REPORT OF COMMITTEE II ON THE CONSULTATION WITH JAPAN ON AGRICULTURAL POLICIES

1. In accordance with the decision adopted by the Contracting Parties at their fourteenth session that consultations should be held with the individual contracting parties regarding their agricultural policies, the Committee carried out the consultation with Japan. The Committee had before it: (i) a synopsis furnished by the Government of Japan, of non-tariff measures for the protection of agriculture or in support of incomes of agricultural producers (document COM.II/2(p)/Rev.1) and (ii) documents COM.II/45 and COM.II/45/Add.1 giving detailed information on the commodities entering importantly into world trade on which the Contracting Parties had agreed the consultations should in the main be concentrated. In conducting the consultation, which was completed on 11 February, the Committee followed the plan contained in Annex A to document COM.II/5 and adopted by the Contracting Parties at the fourteenth session. The present report summarizes the main points discussed during the consultations.

A. General Agricultural Policy

2. In his opening statement, the representative of Japan drew the Committee's attention to some of the salient features of the Japanese agricultural situation and its general agricultural policies. Japan was one of the world's major importers of agricultural commodities. Her agricultural imports amounted to $1,678 million dollars in 1957 which accounted for about 6 per cent of the total world agricultural imports excluding those of Eastern European countries and mainland China. Agricultural imports represented 40 to 50 per cent of Japan's total imports.

3. At the fifteenth session of the Contracting Parties in October 1959, the Japanese Government had expressed its intention of eliminating a few remaining discriminations as well as gradually relaxing import restrictions. As for agricultural commodities, Japan intended to transfer imports of soya beans, cocoa beans and coffee beans to the automatic approval system in the near future. Further, in April 1961, imports of cotton and wool would also come under this system. Thus a major portion of Japan's agricultural imports was expected to be liberalized.

4. Although her agricultural problems seemed to be of a fundamentally similar nature to those in other industrialized countries, they would be much more difficult to solve for various reasons. As a result of the war, Japan had lost not only major production capacity in various industries but also traditional sources of supply for food and raw materials. Since foreign trade was also closed at that time, Japan had no choice but to encourage domestic food production to the greatest possible extent and to secure a fair distribution of a meagre supply of food to the people. The Government had invested a considerable amount...
of funds for land improvement and had also tried to stabilize consumers' and producers' prices. The average annual production of rice, which represented 50 per cent of Japan's agricultural production for the period from 1955 to 1959, had increased by 27 per cent from 1946 to 1950. This in turn had facilitated a greater inflow of basic raw materials for industries and expedited the economic recovery of Japan. At the same time, this Government expenditure in agriculture and price support had contributed to raising the farmers' income level.

5. Another major factor in improving the farmers' position was the drastic reform in land ownership which took place soon after the war. This had freed farmers from the heavy burden of tenure and high rents and established the principle that arable land should be owned by the farmers themselves. The key note of agricultural policy thereafter had been to maintain and raise wherever possible this improved status of farmers.

6. However, Japanese agriculture had not yet been relieved from the population pressure which was the underlying factor governing agriculture. Although the rate of population growth had declined remarkably since 1950 and the employment situation had been improving due to economic growth, the present level of employment was still far below that attained by other highly industrialized countries. Furthermore, for ten years to come, it would be a difficult task for Japan to provide increasing labour forces with sufficient opportunities for employment. While the percentage of the farm population to the total numbers of workers employed declined from 44 per cent in prewar years to 34 per cent in 1958, the total farm population had until very recently shown almost no decrease from the level of the immediate postwar years when the farm population had increased suddenly due to demobilization, repatriation from abroad and the inflow of labour forces from sectors suffering from war damage. At present, Japan had about six million farms and a farm population of 15 million on 5 million hectares of cultivated land. The average size of farms was indeed about one tenth of that of France. Although farmers had been resorting to intensive cultivation, relying upon the maximum use of labour, fertilizer and chemicals to obtain the best possible output from a small acreage, per capita income of farmers was only 40 per cent of the average wage in manufacturing industries. Furthermore, this disparity of income between agriculture and other industrial sectors was showing an increasing trend.

7. The shortage of arable land necessitated cultivation even of the most unsuitable places, such as steep hills or land exposed to storms or floods, causing a high cost of production. Consequently, the Government was inevitably required to pursue a policy of supporting and stabilizing agriculture. The Government invested in land improvement and made disbursements for price stabilization. Aid for rehabilitation of damaged land or for loss caused by natural disasters was one of the important tasks of the Government.

8. As to direct measures for price support, the Government was authorized to purchase and sell major agricultural products and was obliged to stabilize their market prices under the legislation concerned. Rice, wheat, barley, raw silk and dried cocoons, white potatoes, sweet potatoes, grape seed, soya beans and sugar beet were covered by the programme. The mere fact that farm income,
despite supports, was much lower than that of other industries proved that the Government was obliged to proceed cautiously in agricultural policy.

9. However, the picture of Japanese agriculture was not so dark as it might appear. First, the effects on agriculture of the expansion and development of the national economy as a whole had to be taken into account. The rapid growth of the national economy would bring about a gradual decrease in farm population. In the light of this trend, the Government was promoting land-improvement, land consolidation, mechanization and other labour-saving techniques. Secondly, the change in demand for agricultural products would bring new possibilities for the modernization of agriculture. With the rising level of income the trend was towards more nutritious foods. Consumption of meat in addition to fish had increased and demand for milk, dairy products and fruit had also shown a sharp rise. Supported by such increasing demand, production of meat, milk and fruit had shown a considerable increase.

10. Any accurate estimate of a future consumption pattern was not easy to make, but with respect to cereals as a whole such as rice and wheat, per capita consumption had come nearly to the highest point which could be expected, and therefore only increasing consumption resulting from population growth would continue for some time to come. Consumption of meat, eggs and dairy products should continue to show the present tendency of marked increase. In particular, consumption of milk should continue to show about 10 per cent annual increase for some time to come. Demand for edible oils and fats should also show a marked increase. A considerable rise in sugar consumption might be expected with an increase in the national income and population. Fruit consumption should also rise and with the increase of livestock, the demand for feed should go up steeply.

11. The Japanese Government did not feel that the continuation for a long time of all the existing governmental measures for protecting or supporting agriculture would be justified. Not a few of them needed modification or improvement so as to meet the changing situation and in this respect a serious study of the situation was now being made. Import restrictions of some agricultural products were now being abolished one after another and a similar policy would also be pursued in the future. However, as for rice, wheat and barley which were the most important items in domestic agriculture, it was felt that it was difficult to remove quantitative restrictions. As regards livestock products, import restrictions were also required. This sector was to be developed further in order to bring about the modernization of agriculture. Meanwhile, regardless of the fact that restrictive measures for some of these commodities were considered necessary at present, imports of feed, oil and fat materials would be considerably expanded because of increasing demand.

12. In concluding his opening statement, the representative of Japan reiterated that it was one of the Government's major policies to safeguard the welfare of farmers who still represented a considerable portion of the total population, and stressed that it was most desirable for agriculture to go hand
in hand with the expansion and development of the national economy as a whole. To attain this, Japan could hardly neglect the importance of freer and wider interchange between countries in the trade field.

13. The Committee expressed appreciation for the statement of the Japanese representative and for the documentation which had been furnished by the Japanese Government. In discussion on this statement and the documentation, one member of the Committee noted that under the Long-Range Economic Plan for 1958-1962, agricultural production was expected to be 21.5 per cent higher in 1962 than in 1956, and enquired whether a commodity breakdown of that production target could be provided. The representative of Japan stated that the indices used in the Plan had been prepared by the Government in 1957 using 1956 as the base year. The 1962 production target index for livestock products as a whole was 162.6. Within the livestock products category the target for milk and milk products was 223, for beef 107, for pork 160, for poultry 152, and for eggs 158. The production target index for cocoons was 122.2 while that for rice was 108.4, for wheat 111.9, for barley 118.4 and for white potatoes 116.3. The representative of Japan stated that it was already evident that the production targets for wheat, barley and cocoons could not be attained; production of these commodities had been levelling off since the base year. The production targets for other products would be attained by 1962. A new long-range economic plan with revised targets was now under consideration. Japan did not have a planned economy and the Government could not therefore resort to direct measures for increasing production of any commodity. The Government was anxious to attain the targets in order to improve the position of the farmers. The Government purchasing price for wheat, rice and barley had been maintained at the same level since the base year and the Government had therefore carried out a stabilization policy so far as agricultural prices were concerned. The Government was concerned to increase the income of farmers depending primarily on measures to increase productivity rather than on price measures, and it was hoped that decrease of excess farm population in the future would bring about increase in per capita income of farmers.

14. Members of the Committee pointed out that in earlier documentation furnished to the Committee by the Government of Japan one of the principal objectives of Japanese agricultural policy was stated to be the attainment of the highest possible degree of self-sufficiency in staple foods. They noted that this was no longer stated as an objective though it still appeared to be one of the policy objectives of the Japanese Government. They expressed their doubts as to the wisdom of a densely populated country such as Japan, with an agricultural system based on very small holdings and with large exporting interests, pursuing a policy of self-sufficiency or near self-sufficiency in certain basic foodstuffs. They enquired whether the Japanese Government still had the intention of pursuing a policy of self-sufficiency in staple foods.

15. The representative of Japan stated that self-sufficiency had been an objective of agricultural policy until recently. It had, in fact, been of vital importance to the immediate post-war economy of Japan to produce agricultural commodities to the maximum possible extent. Self-sufficiency for any particular product was not now, however, a primary objective of agricultural
policy. A predominant number of farmers in Japan produced rice, from which 50 per cent of farming income in Japan was derived and in order to maintain and improve farming income Japan would continue to attach importance to rice production. Furthermore, a special variety of rice (round type) was preferred by the Japanese consumer. While this type was difficult to obtain from foreign sources, it could be produced economically in Japan. The increased production of livestock and dairy products was primarily for the purpose of modernizing the agricultural structure. The intention was to continue this modernization process in order to raise farming income and this sector was considered to be the most appropriate for achieving this. It was not intended, however, to pursue a policy of self-sufficiency for this group of products. Meat and certain types of dairy products were in fact imported from time to time. As to wheat, the priority was being given to the Japanese Government's policy objective of rationalizing and modernizing production of wheat. It was essential to produce wheat in Japan since few other crops were suitable for winter production. Japan could not produce hard wheat and domestic production of soft wheat had been tapering off. Imports of 2 million tons a year had been maintained and it was assumed that imports of this level would continue to be needed. So far as feed grains were concerned, Japan depended largely on imports. In general, therefore, the principal objective of Japanese agricultural policy was to maintain or improve farming income rather than to achieve self-sufficiency in any product.

16. One member of the Committee noted that there had been fairly substantial increases in consumption and production of agricultural products since pre-war years. He expressed his view that the Japanese Government appeared, however, to have been pursuing a policy of settling domestic consumption at the level of domestic production and pointed out that, for example, little or no imports of dairy products were permitted to take place. Imports of butter were permitted only for consumption to tourist hotels and there appeared to be no indication of any relaxation of import controls in this sector. The representative of Japan stated that consumption of dairy products was a fairly recent development in Japan. Per capita consumption of meat and dairy products was now showing a sharp increase and it was assumed that the trend would continue. However, domestic production of these products had also shown a marked rise and had kept pace with increased demand. In the view of the Japanese Government, although quantitative restrictions might have some effects on prices, supplies to the consumer were not being limited to any extent. For example, the price for milk had shown a slightly decreasing trend. When the price of milk had fallen three years ago, there had been no corresponding increase in consumption; there was, in fact, limited elasticity in consumption of this product. The livestock industry was the sector of agriculture on which the Government were depending for the modernization of the whole structure of the agricultural industry in Japan. As to meat, if cattle were slaughtered in excess numbers to supply the domestic market, the time lag between slaughter and cattle raising could result in shortages of meat in the domestic market. Therefore it was necessary to stabilize supply and production of meat. The representative of Japan added that while imports of meat would sometimes be required, he believed that use of quantitative restrictions would generally be necessary to maintain stability. The representative of Japan stated that as to further relaxations of imports of
agricultural products, it would be difficult to liberalize imports of wheat, rice and barley. For other commodities, the Government had established a Ministerial Council which was studying the possibility of liberalization of all goods, including agricultural products, but it was not possible to indicate at this time what specific items could be liberalized nor the dates on which such liberalization might take place.

17. A member of the Committee noted that the target in the Long-Range Economic Plan for production of milk and milk products was 223. Production in the base year 1956 had been 1 million tons so that, if the target was reached, production in 1962 would be 2½ million tons. He noted the statement of the representative of Japan that there had been no increase in consumption when prices for milk had shown a sharp decrease some three years ago and enquired whether the Japanese Government intended to take price or other measures to ensure that the increased production would be absorbed by the domestic consumer. The representative of Japan stated that it was confidently expected that the demand for milk and milk products, the per capita consumption of which had been extremely small till recent years, would show a very rapid increase. Recent trends had shown a very sharp rise in consumption because of the increased income levels of the Japanese people and changes in diet. Although the price for margarine was much lower than that of butter, the ratio of consumption of butter to margarine was 70:30. It was likely that the increases in demand would be greater than the increases in production and, if demand increased at the present rate, there might be a possibility that imports would become necessary in the future. It was not expected that milk products could be exported from Japan in the future. No price support scheme was in operation for milk and milk products. The average number of cows on Japanese farms was 1.9 and there was, therefore, ample scope for increases of herds. In reply to questions about possibilities of increased export opportunities to the Japanese market for dairy products after the attainment of the target for this sector in 1962, the representative of Japan stated that it was difficult to forecast the demand-supply conditions in the Japanese market after that year.

18. One member of the Committee stressed his view that the State trading activities of the Food Agency were very widespread: the agency appeared to control most of the imports of agricultural products in Japan. He enquired whether the purpose of the activities of the Food Agency was the operation within the domestic market or whether this was secondary to the main purpose of import operations. He pointed out that since for instance, Japan was a substantial importer of cereals, the direct control over imports which was in Governmental hands through the operations of the Food Agency could be used as an instrument of commercial policy. The representative of Japan stated that the primary objective of the operations of the Food Agency was to secure supplies of food to the people and to stabilize the national economy. The Food Agency regulated the demand and supply of food and the prices in the domestic market. It was difficult to indicate whether priority was given in the operations of the Food Agency to domestic production or to imports; both were needed and both were an integral part of food control. The food control was not used solely as an instrument of protection for domestic agriculture. Japanese farmers were anxious to reduce imports of agricultural products, but
since the Food Agency was obliged by law to secure for the Japanese people a reasonable supply of food at reasonable prices, the Agency had been importing foodstuffs at a far higher level than that desired by the farmers.

10. One member of the Committee pointed out that, through the operations of the Food Agency on imported grains, for example, there was a high level of mark-up between the purchase price and the selling price. He enquired whether the Japanese Government had considered reducing mark-ups to afford the consumer the benefits of the lower prices of imports. The representative of Japan stated that the average mark-up on rice was 8.7 per cent and for wheat the average was 34 per cent. The customs duty on rice was 15 per cent but this duty was temporarily suspended and the mark-up was lower than the duty which could be applied. In the case of wheat, the duty was 20 per cent and the mark-up was therefore only a little higher than the duty which could legally be applied. These levels of mark-up were necessary to maintain the stabilized development of agriculture. Japanese agriculture needed to rely on intensified cultivation of a small acreage. In order to obtain maximum output, most farmers raised two crops, rice in the summer and wheat or barley (or sometimes rapeseed) in the winter. If the production of wheat as a winter crop was abandoned, income to farmers would be reduced because there was no alternative winter crop which could be produced. The successful operation of the support level for wheat which was even lower than the cost of production of average farms, required the sale of imported wheat at the present price level which in the view of the Japanese Government was not high. The demand and supply position of wheat as against rice was showing a balance in the Japanese market, and the Government would not wish to disturb this balance by radical changes in the selling price of wheat and rice.

20. In reply to questions about the calculation of prices for the products for which price supports were in force, the representative of Japan stated that the factors taken into account varied with each commodity. For rice, the price support of which was aimed at maintaining production, costs of production, the general price level and other economic factors were taken into account. For wheat, a parity price was calculated on the basis of the purchase price in the 1950-51 period. The parity price was the predominant factor in the calculation of the support price for wheat, though other factors such as the general economic situation were taken into account; production costs were not necessarily taken into account for this item. 20 per cent of wheat producers in Japan could cover their costs of production at the Government purchase price for wheat. The Government purchase prices for soya bean and rapeseed were determined taking into account parity prices, the demand and supply position and costs of production.

21. One member of the Committee stressed his view that parity prices and costs of production should be avoided as bases for calculation of price supports and suggested that consideration should be given to the possibility of adopting a three-year moving average of market prices as a basis for price support. The representative of Japan stated that the whole question of formulae for price formation was being studied by the Government of Japan, whose aim was to achieve a more flexible system of price formation.
22. Members of the Committee noted that one of the targets of Japanese agricultural policy was the elimination of extreme small-scale farming and enquired whether there had been any perceptible progress towards the target and whether the present average of 0.8 hectares per holding represented an improvement on any previous figure. The representative of Japan stated that the small average size of farms represented one of the fundamental problems of Japanese agriculture. 0.8 hectares average was in fact even smaller than the pre-war average and to the present date there was no trend towards increased size of holdings. It was hoped, however, that the aggregate farm population would decrease in conformity with the improved status of other sectors of the economy. There had been a decrease of 500,000 in the farm population in the last two years and it was hoped that in the long term, if this trend continued, the average size of holdings would increase. Only 17 per cent of the land was arable and it was difficult to increase this percentage because of the hilly nature of the country. The Japanese Government were therefore aiming at diversification of production and giving more emphasis to production of livestock and dairy products.

23. In reply to questions about the trend of total farm income, the representative of Japan stated that total farm income in 1958 amounted to 1,156,500 million yen, which represented about 13.7 per cent of the total national income. The total amount of subsidies granted to agriculture accounted for about 3-5 per cent of the total farm income. In reply to a question about the cost of wheat subsidies shown in the documentation furnished by the Japanese Government, the representative of Japan stated that the figures did not include the profits made by the Food Agency on the resale of imported wheat. In reply to questions about subsidies to bridge the difference between the import price for sugar and the Government selling price for beet sugar, the representative of Japan stated that the difference in those two prices had amounted to $6.5 million in 1958, but that this cost had been considerably reduced in 1959, since in April 1959 there had been a change of Government policy in regard to sugar beet and as a consequence there was Government purchase of only part of the domestic sugar beet production.

24. One member of the Committee enquired whether if the foreign exchange allocated for a six months period for goods under the automatic approval system for imports was exhausted, licences would still be issued for imports of the products concerned. The representative of Japan stated that legislation required that the Government must prepare the foreign exchange Budget on a half-year basis. If licence applications for import of goods on the automatic approval list exceeded the funds envisaged in the foreign exchange Budget for import of such goods, the Budget would automatically be increased to cover the further licence applications. As a matter of Government policy there was no suspension of imports.

25. Members of the Committee noted that while a few agricultural products were admitted into Japan under the automatic approval system, a highly restrictive import régime was still in force for a wide range of agricultural products while for some items, for example, butter, there was in effect almost complete
prohibition of imports. They recognized the difficulties that had faced Japan in the post-war years and the fact that there were still some balance-of-payment reasons which placed some limitations on freedom to import. They noted also that some progress had been made in the removal of restrictions and that further liberalization measures and the removal of some of the discrimination against the dollar area, would be undertaken in the near future. They nevertheless stressed their view that the import régime was still of a highly restrictive nature. They doubted whether the progress towards liberalization measures had been fast enough or whether the area of import freedom in the agricultural field had kept pace with the rate of improvement of the international financial situation of Japan. They strongly urged their view that the future progress of liberalization should be at a pace comparable with the improving financial position of the country. They welcomed the statement made by the representative of Japan that a major portion of Japan's agricultural imports was expected to be liberalized, but pointed out that the programme for achieving this liberalization was not precise and that there still remained some measure of doubt as to the existing nature and scope of the existing quantitative restrictions on agricultural products. They required whether a full list of the products now subject to the automatic approval and the foreign exchange allocation systems could be made available and whether more concrete and specific information could be given about the programme and intentions of the Government in achieving the liberalization of a major portion of agricultural products. They stated that in this connexion they would welcome an indication of the products which could not be liberalized and an indication of the difficulties attaching to these products.

26. The representative of Japan stated that the whole programme of liberalization of imports was being studied by a Ministerial Council, which would prepare another set of liberalization measures within a few months. Until the Ministerial Council announced these new measures no indications could be given of concrete measures at the present time. However, liberalization measures had been undertaken since last autumn and the latest announcement of liberalization measures to be undertaken in the near future covered approximately thirty minor items in the agricultural field. The representative of Japan stressed that since imports of agricultural products represented nearly 50 per cent of the total imports of Japan, the Government of Japan considered that there was still a reason for restrictions on balance-of-payments grounds. Until Japan moved out of balance-of-payments difficulties, the Government of Japan would continue to move gradually towards liberalization of industrial and agricultural goods. However, it remained clear that for certain commodities it was impossible to forecast any liberalization of imports in the near future. Unless the farm population of 15 million or the more than 30 million people who derived their income from the agricultural industry decreased rapidly so that the disparity between per capita income of the agricultural industry and other sectors was reduced, it would be very difficult to liberalize imports.
of the key agricultural commodities. The Government of Japan hoped that the development of the national economy as a whole would decrease the burden on agriculture. In order to attain this, various factors, including conditions in Japan's export markets, had to be taken into account. It remained the hope of the Japanese Government that the national economy would continue to expand and exports to increase which would favourably affect agriculture. Because of these difficulties the Government had to be cautious in proceeding towards liberalization of agricultural products.

27. The Committee concluded this part of the consultation by expressing their concern that, despite improvements in the balance-of-payments position of Japan, quantitative restrictions would remain on a considerable range of agricultural products, including wheat, barley, rice, livestock and dairy products.

B. Commodities

28. The Committee conducted a detailed examination of the information submitted by Japan on those commodities on which it had been agreed the consultations should be concentrated. This section of the present report summarizes the main points discussed during the examination.

Cereals

29. One member of the Committee considered that the mark-up of 34 per cent on imported wheat might have a limiting effect on consumption. He enquired whether it would not be possible for Japan to regulate the system in some other way so that the consumer could get the benefit of the lower price of imported wheat. The representative of Japan pointed out that when the statutory tariff of 20 per cent, which had been temporarily suspended, was taken into consideration, the rate of mark-up was not unreasonably high and also stated that in determining the selling price of imported wheat, the Japanese Government took into account such factors as consumers expenditure and the price level for rice. Consumption of wheat in 1957 had been 2.9 times that of the pre-war period; consumption had declined slightly in 1958 but had still been 2.8 times that of the pre-war period. The Japanese Government did not consider that its selling price for wheat was unduly restricting consumption. Demand on the Japanese market for different varieties of wheat was taken into account in determining the selling price. The consumption pattern of wheat flour was different from that of other countries; for example, 45 per cent of flour was used for making noodles. Accordingly, evaluation of quality of wheat in Japan differed to some extent from that of world markets. In the determination of the selling price of imported wheat the Government had to take into account the purchase price and selling price of domestic wheat. Consumption of wheat in Japan was in fact increasing but there was no increasing trend in domestic production.
30. In reply to a question about mixing regulations, the representative of Japan stated that there was no Governmental mixing regulation in force in his country. Since bread had to compete with rice, it was necessary to produce a high quality bread for the Japanese consumer. The protein content of the bread produced in Japan was often much higher than that produced in some European countries. The millers and manufacturers were entirely free to produce the type of bread or any other product demanded by the Japanese consumer.

31. In reply to questions about bilateral agreements on rice and other grains and the percentage of imports covered by such agreements, the representative of Japan stated that there were a few bilateral agreements in operation for rice one of which was the agreement with Formosa. Another was in force with Burma, but because of heavy domestic crops in Japan imports had been considerably reduced and the import target figure in the agreement had not been attained. There were no other bilateral agreements in force with respect to any other grains and imports into Japan were on a global, competitive basis. There was a bilateral agreement with Canada, which was in the nature of a Treaty of Commerce between that country and Japan, which stipulated that Japan should import wheat and barley on an open competitive basis.

32. One member of the Committee noted that imports of barley were under the foreign exchange allocation system. He enquired whether the last heavy domestic rice crop in Japan, which was affecting the level of imports of rice, was also reducing the level of imports of barley. The representative of Japan stated that Japan had in the past imported fairly substantial quantities of barley for human consumption. However, because of the heavy domestic crops of rice, the consumption of barley had declined and consumption of rice, which was preferred by the Japanese consumer, had increased. Further, because of the increase in income levels in Japan, there was a decrease in human consumption of barley. The demand for barley, both imported and domestic, had declined. There was still some domestic production of barley since it was suitable as a winter crop, but in the long term it was unlikely that there would be a large market in Japan for barley.

33. In reply to a question about the possibility of import of oats and wheat offals, the representative of Japan stated that these could be freely imported under the automatic approval system.

Sugar

34. One member of the Committee noted that there had been an increase in domestic production of sugar and that domestic production in 1958 represented 8.5 per cent of domestic consumption of sugar compared with 5.9 per cent in 1954. He pointed out that in their notification to the CONTRACTING PARTIES of subsidy arrangements in force in Japan (document L/1131), the Japanese Government had indicated their intention of increasing production of sugar to achieve self-sufficiency in this product. He enquired whether this was still the intention of the Japanese Government.
35. The representative of Japan stated that sugar beet was considered to be a suitable crop for North-Eastern Japan where there was a cool climate and where the conditions made the production of other crops difficult. The production of sugar beet had been increasing. There had also been a rapid increase in consumption of sugar which had reflected the rate of increase in income of the population. One million tons of cane sugar were imported annually and it was assumed that, even if production increased, Japan was likely to continue importing this amount annually. The rate of customs duty on sugar had been raised, but the internal tax had been reduced and this had been of assistance to the domestic industry. Government support was now confined, for a short period after their establishment, to new mills which produced refined sugar from domestically produced sugar beet.

36. One member of the Committee noted that sugar was imported from Formosa under a bilateral agreement and that imports from other sources were subject to a global quota. He enquired whether the global quota entered into force only after fulfilment of the bilateral quota with Formosa. The representative of Japan stated that there was an import target figure in the bilateral agreement with Formosa. Apart from this, imports from other countries were on a global quota basis, and the two quotas (bilateral and global) entered into force simultaneously.

**Vegetable oils and seeds**

37. One member of the Committee noted from the documentation furnished by the Japanese Government that there appeared to be no Government intervention in or control of the domestic market for soya beans. He noted also that in the period 1956-58, the producer price had remained above the Government purchase price and had failed to reflect the sharp decrease that there had been in the price of imported beans in that period. He asked whether this was due to import restrictions alone or whether there was in fact some form of marketing organization strong enough to regulate market prices. The representative of Japan stated that it was assumed to be due to the supply and demand position in Japan on which the quantitative restrictions imposed at that time had to some extent had an effect.

38. One member of the Committee noted that the marketing price of domestic production of soya beans had been $155.13 a ton in 1958 compared with a landed price of $97.66 a ton for imported soya beans. He enquired whether imported beans were marketed by the Government at prices higher than the import price. The representative of Japan stated that imported soya beans were not necessarily sold at a higher price than the imported price. Domestically produced soya beans had a higher protein content than imported soya beans and were used for soya bean products for human consumption, whilst imported beans had a higher oil content and were primarily used for oil extraction. The Government did not exercise any intervention in the imported soya bean market except that imports from the dollar area were restricted under the foreign exchange allocation system. Importers could sell imported soya beans at their own price. The Japanese Government would attempt to liberalize imports of soya beans from the
dollar area in October 1960, but certain difficulties were envisaged after liberalization and therefore there was a possibility that Japan might have to resort to an increased tariff, or other measures, for the protection of the domestic industry.

39. One member of the Committee pointed out that until 1958 Japan had provided a large and increasing market for flax seed, but in that year there had been a marked decrease in imports. He noted that imports of flax seed were under the automatic approval system at the present time and enquired whether imports had been restricted in 1958 or whether there was any other explanation of the sudden decrease in imports. The representative of Japan stated that imports of flax seed had been under the automatic approval system in 1958. There was no certain explanation for the sudden decline in imports, but it had presumably been caused by a switch in demand away from flax seed by the industries which normally used this material.

40. One member of the Committee noted that imports of castor seed were liberalized while imports of castor oil were subject to restriction. Imports of castor seeds were increasing, but there had been no imports of castor oil and some exports. He enquired whether any measures were foreseen to abolish the preference that existed in the import licensing system and pointed to the increased protection that this gave to an industrialized country exporting a product of an industry which could be expanded in less-developed countries. The representative of Japan undertook to report to his authorities the concern expressed by the member of the Committee. The matter would be considered in preparing the liberalization programme to be submitted to the Ministerial Council.

Fish

41. A member of the Committee pointed out that, despite the highly competitive nature of the Japanese fishing industry and despite her position as a net exporter of canned and frozen fish, there appeared to be some degree of restriction on the import of fish into Japan. The representative of Japan stated that although the Japanese fishing industry was one of the largest in the world, nevertheless this industry had some problems. There were many small coastal fishermen whose income was even lower than that of the farming population. Despite these difficulties, however, when the overall liberalization programme was considered in the future, fish and fish products might be incorporated.

42. Members of the Committee enquired whether the subsidies to the scallop farms and oyster beds were in the form of grants or loans on favourable terms. They also noted that the Japanese fishing fleet had been rebuilt so that it was now far in excess of its prewar capacity. They enquired whether there were any plans to continue Governmental assistance to further increase the size of the fleet and requested information on the number of ships now being constructed compared with the last few years. The representative of Japan stated that assistance to the scallop farms and oyster beds was in the form of grants.
The representative of Japan stressed that the total catch of the fishing industry was levelling off. Although certain facilities were granted for building the fishing fleet, there was in general a rather tight control on the building of new ships. In principle, a fishing company could obtain a licence to build a new vessel only on condition that an old vessel was discarded. Thus, although the fleet was being modernized there was no increase in the total catch, nor was there positive intention of increasing the total catch to any substantial extent. In reply to a question as to whether the controlled export price and quota system was designed to promote maximum sales to domestic or foreign markets, the representative of Japan stated that Government policy was directed towards orderly marketing and quotas were imposed on exports of fish products in order to take into account the marketing position in other countries. The quotas imposed had no relation to domestic demand or supply of fish or fish products and the Government exercised no control on domestic fish marketing.

**Dairy products**

43. Members of the Committee stressed their view that, since a substantial increase in production of dairy products could be expected and since it was possible that such production might exceed the target figure in the Long-Range Economic Plan, it was essential that efforts should be made to increase domestic consumption. Average consumption of dairy products in Japan was low, and a prolonged period would be needed to accustom the population to the consumption of dairy products and to increase this consumption if there was not to be a surplus of domestic production of dairy products. Such a surplus could only lead to a recurrence of the type of problems that arose in markets for dairy products in 1958. They stressed their view that while the low consumption of dairy products was due in part to the dietary habits of the Japanese population, it was due in far greater measure to the very high prices of dairy products in Japan. They stressed the need for a more liberal import policy for dairy products, particularly butter, which in their view would have no adverse effects on the Japanese farmer in view of the fact that increased demand for milk was expected by the Japanese Government to take up the whole increase in domestic production of milk.

44. The representative of Japan stated that the dairy products industry represented the most important sector on which the modernization of the whole agricultural industry in Japan could be based. The 30 million people who derived their income from agriculture were anxious to modernize the structure of the agricultural industry in order to improve their incomes and, since there were certain limitations to increased production of wheat and rice, more attention was being given in Japan, as it had been given in many countries, to increased production of dairy products. It would therefore be difficult to undertake liberalization of imports of dairy products in the foreseeable future. The representative of Japan further stated that, in his view, the price of butter did not have a substantial effect on the level of consumption, the principal factors being dietary habits and the level of income; the ratio of consumption of butter to margarine was 70:30 despite the much cheaper price of margarine.
45. In reply to a question about arrangements for loans to farmers to purchase high quality cattle and the criteria that were used in allocating these loans, the representative of Japan stated that subsidies were granted to farmers for the purpose of improving grassland. In addition, loans were extended to manufacturers of dairy products under the Dairy Promotion Fund Law of 1958. This Law provided for the establishment of a Fund to which the Government contributed 500 million yen and manufacturers and farm organizations contributed a similar amount. By utilizing these monies, the Fund guaranteed loans extended by commercial banks to manufacturers who wished to improve their manufacturing facilities.

46. In reply to questions about the import régime in force for cattle, cheese and separated, dried and condensed milk, the representative of Japan stated that imports of cattle were under the foreign exchange allocation system and imports of natural cheese and lactose milk were under the automatic approval system.

47. Members of the Committee pointed out that imports of butter were only permitted for the hotel tourist trade and that imports for the Japanese population were prohibited. They pointed out also that although some commercial imports of skimmed milk powder for stockfeed were made and imports under United States Public Law 480 were made for the school lunch programme, no imports of skimmed milk powder were permitted for ordinary consumption. Members of the Committee doubted whether the state trading activities of the Food Agency in respect of this item permitted imports from the cheapest commercial source. The representative of Japan stated that skimmed milk powder for school lunch was imported from the cheapest suppliers abroad by private importers on behalf of the Japan School Lunch Association, a private organization.

C. Other Commodities

48. In conclusion the Committee considered a request that had been made for the inclusion of lemons and dried fruits as additional commodities in the consultations with Japan.

49. In reply to questions about the import régime for dried fruits, the representative of Japan stated that some bilateral agreements were in force. The intention was, however, to terminate the single quota system gradually and from the beginning of the next fiscal year (April 1960) a global quota, in addition to the single quotas under bilateral agreements would be instituted. The representative of Japan added that it might be possible for the Japanese Government to consider placing imports of this commodity under the automatic approval system for the future.

50. One member of the Committee enquired why imports of lemons had been transferred from the automatic approval system to the foreign exchange allocation system in 1958. The representative of Japan stated that domestic production of lemons had accounted for 15 per cent of domestic consumption in 1958. Since
there was a limitation on the amount of land available for lemon production, domestic production did not show an increasing trend though consumption, due to higher incomes, was increasing. Lemons were regarded to some extent as a luxury item of diet and therefore, because of balance-of-payments reasons, this commodity had been under the foreign exchange allocation system. However, it was envisaged that the quota would be increased for the next fiscal year. The representative of Japan stated that it might also be possible to consider transferring this item to the automatic approval system for imports in the future.