Committee on Subsidies and Countervailing Measures

REPLIES BY JAPAN TO QUESTIONS RAISED BY AUSTRALIA ON THE JAPANESE NOTIFICATION OF SUBSIDIES UNDER ARTICLE XVI:1 OF THE GENERAL AGREEMENT

Reproduced herewith are replies by Japan to questions raised by Australia in document SCM/W/165 on the Japanese notification of subsidies under Article XVI:1 of the General Agreement (L/6111/Add.22).

I. COAL

Question 1

We are particularly concerned at the absence of any reference to the support given to the Japanese coal industry. Although small and declining, this industry nevertheless receives very substantial assistance (approximately US$2.07 billion in 1987).

Answer

Japan is promoting structural adjustment of coal mining industry and reducing domestic coal supply drastically taking into account their effect to the economy and employment in coal producing regions under the 8th coal policy which started from 1987. The 8th coal policy has fundamentally changed the ideas on the industry which previously aimed to maintain the level of domestic coal supply. Various measures are taken under this policy such as giving an incentive to the reduction of coal production, necessary measures for mine closures and for unemployment and the promotion of economy of the regions. These measures, however, are not intended to maintain or increase coal production.

In the meanwhile, import of coal in Japan increased by 82 per cent for the past ten years (52.9 million tons in 1978 to 96.43 million tons in 1987). In 1987 alone, it increased by 7 per cent from the previous year.

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We therefore do not consider that the support given to the industry fall within the meaning of subsidy in Article XVI:1 of the General Agreement.

II. DAIRY PRODUCTS

Question 2

The NOTIFICATION fails to estimate the amount per unit of LIPC subsidy paid to producers and fails to mention the cheese production subsidy scheme which was announced at the beginning of 1987.

Answer

The amount per unit of the subsidy is ¥18.03/kg (¥414.69 million - 2300 thousand tons).

With respect to the subsidy scheme for natural cheese production, it is established in FY1987 with a view to providing a subsidy in order to ensure smooth transfer to price setting under free transaction in respect of milk to be used for natural cheese which had been subject to deficiency payment program.

Question 3

We note that the comment on page 10 that the policy is designed to promote the development of agriculture in districts with no other viable industry, appears at odds with what actually occurs as the measures are applied in areas where there are other industries established.

Answer

Although deficiency payment scheme does not define specific areas for its applications, almost 90 per cent of the total production is from districts with no other viable industry such as Hokkaido and Tohoku area. Moreover, the program is applicable only to milk designed for specific dairy products and production cost of milk produced in Hokkaido is used in the calculation of the subsidies. Therefore the scheme in effect covers districts with no other industry.

Question 4

We also note that inter-prefectural flows of milk are controlled, partly through production quotas and partly through "understandings" between different parts of the dairy industry. This prevents the industry developing in the lowest cost areas (eg. Hokkaido).
Answer

We do not consider that inter-prefectural flows of milk are controlled through production quotas because there is no restriction of inter-prefectural milk flow. We believe that, in terms of transportation cost, current milk flow situation reflects inter-prefectural competition appropriately. Furthermore, there is no "understandings" between different parts of the industry to control milk flows as mentioned in the question.

III. RICE WHEAT AND BARLEY

Question 5

No mention is made in the Notification of subsidies paid on rice marketed through licensed agents (jishu-ryutsu-mai).

Answer

The subsidies in question are included in the figure "¥328, 200" million in I(c).

Question 6

We would be interested in Japan's comments on the effectiveness of the rice diversion program and the reason for its omission from the Notification.

Answer

The rice diversion program is carried out on an annual basis in order to control rice production taking into account the rice situation of the year and we do not consider it constitutes subsidies in terms of Article XVI:1 of the General Agreement which states "any subsidy, including any form of income or price support, which operates directly or indirectly to increase exports of any product from, or to reduce imports of any product into, its territory."

Question 7

We also note that the price paid to rice producers was reduced by 5.95 per cent in 1987 and 4.80 per cent in 1988, the first reductions in 30 years. Could Japan indicate whether this trend can be expected to continue?

Answer

It is impossible to predict future producer prices in any way. Nevertheless we can say that we will make best efforts to increase productivity and to reduce cost of rice.
IV. SUGAR AND SWEETNERS

Question 8

The section does not accurately reflect the current domestic situation and does not adequately address the effect of Japanese programs on world sugar trade. We would appreciate the comment of Japan on this issue.

Answer

Japan does not have a quantitative restriction on sugar imports. However, Japan, whose sugar supply is considerable dependent upon imported sugar, has a measure to stabilize prices of domestic sugar by setting up the price range to soften significant fluctuation of domestic sugar prices reflecting international sugar prices. This price support measure is implemented using two financial sources; levies for imported sugar and governmental subsidies.

With respect to sugar consumption in Japan, Australia argues that it currently remains at the low level due to the Japanese price support program on sugar. But we believe other factors also have to be considered on this matter; sugar consumption normally increases as national income goes up but it does not increase if the level of income exceeds a certain point. In fact, sugar consumption in Japan has been stagnant, although, during the period from 1984 to 1987, the real wholesale price of sugar dropped by almost 8 per cent and real consumers expenditure per capita rose by 4 per cent.

Australia also pointed out that sugar consumption level in Japan might have been twice if sugar prices have been lowered to the level of international prices. Taking into account the fact that most of the sugar consumption comes from processed products such as confectionery and beverage and that sugar costs in respect of those products are at most 10 per cent of sales prices, however, it is clearly concluded that, even though sugar prices drop to the level of international prices, decrease of sales prices of processed products would be small and hence additional demand be marginal.

Furthermore, it should be noted that, as for food consumption, each nation has each dietary lives based on its feature, history and tradition. While in Japan carolie supply is 2600 kcal per person per day and sugar consumption is 22 kg per person per year, they are 3000 kcal and 38 kg, respectively, in Europe.

Concerning the replacability of sugar for HFCS, since around 1980 when technological innovation to raise the degree of sweetness of HFCS started, replacement of sugar for HFCS have been taking place, in particular, in industry such as soft drinks which can take advantage of liquid nature of HFCS. However, the demand for HFCS has been stagnant at the level of
600 thousand tons for the past couple of years and this replacement of the two products seems to have ceased.

As stated earlier, sugar demand in Japan has been stable in recent years, but quite recently a trend that the sugar demand increases is observed reflecting changes in consumers tastes.

We hereby would like to point out that 70 per cent of our sugar consumption is dependent on imported sugar and Australia is the biggest supplier whose import to Japan amounted to about 40 per cent of our total import in 1987.

As for findings of the ABARE study, in spite of efforts made by the Australian side to analyze Japanese sugar policies, we are doubtful that the analysis of this economic model correctly reflects the realities. Results of the model may easily lead to quite different conclusions depending on parameters to be used, etc. We consider discussions based on models will do in an academic field but are not in the field of the GATT.

Our final comment goes on a high fructose corn syrup (HFCS). Like sugar producers, HFCS producers also share the cost incurred to support domestically-produced sugar prices through purchase/resale operation by the JPSSPSC; thereby prices of sweeteners as a whole are intended to be stabilized. And since April 1 this year sugar consumption tax is expected to be abolished following the new tax legislation approved by the Diet last year which introduces new consumption tax system that generally levies 3 per cent on all products and services including sugar and HFCS.

V. QUESTIONS MADE BY AUSTRALIA ON JUNE 1988

Question 9

The Japanese Notification states that a deficit was incurred by the surplus disposal of rice. However, no figure was provided on the level of this deficit. We have two questions:

- What was the amount of the deficit?
- Why was it not stated?

Answer

The amount of the deficit was ¥67 billion in 1986.

The disposal for rice surplus had completed until 1979 and the expenditure has been put off to be appropriated on the budget until 1987.