of most products in this category are subject to sanitary regulations under the Domestic Animal Infections Disease Control Law, or the Food Sanitation Law. The regulations are to prevent imports of animals or animal products which are infected by diseases.

(v) **Oilseeds, fats and oils**

229. Tariff Study Category 27 includes soybeans, rapeseed, groundnuts, vegetable oils, and other fats and oils. Japan is the world's leading importer of soybeans, accounting for about 18 per cent of the total volume of world imports of soybeans in 1986. Self-sufficiency ratios for soybeans and rapeseed are particularly low. In both fiscal 1987 and fiscal 1988, imports were slightly larger than domestic consumption (Table V.9). Imports of vegetable oils and fats accounted for about 18 per cent of total consumption in fiscal 1987.

230. Groundnuts are subject to import quotas. Groundnuts are planted in the southern parts of Japan as a drought-resistant rotation crop. Domestic production of groundnuts has been under Government control. Import quotas on groundnuts were found by a GATT Panel in 1988 (L/6389) justifiable under the General Agreement as import restrictions could be reasonably considered "necessary" to ensure the enforcement of production restrictions. However, the Panel noted that the burden of proof rested with Japan with respect to the requirement under the General Agreement to maintain the proportion of imports to domestic production that might reasonably be expected to rule between the two in the absence of restrictions. Subsequently, Japan increased the minimum import access of groundnuts from 60,000 to 75,000 metric tons per year for fiscal 1990. Japan also announced (L/6389) that import allocations for groundnuts used for the manufacturing of peanut butter would be set in accordance with demand.

231. Tariff rates for oilseeds and oleaginous fruit, and their flours or meals are very low (simple average applied tariff of 1.6 per cent), but those of vegetable oils are higher (simple average applied tariff of 5.4 per cent; Table V.1), indicating substantial tariff escalation.
Most products in this category are subject to sanitary and phytosanitary regulations under the Plant Quarantine Law and the Food Sanitation Law. As part of the Action Programme for Improved Market Access, Japan has recently eliminated import notification procedures for crude vegetable oils.

A deficiency payments régime applies to domestic production of soybeans and rapeseed, but domestic production of these products accounts for a very small share of total consumption. These products, especially soybeans, are important in the traditional Japanese diet. The Government has been promoting domestic production of these products, partly reflecting concerns about their supply following an export embargo by the United States in 1973. According to the Government's long-term outlook for agricultural demand and supply, approved by the Cabinet in January 1989, the percentage of domestic production in total domestic demand for soybeans is expected to rise from 6 per cent in 1987 to between 6 and 8 per cent in the year 2000.

(vi) **Beverages and spirits**

Fruit and vegetable juices, wine and other beverages and spirits are covered by Tariff Study Category 29. In April 1989, Japan implemented an internal tax reform with regard to wine and other beverages. As a result of these reforms, tariffs will remain the main instrument of protection. Tariff levels are relatively high (simple average applied tariff of 23.7 per cent).

With respect to fruit juices, several trade measures have been decided upon by the Japanese Government, mostly (except for orange juices) as a follow-up to recommendations of a GATT Panel (L/6253), adopted by the GATT Council in February 1988. The measures comprised

- the termination of import quotas on fruit juices for infants on 1 October 1988;
- the termination of import quotas for non-citrus fruit juices other than apple, grape and pineapple on 1 April 1989;
- the termination of import quotas for apple, grape and pineapple juices on 1 April 1990 (tariff rates on certain apple juices with sugar and certain apple juices without sugar were raised by 5 per cent from 35 and 30 per cent, respectively, to 40 and 35 per cent);
- the termination of the import quota for tomato juice on 1 July 1989 (tariff rates on tomato juice with sugar were raised from 25 to 35 per cent, and on other tomato juice from 20 to 25 per cent); and
- a staged increase in import quotas for orange juice and orange juice mixtures during the period fiscal 1988 to fiscal 1991, and the abolition of import quotas on 1 April 1992. The requirement for imported orange juice to be blended with domestic mandarin orange juice was abolished on 1 April 1990.
With the lapsing of the quotas for orange juice in April 1992, all import quotas on fruit juices will have been phased out.

236. Reflecting the increase in import quotas, the volume of imports of orange juice, apple juice and grape juice increased by about 109 per cent between 1988 and 1989.

237. With respect to wines and alcoholic beverages, Japan revised the Liquor Tax Law, effective 1 April 1989, in order to implement the recommendations of a GATT Panel (L/6216) adopted by the GATT Council in November 1987. The Panel was established at the request of the European Communities. It had found that certain Japanese taxation systems on whiskies and other alcoholic beverages were inconsistent with the General Agreement. The main points of the revision were

- to abolish the ad valorem tax on whiskies/brandies, wines and certain other alcoholic beverages, and to abolish the "grading system" for these beverages as well as taxation according to the extract content of "liqueurs", etc.; and

- to reduce considerably the existing differences between taxes on whiskies/brandies and "shochu", by reducing the rate of the specific tax on whiskies/brandies and by raising that on "shochu".

238. Imports of wines and alcoholic beverages have been growing very rapidly in recent years. In value terms, they increased by 54 per cent in 1987 and by 49 per cent in 1988. The revision of the Liquor Tax Law has contributed to rapid increases of imports of wines and alcoholic beverages. During the period April to November 1989, the taxable import volume was 55 per cent above the corresponding year-earlier level, while domestic production remained stagnated.

239. Most products in this category are subject to sanitary regulations under the Food Sanitation Law. Labelling regulations under various laws and ordinances also apply in order to prevent the use of trade names in such a manner as to misrepresent the true origin of a product.

(vii) Dairy products

240. In Japan, consumption of dairy products (Tariff Study Category 30: fluid milk, butter and cheese) has gradually grown in recent years, although it is still low compared with other developed countries. For example, in 1986 Japanese per capita consumption of milk was about one-fourth of that of the United States. Due to excess supply of milk, the

---

47 See GATT (1989), Japan, Customs duties, taxes and labelling practices on imported wines and alcoholic beverages. Follow-up to the Panel Report, L/6465, 2 February.
Government introduced the control of milk production in fiscal 1979, and has maintained import restrictions for a number of milk products. There have been no subsidized exports.

241. A certain number of milk products have been subject to State trading and import quotas since 1966. The Livestock Industry Promotion Corporation (LIPC) has an import monopoly for these products. The LIPC begins to import when domestic market prices rise, or are likely to rise, above the Stabilization Indicative Price fixed by the Government. The LIPC sells the imported products in Japan if market prices are likely to rise beyond a fixed margin above the indicative price. Thus, imports occur only if the domestic market prices are above the indicative price. The indicative price has been lowered step-wise since fiscal 1986, the rate of reduction being 2.6 per cent for fiscal 1990.

242. Import quotas on milk products under State trading (except for butter) and processed cheese were examined by a GATT Panel. The Panel, established in 1986 at the request of the United States, found the import restrictions on these products inconsistent with the General Agreement. The Panel report was adopted by the GATT Council in February 1988 (L/6253). As a follow-up to the Panel’s recommendations, the Government of Japan announced market-opening measures in September 1988 which included the elimination of import quotas on processed cheese (from 1 April 1989), frozen yogurt and ice cream (from 1 April 1990), whipped cream in pressurized containers (from 1 April 1990), and the improved import access for other dairy products from fiscal 1988 to fiscal 1990. The tariff on processed cheese was raised from 35 per cent to 60 per cent from 1 April 1989, but then reduced to 50 per cent from April 1990. From April 1991, a rate of 40 per cent is announced.

243. For butter and certain of the milk products which had been subject to the Panel, import quotas remain under the State trading system (for Australia’s reservation on this issue, see Chapter VI).

244. Within a quota set by the Government, imports of natural cheese are duty free if used for manufacturing processed cheese. Over and above the quota, and if used for direct consumption, natural cheese is subject to a 35 per cent ad valorem duty.

245. Most dairy products are subject to sanitary regulations under the Food Sanitation Law, and some are also subject to packaging and labelling regulations.

---

48 The products are butter, skimmed milk powder, sugared condensed whole milk, sugared condensed skimmed milk, whole milk powder, buttermilk powder and whey powder. For production and trade of these products, see Table V.10.
246. Japan has the world's largest per-capita consumption of fish and other marine products and is the world's largest importer of these products. Since 1971, Japan has been a net importer (in terms of value) of fish and fish products (Tariff Study Category 31). Imports, particularly imports of processed fish products, have been growing rapidly in recent years (Table V.11). In 1988, the import value of total fish products grew by 31 per cent, and that of processed fish products by 60 per cent.

247. Average applied tariff rates for fish and fish products are relatively low compared with other agricultural products (simple average tariff of 7.7 per cent). However, tariff escalation is present as the level of tariffs rises for semi-processed fish (average tariff rate for salted, in-brine, dried or smoked fish of 13.1 per cent, compared with 5.6 per cent for fresh, chilled or frozen fish). The tariff level for prepared or preserved fish is 9.7 per cent. The GSP scheme is widely applied for prepared or preserved fish, but it covers only a limited share of unprocessed or semi-processed fish.

248. Quantitative restrictions are imposed on certain fish, mostly fish caught in coastal waters and subject to fluctuations both in production and in prices. The quotas are administered jointly by the Ministry of International Trade and Industry (MITI) in consultation with the Ministry of Agriculture, Forestry and Fisheries. They are newly fixed for each Japanese fiscal year (1 April to 31 March). Some import quotas are announced semi-annually. They generally include some by-products of the same species, such as pollack surimi.

249. In November 1986, the United States requested a GATT Panel under Article XXIII:2 to examine Japanese import restrictions on herring, pollock and surimi, claiming that those restrictions were contrary to the General Agreement, in particular Article XI. However, subsequent to bilateral consultations, which were concluded in March 1987, the United States withdrew the request to establish a Panel. Japan agreed to take measures to increase access of Pacific herring and processed pollock products to the Japanese market by expanding the size of quotas and also introducing new quota categories.

250. The central Government of Japan provides subsidies to local Governments and fisheries associations for developing fishing infrastructure, improving the living environment, developing coastal fishing areas, acquiring overseas fishing areas, promoting distribution and

49Live, fresh, chilled (iced), frozen, salted, brined or dried herring, cod and pollock, yellowtail, mackerel, sardine, horse mackerel, saury, scallop, squid (except cuttlefish), cod or pollock roe and seaweed (including kelp).
processing of fish products and for some other purposes. In fiscal 1990, the subsidies amounted to 335 billion yen.

251. Fishing is subject to various controls administered by the Government with a view to preserving marine products, such as restrictions on the number of fishing vessels, fishing methods and fishing seasons and zones, etc. Fish and fish products are also subject to sanitary regulations under the Food Sanitation Law.

(ix) Tobacco

252. Leaf tobacco and manufactured tobacco are covered by Tariff Study Category 32. While total Japanese consumption of manufactured tobacco has been stagnant at around 310 billion pieces per year, imports of manufactured tobacco, mostly from the United States, have been growing rapidly during the last five years. The share of imports in total Japanese consumption grew from 2.4 per cent in fiscal 1985 to 14.7 per cent in fiscal 1989 (Table V.12).

253. The recent rapid increase in imports of manufactured tobacco is largely due to various liberalization measures which the Government of Japan has undertaken, including measures announced in October 1986 as a result of consultations with the United States. The Japanese Government reduced, on a temporary basis, tariffs on cigarettes to zero, shortened the minimum price application period from 60 to 30 days, ended the transitional measure for the Japan Tobacco Inc. (JTI) on the time limit for excise tax payments, and took measures to ensure that the distribution system be improved on a commercial basis.

254. The import régime for leaf tobacco was also changed in April 1985. The tobacco monopoly system, controlled by the Japan Tobacco and Salt Public Corporation, was abolished. The Corporation became a private enterprise, the Japan Tobacco Inc. (JTI), under the JTI Law. However, under the law the JTI maintained the monopoly of the domestic production of manufactured tobacco with a view to protecting domestic producers of leaf tobacco against import competition. As a consequence, imports of leaf tobacco remain dependent on purchases by JTI. JTI imports leaf tobacco, taking into account the demand and supply situation for manufactured tobacco, as well as the supply situation for domestic leaf tobacco. As for domestically produced leaf tobacco, JTI annually negotiates with domestic tobacco cultivators average cultivation and purchasing prices, and purchases all the leaf tobacco thus produced.

(x) Other products

255. Tariff Study Categories 28, 33 and 34 include cut flowers, plants, vegetable materials, and agricultural products of animal and vegetable origin which are not specified elsewhere. In 1988, total imports of these products represented 7½ per cent of total Japanese agricultural imports. Some products are subject to import quotas on health protection grounds (cannabis plants, opium and some other items); or, for protecting domestic producers (edible seaweed and tubers of konnyaku).
256. Most items are subject to sanitary and phytosanitary regulations under the Plant Quarantine Law and other regulations. With respect to plant quarantine procedures for cut flowers, the Government of Japan has taken a number of steps, in 1984 and 1985, to expedite the procedures in response to complaints filed with the Office of Trade and Investment Ombudsman. Largely due to the measures, in 1988 Japan's import volume of cut flowers was 3½ times above the 1984 level. The main sources were the Netherlands, Thailand and Taiwan.

(2) Industry

(1) Overview

257. Over the years, Japanese industrial and trade policies have undergone substantial changes. Table V.13 shows priority objectives of Japanese industrial and trade policies under the Ministry of International Trade and Industry during the last decade. Accordingly, in recent times, greater emphasis has been placed on cooperation with trading partners, promotion of new and information-based technologies, and structural adjustment policies for small and medium sized enterprises.

258. Japanese exports of several industrial products, such as textiles, steel, television sets and automobiles, have become increasingly subject to trade frictions. To avert trade restrictive measures by trading partners, the Japanese Government, or the industries concerned, have opted in many cases to use voluntary export restraint measures (VERs).

50 The Ministry of International Trade and Industry regularly publishes its "visions", which outline future trends in the industrial structure and act as information or guidelines for decision-making in the private sector.
Chart V.4
Major trade issues involving Japanese exports, 1965-89

<table>
<thead>
<tr>
<th>Year</th>
<th>65</th>
<th>70</th>
<th>75</th>
<th>80</th>
<th>81</th>
<th>82</th>
<th>83</th>
<th>84</th>
<th>85</th>
<th>86</th>
<th>87</th>
<th>88</th>
<th>89</th>
</tr>
</thead>
<tbody>
<tr>
<td>Textiles</td>
<td>Japan-US agreement</td>
<td>73</td>
<td>Japan-US agreement under MFA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Steel</td>
<td>VER with US</td>
<td>74</td>
<td>US trigger price system</td>
<td>78</td>
<td>82</td>
<td>83</td>
<td>OMA (specialty steel) with US</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>76</td>
<td>VER with EEC</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Televisions &amp; VTRs</td>
<td>Antidumping duties by US</td>
<td>77</td>
<td>OMA with US</td>
<td>80</td>
<td>83</td>
<td>85</td>
<td>VER with EEC (VTRs)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Regulation on lowest export prices to US</td>
<td>81</td>
<td>VRA with US</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Regulation on lowest export prices to EEC</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Machine tools</td>
<td>VER with US</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Automobiles</td>
<td>VER with US</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Agreement with US</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>DRAM anti-dumping filing by EEC</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Price undertaking with EEC 90</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


259. Post-Tokyo Round tariff averages for industrial products were lower in Japan than in most other developed countries. In the second half of the 1980s, Japan has implemented a number of additional measures to reduce or eliminate tariffs on industrial products as part of the Action Programme of 1985 and other market-opening initiatives. The latest measures were announced in January 1990. Consequently, average tariff rates for industrial products are quite low (at the beginning of 1989, the simple average was 5.3 per cent, and the weighted average 1.9 per cent). However,
for a limited number of products, such as leather, wood-based panels, clothing and clothing accessories and footwear, tariff levels have remained high (Chart V.5). Leather and leather footwear are subject to tariff quotas. For many industrial products, a certain level of tariff escalation is present. As a result of a number of recent measures to reduce or eliminate tariffs, the degree of tariff escalation has been considerably reduced (see the section on tariff escalation in Chapter IV).

Chart V.5
Tariff levels for industrial products in Japan, 1989
(Per cent)

Source: GATT Tariff Study, and GATT Secretariat estimates.

All residual import quotas for industrial products without GATT justification on industrial products have been removed, except for the
quota on coal imports. Import quotas on certain chemical and other products, including military weapons and explosives, are imposed on health or security grounds. Salt, alcohol and raw silk are subject to State trading.

261. With respect to other non-tariff measures on industrial products, Japan has taken a number of initiatives in recent years, particularly under the Action Program (1985-1988), to address numerous complaints raised by trading partners (Chapter IV). In the area of standards and certification of industrial products, many concrete steps have been taken to accept foreign test data, to ensure transparency, to adjust to international standards, to reduce and relax standards, and to simplify import procedures.

262. As already noted in Chapter IV, Japan has neither taken any anti-dumping or countervailing duty actions, nor concluded any MFA agreements to restrict textile imports into Japan. Yet, with respect to imports of certain textiles and clothing, Japan has requested some developing economies to restrain their exports to Japan. Japan’s prior confirmation system for imports of silk fabrics from Hong Kong continues to be a subject of dispute between the two trading partners.

263. The Government of Japan has also taken a number of specific measures to expand manufactured imports, including tax incentives and loan programs. In the wake of these measures, imports of several manufactured products, such as manufactured tobacco, certain machinery and passenger cars, have been growing very rapidly in recent years.

264. Export restraint measures have been implemented in a number of major sectors, either by the Government’s export approval system under trade laws (see Chapter II) or by other means. Measures currently in place affect textiles (MFA agreement with the United States), steel (voluntary export restraints to the United States and the EEC), colour TVs and VTRs (monitoring of exports to the EEC), machine tools (voluntary export restraints to the United States and the EEC), automobiles (voluntary export restraints to the United States and monitoring of exports to the EEC), and semi-conductors (monitoring of costs and prices of exports to the United States, and price undertaking by Japanese firms for exports to the EEC).

265. Structural adjustment policies and subsidies are provided for certain industrial products, and for small and medium sized enterprises. Government support for research and development is largely concentrated in industrial sectors.

(ii) Leather, footwear and travel goods

266. Leather, footwear and travel goods are covered by Tariff Study Categories 01 and 15.

267. On 1 April 1986, the Government of Japan eliminated quantitative restrictions on leather imports in accordance with a Panel report (L/5623)
adopted by the GATT Council in May 1984, which found that the restrictions had nullified or impaired benefits accruing to the United States under Article XI of the General Agreement. At the same time, Japan eliminated quantitative restrictions on leather footwear imports as a result of consultations with the United States. After negotiations under GATT Article XXVIII, Japan introduced a tariff quota system for these products.

268. According to the tariff quota system, import duties for the leather products concerned are 15 or 20 per cent, within a quota stipulated by a Cabinet Order (998,300 m² in total for 1989). Above the quota, import duties are raised to 60 per cent. For leather footwear, the first import duties are either 21.6, 27 or 30 per cent, within a quota (3,580,000 pairs for 1989); above the quota, import duties are 60 per cent or 4,800 yen/pair, whichever is greater. Tariff quotas have been increased every year since 1986.

269. Leather products are subject to the GSP scheme. The GSP rates are generally half of the m.f.n. rates within certain quantitative ceilings, and free for the least-developed countries without any quantitative ceilings.

270. Since the elimination of import quotas, Japanese imports of leather and leather footwear have grown rapidly. Imports of leather grew by 50 per cent, and imports of leather footwear tripled during the period 1985 to 1988.

(iii) Wood and paper products

271. Domestic consumption and imports of wood and paper products (Tariff Study Category 03 and 04) fell in 1985 and 1986, before recovering in 1987 (Table V.14). In recent years, domestic production and consumption as well as exports and imports of these products have been generally stagnant, with imports accounting for about 70 per cent of domestic consumption of wood products and about 4 per cent for paper products.

272. Average tariff rates for the two categories are relatively low, 4.1 per cent for wood and cork and 2¼ per cent for pulp, paper and paperboard (simple averages). Wood and cork in the rough are virtually free of import duty, and account for the majority of imports of wood products into Japan. However, tariffs on wood-based panels are considerable (simple tariff average of 13.4 per cent for particle board and similar board of wood or other ligneous materials; and plywood, veneered panels and similar laminated wood) and imports accounted for only 7 per cent of total imports of wood and cork. A similar phenomenon of tariff escalation is discernible for paper, pulp and paper waste (duty free), on the one hand, and paper and paperboard on the other (tariff of 3½ per cent).

273. The tariff rates noted above reflect the results of the Action Programme for Improved Market Access (1985-88) and the Market-Oriented Sector-Selective (MOSS) talks with the United States in 1985. Japan reduced, on an m.f.n. basis, tariffs by 20 per cent on transom, other
builders' carpentry and joinery, and fibre building board as well as on some paper products as of January 1986, and also reduced tariffs by varying degrees on veneer, plywood and other wood products, and some paper products during the period 1987 to 1988.

274. With few exceptions, tropical wood and wood products, including wooden furniture, from developing countries enter into Japan m.f.n. or GSP duty-free. Plywood is dutiable on an m.f.n. basis. GSP rates on certain sawn tropical woods (lauan, etc.) and sheets for plywood are one-half of corresponding m.f.n. rates. Japan's GSP rates on wood products are subject to different types of ceiling limitations and maximum country amounts. Japan has made significant m.f.n. duty reductions and GSP improvements following the 1982-84 consultations on tropical products.

275. Japan's tariff positions are sometimes defined in relation to tree- and wood-species. This may create different conditions of access for goods from different sources. In March 1988, a GATT Panel was established to examine the complaint that Japan had arranged its tariff classification in such a way that a considerable part of Canadian exports of spruce-pine-fir (SPF) dimension lumber to Japan was subject to a customs duty of 8 per cent, whereas comparable types of dimension lumber from other sources entered duty-free. Based on the view that the General Agreement left wide discretion to the contracting parties in relation to the structure of national tariffs and the classification of goods in the framework of such structure, the Panel concluded that the Japanese measure was consistent with the General Agreement. The Panel report (L/6470) was adopted by the GATT Council in July 1989.

276. Japan maintains various fire and building codes for wooden houses, aimed at fire-prevention and related to the traditional Japanese construction method (the post-and-beam method). The codes work to limit the market for wooden buildings to relatively low density units, that is, to prevent the construction of three- or four-storey apartment buildings from wood. At the MOSS talks, Japan agreed to review fire and building codes to identify possible measures which could stimulate greater use of wood and wood-panel products. However, the issue over the fire and building codes was included in the 'priority' practices announced by the United States under the so-called Super 301 process in 1989. Both countries had discussions on the issue in expert meetings of the Japan-US Trade Committee. In April 1990, Japan announced certain measures to revise the codes.

51 At the Council meeting, Canada, while not objecting to the adoption of the Panel report, made its reservations as to the interpretation of the Report regarding "like products" under Article I. Its concerns were set out in L/6528.
(iv) **Textiles and clothing**

277. Japan, once the leading exporter of textiles, has seen a rapid decline in its share of world exports of these items (6 per cent in 1988 compared with 9 per cent in 1980). While Japan still records a trade surplus in textiles, its rapidly growing trade deficit in clothing has made Japan a net importer of textiles and clothing combined since 1987 (Tariff Study Category 05; Table V.15). While exports of textiles and clothing have been generally stagnant during the period 1980 to 1988, the value of imports of textiles and clothing grew by factors of 2.4 and 4.4, respectively (Chart V.6). In 1988, textiles and clothing accounted for 8.4 per cent of total merchandise imports into Japan.

**Chart V.6**
Japan’s exports and imports of textiles and clothing, 1980-88

<table>
<thead>
<tr>
<th>Year</th>
<th>Textile exports</th>
<th>Clothing exports</th>
<th>Textile imports</th>
<th>Clothing imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>2.5</td>
<td>1.0</td>
<td>4.5</td>
<td>3.2</td>
</tr>
<tr>
<td>1981</td>
<td>3.0</td>
<td>1.5</td>
<td>5.0</td>
<td>3.7</td>
</tr>
<tr>
<td>1982</td>
<td>3.5</td>
<td>2.0</td>
<td>5.5</td>
<td>4.2</td>
</tr>
<tr>
<td>1983</td>
<td>4.0</td>
<td>2.5</td>
<td>6.0</td>
<td>4.7</td>
</tr>
<tr>
<td>1984</td>
<td>4.5</td>
<td>3.0</td>
<td>6.5</td>
<td>5.2</td>
</tr>
<tr>
<td>1985</td>
<td>5.0</td>
<td>3.5</td>
<td>7.0</td>
<td>5.7</td>
</tr>
<tr>
<td>1986</td>
<td>5.5</td>
<td>4.0</td>
<td>7.5</td>
<td>6.2</td>
</tr>
<tr>
<td>1987</td>
<td>6.0</td>
<td>4.5</td>
<td>8.0</td>
<td>6.7</td>
</tr>
<tr>
<td>1988</td>
<td>6.5</td>
<td>5.0</td>
<td>8.5</td>
<td>7.2</td>
</tr>
</tbody>
</table>

*Source: GATT, International Trade, various issues.*

278. The Japanese textile and clothing market is relatively open, compared with most other developed countries. Japan is a member of the Multifibre Arrangement (MFA), but has never concluded bilateral agreements under the
MFA to restrict imports of textiles and clothing into Japan despite some requests from domestic producers. No quantitative restrictions are in place. Tariff levels for textiles and clothing are 9 per cent (simple average) for the overall category of textiles and clothing, and 13.1 per cent for clothing and clothing accessories. Most textiles and clothing are included in the Japanese GSP scheme.

279. However, some non-tariff measures have been in place with respect to certain items of textiles and clothing: (a) imports of raw silk are subject to State trading, and silk cocoons and raw silk are subject to the Government price stabilization scheme; (b) following Government-to-Government consultations, China maintains orderly exports of raw silk, silk yarn and silk products, and the Republic of Korea maintains orderly exports of silk yarn and silk fabrics to Japan; (c) following consultations with Japan, Pakistan introduced minimum export prices for cotton yarn between 1985 and 1987.

280. Imports of silk cocoons, silk yarn and certain silk fabrics are subject to a prior confirmation system. Japan's stated objective of the system for silk fabrics, in place since 1979, is to confirm the country of origin and prevent exports to Japan with false origin marks, and also to get a good grip on import trends. Hong Kong has complained that the system is administered in a discriminatory manner, and that, due to the system, Hong Kong's exports of silk fabrics to Japan declined by 60 per cent during the period 1979 to 1985. The Government of Japan attributes the decline of imports from Hong Kong to the fall of domestic demand of silk fabrics for kimonos (Japan's traditional dress). In Japan, the country of origin is confirmed for all imports of silk fabrics, but the confirmation systems vary by type or use of silk fabric. The two Governments have had a number of bilateral consultations on the issue, including those within the framework of the rollback commitment under the Uruguay Round. However, in September 1989, the consultations were concluded without a mutually satisfactory solution.

281. In October 1988, the Japanese Knitting Industry Association filed a request for an anti-dumping investigation in the wake of a rapid growth of knitwear imports from Korea (the current import market share is above 50 per cent). Before the investigation was initiated, the Korean Garment and Knitwear Export Association announced in February 1989 that it would apply a check-price system to exports of sweaters, cardigans and vests until 1991 and, in addition, hold exports of these products within an annual rate of increase of no more than one per cent.

282. With respect to Japanese exports of textiles and clothing, Japan has concluded an agreement with the United States under the MFA, and is currently negotiating the extension of the agreement which expired at the end of 1989. A number of voluntary export restraints of certain textiles and clothing are also in place under the Export Control Order. They include exports of cotton fabrics (except for exports to parts of Africa and South America); exports of manmade silk fabrics (except for exports to parts of Africa); exports of clothing and accessories using cotton, wool, silk, etc.; exports of certain knitted fabrics and clothing to Canada;
and exports of certain fabrics made of synthetic fibres, cotton fabrics, and cotton-made accessories to the European Communities.

283. Structural adjustment in the Japanese textile and clothing industries has been assisted by Government subsidies. Loans with low rates of interest are available for small- and medium-sized firms from the Government-subsidized Medium- and Small-Scale Enterprises Corporation. The ceiling of the loans is 16.6 billion yen for fiscal 1990.

(v) Ores, minerals and metals

284. Japan is the world’s leading importer of ores, minerals and non-ferrous metals. In 1987, imports of these commodities amounted to 13 billion dollars, slightly below the 1980 level (14 billion dollars). Japan exported ores, minerals and metals worth 2 billion dollars.

285. Japan is, on the other hand, the world’s leading exporter of iron and steel, accounting for over 15 per cent of world exports in 1988. The value of iron and steel exports, however, was virtually unchanged from its 1980 level, and the share of world exports had declined by some 5 percentage points. Japan’s imports of iron and steel increased from 0.9 billion dollars in 1980 to 4.5 billion dollars in 1988, registering 36 per cent growth in 1988 alone. In terms of volume, exports of steel have considerably declined since 1984, while imports more than doubled between 1983 and 1988 (Chart V.7).

52 Particularly large Japanese shares in world imports of non-ferrous metals and minerals are found in aluminium (imports from Norway, Romania, Yugoslavia, etc.), copper ores and concentrates (from Canada, the United States, Chile, etc.), lead ores and concentrates (from Canada, Australia, Peru, etc.), nickel ores and concentrates (from Indonesia, New Caledonia, the Philippines, etc.) and tin metal (from Malaysia, Thailand, Indonesia, etc.)

53 See GATT, International Trade 1988-89, Volume II. For production, consumption, trade and employment of ores, minerals and metals combined, see Table V.16.
Chart V.7
The Japanese steel market, 1982-89

Million Ingot tonnes

Source: OECD, the Steel Market in 1988 and the Outlook for 1989, and previous issues.

286. Tariffs are generally low, with a 1.9 per cent simple average for mineral products and fertilizers (Tariff Study Category 06), and 3⅓ per cent for ores and metals (Tariff Study Category 08). Some tariff escalation is present for most products. For example, the simple average tariff on unworked iron and steel is 2.7 per cent, but 4.2 per cent for semi-manufactured iron and steel; 0 per cent for unwrought zinc and ¾ per cent for semi-manufactured zinc; 0.6 per cent for unwrought aluminium and 5.8 per cent for semi-manufactured aluminium.

287. Certain pricing and trading practices for copper have been subject to disputes between Japan and the EEC since the 1960s. The EC maintained that their copper smelting and refining industry had serious difficulties in obtaining adequate supplies of copper concentrates on acceptable terms due to market distortions resulting from Japanese smelters often offering high prices for concentrates. The EC smelters and refiners alleged that the
high internal price of refined copper in Japan, which made it possible for Japanese smelters to offer such high prices for concentrates, was a result of "questionable practices", including high tariffs on imports of refined copper, concealed import restrictions and so forth. Japan denied the existence of any measures inconsistent with the GATT.

288. In December 1987, the EC and Japan jointly requested conciliation by the GATT Director-General in this dispute. Subsequently, in February 1989, the good offices report by the Director-General on the dispute (L/6456) was presented to the GATT Council, according to which Japan was found not to have violated any GATT obligations. The report, however, pointed out that a major element in creating the situation giving rise to this dispute was the particularly high Japanese tariff on cathodes and wire bar (the form in which the bulk of unfabricated refined copper is traded). The report recommended that the dispute should be resolved by the EC and Japan entering into reciprocal and mutually advantageous negotiations with a view to substantially reducing or eliminating the Japanese tariff on cathode and wire bar.

289. Japanese exports of steel and steel products have long been subject to export restraints administered by the Government or to import restrictions by its trading partners. The first export restraint arrangement with the United States regarding steel and steel products started in June 1966. It was twice extended until 1974, including tighter restrictions. Between 1978 and 1982, Japanese steel exports were restrained by the trigger price system of the United States. Since 1985, Japan has participated in the United States' steel programme for voluntary restraint arrangements (VRA). In 1989, the VRA was extended until 31 March 1992. The agreed Japanese share of United States steel consumption is 5 per cent for October 1989 to December 1990, and 5.3 per cent for the remaining period. Japanese exports of specialty steel to the United States had been subject to an orderly marketing agreement (OMA) from 1976 to 1989. In 1989, these exports were incorporated into the steel VRA. Japanese steel producers have restrained their exports to the EC market since the late 1960s.

290. The export restraints of steel and steel products in trade with the United States are administered by exporters' and producers' cartels for export volumes, organized upon the instruction of MITI under the Export and Import Transaction Law. The restraint of exports to the EC is operated through a producers' cartel under the same law.

291. Since the early 1980s, the Japanese steel industry has phased out surplus capacity, reduced employment, and moved towards higher value-added products incorporating advanced technologies. Structural adjustment has been assisted by Government support and administrative guidance by the MITI. Steel-manufacturing equipment has been designated to be among the specified equipment eligible for loans and tax incentives under the Law on Temporary Measures for Facilitating Industrial Structural Adjustment (Chapter IV).
292. The Japanese aluminium industry has also undergone substantial structural adjustment, particularly in response to the higher smelting costs resulting from the oil price increases of the 1970s. Japanese smelting capacity declined drastically, from 1,641 thousand tons in 1978 to 35 thousand tons in 1987. Some smelters moved their plants to take advantage of cheaper energy and bauxite sources abroad. The Government of Japan has promoted structural change through various measures, including the temporary reduction of tariffs on some aluminium metal, subsidies for research and development for new technologies, and investment and management advice to the industry through MITI's advisory body.

293. Japan maintains a voluntary restraint of global exports of metal flatware. There are also VERs on pottery and chinaware exported to the United States, Canada, and the United Kingdom. These restraints have been in place since the 1960s. The restraints are managed by cartels formed by the exporters' association under the Export and Import Transaction Law.

(vi) Coal, natural gas and petroleum

294. Japan is by far the world's biggest importer of coal and natural gas, and the second biggest importer of crude petroleum after the United States (Tariff Study Categories 09 and 89). In 1987, Japan's share in world import volume was 26% per cent for hard coal, 18 per cent for natural gas, and 13 per cent for crude petroleum. The main import sources are Australia, Canada and the United States for coal; Indonesia, Brunei Darussalam, Malaysia and the United Arab Emirates for natural gas; and the United Arab Emirates, Saudi Arabia, and Indonesia for crude petroleum.

295. Japan maintains import quotas on hard coal, the sole quantitative import restriction without explicit GATT justification among Japan's industrial products. Since fiscal 1963, the Government of Japan has been promoting structural adjustment of the coal mining industry, and the current Eighth Coal Policy (fiscal 1987 to fiscal 1991) contains various measures including a drastic plan to reduce coal output from 17 million tons in fiscal 1986 to 10 million tons in fiscal 1991 and assistance for the re-employment of coalminers. The domestic production of coal has declined to 10.7 million metric tons by the end of fiscal 1989, and the number of coalmines has been reduced from eleven in 1986 to six in 1990 (Table V.17). The share of imports in total supply of coal in Japan reached 89 per cent in fiscal 1988. About 13.6 thousand coalminers, about 60 per cent of total employment, left the mines during the period October 1986 to January 1990. The Government budget expenditures to assist structural adjustment, including the prevention of land subsidence, amounted to 390 billion yen during the period fiscal 1987 to fiscal 1989.

296. Japan's natural gas production is small relative to domestic consumption (Table V.18). The simple and weighted average tariff rates on gas are 4.4 and 2.6 per cent, respectively, in 1989.

297. Crude petroleum imports also exceed by far domestic output (Table V.19). A specific duty is applied to crude petroleum (350 yen/kl), in 1989 equivalent to a 2.4 per cent ad valorem duty. Tariff quotas apply
for certain heavy fuel oils and raw oils not intended for use as raw materials in oil refining.

298. The Japanese petroleum industry is regulated so as to ensure the steady supply of petroleum products. The Petroleum Business Law and other laws require the approval of MITI for engagement in the oil-refining business and notifications to MITI for imports of crude petroleum and certain petroleum products (volatile oil, kerosene, light oil and other oils). These laws are also the basis for MITI's administrative guidance on the refining of crude oil.

299. Since 1987, some of the restrictions have been relaxed upon the recommendations of the Petroleum Council, an advisory body to MITI, and administrative guidance has been partly phased out. For example, administrative guidance on the construction of gasoline stations and related activities was abolished in March 1990. The Law for Interim Measures for Imports of Specific Petroleum Products of 1985 has permitted the importation of certain oil products by importers with certain qualifications. As a result, imports accounted for about 2 per cent of domestic consumption of fuel oil in 1989.

300. Crude petroleum and petroleum products are subject to indirect taxes levied by both the central and local Governments (gasoline tax, liquefied petroleum gas tax, aviation fuel tax, petroleum tax, etc.). National gasoline taxes add up to 53,800 yen per kilolitre. No discrimination of imported products is involved.

(vii) **Chemicals**

301. In 1988, Japan ranked sixth in both world exports and imports of chemicals (Tariff Study Category 10). Japan's exports and imports of chemicals, including chemical fertilizers, were roughly equal in recent years (1 versus 15 billion dollars in 1988). While during the 1980s exports accounted for a steady 5\% per cent of Japanese merchandise exports, imports of chemicals expanded more rapidly than total merchandise imports and reached a share of 8 per cent in 1988.\(^{54}\)

302. Tariff levels for chemicals are generally low. The simple average tariff for all chemicals is 4.2 per cent. For most product categories, simple tariff averages are less than 6 per cent (Table V.1). A number of organic chemicals, medical and pharmaceutical products and other chemicals are subject to import quotas, with the stated objective to protect animal or plant life or health. Import quotas are also in place for some fissil chemical elements and explosives, etc. for reasons of national security.

303. Most chemicals are subject to either health or security regulations under the Poisonous and Deleterious Substance Control Law, the Law

\(^{54}\)See GATT, *International Trade 1988-89*, Volume II.
concerning the Examination and Regulation of Manufacture, etc. of Chemical Substances, the Pharmaceutical Affair's Law and other laws and regulations. In recent years, a number of measures have been implemented to improve Japan's standards and certification system regarding chemicals. These changes were initiated by the Office of Trade and Investment Ombudsman established in 1982, and as part of the Action Programme for Improved Market Access (1985-1988). For example, standards of ingredients for some cosmetics have been introduced, eliminating the need for licences on a product-by-product basis. For pharmaceutical goods, a number of measures have been taken to accept foreign test data. Certification procedures for pharmaceuticals and drugs for animals, etc., have been simplified and streamlined.55

(viii) Machinery

304. Machinery and equipment, excluding transport equipment, accounted for about 30 per cent of both value added and employment in Japanese manufacturing, and for 50 per cent of Japan's merchandise exports and 11 per cent of merchandise imports in 1988 (Tariff Study Categories 11, 12 and 14). For a variety of products, such as office machines, audio-visual equipment, and semi-conductors, Japan is the leading exporter in the world economy.

305. Japan's trade patterns in this product area are in permanent flux. For example, in the course of the 1980s semi-conductors, electronic parts and communication equipment replaced audio-visual equipment at the top of Japan's exports of electrical machinery.56 At the same time, Japanese imports of machinery and equipment, particularly office machinery, heavy electrical machinery, semi-conductors, and domestic electrical equipment, have been growing very rapidly in recent years. In 1988 alone, imports of most of these products grew by over 50 per cent, though in several cases starting from a small base (Table V.20).

306. Until recently, low tariffs were generally applied on imports of machinery and equipment.57 As a result of the measures announced in January 1990, imports of almost all machinery are now duty free. There are no quantitative import restrictions in place. Rather, many of these products have been subject to import expansion measures by the Japanese


57In 1989, the simple tariff averages for non-electrical machinery, electrical machines and apparatus, and precision machinery and equipment are 1.8 per cent, 0.8 per cent and 1.6 per cent, respectively.
Government in recent years, including tax incentives for imports and import expansion loan programmes.

307. For some machinery and equipment, standards, certification and import procedures have been simplified in recent years. For example, data provided by foreign organizations which are designated by the Minister of International Trade and Industry have been accepted as of March 1986, with respect to the approval of foreign companies' use of the JIS (Japanese Industrial Standards) mark and the approval of electrical appliances under the Electrical Appliance and Material Control Law. A number of standards for electrical appliances have been modified with a view to bringing them into conformity with IEC (International Electrotechnical Commission) standards. For electric fans, sewing machines and some other products, the Government certification system has been changed into a self-certification system by manufacturers. Technical standards for telecommunication terminal equipment have also been reduced, particularly as a result of the Market-Oriented, Sector-Selective (MOSS) talks with the United States in 1985.

308. Japanese exports of certain products in this category are facing various import restrictions imposed by its trading partners. On its part, Japan has taken several measures such as voluntary exports restraints, voluntary restraint arrangements, export forecasts or monitoring, or price undertakings. Notable examples include arrangements related to semi-conductors (exports to the United States and the EC), machine tools (exports to the United States and the EC), and video tape recorders (exports to the EC).

309. For semi-conductors, Japan and the United States concluded, in July 1986, an arrangement under which Japan agreed:

(a) to monitor costs and prices of certain semi-conductor exports to the United States in order to prevent dumping; based upon monitoring and/or consultations, Japan will take appropriate actions under Japanese laws and regulations to prevent exports at prices less than company-specific fair value with a profit margin of 8 per cent;

(b) to monitor, as appropriate, cost and prices of semi-conductor exports to third-country markets in order to prevent dumping; and

(c) to impress upon Japanese producers and users the need to aggressively take advantage of increased market access opportunities in Japan for foreign-based firms.

The arrangement was precipitated by the filing of a Section 301 petition by the United States Semi-conductor Industry Association in 1985, and a series of anti-dumping investigations against Japanese manufacturers.

310. In 1987, the EC requested the establishment of a GATT Panel, claiming that the third-country monitoring measures applied by the Japanese Government, the conditions for access to the Japanese market, and the lack of transparency surrounding the arrangement with the United States
contravened relevant provisions of the General Agreement. The Panel concluded that the complex of Japanese measures related to exports of semi-conductors to third-country markets constituted a coherent system restricting exports and was inconsistent with GATT Article XI:1. (In regard to access to the Japanese market, the Panel did not find GATT-inconsistency in the Japanese measures concerned.) The report was adopted by the GATT Council of May 1988 (L/6309). At the Council meeting of March 1989, Japan announced follow-up measures on the Panel report regarding the third-country monitoring. Accordingly, data-collection on export prices was modified to be made only after exports were made, and the Supply and Demand Forecast Committee was abolished.

311. The Ministry of International Trade and Industry (MITI) repeatedly requested Japanese users of semi-conductors to increase imports. The United States, however, continues to maintain part of the retaliatory measures, unilaterally introduced in April 1987, on the grounds that the growth of the United States share in the semi-conductor market of Japan has not been satisfactory.

312. In January 1990, in the wake of dumping charges brought by the European Electronic Components Association, 11 Japanese semi-conductor makers entered into an undertaking to put a floor price on dynamic random access memory (DRAM) chips exported to the EC. The floor price is set every three months by adding a 9.5 per cent profit margin to weighted average costs of the products. The undertaking is effective for five years.

313. Upon request from the United States Government, the Government of Japan agreed, in December 1986, to restrain certain machine tool exports to the United States for a five-year period from 1 January 1987 until 31 December 1991. Accordingly, Japan has restricted exports of high technology machine tools (NC lathes, machining centres, NC punching and shearing machines) to their 1981 market share levels. Exports of milling machines, non-NC lathes, and non-NC punching and shearing machines are not to exceed their 1985 market share in the United States, with certain flexibility for additional exports of these products. At the restricted level, the value of Japanese exports was estimated to be reduced by about 159 million dollars annually. The Japanese Government (MITI) requires export licences for the three high-technology product categories, and provides administrative guidance to Japanese manufactures for the other product categories.

314. Exports of machine tools (NC lathes and machining centres) to 16 trading partners, including the EC, have been subject to a cartel since 1978. It is formed by the Japan Machinery Export Association and refers to export prices, registration of customers, and restrictions on advertisement.

315. Since 1986, the Government of Japan has maintained the monitoring of export volumes of video tape recorders (VTR) and colour TVs directed to the EC. Previously, there had been voluntary restraint arrangements (VRAs) on these products between Japan and the EC. At a Ministerial meeting between
Japan and the EC in November 1985, the monitoring of export volumes was agreed upon to replace the VRA. Over the years, the volume of Japanese exports of VTRs and colour TVs to the EC has greatly declined, from 4.9 million units in 1982 to 2.2 million units in 1989 in the case of VTRs, and from 819 thousand units in 1983 to 173 thousand units in 1989 in the case of colour TVs. According to MITI, the monitoring of export volumes of colour TV tubes to the EC was terminated in 1989.

316. Certain products in this category, such as super-computers, optic fibres, and bio-electronic devices, have been subject to Government-funded projects to promote basic research and development (Chapter IV).

(ix) **Transport equipment**

317. Japan is the world's leading producer and exporter of automotive products and ships, accounting for 26% per cent of world motor vehicle production (passenger cars, trucks and buses) and 43% per cent of world ship production in 1987. In 1988, exports of transport equipment (Tariff Study Category 13) amounted to 65.7 billion dollars, or one-quarter of Japan's merchandise exports. Three-quarters of exports of transport equipment are motor vehicles, followed by auto parts (14 per cent) and ships (6 per cent). Transport equipment accounts for about 10 per cent of the total value added in Japan's manufacturing and 8 per cent of total employment in manufacturing.

(a) **Automotive products**

318. Japanese exports of motor vehicles declined between 1986 and 1988. This was due to a variety of factors, including an appreciating yen, export restraints in trade with the United States and the EC (Japan's major foreign markets), and the expansion of production by Japanese firms inside the United States (Charts V.8 and 9). In some countries, in particular small markets without local production, such as Switzerland, Austria, Finland and Ireland, Japan has greatly increased its share of passenger cars in recent years. In major markets with local production like the United States and the EC (except for the Federal Republic of Germany), the share of imported Japanese cars has been virtually unchanged or declined in recent years (Table V.21).
Chart V.8
Destination of Japanese motor vehicle exports, 1988
(Thousand units, per cent)

USA 2696 (44.2)
Other North America 283 (4.6)
Southeast Asia 474 (7.8)
Middle East 225 (3.7)
Oceania 265 (4.3)
Africa 230 (3.8)
Latin America 204 (3.3)
Other Europe 492 (8)
EC 1213 (27.9)
Others 21 (.4)

Total = 6.1 million (100)

Note: Motor vehicles include cars, trucks and buses.

319. The Japanese voluntary restraint of exports of passenger cars to the United States is administered by the Ministry of International Trade and Industry (MITI). The VER was introduced in 1981 as a three-year temporary measure, with an upper annual limit of 1.68 million units. In December 1983, the Government of Japan decided to extend the restraint for fiscal 1984 (April 1984 to March 1985), with an increased upper annual limit of 1.85 million units. In March 1985, the President of the United States announced that no further extension of the Japanese voluntary restraints would be sought. However, the Japanese Government decided to further extend the restraint with a ceiling of 2.3 million units. The concern was that the expiration of the restraint could trigger a sharp and
disruptive increase in Japanese passenger car exports to the United States. The restraint has been subsequently extended with the same ceiling. It is currently effective until the end of March 1991. The restraint is administered by MITI under the Export Control Order by way of indicating to each auto maker the annual quota of exportable passenger cars to the United States.

320. The volume of passenger car exports to the United States has rapidly declined in recent years, and there was a clear shift from exports of small-sized to larger-sized automobiles (Table V.22). Since fiscal 1987, the actual export volume has fallen short of the quota, partly due to increased local production of Japanese cars in the United States. MITI has indicated that the restraint will be lifted if the trend towards declining exports is firmly established.

321. MITI started to monitor exports of Japanese cars and commercial vehicles to the EC in 1986, by checking, at the end of each month, whether individual car manufacturers' exports remained below the previous year's level. In case of overshooting, the respective car manufacturers have been asked to redress the balance in the following month.

322. MITI has decided to continue to monitor car exports to the EC for 1990. According to unofficial sources, the target growth of the volume of exports is about 2 to 3 per cent from the 1989 level (1,237 thousand units). In 1989, the volume of exports was about 2 per cent higher than in 1988. Since 1987, MITI also sets minimum floor prices and monitors the volume of exports of forklift trucks to the EC.

323. Since the mid-1970s, there have been industry-to-industry arrangements and understandings between Japan and the United Kingdom regarding exports of passenger cars and commercial vehicles. According to unofficial sources, import ceilings are set by arrangement for passenger cars and light commercial vehicles up to 3.5 tons at 11 per cent of annual estimated sales of these products in the United Kingdom, and no shipment will be made for heavy commercial vehicles over 3.5 tons. MITI has denied the existence of specific agreements in regard to export volume, while acknowledging arrangements for exchange of information on the export prospects of these products. Japan's share of passenger car imports in the United Kingdom during the period 1977 to 1987 remained constant, just around 11 per cent (Table V.21), and it dropped to less than 10 per cent in 1988 and 1989.

324. In 1988, concerns were expressed by the Swedish Government over the sudden increase of Japanese automobile imports, and discussions were held between officials of the Japanese and Swedish Governments. According to both MITI and the Swedish Government, no restraint measures on the part of Japan were agreed upon. The share of Japanese passenger cars in the Swedish market increased from 22 per cent in 1987 to 25 per cent in 1988 and remained at that level in 1989. More recent figures are not yet available.
325. During the period fiscal 1985 to fiscal 1987, exports of passenger cars to Canada were subject to MITI's monitoring. The export volume of Japanese passenger cars to Canada, which had grown by over 21 per cent in 1985 and 10 per cent in 1986, grew by only 1 per cent in 1987, and declined by 7 per cent in 1988.

326. Imports of motor vehicles enter duty-free or at low tariff rates into Japan (simple average of 0.6 per cent for all motor vehicles and no duty for passenger cars). Import quotas for passenger cars were phased out in 1965.

327. Despite the absence of notable border measures, the share of imported cars in the Japanese car market was less than 2 per cent until 1986. Trading partners complained that the low import level was related to Japan's strict standards and testing procedures, differentiated commodity taxes, complex distribution system and several other factors. In recent years, the Government of Japan has undertaken a number of measures to address these problems. Testing procedures have been simplified. As part of the overall tax reforms implemented in April 1989, commodity taxes have been abolished and local car taxes revised.

328. In response to these measures, the appreciating yen, changes in consumer behaviour, and the export efforts by foreign makers, imports of passenger cars grew rapidly in recent years, by 90 per cent in 1987 and 50 per cent in 1988. As noted above, this growth began from a low basis, however.

329. Purchases of US manufactured auto parts by Japanese makers and their entities in the United States were the subject of consultations between the Government of Japan and the United States in the framework of the Market-Oriented, Sector-Selective (MOSS) talks in 1986 and 1987. According to the final report of the consultations, various measures were agreed upon to assist the United States auto parts industry's efforts to increase sales of auto parts to Japanese makers and their entities in the United States, including the collection of data on the purchase of United States auto parts and the Japanese Government's cooperation in trade promotion events.

(b) Shipbuilding

330. The Japanese shipbuilding industry was in severe recession in recent years caused by factors such as sluggish demand and the appreciation of the yen. Under the Temporary Measures Law Concerning Operation Stabilization of Designated Shipbuilding Enterprises enacted in 1987, the number of designated shipbuilders was reduced from 44 to 26, and about one-quarter of installed capacity was reduced. The Government supported this adjustment by providing loan guarantees and tax relief, and purchasing surplus facilities and land. In order to eliminate demand and supply gaps, Japan's Fair Trade Commission authorized, in 1987, the formation of a so-called depression cartel of the 33 top-ranking Japanese yards with the objective of reducing their production. The cartel was abolished in September 1989.
331. The Government of Japan is currently promoting two major projects in maritime technology in association with private enterprise. The Techno-Superliner project (fiscal 1989 to fiscal 1993) aims at developing a high-speed liner for coastal transportation and shipping to Asian countries (546 million yen Government subsidy for fiscal 1989). The Highly Reliable Marine Propulsion Plant (fiscal 1989 to fiscal 1994) is to develop highly-efficient diesel engines through the use of ceramics (200 million yen of Government subsidy for fiscal 1989). Both undertakings are considered to be high-risk projects.

(c) Aircraft

332. Japan is a signatory to the MTN Agreement on Trade in Civil Aircraft, which provides for elimination of customs duties and other charges, regulation of state intervention, and non-application of trade restrictions for these products. Japan has constantly recorded a large deficit in trade in aircraft. In 1988, Japanese imports of aircraft were 2,024 million dollars, while exports were 300 million dollars, including exports of parts for aircraft.

(x) Other products

333. Tariff Study Categories 02, 07, 16 to 23 include rubber, precious stones and precious metals, photographic and cinematographic supplies, furniture, musical instruments, toys, works of art, firearms, office and stationery supplies, and a residual category of manufactured articles. In 1988, total imports of these products represented about 12 per cent of Japanese imports of industrial products (excluding petroleum).

334. Average tariffs for these products range from 0 to 9.4 per cent. Some products are subject to import quotas, either for health objectives (e.g. gum with more than 5 per cent benzine, and yellow phosphorus matches), or for the conservation of exhaustible natural resources (e.g. worked hawksbill turtle). Many products are subject to health and safety regulations (Table V.1).
VI. TRADE DISPUTES AND CONSULTATIONS

(1) GATT Dispute Settlement Cases

335. Since Japan's accession to the GATT in 1955, there have been at least 16 Article XXIII complaints against Japan (Table VI.1). They include 13 cases where the establishment of a GATT Panel under Article XXIII:2 was requested, two cases where Article XXIII:1 consultations were requested and one case where conciliation by the Director-General of the GATT was requested.

336. In terms of issues under complaints in the total 16 cases, all but one (No. 6 in Table VI.1) were related to specific products, and nine cases to quantitative import restrictions on specific products. Three complaints (No. 2, 3 and 5) were related to quantitative restrictions on imports of leather. Another three complaints (No. 14, 15 and 16) were related to quantitative restrictions on imports of beef. The three remaining cases involved quantitative import restrictions on leather footwear (No. 7), certain agricultural products (No. 8), and fishery products (No. 10).

337. All complaints were made by developed countries: eight cases by the United States, four cases by the EC, two cases by Canada, one case each by Australia and New Zealand.

338. In five out of the 13 Panel cases (under Article XIII:2), the Panels made substantive findings and conclusions as to the conformity of measures concerned with the General Agreement (No. 5, 8, 9, 11 and 12). Among the five, one finding was that the Japanese measures concerned were in conformity with the General Agreement (No. 12). In the other four cases, the Japanese measures concerned were found GATT-inconsistent. In the remaining cases (No. 1, 2, 3, 4, 7, 10, 14 and 15), either Panel reports noted that the parties concerned had arrived at bilateral solutions, or complaints were withdrawn before the completion of Panel procedures, following bilateral solutions to these issues.

339. In the four cases where the Japanese measures concerned were found GATT-inconsistent, the Panel reports were adopted by the Council. Subsequently, the Government of Japan announced measures to implement the recommendations of the Panels. As Table VI.2 shows, Japan announced the follow-up measures within one to two years after the adoption of the Panel reports by the Council. The follow-up measures on imports of leather and trade in semi-conductors have not been commented on by other contracting parties. However, as for the Japanese follow-up measures on imports of certain agricultural products, Australia stated at Council meetings in June and July 1989 that Japan had not yet fully implemented the Panel measures.

58 With respect to Article XXIII:1 consultations, contracting parties were not obliged to notify requests for the consultations to the GATT until May 1989. Therefore, the list of the consultations may not be complete.
recommendation and Australia therefore reserved its rights to pursue the matter in accordance with GATT provisions. On imported wines and alcoholic beverages, the representatives of the EC, Finland and Sweden commented on the revision of the Liquor Tax Law in Japan at the Council meeting in March 1989.

340. To date, Japan has made only a few Article XXIII complaints against its trading partners (Table VI.3). In one case, concerning the EC's anti-dumping regulations on imports of parts and components, Japan requested the establishment of a Panel under Article XXIII:2. The report of the Panel (L/6657, 22 March 1990) supported the Japanese claim that the duties and decisions concerned under the EC regulations were inconsistent with the GATT, and was adopted by the GATT Council in May 1990. In two other cases, concerning the EC's import restrictive measures on video tape recorders and the United States' retaliatory action under Section 301 on certain Japanese products in connection with trade in semiconductors, Japan held Article XXIII:1 consultations with the EC and the United States, respectively, but did not pursue the matters any further. With respect to the United States' retaliatory action under Section 301, Japan has repeatedly stated the reservation of its rights under the General Agreement, but it has not, to date, exercised its right under Article XXIII:2.

341. There have been only two cases where consultations and dispute settlement procedures under Tokyo Round Agreements have been used against Japan. Under the Tokyo Round Agreement on Technical Barriers to Trade, the United States requested in 1982 the initiation of dispute settlement procedures regarding Japan's treatment of United States manufactured metal softball bats. However, the request was withdrawn in March 1983, following bilateral settlement of the issue. Under the Tokyo Round Agreement on Government Procurement, the United States requested in 1984 consultations with Japan regarding Japan's single tendering practices, but the matter was not further pursued under dispute settlement procedures of the Agreement. On the other hand, Japan requested in 1988 consultations and conciliation with the EEC under the Tokyo Round Agreement on Anti-dumping Practices regarding EEC modifications to anti-dumping regulations. (The matter was also pursued under GATT Article XXIII:2, as noted in the preceding paragraph.)

(2) Other Cases

342. There is no trade law in Japan which provides for specific procedures to deal with trade disputes with its trading partners. The trade disputes have generally been dealt with through normal diplomatic channels. The Government (Ministries concerned) have a high degree of discretionary power as to how to deal with the issues within their authorized legal purviews under the laws which established those Ministries (see Chapter II). Therefore, the Japanese Government is not subject to any specific time limits or other conditions under domestic laws in dealing with trade disputes, and it is also left to the discretion of the Government whether or not recourse to GATT dispute settlement procedures should be made.
343. With a number of countries, Japan maintains standing fora which regularly meet to address economic and trade issues. For example, Japan holds regular Ministerial and/or sub-Cabinet-level meetings with the United States, the EC, India, Australia and others, where bilateral trade and economic issues are, among others, addressed.

344. It is chiefly in its trade relations with the United States that Japan has addressed a number of specific trade issues which affect its trade relations, both relations with the United States and with other trading partners. During the past two decades, the issues have ranged from textiles, steel, leather, tobacco, automobiles, semi-conductors, beef and citrus, and other specific products to macro-economic and structural issues. Both Japanese import and export policies and practices have been addressed. Japan has also been subject to a number of Section 301 investigations and the so-called Super 301 process. It has been the stated Japanese trade policy that the measures taken to improve market access to Japan as a result of bilateral consultations should, in principle, be applied to other countries as well on an m.f.n. basis.

345. Currently, Japan and the United States are engaged in the Structural Impediments Initiative (SII) talks which started in September 1989 with a view to addressing structural impediments, on both sides, to trade and balance-of-payments adjustment. After a series of consultations, both countries announced in April 1990 Interim Reports to the Working Group on the SII. The Japanese report included numerous measures which the Government of Japan intends to implement with respect to saving and investment patterns, land policy, distribution systems, exclusionary business practices, Keiretsu relationships, and pricing mechanisms (for some of these measures, see Chapter IV). The United States announced in its report measures addressing saving and investment patterns, corporation investment activities and supply capacity, corporate behaviour, Government regulations, research and development, export promotion and workforce training and education. Both countries are expected to announce the final report of the SII talks by July 1990.

VII. SUMMARY OBSERVATIONS

(1) Japan in World Trade

346. Japan ranks third among trading nations in both world merchandise exports and imports. Since 1986, Japan's imports have expanded more rapidly than the dollar value of world merchandise trade, a reversal of earlier trends (Chart VII). Despite this development, Japan's share in world merchandise imports has remained substantially smaller than that in world merchandise exports (6% versus 9 per cent in 1989).

347. Japan's merchandise trade to GDP ratio, equivalent to 17 per cent in 1989 (7½ per cent for imports and 9.7 per cent for exports), is one of the smallest among all GATT member countries. No developed country has a lower merchandise import to GDP ratio, and all developed countries but the United States have a higher merchandise export to GDP ratio. These facts reflect a variety of factors which include the large domestic market in Japan, its geographical distance from major trading partners, language barriers, and border and non-border measures at home and abroad. However, trade is more important for Japan's economic prosperity than the ratios of trade to GDP suggest. Lacking fuels and many raw materials, the Japanese economy is highly import-dependent, and exports of manufactures were, until recently, a driving force behind Japan's relatively rapid economic growth.

348. Manufactures make up 96 per cent of Japanese exports of merchandise and are largely sold in the United States (34 per cent of the total), Southeast Asia (26½ per cent) and the EC (17¼ per cent). Dynamic export items include office and telecommunication equipment, road motor vehicles and machinery. Combined, these products accounted for two-thirds of total exports of merchandise in 1988, as compared to an average share of about 40 per cent for the developed countries as a whole. The shares of more mature industries, such as steel, ships and textiles, have substantially declined in Japan's export basket over the past one or two decades. Despite the changes in the export mix, a relatively high product concentration has remained a key feature of Japan's export patterns.

349. During the 1980s, Japan accumulated huge trade and current account surpluses, peaking in 1987 at world record levels of 9½ per cent and 87 billion US dollars, respectively. This development resulted from a variety of factors, including the success in eliminating a net public borrowing requirement of 5½ per cent of GNP in 1978 by the mid-1980s. This was an important element behind the increasing excess savings over investment which was reflected in the growing current account surplus.

350. Reducing the external imbalances has been a top priority of Japan's economic policy since the mid-1980s. The balance-of-payments adjustment process was promoted by domestic demand-led economic growth, stimulated by fiscal policy, market opening measures and a substantial nominal and real effective appreciation of the yen between 1985 and 1988. In 1989, the current account surplus had dropped to 2 per cent of GDP, down from 4½ per cent in 1986. Throughout 1989 and the first months of 1990, the yen tended to depreciate and in April 1990 was nominally about 28½ per cent down from its peak in November 1988. This development is likely to have contributed to the fact that the growth in the value of Japanese merchandise exports accelerated sharply in the first three months of 1990 (increase of about 39 per cent in terms of yen and 21 per cent in terms of US dollars, on an annual basis), while the growth of merchandise imports slowed markedly down (on an annual basis, increase of about 8 per cent in terms of yen and stagnation in terms of US dollars).

351. From 1986 to 1989, merchandise imports expanded more rapidly than final domestic demand. Imports of manufactures grew particularly strongly. While Japan remained the biggest (net) importer of agricultural products in
the world, the share of manufactures in total imports grew from about 30 per cent in 1986 to more than 40 per cent in 1989 (compared to an average of around 70 per cent for the developed countries as a group). Fast-growing import items included passenger cars, precious metals, steel, electrical machinery and tobacco products. In the course of this development, Southeast Asia has remained Japan's most important source of imports of merchandise (25 per cent of the total in 1989), followed by the United States (23 per cent) and the EC (13.4 per cent).

352. The Japanese economy has been further interlinked with the world economy through rapidly growing foreign direct investment flows into and out of Japan. Japanese firms have been particularly active in establishing machinery, electronics or transport equipment plants in North America, Asia, and the EC, not least in response to protectionist barriers or pressures abroad.

(2) Institutional Framework

353. Japanese trade policies are formulated and implemented through close co-operation between the Cabinet and the Diet (Parliament). The Cabinet exercises its executive power under the Constitution on the basis of laws enacted by the Diet. Within the broad framework of policy objectives and instruments set out by these laws, the Cabinet is given a high degree of discretionary power for the formulation and implementation of trade policies. However, in recent years, it has become frequent practice for the Cabinet and the ruling political party to form "joint headquarters" to deal with major trade issues.

354. The Government consults closely on trade issues with the private sector through a large number of advisory bodies. Japanese producers and traders are much more strongly represented in the advisory bodies than Japanese consumers. Most of the interaction between the advisory bodies and the Government tends to be informal and not a matter of public discussion with the result that it is not possible to make an assessment of the role and actual working of these bodies. There are also many informal contacts outside the context of the advisory bodies with a view to achieving consensus on trade-related policy issues between private business and the Government.

355. There is no official independent body in charge of periodically carrying out comprehensive reviews of trade policies, or assessments of the costs and benefits involved.

(3) Trade Policy Features and Trends

356. Japan acceded to the GATT in 1955. The GATT is deemed to constitute a treaty which, under the Japanese Constitution, supersedes domestic laws. Following its accession to the GATT, Japan has participated in all multilateral trade negotiations. It is a party to all MTN Codes. Japan is a strong supporter of the m.f.n. principle. It extends m.f.n. treatment to all contracting parties to the GATT, except for Botswana and Lesotho.
Japan does not belong to any customs union, free-trade area or other preferential trade agreement.

357. Since 1971, Japan has accorded preferential tariff treatment to developing countries. Special preferences exist for least developed countries. The GSP scheme is reviewed annually in the context of the general review of tariffs. Currently, the Japanese GSP scheme covers most industrial products, but about two-thirds of agricultural products are excluded. Complexity is added by ceiling quotas for preferential imports of many items and escape clauses.

(i) Recent evolution

358. In the process of becoming the second largest industrial power of the world, Japan has shown remarkable flexibility and success in adapting to changes in the external environment. A number of manufactures have proved highly competitive in export, beginning with textiles in the 1950s and including, over the decades, steel, photographic and optical equipment, consumer electronics, automobiles, machine tools and semi-conductors. In an effort to cope with trade frictions related to the rapid penetration of foreign markets, Japan has resorted, in an increasing number of cases, to the use of voluntary export restraints or export monitoring. The VERs have helped Japan to retain the rents from protection. However, overall, this system of restraints has also tended to create vested interests at home in arrangements for managed trade.

359. One of the principal problems in Japan's trade relations has been the trade frictions with the United States and, to a lesser degree, with the EC. In recent years, these frictions have been compounded by a perception on the part of the United States and the EC that their exports do not enjoy the same effective access to Japanese markets as is extended to Japanese exports to their own markets. Thus the focus has tended to shift from the pressures created by Japanese exports to the difficulties foreign firms are facing in their attempts to compete on the Japanese market.

360. Reflecting this situation, Japan's trade policies over the past five years have been marked by a series of market-opening initiatives. A number of import liberalization measures related to leather, alcoholic beverages and some dairy products, vegetables, meat products, fruit and other food items were taken in pursuance of GATT Panel recommendations. Other steps, such as liberalization measures for beef, citrus, some forestry products, auto-parts, pharmaceuticals, medical equipment and telecommunication equipment, were the result of bilateral consultations with trading partners, particularly the United States. In addition, several rounds of External Economic Measures, the "Action Programme", and other import expansion initiatives focused on reducing tariff rates, streamlining standard and certification systems, deregulating import procedures and the distribution system, and widening access to Government procurement in Japan.
(ii) **Current trade policy instruments**

361. Japan actively uses a wide range of measures affecting trade. As a result of the recent evolution of Japan's trade policies, there has been some increase in the rôle of the tariff as an instrument to regulate the level and structure of imports.

362. Most tariffs in Japan are ad valorem. Seasonal tariffs apply to bananas, oranges, grapefruit and grapes. Specific tariffs are in place for several products, including live horses, gas and petroleum oils, sugar and certain alcoholic beverages.

363. The level of tariff bindings is high for industrial products, but relatively low for agricultural products (97 versus 63 per cent of all tariff lines). Bindings are particularly valuable for Japan's trading partners because, given the place of the GATT in Japanese law, there is no possibility for the Government of Japan to increase tariffs beyond bound rates without prior negotiations with trading partners.

364. In agriculture, the tariff provides protection for some items, but for many products import quotas, trade monopolies and non-border measures are more important in this respect. The simple average tariff rate for agricultural products is 12.1 per cent. High tariffs apply to sugar and other foodstuffs, beverages and spirits, and dairy products. Considerable tariff escalation is present between primary and semi-processed agricultural products.

365. For a number of products, including certain dairy products and some fish products, import quotas (partly in the context of State trading) remain binding import constraints. Furthermore, it has been Government policy to maintain a virtual prohibition of rice imports on grounds of the need for self-sufficiency. This policy is reflected in the fact that, in 1989, the Government purchase price of rice was 660 per cent higher than the corresponding target price in the United States (for wheat, this factor was 780 per cent).

366. Quantitative import restrictions have been recently removed for beef, citrus fruits and several other agricultural products. In 1988, wholesale prices of beef were estimated to have been 3\(\frac{1}{2}\) times higher in Japan than in the United States. The removal of quantitative restrictions will reduce this price differential but not eliminate it because beef imports will be facing normal tariffs of initially 70 per cent (1991) and later 50 per cent (1993). For tomato products, certain pineapples and some other items, the quantitative restrictions have been replaced by tariff quotas.

367. Public financial assistance to agriculture is provided for a variety of objectives, ranging from the promotion of productivity growth in this sector to disaster relief. For example, substantial subsidies are granted for improving the agricultural infrastructure, encouraging greater flexibility in the use of farm land and diffusing new agricultural techniques. Similar programmes are extended to forestry and fisheries.
For several agricultural products, such as rice, sugar and milk and milk products, price support programmes are in place. The share of expenditure for price support within the national agricultural budget is currently 13 per cent, down from 25 per cent in 1982.

368. According to the Government of Japan, the total Aggregate Measurement of Support in agriculture declined from 5 trillion yen in fiscal year 1986 to 4 trillion yen in fiscal year 1989. However, this still corresponds to well above 40 per cent of gross domestic product of agriculture. Japan continues to have a highly protected agricultural sector.

369. In industry, tariffs are generally low (simple average rate of 5.3 per cent in 1989). High tariffs apply to products such as leather, wood-based panels, jute and hard fibre fabrics, clothing and clothing accessories and footwear, with tariff peaks reaching 60 per cent.

370. An import quota on coal is in place and there are quotas on a variety of other products for health and security reasons. Japan is a signatory to the Multifibre Agreement (MFA), but to date has not concluded any MFA arrangements to restrict imports of textiles and clothing into Japan. Silk fabrics are subject to a prior confirmation system, and an cartel controls imports of these products from China. Quantitative restrictions on leather and leather footwear have recently been replaced by tariff quotas, with ceiling tariffs of 60 per cent or possible even higher specific duties in the case of footwear.

371. In industry, Government subsidies are provided for research and development and assistance to small and medium scale enterprises. Specific programmes for depressed industries had been largely phased out by 1989, continuing assistance to coal mining being an exception. The emphasis in assistance has shifted from promoting the modernization of depressed industries to promoting the movement of resources into other businesses. Support is granted for firms that replace machinery and equipment for certain productions, such as steel, textiles, non-ferrous metals, liquid oxygen and cement, by machinery and equipment for business activities outside these areas. Japan spends relatively little on defence-related R and D, and, overall the share of Government finance in total R&D is considerably lower than in other developed countries. Government assistance is concentrated on covering the risks and costs involved in developing advanced technology. In addition to direct financial assistance, substantial assistance to R and D is provided in the form of tax concessions.

372. Imports of many agricultural and industrial products are subject to a wide and complex range of standards, certification and other import procedures, including health and sanitary regulations. Furthermore, there are extensive public provisions to regulate the distribution of goods and various services in Japan. Several of these measures have been called into question by trading partners as well as Japanese business representatives as working to stifle the vitality of the private sector, impede the entry of newcomers, and restrict foreign competition.
373. A series of steps has recently been taken by the Government to simplify import procedures, to bring Japan's standards in conformity with international standards, and to reduce the extent of its intervention into foreign trade. The Office of the Trade and Investment Ombudsman (OTO), established in 1982, reports that it initiated improvements, or clarified misunderstandings, in about two-thirds of the 400 complaints it received up to February 1990. The record of the OTO shows that there is still a considerable lack of transparency in administering trade-related regulations, partly resulting from the high degree of discretion given to individual Government offices within their jurisdiction.

374. Overall, international price comparisons suggest that Japanese retail prices for a substantial range of food items and some industrial products such as certain clothing are much higher than in other developed countries. However, partly because of their intransparency, it is difficult to assess the role of individual trade-related measures in Japan in contributing to these price differentials.

375. As for Government procurement, data on the total value of purchases is not available. A signatory to the GATT Government Procurement Code, Japan extends its procedures for procurement under the Code to both Code members and non-members. In 1988, about 15 per cent of the total of 2 billion SDRs of Government procurement above the threshold of the Code was procured from outside Japan. In recent years, Japan undertook to improve contract procedures as part of the Action Programme, and through bilateral agreements with the United States regarding telecommunications, super-computers and satellites. The coverage of these measures goes beyond the scope of the GATT Code.

376. On Japan's export side, voluntary restraint measures are in place, mainly for certain manufactures exported to the United States and the European Communities. The items include certain textiles and clothing (in addition to the restraints under the MFA), pottery and chinaware, steel and steel products, passenger cars, machine tools, semi-conductors, metal flatware, forklift trucks and ball-bearings. The number of items has grown since the mid-1980s.

377. The export restraints were originally meant to be temporary measures. However, with few exceptions (such as the Orderly Marketing Agreement on colour televisions with the United States for 1977-80), the restraints have remained in force for many years, and in some cases for several decades (e.g. metal flatware, pottery and chinaware since the early 1960s). Voluntary export restraints on passenger cars to the United States were implemented in 1981 as a three-year temporary measure, but have been repeatedly prolonged even though since 1985 the United States has ceased to request the restraints.

378. Export cartels by private firms are permitted under the Export and Import Transaction Law for preventing unfair practices ensuring that exports take place in an orderly manner. The Government has often advised firms to form such cartels for implementing voluntary export restraints. In 1990, 42 export cartels have been in place, down from 70 in 1979.
379. Under the Foreign Exchange and Foreign Trade Control Law, export licensing is applied to 209 industrial items for security reasons (mostly COCOM-related) and to a number of mineral and agricultural items for economic reasons (including short domestic supply). For some textiles and certain machine tools, export licensing is used to administer voluntary restraint arrangements.

380. While the formal legal regulations for the conduct of international trade are contained in laws such as the Export and Import Transactions Law and the Foreign Exchange and Foreign Trade Control Law, the use of administrative guidance as a means of ensuring the achievement of sector-specific and overall trade policy objectives is common. In practice, administrative guidance has proved to be an effective alternative to measures of a stringent legal character, even though such guidance, by itself, does not carry any legal sanctions. Since administrative guidance may not necessarily take the form of published guidelines, it has often lacked transparency.

(iii) Temporary measures

381. Japan has never taken any anti-dumping action, although anti-dumping petitions were filed in three cases. Japan initiated a countervailing duty investigation only once, in 1983, but no further action was taken. Japan has also never taken recourse to Article XIX safeguard action. Japan’s invocation of balance-of-payments provisions upon its accession to GATT was terminated nearly three decades ago.

382. This record with respect to GATT-approved temporary measures is in striking contrast to the practices of Japan’s major trading partners. In part, the reason may be a lack of requests for such action from the private sector in the context of rapid growth of the Japanese economy and of Japanese exports. The Government of Japan regards this record also as evidence of its strong determination to resist protectionist pressures from domestic industries.

383. However, in some instances, Japan requested trading partners to restrain exports to the Japanese market where these were seen to be creating problems for domestic producers. For example, the latest anti-dumping petition, in 1988, was withdrawn when Korean exporters agreed to restrain their shipments of knitwear products. Upon request from Japan, China and Pakistan have also restrained their exports of certain textile products to Japan.

(iv) New initiatives

384. In March and April 1990, Japan implemented "Comprehensive Import Expansion Measures", including the elimination or reduction of tariffs on 1,008 products. The Measures also encompass tax incentives and loans to promote imports. In addition, the Japanese Government has urged major private firms to boost imports. Where successful, the approaches made to private firms could suggest that the level of imports can be effectively managed by the Government, a notion to which the Japanese Government does
not subscribe. There is also the risk that this approach to import promotion could result in trade distortions, for example by favouring import growth from a particular source.

385. As a result of the Structural Impediments Initiatives talks with the United States which started in September 1989, Japan is addressing a number of import-related and foreign investment-related issues. They include the deregulation of the distribution system, the elimination of exclusionary business practices, more transparency in business group relations (Keiretsu), and other measures to promote fair and free competition in Japan. The final report of the talks is scheduled to be issued by July 1990.

(4) Trade Policies and Foreign Trading Partners

386. In recent years, Japan has made tangible progress in improving access to its markets. The series of market-opening measures - taken at the border and inside the country - has produced impressive results as evident from very rapid growth in imports of items such as cigarettes, wines and other alcoholic beverages, fruits, beef, passenger cars and semi-conductors. However, a hard core of high protection has remained, covering a broad range of agricultural products - rice being the most deep-rooted example - and several industrial products, including many items of particular export interest to developing countries. Changes in import policies in these areas could clearly promote structural adjustment in the Japanese economy and substantially reduce costs to Japanese consumers.

387. The market-opening measures have been partly taken in response to pressures from outside, in particular the United States, to reduce the huge trade and current account surpluses that Japan accumulated during the 1980s. While a further opening up of the Japanese economy will affect the level and structure of imports into Japan, it is also likely to increase the export competitiveness of the country. Beyond the short-run, developments in the trade and current account will be largely determined by more fundamental factors influencing the balance between the traditionally high level of savings in Japan and its investment performance, including macro-economic policies and structural policies outside the trade area.

388. Japan has consistently criticized regional, bilateral, or unilateral approaches to trade as undermining the multilateral trading system. However, its strong support for multilateralism has co-existed with a readiness to seek solutions for trade problems within a bilateral framework so as to avert the threat of unilateral action. In this context, it has also entered into several bilateral arrangements such as voluntary export restraints. By resorting to such "pragmatic" solutions to trade problems, Japan has, in effect, encouraged the use of bilateral pressures in trade relations, and contributed to the proliferation of "grey-area" measures.

389. In a few cases, Japan has asked certain developing countries to restrain their exports so as to avoid the use of temporary import relief measures in Japan. As exports from developing economies become more diversified and competitive, it is likely that the Japanese economy will
come under increasing adjustment pressure from these sources of supply. There are evident dangers for the multilateral trading system if the use of such bilateral measures becomes common in the handling of future adjustment problems.

390. In the light of its importance in world trade, Japan has a major responsibility for the health of the multilateral trading system. In the Uruguay Round, Japan has been particularly keen on strengthening rules in many areas such as anti-dumping, safeguards or dispute settlement procedures, and on creating rules in new areas. Japan has also asserted its willingness to make an important contribution to the success of the negotiations by providing improved access to its market. More active reliance on multilateral rules and a greater readiness to make use of the GATT framework, including the use of GATT dispute settlement procedures, would help Japan to resolve trade problems in an appropriate multilateral context, and to make a contribution to the functioning of the international trading system which is commensurate with its size in world trade.