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ON TARIFFS AND TRADE**

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**TRADE POLICY REVIEW MECHANISM**

**JAPAN**

**MINUTES OF MEETING**

**Addendum**

**Written Answers to Questions**

The following communication has been received from the delegation of Japan, responding to questions raised during the Council meeting on the Trade Policy Review of Japan.

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**MACRO-ECONOMIC DEVELOPMENTS**

**Yen appreciation**

**Question by the United States**

Q. How does the Government of Japan (GOJ) measure the degree to which the benefits of a high yen have been passed onto the consumer? What is the GOJ doing to ensure that these benefits are being passed on in terms of lower prices?

A. The Japanese Government thinks it important to transfer quickly and smoothly the benefits from the appreciation of the yen to domestic prices in order to stabilise them rapidly. Consumers must fully enjoy such benefits as quickly as possible.

The Japanese Government promotes the pass-through of the yen appreciation by appealing to the industries concerned, gathering information of import prices and providing it to consumers. It announced on 14 April emergency measures against the strong yen and the Government of Japan will take a positive approach in order to ensure the benefits to the consumer and to eliminate price differentials with other countries.

In the report on consumer prices in fiscal year (FY) 1994, the Economic Planning Agency (EPA) announced the results of its research and analysis on how the reduction of import prices is transmitted to domestic retail prices and how consumers benefit from it. According to the report, due

to the yen appreciation after February 1993, consumers benefited at an early stage from the lowering of the retail prices on imported goods. (Commodity stock, an interval between import contracts and the landing of goods, and a timelag caused by future exchange must be taken into account.)

This analysis depends on the observation of the prices of ordinary goods, which have relatively small differences in prices and quality, compared with actual imported goods.

There was a questionnaire sent out to 4,200 consumers in Japan to research how the yen appreciation was passed to retail prices and how consumers benefited from lower import prices, 65 per cent of the consumers answered that prices of imported commodities were thought to have become lower. (19 per cent answered that prices were unchanged and 16 per cent were not sure.) Regarding the question about the number of shops dealing with imported goods, many answered that prices had increased.

It is possible to estimate consumer prices provided there is no appreciation of the yen. By comparing past and present price figures, the effect of lower import prices to domestic consumer prices can be estimated. According to such estimation, almost 70 per cent of the reduction in the cost of imported materials and the price of imported consumer goods was translated into consumer prices during the period October-December 1994. That is to say, consumers benefited from the yen appreciation in a relatively smooth way.

#### Question by the European Union

Q. EU and other foreign intermediate producers have difficulties in establishing business relationships with the Japanese final producers because of the vertically integrated structure of Japanese industries and of Japanese business practices (predominance of long-term relationships, special requirements demanded by producers, etc.). Do you consider that the strong appreciation of the yen and, as a consequence, the need of Japanese final producers to source intermediate goods outside Japan will favour an increase of imports produced around the world or will it concern only areas in which Japan is delocalizing its production? Will the Japanese authorities encourage their firms to operate internationally as global firms and not as firms for which the type of national ownership of its subcontractors gives rise to (positive or negative) discrimination?

A. The strong appreciation of the yen allows many companies to import intermediate goods from overseas at a relatively low cost. Some companies are able to reduce domestic deals with sub-contractors, others on the contrary even break off their long-term relationships. In other words, an appreciated exchange rate will influence changes in the structure of Japanese industries, where final producers have enjoyed the dominant status as users of subcontracted goods.

If the development of international activities by Japanese firms is only a result of the rational changes in domestic and external economic circumstances, it can be appreciated as a positive sign of structural adjustment within the industries in accordance with the market principals.

The high appreciation of the yen, which has escalated recently by going far beyond normal economic trends, seems to influence changes in the structure of export-dependent profits of Japanese industries and, as a result, to increase production overseas. Regulations or anti-competitive business practices, together with the above-mentioned appreciation of the yen, could expand production abroad, which means that the Japanese economy will "hollow out". If such is the case, our prime concern should be to avoid competitive and domestically autonomous Japanese firms being driven overseas to more favourable markets.

The Japanese Government thinks it most important to prevent such a tendency from developing. Thus, to try and counteract the phenomenon, deregulation programmes, the promotion of the elimination of anti-competitive business practices and the providing of information to consumers, are being set up in order to eliminate price differentials of intermediate goods with other countries and thus make them more competitive.

Question by New Zealand

Q. To what extent has the outlook for economic recovery in Japan in 1995 been affected by:

- weaker than expected consumption?
- the yen's rapid appreciation?
- the Kobe earthquake and other factors ?

A1. In FY 1995, private consumption indicates a tendency of modest recovery in general although the Kobe earthquake weakened it.

According to a means test in January 1995, substantive consumption expenditure (by all households) decreased by 4.2 per cent compared with January 1994. As for the retail gross sales, the turnover of department stores decreased by 5.2 per cent in January and 3.2 per cent in February compared with the same month of the previous year. The turnover of franchise stores decreased by 1.7 per cent in January compared with the previous year but increased by 0.2 per cent in February. On the other hand, as for the sales of durable consumer goods, the number of newly registered motorcars (excluding light cars) increased by 9.0 per cent in March compared with the same month of the previous year. Wholesaling of colour TVs increased by 23.5 per cent in February compared with the same month of the previous year.

Although some economic indexes show downward movements, others are going upward. The sales of durable consumer goods is increasing. Such growth in production increases income. Thus, we do not believe that consumption this year is weaker than expected.

A2. The yen appreciation influences both export and import. The rapid appreciation of the yen decreases the income of exporting companies and would undermine economic recovery in Japan.

A3. The Kobe earthquake damaged residents and companies of the area and it is thought to have influenced the movement of economic indexes, lowering mining production in January. In February however these indexes showed upward movements which offset the declines caused by the earthquake.

	November 1994	December 1994	January 1995	February 1995
Production of mining (compared with previous month)	+3.0%	-0.4%	-1.3%	+1.9%
Exports (yen-based) compared with previous month	+5.3%	-1.0%	-7.5%	+11.0%

In the future actions for recovering the damaged area will be extended and investments in equipment and housing will increase. Public works by GOJ or a local government will increase the public investments through the supplementary budget.

It is difficult to infer at this point the quantitative impact of the earthquake to our economy. There will be potential demands triggered by the restoration of the area. As for production and distribution, economic activities for the recovery already can be seen. There are some other factors such as support by GOJ and the local government, and the economic potentiality of Japan itself which stimulate economic recovery. Even if there still remain negative effects until the beginning of FY 1995 in the production activities in the area which suffered earthquake damage, they will not prevent the process of economic recovery now underway.

### Foreign Direct Investment

#### Question by the United States

Q. What has been the impact of Japanese efforts to encourage increased foreign direct investment in Japan? Has the ratio of inward to outward foreign direct investment changed? What barriers prevent foreign investment and what does Japan intend to do about them?

A. Though foreign direct investment (FDI) in Japan presently has a tendency to increase, the ratio of inward to outward FDI is still low. It has been pointed out that high land prices, high housing prices, slow return on investments and a shortage of resources prevent sound activities of FDI.

The Government of Japan is thus implementing some measures, such as a preferential tax or low-interest loans for foreign investors, which are based on the Temporary Law for the promotion of Imports and for the Facilitation of Foreign Investment. In addition, the establishment of the Japan Investment Council was decided at a Cabinet meeting in July 1994 to further promote foreign investment in Japan. The function of the Council was strengthened and many opinions and requests from foreign enterprises concerning the promotion of investment in Japan were heard directly at the meeting.

With these improvements, the strengthening of the promotion of FDI is planned during the next fiscal year. By revising the high-cost structure of the Japanese market and promoting deregulation, the Government of Japan will positively undertake the structural reform of the Japanese economy and develop new frontiers for enterprises. The Government of Japan aims to improve the environment for FDI.

In addition, the Deregulation Action Program contains certain measures to give incentives to FDI in Japan, such as reviewing prior notification requirements imposed on FDI in the mining sector.

#### Question by the United States

Q. Does the GOJ consider it notable that Japanese foreign investment patterns would be explained by a model that was intended to explain U.S. foreign investment patterns of 1966? A model that now is considered obsolete in that most products quickly pass through or even leap over the stages in Vernon's cycle?

A. It is difficult to explain the pattern of Japan's outward FDI using the model referred to in the U.S. question. However, the recent pattern of Japan's FDI can be roughly explained as follows. With the changes of economic circumstances, outward FDI of Japanese manufacturers has recently greatly increased. Domestic investments in equipment or R&D remain low. Electronics or car industries actively develop overseas production. There are also some structural factors, such as the excessive yen appreciation related to the overwhelming trade surplus, price differentials with other countries, mature domestic industries and the decline of a spirit of enterprise. These all have a negative influence

on employment, small companies and local economies. In the long run they will weaken the base of the Japanese technology and create a fear of "hollowing-out".

In addition, the establishment of the Japan investment Council was decided at a Cabinet meeting in July 1994 to further promote foreign investment in Japan. The function of the Council was strengthened and many opinions and requests from foreign enterprises concerning the promotion of investment in Japan were heard directly at the meeting. The Government of Japan hopes that the promotion of mergers and acquisitions will be discussed during the meetings of the Council, and Japan will continue improving the environment for investment to promote foreign direct investments in Japan, including through mergers and acquisitions (M & A) transactions.

#### Question by the European Union

Q. The introduction to the report notes that since the last review Japan has taken steps in the direction of greater integration into the global economy. The analysis in the report shows clearly that this still has a considerable way to go, particularly judging by very large inter-sectoral productivity gaps within Japan (see page 97 of Secretariat's report), very low levels, in stock and flows terms, of inward investment, and comparatively low levels of intra-industry trade with the rest of the world. Do the Japanese authorities consider their relatively weak international integration to underlie the perceived lagging behind of Japanese living standards compared with Japan's nominal wealth per head, and, if so, therefore fully commit themselves to a basic policy stance accelerating such integration?

A. Japan lacks land and energy resources compared with its economic scale, but has rich labour and capital sources. This means that Japan's production factor ratio is specific and the intra-industry trade ratio is low. Furthermore, productivity in the agriculture and fishery industries, and construction industry is relatively low due to the limited geographical conditions and the high cost of land. There are some cases where highly regulated fields have low productivity. To explain the low level of foreign investments in Japan, elements such as high initial costs, due to the high real estates and labour costs (economic elements), the differences between international and national standards and the complicated commercial distribution networks and commercial customs (structural elements), are indicated.

#### Question by Canada

Q. The accelerated depreciation tax scheme is available to foreign investors certified by the Government as "specially designated inward investors". Could Japan explain why the accelerated depreciation tax scheme is limited to those foreign investors that have been "specially designated" by the Government?

A. The Law on Importation and Inward Direct Investment provided for accelerated depreciation as a tax incentive to specially designated inward investors. It was terminated on 31 March 1995 because few investors have used this scheme since its implementation in 1992.<sup>1</sup> The Law instead provides preferential arrangements to carry over losses and to guarantee obligations under the funds for the maintenance of infrastructures. The Law is applied only to foreign affiliates which are less than

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<sup>1</sup>There is an interim measure. The accelerated depreciation tax scheme is applied to the properties which a corporation obtained before 31 March 1995 and those which a corporation, which was granted eligibility before 31 March 1995, obtained during the period between 1 April 1995 and one year after the date the corporation was granted the eligibility.

five years old. Companies are examined for whether they meet the necessary conditions under this law before it is applied. The requirements and procedures have been made public.

Question by Canada

Q. Is Japan intending to remove the "prior notification and 30-day waiting period" requirement regarding investment in the agriculture, forestry and fishing, mining, petroleum, and leather products sectors? If not, could Japan explain the reason for maintaining the prior notification requirement in these sectors?

A. The Government of Japan recognizes that restrictions on foreign direct investment should be kept to a minimum. Therefore, the Government of Japan:

- With regard to reserved industries under the OECD Code of Liberalization of Capital Movements (the "Code"), will consider lifting the prior notification requirement currently placed on investment in mining within the time frame of the Deregulation Action Program which is scheduled for completion by the end of FY 1997.
- With regard to other industries reserved under the Code (agriculture, forestry and fisheries, oil, and leather and leather products manufacturing, air transport, and maritime transport) will also examine the possibility of lifting the prior notification requirements, taking into consideration trends in Japan's socio-economic situation as well as progress of discussions at the OECD.
- With regard to industries related to public order and national security, on which the Code provides for regulation, will continue to examine their treatment, taking into consideration discussions at the OECD, including discussion on the Multilateral Agreement on Investment (MAI), which is expected to begin in 1995.

Question by Canada

Q. Given that the prior notification requirement also extends to foreign direct investment (FDI) carried out by a national of a country that does not extend "comparable access" to Japanese investors, could Japan explain the criteria for determining when the "comparable access standard" has been met? In the event that the national's country is determined not to provide comparable access, does Japan provide the country an opportunity to contest the determinations? Does Japan provide a publicly available list of those countries that are found not to have provided comparable access?

A. In the case of the direct domestic investment by a foreign investor whose country has no treaties or international agreements on direct domestic investment with Japan, the filing of prior notification on such investment is required in order to make the treatment for the investment substantially equal to that provided to our nationals' direct investment activities in that country.

Question by Argentina

Q. Are there any sectors which absorb FDI in Japan? What is the reason for the concentration of FDI in Asia?

A. When one looks at the trend of FDI to Japan sector by sector, one finds that the share of non-manufacturing is increased. In FY 1993 manufacturing has almost the same share as non-manufacturing.

In the manufacturing sector electronics and chemical industries absorb a large amount of FDI. As for non-manufacturing, so do distribution and service sectors.

Recently the share of FDI to Asia has tended to increase but the share is 18.4 per cent compared with 40.9 per cent to the U.S. Therefore the conclusion that Japan concentrates FDI to Asia can not be drawn here.

Question by the United States

Q. Though M & A transactions are the primary avenue for foreign direct investment world-wide, foreign participation in M & A in Japan is almost non-existent, especially when it involves large Japanese firms. Is the Government contemplating changes in policies to address the extremely low level of foreign participation in M & A in Japan?

A. The Government of Japan recognises M & A as being a general means of foreign direct investment or as being one of those free economic activities. However, the Government of Japan thinks that firms should have an appropriate understanding of the structure and activities of the company sought before going through a M & A in order to ensure the vitalization of the industrial activities of Japanese companies in general.

There is no regulation which prevents M & A in Japan, but the reluctance to make use of M & A seems to derive mostly from the difference in culture of Japanese companies. The changes in external and domestic economic circumstances, however, are seriously influencing their general attitude and some companies are starting to think about M & A as an option for structural reforms. It has been pointed out that the regulations concerning the disclosure of balances or other internal information of companies hinder M & A activities. The revision of these regulations is in progress.

DEREGULATION AND ADMINISTRATIVE REFORM

Deregulation

Question by the United States, European Union, Hong Kong and Australia

Q: Administrative reform related to deregulation, including implementation of the new Administrative Procedure Law, use the rule-making procedures, and transparency of formal and informal advisory committees, is of great concern. Are there any concrete plans to monitor the effectiveness of the deregulation measures, and has a time-frame been established to translate the goals and principles for structural reform into specific implementation?

A. The Government of Japan announced "The Deregulation Action Program" on 31 March to encourage the further promotion of deregulation in an active and structural fashion. Under this programme, more than 1,000 measures will be implemented during the next five years. It should be noted that the Government of Japan has recently decided to shorten the implementation period from five years to three years, with a view to coping better with the sharp appreciation of the yen.

The following are elaborations of the major points in response to the questions raised.

(i) Basic approach

The Program will be reviewed continuously, taking into account changes in social and economic conditions and other relevant factors. The basic approach to be taken in the review process is, (a) in the case of economic regulations, that of freedom from regulation in principle, with regulation as the exception; and (b) in the case of regulations that are social in nature, that of maintaining the minimum regulations required to serve legitimate policy objectives.

(ii) Review and revision of the Program

Review of the Program will be completed by the end of each calendar year, and revision will be completed by the end of each fiscal year, on the basis of opinions and requests received from interested parties both domestic and foreign, the results of monitoring by the Administrative Reform Committee and other information. In the revision process, the administrative Reform Promotion headquarters will solicit requests from interested parties both domestic and foreign.

(iii) Ensuring transparency of the revision process

Efforts will be made to ensure transparency of the revision process by allowing an adequate amount of time for the process, publishing the contents of deliberations, etc. A channel will be established in each Ministry and Agency to receive opinions and requests from interested parties both domestic and foreign.

(iv) The issuance of new regulations

Newly issued regulations will, in principle, be reviewed after a fixed period of time. In cases where a new system is created by law and new regulations are issued thereunder (except where deemed inappropriate in light of the intent or objectives of the said law), a provision will be included therein to the effect that each Ministry and Agency will review the said regulations after a fixed period of time. Further, in cases where the system or applications thereof are to be retained as a result of this review, the necessity or grounds for their retention will be announced.

(v) White Paper on Deregulation

A "White Paper on Deregulation" (provisional title) will be prepared and published in a timely manner each fiscal year in order to provide information concerning regulation in a form readily understandable to the Japanese people.

(vi) Matters subject to negotiation with foreign governments

With regard to matters that are subject to negotiation with foreign governments, action will be taken in a timely manner upon the conclusion of negotiations, and the results of negotiations will be added to the Program during revisions thereof.

(vii) Reviews of regulation by local authorities

From the viewpoint of promoting deregulation consistently at both national and local levels, it is anticipated that local authorities will also carry out reviews of regulations based on the intent of this Program.



Question by New Zealand

**Q.** What are the main principles or imperatives underlying Japan's programme of administrative and regulatory reform?

- To what extent have changes already been made, and where will the accent lie in future?
- What timetable is in mind for future changes?

**A.** The main principles of administrative reform are: (i) to streamline the Government to make it simple and more effective; and (ii) to build up a reliable system which can respond to current changes that Japan shall undergo. A programme of deregulation has been vigorously pursued by the Japanese Government with a view to enhancing the quality of life, expanding domestic request and demand, and to alleviating the economic burden for nationals.

The following are some of the measures which have already been taken or are in the process of being implemented in this regard:

- The Government announced the "Deregulation Action Program" on 31 March. Under this program, more than 1,000 measures were to be taken over five years. However, in order to cope with the sharp rise of the Yen and to accelerate deregulation efforts, the implementation program has recently been shortened to three years.
- In regard to decentralization, the Government submitted to the Diet a law on 28 February to promote this action. This includes, *inter alia*, the main principles of decentralization and the establishment of a committee for its promotion. This law is currently being examined in the Diet.
- The Government has conducted an overall review of all State corporations, and took a decision on 24 February to merge fourteen of them into seven larger corporations, and to privatize, or even abolish, five others. In addition, the Government decided on 31 March to merge the import-export Bank of Japan with the OECF.
- With regard to transparency, the Committee on Administrative Reforms is studying measures to enhance the disclosure of information.

FURTHER LIBERALIZATION OF TRADE AND STRENGTHENING OF MARKET MECHANISMSQuestion by New Zealand

**Q.** With the end of the economic recession, and in line with further stimulus to domestic demand, are there new elements under consideration for further trade liberalization and the strengthening of market mechanisms?

**A.** Particularly during the inaugural year of the WTO, Japan believes it important to ensure not only the smooth implementation of the results of the Uruguay Round, but also that of the programme set out for on-going negotiations, in order to maintain the momentum of trade liberalization and to contain the protectionist backslide experienced in the wake of the Tokyo Round. From this point of view, importance should be placed on the implementation of those commitments made during the UR

negotiations, since some are the results of very painful political concern. Specific new measures for further liberalization could also be discussed at this initial stage.

The strengthening of market functions is also being encouraged, not only for the purpose of creating a free and competitive market on a microeconomic level, but also for redressing the Japanese economy on a macroeconomic level.

In this context, the Government has been taking a series of measures for which the major pillars are as follows:

- (i) Through promoting deregulation and improving business practices while implementing the "Deregulation Action Plan" recently established, the Government of Japan is reviewing the business practices in order to promote competition among firms, to diversify the choice of commerce and manufacturers, and to improve transparency.
- (ii) Through strengthening competition policy, Japan is committed to ensuring an effective and appropriate enforcement of the Antimonopoly Act with a view to promoting fair and free competition between both domestic and foreign firms.
- (iii) Through improving market access and in addition to implementing the results of the Uruguay Round, the Government is engaging itself in import promotion, the promotion of foreign investment in Japan, the review of the standards and certifications systems, including international harmonization, and mutual recognition.

## **COMPETITION POLICY**

### **Question by the United States**

**Q.** The Japan Fair Trade Commission (JFTC) in 1991 issued new antimonopoly guidelines on unlawful practices in the distribution sector and by members of Japan's corporate groups. In a recent sectoral survey, the JFTC uncovered a number of practices that the JFTC concluded impeded competition in Japan. Yet the JFTC has failed to take even a single enforcement action within the last ten years to eliminate unlawful practices preventing foreign companies from competing effectively in the Japanese market. Will any such JFTC action take place in the coming years?

In 1990, the GOJ announced re-institution of criminal antimonopoly enforcement. Since then, only three cases have been prosecuted criminally, and no individuals have been sent to prison for violations of the Antimonopoly Act. Does the GOJ agree that such infrequent use of the criminal provisions of the Antimonopoly Act undermines the potential deterrent of anti-competitive practices? If so, will more criminal cases be prosecuted in the future?

**A.** The JFTC has been taking strict actions against violations of the Antimonopoly Act, such as price-setting cartels and bid-rigging. In 1994, the JFTC issued 30 recommendation decisions to cease and desist illegal practices of price-setting cartels and bid-rigging. Also in 1994, with regard to 23 cases of price-setting cartels and bid-rigging the JFTC ordered 483 enterprises to pay surcharges amounting to over ¥ 7,813 million, which was the second largest annual amount since 1977 when the surcharge scheme was introduced.

The JFTC has established a task force in order to take more strict measures against import restrictive actions which would violate the Anti-monopoly Act and against unlawful actions which would

cause price differentials between domestic and foreign markets. The JFTC is committed to actively sweeping aside illegal actions.

In June 1990, the JFTC announced its adoption of a policy to actively bring accusations to seek criminal penalties, with a view to strengthening the deterrent effect on possible violations of the Antimonopoly Act. In accordance with this policy, the JFTC so far has brought three cases of criminal accusations to the Prosecutor-General.

The recommendation decision, which is an administrative order to cease and desist illegal practices, has been introduced and utilized to tackle violations of the Antimonopoly Act, as have the administrative order for the payment of surcharges and criminal penalties. We believe that sufficient deterrence against violations is already in place.

It should be pointed out that each violation case must be dealt with on a case-by-case basis and that it is not appropriate to try to make judgement only by the number of the criminal charges brought to the Prosecutor-General. Moreover, specific penalties are to be determined by the Court. This is not what the JFTC should make comments on.

#### Question by the European Union

Q. Does the Government of Japan intend to take further measures to enhance and reinforce competition policy? If yes, please explain. In January 1993, the GOJ increased the maximum fines for criminal penalties from ¥ 5 million to ¥ 100 million. Although this represents a 20-fold increase, the current maximum fine of ¥ 100 million may still be inadequate to discourage violations of the Antimonopoly Act, particularly considering the overall financial amounts involved in such cases. Does the GOJ intend to raise further the amount of the maximum fine?

A. It is our firm intention to actively pursue competition policy. In addition to strict enforcement of the Antimonopoly Act, the JFTC issued guidelines to deter violations, reviewed the exemption scheme by other laws from the Act and strengthened its own functions by increasing staff members and offices.

In Japan, criminal penalties are provided as well as administrative measures such as an order (decision) to cease and desist the illegal activities, and surcharges which confiscate the profits of the cartel are to be applied against activities violating the Antimonopoly Act.

An act to amend the Antimonopoly Act to increase the upper limit of criminal fines against firms or trade associations for offenses of private monopolization, unreasonable restraint of trade (cartel activity), etc. separately from criminal fines against actual offenders such as employees, by 20 times from ¥ 5 million to ¥ 100 million took effect on 15 January 1993. Two recent amendments to the Act, the first of which was enacted in 1991 to increase the rate of surcharge calculation by four times, in principle, have significantly enhanced the overall deterrence against Antimonopoly Act violations.

The JFTC will continue to take rigorous action against activities violating the Antimonopoly Act. At present, the JFTC has no intention to raise further the amount of the maximum fine.

#### Question by Canada

Q. Paragraphs 146-148: Have there been any complaints of anti-competitive practices with respect to vertical supplier and distribution affiliations (seisan-keiretsu and ryutsu-keiretsu)? If yes, what was the outcome?

A. It is the policy of the JFTC not to reveal the complaints made to it (the numbers of complaints, their contents, and so on). Therefore specific replies to this question cannot be provided.

Question by Canada

Q. Paragraphs 142-144: Has the JFTC ever applied the Antimonopoly Act to any "horizontal corporate groupings" (kigyo-shudan)? If yes, what were the results?

A. The JFTC issued "The Antimonopoly Act Guidelines concerning Distribution Systems and Business Practices," in July 1991, which describes what types of business conduct might constitute violations of the Act as precisely as possible. The Commission has been making efforts to enhance deterrence based on the Guidelines.

The JFTC investigated business ties among member firms within each of the six major "corporate groups" and intra-group trade. The result was published in July 1994.

Question by Hong Kong

Q. It is pointed out in the report that the vertical distribution affiliation system poses a structural obstacle to imports (paragraphs 147-149). Does the Japanese Government intend to carry out a study on the anti-competitive behaviour of this distribution network with a view to enhancing market access for foreign exports? Is there a time-table for carrying out anti-competitive studies in other sectors of the economy?

A. The JFTC has been undertaking surveys on distribution practices in various sectors and giving guidance to encourage necessary rectification of competition-restrictive practices, when found by such survey.

The JFTC has been indicating the problems and will continue to make various efforts to maintain and promote fair and free competition with a view to enhancing the efficiency and openness of the distribution sector and ensuring consumer interests.

Question by the United States

Q. The GOJ has stated that after-transaction price adjustments have been eliminated in the paper sector. Have any actions been taken by the JFTC to enforce the Antimonopoly Act in this area? If not, are any actions contemplated?

A. In June 1993, the JFTC published the results of the survey on the actual state of long-term business relations and business practices between firms in the paper sector. Although the JFTC did not find any conduct which might violate the provision of the Antimonopoly Act, to make markets more transparent and promote free and fair competition, the JFTC commented that, while retroactive discounts are reasonable to some extent, they should be implemented so as not to undermine transparency of transactions.

The JFTC undertook two follow-up surveys and published the results in December 1993 and in August 1994. The retroactive discounts between manufacturers and their shops have been disappearing. Major manufacturers decided to stop retroactive discounts and implemented the decision after April 1994. We believe that the relevant companies have been faithfully improving their business practices.

Question by the United States

Q. What has the GOJ done to ensure that anti-competitive business practices within the auto distribution system do not occur? What percentage of auto dealers carry vehicles made by more than one manufacturer? How does this figure compare to recent years?

A. In June 1993, the JFTC published the results of the survey on the actual state of long-term business relationships among enterprises and business practices in the automobile sector.

Although illegal conduct was not found, and the JFTC did not find any conduct which might violate the provisions of the Antimonopoly Act, this survey found that the dealers were not fully informed that they were free to handle competing products and that some dealers mistakenly believed that they were not free to sell their products outside the responsible area. The JFTC advised the nine auto manufactures to voluntarily solve the problems.

The survey also found that there were some types of kickback which would undermine transaction of competing products and that, in certain cases, the sales made outside the responsible area were not included in the sales in which the kickbacks were to be given. The JFTC drew the attention of the three car companies concerned to the problems.

According to the follow-up surveys the JFTC undertook in December 1993 and in August 1994, all nine auto manufactures re-informed their dealers, in writing, that they were free to handle competing products and that they were free to sell their products outside the primary responsible area. Also, the above-mentioned three car companies decided to rectify their method of providing kickbacks. Thus, the relevant companies have been faithfully reviewing and improving their business practices, responding to the comments made by the JFTC based on the survey.

54.8 per cent of the auto dealers which are partners to the domestic auto manufacturer sell imported cars, according to the JFTC's survey.

The JFTC will continue to watch, with interest, the business practices of the auto sector to prevent violations of the Antimonopoly Act.

Question by Canada

Q. Paragraph 135: It is stated that exemptions related to RPM (retail price maintenance) would be revoked by the end of 1998 except for literary work. Does Japan intend to remove literary work from the exemption list after 1998?

Could Japan provide more information with respect to export cartels that are currently authorized under the Export and Import Transaction Law and other laws? How many "legal" export cartels are currently allowed? What are they?

A. In April 1994, the JFTC expressed its view that, from the viewpoint of legal stability, legislative actions would be needed to clarify the scope of literary work exempted from the resale price maintenance system in accordance with Article 24:2 of the Antimonopoly Act.

The JFTC intends to conduct a comprehensive study of the scope of the exemptions from various angles. A sub-study group on the resale price maintenance system was established under the "Study Group on Government Regulations, etc. and Competition Policy." This sub-study group, comprised

of scholars, is expected to look at this matter mainly from legal and economic viewpoints and to present its report around Summer 1995. The JFTC will, after receiving the report, seek views from various interest circles, based on this report, and deepen the discussions.

The JFTC intends to clarify and limit the scope of the literary work to be exempted from the resale price maintenance system until the end of 1998.

As for export and import cartels, please refer to Table IV.17 of the Secretariat report (p. 84).

**Question by Canada**

**Q.** Paragraph 137: What are the required criteria (if any) for the extra-territorial application of Japanese regulations?

**A.** There is no provision concerning extra-territorial application in Japan's Antimonopoly Act.

**Question by New Zealand**

**Q.** The strengthening of the Office of the Trade and Investment Ombudsman (OTO) has provided a useful dialogue between the OTO and groups concerned with market access, but there is some difficulty in moving beyond set-piece exchanges of information. Is further strengthening of the OTO contemplated or planned? If so, in what direction?

**A.** The OTO, headed by the Prime Minister since February last year, has two main bodies. One is the MAOC (Market Access Ombudsman Council), which is composed of learned persons. The other is the OMA (Office of Market Access), which is composed of people from the government including the Prime Minister.

Some people argue that the OTO does nothing more than a mere exchange of information. But the MAOC issues reports, as its opinions, on necessary steps, for example, in the area of market opening initiatives related to standards and certification, after hearing concerns from foreign enterprises and identifying the issue. The OMA determines its policy measures, paying utmost respect to the MAOC's reports.

We would like to fully utilize the functions of the OTO to address various important market access issues.

**Question by the United States**

**Q.** Recent reports of bid-rigging in Japan have indicated that GOJ agencies and officials have encouraged firms to rig bids on government procurement. What actions will the GOJ take to ensure that government agencies and officials do not encourage or facilitate bid-rigging? What sanctions will government officials face if they encourage or facilitate such conduct?

**A.** We do not recognize that such practices as indicated by this question are generally in place. If any, such practices are subject to sanctions in accordance with Law on Governmental Workers and other laws.

Question by Canada

Q. Paragraph 95: As part of the objective of supplying information further in advance, should bidding data (such as the contract amounts, the amount of procurement from Japan and overseas) be published?

A. Information on scheduled dates for bidding and an outline of the procurement is provided at the beginning of the year of procurement.

Question by Canada

Q. Does the plan address the issues of monitoring foreign access to the Japanese construction market and holding annual consultations to assess the implementation of the plan?

A. The "Action Plan" does not address monitoring foreign access to the Japanese construction market and holding consultations to assess its implementation. Annual review is to be held between the United States and Japan responding to their past experiences.

Question by Canada

Q. Does the establishment of a complaint mechanism suggest the imposition of penalties or damage compensation for bid-rigging and other irregularities?

A. Illegal practices, such as bid-rigging and bribes, are strictly penalized in accordance with Criminal Law, Anti-competition Law and Law on Construction Business. Various measures, for example, limitation on participation in competition, are taken against procuring entities.

Question by Canada

Q. If no co-ordinating agency exists for procurement in Japan, which organisation will be mandated during the transition?

A. Although it is not clear what "co-ordinating agency" means in the question, we can answer that the "Central Constructors' Board", an advisory group for the Minister of Construction, gives advice to procuring Ministries and Agencies with regard to bidding procedures and the contract system in public works.

Question by Canada

Q. If the "Major Project Arrangement" (MPA) is scheduled to be phased out, how many ongoing projects will be affected, and when will the phase-out be terminated?

A. Most of the 34 MPA projects have already been moved to the procedures under the "Action Plan." The rest will be completed when the projects are completed.

Needless to say, the MPA is not a U.S.-Japan arrangement.

## STANDARDS

### Question by the European Union

Q. The Secretariat's report notes that the number of JIS standards which are the same as existing international norms, while still only 2.5 per cent has, nevertheless, doubled since 1992, and that the scope for foreign testing, certification and factory approval is gradually increasing. Have benefits from this process already been noticeable in terms of increased market access by lower-cost suppliers (for example, as regards motor vehicle standards)? Is there scope for accelerated harmonization of such standards? What further steps is the Government of Japan envisaging to take to achieve greater harmonization of Japanese standards with international ones? In particular, does the Government of Japan foresee complete harmonization of road vehicle standards? If so, over what period?

A. If the European Union requires that the standard system should be perfectly consistent (even though the contents of this idea do not seem clear), Japan is making adequate consideration for the implementation of national standards in conformity with the international standards, and is rapidly introducing national standards up to the level of international standards when harmonized with the ECE/WP29 procedure. Concretely, the national regulations for the braking system of passenger cars is already up to internationally harmonized standards. Concerning the standards of the position of lamps, the Japanese authorities find that they are almost internationally harmonized and will, therefore, try to bring the results up to national standards within this year.

On the other hand, it is true that there are still differences between Japan and other countries in terms of the environment of land traffic or road accidents, therefore, a complete harmonization of standards might still be difficult. However, the Japanese authorities are making efforts to harmonize automobile standards with the international standards as much as possible.

### Question by the United States

Q. There have been allegations that the myriad GOJ regulations relating to repair, inspection, and modification of vehicles have the result that automobile dealerships and other certified garages tend to use manufacturers' replacement parts almost exclusively. Are there any plans by the GOJ to alter these regulations in a way that will encourage those dealers and garages to source parts more broadly? Are there any plans to alter regulations that limit where and by whom repairs may be made, thus restricting the creation of a competitive independent parts replacement market?

A. In the Japanese regulations for control and maintenance services, there is nothing to differentiate between the spare parts produced by either national or foreign manufacturers, even in real terms there is no discriminative treatment. Therefore, it is a misunderstanding to believe that such regulations limit access by the American spare part manufacturers to the Japanese market.

Besides, this question is under discussion in the Japan/U.S. Economic Framework Talks, and detailed ideas have already been transmitted to the American side during these consultations.

### Question by Australia

Q. We understand changes to standards and regulations related to medical equipment are not notified by Japan and medical equipment firms can in fact seek approval on the basis of standards that no longer apply. Will Japan provide prior notice of all new standards and amendments to existing



standards/technical regulations in order to assist foreign firms in their efforts to comply with its requirements?

A. Japan notifies in the GATT procedure for the amendment or new application of standards which is required to be notified to GATT.

Question by the United States

Q. Japan's two-step system of approving new medical products is opaque and time-consuming. Even after a new medical product is tested for safety and efficacy and approved for use in Japan, a second review must take place to determine whether the product will be granted reimbursement by the national health care system. This second review can take several years, slowing the introduction of new medical technology into Japan and impeding access by foreign firms. Nonetheless, the GOJ has consistently refused to modify the Highly Advanced Medical Technology (HAMT) system for introduction of advanced medical devices, even when the products under consideration are widely available and eligible for reimbursement outside of Japan. When will Japan change this system or at least take concrete steps to speed up the reimbursement approval process?

A. Technology of so-called highly advanced medical treatment is not yet fully expanded because of its specific and new nature. Therefore, if used in ordinary medical organizations which do not have a specific medical structure, it is necessary to examine further their efficiency or security.

For such highly advanced medical treatment, the basic part of the treatment is covered by insurance. However, more advanced medical treatment would be covered only if the medical payment is revised in conformity with the adequate conditions applied by insurance companies. Therefore, in the current insurance system, such techniques are not included by insurance companies, the Japanese authorities consider that the current procedure is necessary and need not be modified.

Besides, the Japanese authorities are introducing general medical techniques in an appropriate way through consultations with related bodies, such as some appropriate Japanese academic associations.

Concerning medical techniques which use medical instruments newly recognized by the Japanese Pharmaceutical Laws, the Japanese authorities are now examining the possibility of introducing insurance coverage, after the request made by some manufacturers in conformity with the "rule of insurance coverage under the MOSS consultations". Generally speaking, the Japanese authorities do not need several years for this judgement, but try to take a decision as quickly and adequately as possible.

Question by Australia

Q. Some fibre cement building products, although deemed to be non-combustible under the Australian building code, have not been able to pass the Japanese building industry fire codes in some critical areas. Would Japan consider creation of a new category of building materials in its Fire Code called "deemed to be non-combustible" under which fibre cement sheeting would be assessed?

A. For the approval of non-combustible material, it is necessary to pass the performance test required by the Japanese construction standard. Therefore, the Australian-made fibre cement construction materials will be permitted for use if official confirmation is received that it comes up to the requirements.

The Government of Japan does not plan to introduce additional standards to the current list of fire preventive materials since the Basic Construction Law has a clear definition of them.

Question by Australia

Q. Japan's non-acceptance of Australian test results for building products is of concern to the Australian building industry. What progress is being made towards minimizing Japanese requirements that building materials be tested under Japanese conditions using Japanese methods and infrastructure and accepting foreign test results and certification?

A. The Government of Japan established the guidelines for acceptance of foreign test data on 31 March 1989 in order to facilitate the access of foreign-produced construction materials to the Japanese market, and certain data was subsequently accepted. The Government of Japan then took a new step on 21 October 1994 by modifying the guidelines so that foreign test data concerning all the performance tests under the Basic Construction Law be acceptable.

Question by Australia

Q. We note from the Interim Report on Deregulation announced in March 1995 that the Japanese Government is considering some steps towards harmonizing construction regulations to international standards. Will Japan consider the acceptance of Australian and other foreign standards which already comply with international (ISO) standards?

A. The Government of Japan has been making an effort to harmonize its standards on construction with the international norms at each review. At the last review of the guidelines on the acceptance of foreign test data, the Government of Japan clarified the examination methods for approval of foreign test institutions in accordance with the international standards on the performance of test institutions (ISO/IEC guide 25).

For the introduction of a mutual approval system for construction standards, the Government of Japan is discussing with U.S. and European governments, and the relevant construction standards institutions.

The Government of Japan has decided to study, upon request, a smooth transition of acceptance for foreign standards on construction materials, on the condition that the relevant materials acquire the performance required by the pertinent standard and that the principle of international liability be established. In this regard, the Government of Japan will study whether construction materials, which meet foreign standards and acquire the necessary performance under the 2 x 4 method, are acceptable in principle.

Question by the United States

Q. Japan plans to maintain its ban on the transport of fully loaded 20- and 40-foot sea containers which meet ISO standards until the entire national network of roads and bridges has been completed around the end of 1997. Why will the GOJ not allow portions of the transportation system to be used as that portion is completed instead of waiting for the entire network to be finished?

A. The Government of Japan has decided, with the permission from the relevant road administrators of the transport of specially categorized vehicles, to allow the transport of fully loaded 40-foot sea containers which meet ISO standards, while advancing as much as possible the improvement of the

major roads through the duration of the 11th 5-year Plan, which will end in March 1998 (end of FY 1997).

However, the Government of Japan will only allow the above-mentioned fully loaded way of transport subject to the creation of certain networks, to include the securing of a by-pass road even before completion of the 5-Year Plan.

## AGRICULTURE AND FISHERY

### Pricing Policy on Agricultural Products

#### Question by Australia, Canada and Argentina

Q. What measures are envisaged to reduce the levels of agricultural support and high costs paid by consumers for agricultural products?

A. Japan intends to carry out its pricing policy on agricultural products as follows:

- It intends to make efforts to reduce production costs through realizing the structure in which efficient and stable farming bodies play a major rôle in production. At the same time, it intends to set price levels reflecting the supply and demand situation so that such structural adjustment will be facilitated. It is important to keep balance between price reduction and production cost reduction resulting from structural changes such as the scale expansion of farming bodies.

#### Question by Canada

Q. Paragraph 9: Could Japan provide details on its 6-year programme to alleviate the effects of the Uruguay Round on Japanese farmers? In particular, are all the elements of the programme domestic green box subsidies? If not, how do the subsidies meet Japan's Uruguay Round commitments on subsidy reduction.

A. Japan believes that most of the measures in the package described in paragraph 9 Chapter V of the Secretariat's report are infrastructural programmes and structural adjustment assistance through investment aids, and that they fall within the "Green Box" which is not subject to the reduction commitment.

#### Question by Canada

Q. Page 118, paragraph 57 refers to the reduction to zero in the tariff rate for oilseeds, made in the Uruguay Round.

Is the Japanese Government considering eliminating the discrimination in tariff treatment between oilseeds and oils, that is extending the same zero tariff to oils as it does to oilseeds? Alternatively, in line with the consensus reached in Bogor, Indonesia to accelerate tariff reductions in the region, is any consideration being given to reducing the bound tariff rates for oils beyond the minimum required in the Uruguay Round?

A. As regards tariff reduction of vegetable oils, Japan made every effort possible in the Uruguay Round negotiations, resulting in the concession of 36 per cent reduction for soybean oil and rapeseed oil, and more than 50 per cent for other vegetable oil. Japan intends to implement fully the commitments which it made.

**Question by Australia**

Q. There is currently non-acceptance of Australian quality assurance standards in Japan. Will Japan accept the Australian Quarantine Inspection Service certified quality assurance arrangements as satisfying import inspection requirements, and consider food under these arrangements as eligible for the Japanese pre-certification scheme?

A. As the processing aids do not remain in the final product, the current food sanitary regulations allow them to be treated differently among the food additives in general, such as exemption of labelling obligation; the Japanese authorities do not think that the amendment of the present regulation is necessary.

The Japanese Pre-certification System for Imported Food, introduced in March 1994 allows the Ministry of Health to exempt the control of the products upon importation, if it can be previously confirmed that the product to be imported to Japan is in conformity with Japanese food and sanitary laws, by registration of the product and factory producing the food in question.

In order to register food, the Japanese authority is prepared to consult with interested exporting country governments respectively. If there are some points to be clarified, please contact directly the competent service:

Food Sanitation Division  
Environmental Health Bureau  
Ministry of Health and Welfare  
Japan

**ADDITIONAL INFORMATION NO. 1****The Enforcement Regulations of the Food Sanitation Law****Article 5 (1)**

- e. For a food which contains an additive(s) used for any of the purposes listed in the middle column of Table 5 [excluding substances used for dietary supplement purpose, processing aids (i.e. substances added to a food during the processing of the food, which are removed from the food prior to the completion of the food, which are converted into components normally present in the food that originates in raw materials of the food and do not significantly increase the amount of the components naturally found in the food, or which are present in the finished food at insignificant levels and do not have any technical or functional effect of these components to the food)], and carryovers (i.e. substances which are used during the manufacture or processing of raw materials of a food, which are not used during the manufacture or processing of the food, and which are present in the finished food at levels significantly less than those normally required to achieve any technical or functional effect in the food), a statement that the food contains said additive(s) and one of the appropriate items listed in the right column of Table 5.

For a food containing one or more of the additives which are not mentioned above, a statement that the food contains said additive(s).

**ADDITIONAL INFORMATION NO. 2****Pre-certification System for Imported Products Conducted with the Food Sanitation Law****I Purpose**

The purpose of this system is to simplify and speed up import procedures by confirming and registering the products intended for import into Japan from foreign countries. This system does not in any way preclude the import of products into Japan which bear no confirmation/registration under this system.

**II Outline of the system**

- (1) **Applicant:**  
Manufacturers already exporting and/or planning to export products to Japan who wish to participate in the system.
- (2) **Products covered by the system:**  
Processed foods, food additives, equipment, packages, and toys for infants (the products shall exclude: agricultural, livestock and marine products, and simply processed products thereof and other special products prescribed separately.)
- (3) **Requirement for confirmation and registration:**
- (a) Products covered by the system shall be imported into Japan from exporting countries where sanitation of products is controlled by the national and local government.

- b) Products wishing to participate in the system shall be confirmed based on the following requirements under the Japanese Food Sanitation Law.
  - (i) Specifications and standards of products.
  - (ii) Standards for sanitation control and operation of facilities and products.
- (4) **Registration:**  
The Ministry of Health and Welfare (MHW) will acknowledge that the contents of an application meet the requirements, and notify the registration and registration number of said products to the manufacturer, through the government of the exporting country.
- (5) **Effective term of registration:**  
Three years.
- (6) **Import procedure of registered products:**  
MHW will accept the import notification form on which the pre-certification registration number should appear and return a copy of it immediately after the document inspection is completed. MHW will conduct random monitoring inspection.
- (7) **Role of government of exporting country:**  
The Government of exporting countries should co-operate with the Japanese MHW concerning delivery of applications and notices, etc. to manufacturers, and supply of information in implementing this system.

**Question by Australia**

**Q.** The Secretariat report, page 111, notes the sanitary and phytosanitary standards to be applied for rice. Is Japan proposing to amend its quarantine regulations to reflect the wide use of systematic risk assessment which is encouraged by the WTO SPS Agreement and which permits countries to only impose those requirements which are needed to protect health and which are based on scientific principles?

**A.** The Secretariat's Report indicates on page 111, (a) Japan will import a fixed quantity of rice according to the minimum access of Uruguay Round, (b) imported rice to Japan will be the object of the same application of the Japanese food sanitary laws as national rice.

Japanese food sanitary regulations are conducted scientifically, and are in conformity with the spirit of the WTO/SPS Agreement, and the Japanese authorities do not think that these laws should be amended relative to the consistency requirement of Article 2:2 of the above-mentioned agreement.

**Question by Canada**

**Q.** Paragraph 88: Does Japan intend to remove its mixing requirements on processed foods?

**A.** With respect to mixing requirements for certain processed products in paragraph 88 in the Secretariat's report, Japan does not have any plan to remove the requirements.

Questions by Canada

Q. Paragraph 9: Could Japan provide details on its six-year programme to alleviate the effects of the Uruguay Round on Japanese farmers? In particular, are all the elements of the programme domestic Green Box subsidies? If not, how do the subsidies meet Japan's Uruguay Round commitments on subsidy reduction?

Q. Page 101, paragraph 9 discusses a six-year, six trillion yen programme to alleviate the impact of the Uruguay Round on Japanese farmers, which the Japanese authorities expect to fall within the Uruguay Round "Green Box" of permitted subsidies for adjustment measures. Can the Japanese authorities provide additional details on the nature and timing of this programme?

A. Japan believes that most of the measures in the package described in paragraph 9, Chapter V of the Secretariat's report are infrastructural programmes and structural adjustment assistance through investment aids, and that they fall within the "Green Box" which is not subject to the reduction commitment.

Question by Canada

Q. Does Japan have any plans to modify its system of quantitative import restrictions on fish to bring them into line with the multilateral trading rules?

A. The operation of the import quota system on certain fish products is made to meet domestic demand appropriately.

Question by Canada

Q. With regard to page 49, paragraph 44, would the Japanese Government provide a more detailed description of the magnitude and mechanics of the differential tariffs on pork, under the GATT agreement?

A. The import system for pork has been tariffed and a specific duty equal to the tariff equivalent is imposed for imports at less than a certain gate price.

In addition, Japan has voluntarily reduced the gate price and some parts of specific duty as notified to WTO Members through the Secretariat in the document L/7621.

## OTHERS

### Question by Canada

Q. On page 21 there is a listing of the "Major arrangements between Japan and the United States". The section entitled "Trade liberalization and deregulation" includes a reference to "wood products" and the section on "Public procurement procedures" refers to "Telecommunications equipment". With respect to each of these arrangements, it would be helpful to know the following:

- have the terms of the arrangement been made available to other WTO Members?
- is there a bilateral body that reviews the implementations of the arrangement?
- if so, are the proceedings of this body made available to other WTO Members?

A. Concerning wood products, Japan established "Measures to be Taken by the Government of Japan relating to Wood Products" in 1990 which have been notified to the United States. If necessary it can be made available to the WTO members.

In order to review the result of these measures a Wood Products Sub-Committee was organized.

This Sub-Committee has met three times until now and Japan explains to the United States that the measures have been operated in a proper way. However, there is no available report of this sub-committee.

### Question by the United States

Q. In several action programmes, Japan has publicly and unilaterally listed a number of measures which, on the surface, may lead to a more liberal and transparent government procurement process. Yet Japan has refused to provide information on the implementation of those measures and their results to the GATT, to its trading partners, or to its own public. For example, a number of additional governmental and government-related agencies were said to follow Code procedures, but, without making the data available, it is impossible to know whether those agencies have complied or not. Will Japan make that data available?

A. The Government of Japan has unilaterally taken a series of measures on the government procurement of goods, including the "Guidelines" decided in March last year. These measures are applied to the entities covered by the current Government Procurement Agreement (i.e. GPA 1988), as well as to the entities not covered by the said Agreement. The bidding information on these entities has been published in "Kanpo" and other publications in order to be made public.

Furthermore, as an interim measure, by the time the "new" Government Procurement Agreement (i.e. GPA 1994) will enter into force, the Government of Japan will have established a challenge procedure which can be used to lodge complaints on entities, including those not covered by the GPA 1988, to ensure proper procedures for their procurement.



Question by the United States

**Q.** Does the GOJ condone the practice whereby officials responsible for construction of the 1998 Nagano Olympics speed skating rink designated, for use in the timber beams, a specific type of wood found only in Japan? What action is contemplated against those officials?

**A.** The Japanese authorities studied the facts from concerned parties for the construction of the Nagano Olympic speed-skating rink, which clearly showed that the design competition organized by the city of Nagano, which is the main contractor of the above-mentioned facility, did not give favourable treatment to the use of national timber beams and that the winner of the competition decided to use national timber beams for purely commercial reasons.

The Japanese authorities understand that there was no discriminatory treatment in any case during the procedures of the competition.

Question by the United States

**Q.** Customs clearance in Japan is still very slow. Why does Japan continue to be reluctant to adopt customs clearance by electronic data transmission?

**A.** Japanese customs has made efforts to promote the simplification and facilitation of customs clearance procedures, which are represented, for example, by the promoting of automated data processing for customs clearance. As a result of those efforts, the time required for customs clearance has shortened steadily.

Currently, Japanese customs is co-operating with other agencies concerned in facilitating not only the customs clearance procedures from cargo arrival to cargo release. In the latest "Deregulation Action Program", Japanese customs intends to actively promote the simplification and facilitation of all the import procedures, taking into account domestic or international requests.

Japan has introduced the Nippon Automated Cargo Clearance System (NACCS) and has been promoting automated data processing for customs clearance. Currently, of the all import/export declarations, about 90 per cent have been processed through the NACCS.

Question by the United States

**Q.** Why have market responses in Japan to the rigid distribution system been so slow in coming? What might be done to encourage a more fluid market response in the distribution system? How committed is the GOJ to seeing that Japan's consumers enjoy the benefits that could be derived?

**A.** Since Japanese manufactured imports have been increasing rapidly because of high appreciation of the Japanese yen, the Japanese authorities do not think that the Japanese distribution systems react slowly.

On the other hand, we do not deny that when foreign products come to the Japanese market, the suppliers have such handicaps as language barriers or differences in market needs. In Japan commercial relationships are generally on a long-term basis and it takes time to find an adequate foreign commercial partner; these elements may constitute barriers.

The Japanese Government is now trying to establish adequate measures to promote manufactured imports of competitive foreign products by making efforts to deregulate and to reinforce competitive policies in order to reduce the differences between national and foreign prices and so that Japanese consumers or companies benefit from the high appreciation of the Japanese yen.

However, in parallel, foreign suppliers should make marketing and stable supply efforts in order for imports to increase.

Amount of manufactured imports  
(US\$ 100 million)

	1992	1993	1994	1995
Amount	1,170	1,252	1,515	439
Ratio of all manufactured goods	49%	51.2%	54.4%	54.4%

NB. This ratio excludes gold other than for coins.

#### Question by the European Union

Q. Negotiations of recent trade agreements and discussions still in progress on a bilateral basis with the United States under the "Framework" umbrella have been conducted with substantial public friction. Do the tensions which have arisen on both sides lead Japan to conclude that a fresh approach is justified in its international trade policy formulation, giving greater emphasis than hitherto to reaching agreement and allowing scope for dispute settlement in the multilateral GATT/WTO framework?

A. It is Japan's principle that trade disputes should be solved based on the multilateral rules. Japan will, therefore, make full use of dispute settlement procedures strengthened under the WTO.

However, regarding a dispute not within the competence of the WTO, it is sometimes necessary to resort to bilateral negotiations and Japan will certainly do this, in respect of the established rules of general international law and of the principles of economic theory.

#### Question by Hong Kong

Q. Paragraph 58 on page 54 of the Secretariat's report C/RM/S/57 states that imports of silk fabrics are subject to a prior confirmation system (PCS). Does the Japanese Government have any plan to remove this discriminatory non-tariff barrier in the near future, given that it has been in place for some 15 years?

A. As the Government of Japan explained previously, the PCS has no quantitative restrictive effect. The PCS is to confirm the actual origin of the products in order to avoid circumventive import.

Consultations on trade levels of silk fabrics with China and Republic of Korea will be phased out within ten years.

Japan has notified the measures on silk products to the Textiles Monitoring Body (TMB) and will also notify the phasing out programme by the end of June, according to Article 3.2(b) of the Agreement on Textiles and Clothing.

Question by Argentina

Q. Is there any schedule for the revision or elimination of export cartels which are pointed out in the Secretariat report (page 83, paragraph 129)?

A. At the latest, these cartels will be eliminated by the end of FY 1995.

Question by New Zealand

Q. The Secretariat report refers on page 13 to the Import Board in discussing the Structure of Trade Policy Formulation. New Zealand's experience through Chamber of Commerce submissions to the Import Board (under MITI) has been disappointing, with departments administering areas of concern to New Zealand exports not seeing themselves as bound to take action as a result of the process. Are there proposals to increase the Import Board's effectiveness?

A. The Import Board is an organization whose first meeting was held in April 1991 under the Trade Conference which is chaired by the Prime Minister. The objective of the Import Board is to collect the general views and requests related to the expansion and facilitation of imports to report to the Trade Conference. The board has held six meetings and in response to requests of foreign members five ad-hoc meetings to discuss specific issues including animal health, investment in Japan, cosmetics, automobiles and government procurement.

At Import Board meetings, members from the private sector including foreign business can directly exchange views and opinions with government representatives who are responsible for policy formulation.

The views presented at past Import Board meetings have, through government efforts, been transformed into actual policy measures, including:

- expansion and extension of tax incentives for import promotion (April 1995)
- establishment of the Law on Extraordinary Measures for the Promotion of Imports; and the Facilitation of Foreign Direct Investment in Japan (Foreign Access Zone programme enacted in July 1992);
- introduction of Integrated Hozei Bonded Areas, a comprehensive system to augment Japan's FAZ programme by streamlining cargo-related procedures for storage, processing and exhibition of foreign cargo (April 1992);
- expansion of government procurement items subject to GATT codes (effective from April 1992);
- enactment of Japan's Basic Policies for Import Expansion (October 1993).

A recent example shows that as a result of examination the Government of Japan decided the extension and expansion of the tax incentive for manufactured imports in response to the requests by foreign members at the 6th meeting of the board held in October 1994. Thus, the discussions at the Import Board meetings have been well-reflected in the actual policies and it is held in high regard by governments and private-sector companies from foreign countries.

Question by Hong Kong

Q. We note that the number and scope of export cartels (paragraph 134, page 86, Secretariat report) has declined in recent years in Japan. But one legal import cartel on silk products from China still persists. What is the rationale behind maintaining this import cartel and whether steps are taken or envisaged for its phasing out?

A. Japan and China have held annual government-to-government consultations on trade levels of silk yarn and silk fabrics since 1976. Given that China has only one exporter with regard to the silk products mentioned above, Japan applies import approval system and allows one import cartel based on the Export and Import Transaction Law.

Japan has notified the above measures to the TMB and will notify its phasing-out programme by the end of June according to Article 3.2(b) of the Agreement on Textiles and Clothing.

Question by Hong Kong

Q. According to paragraph 13 on page 38 of the Secretariat's report, the overall simple tariff average in Japan is 7 per cent. We understand however that the tariff rate for fur garments is as high as 20 per cent. This represents a tariff peak which has not been addressed in the Uruguay Round. Would Japan please indicate what measure they have in mind for lowering its tariff rate on fur garments?

A. Leather (and fur) products is a principal industry in some regions of Japan that have historically faced serious social and economic difficulties, i.e. where the industry bases are fragile and the competitiveness of those industries are weak. However, Japan has made its utmost efforts in tariff rates reduction in the Uruguay Round negotiations and will certainly implement it as agreed.

Question by New Zealand

Q. Why is the "percentage of domestic standards translated from international standards" so low?

A. The figure of 10.4 per cent mentioned in paragraph 73 of the Secretariat's report represents the portion of JIS standards which are identically translated from respective international standards. This does not mean that the other 90 per cent are substantially different from international standards and thereby amount to undue impediments. A large number of JIS are based on international standards. The figure is estimated as about 1,000 or 50 per cent of the 2,000 JIS to which international standards correspond.

With regard to JIS, Japan will further accelerate harmonization efforts including the proposal of existing JIS as international standards, as was indicated in the 3-year Deregulation Plan announced in April.

As for the data of mandatory JIS standards in Table IV.6 (page 57 and footnote 45 on page 56), there was a mis-communication between the Secretariat and Japan. The number of mandatory JIS standards is not known; the figure given should therefore be deleted. In the column of Table IV.7 concerning the number of JIS revised, the numbers 5,55 and 784 should be replaced by 6,53 and 783, respectively.

Question by Canada

Q. Page 58: The 1994 JIS Yearbook lists the number of JIS mark approvals granted to various foreign countries. Could the Government of Japan indicate the applicable number of JIS mark approvals currently available for Canada?

A. There are no approvals for Canadian factories at this moment because no applications have been made from Canada yet.

The Government of Japan welcomes Canadian applications.

Question by the United States

Q. Japan's electric utilities, monopolies in their respective regional service areas, operate under an extremely tight regulatory régime based on the Electric Utilities Industry Law. What efforts are being made to ensure that the procurement process of these extremely large companies for non-fuel purchases (approximately \$20 billion annually) is open and transparent?

A. It must be noted that Japanese electric utility companies are purely private owned. The rôle of the Government is to implement minimum essential regulation to avoid the negative aspects of the monopolistic nature of the industry, as is implemented in other countries, and to secure safety and electricity quality. The issue of their purchasing activities and that of governmental regulation should, therefore, be separated.

However, given the public concern over the price differential, cost reduction has been the most important objective of those companies these days. In order to enhance competition in purchasing and to increase purchases from foreign competitive sources, they have been taking actions to increase bid purchase.

Question by the United States

Q. The Large-Scale Retail Store Law which protects small and inefficient retailers, remains a major impediment to imports of consumer goods, and is one factor in maintaining high prices in Japan. When will remaining restrictions on large retail stores be eliminated?

A. The Government of Japan is of the view that the regulation by the LSRS Law never discriminated against foreign retailers or imported goods. In addition, the share of the total retail sales of the LSRS Law in Japan has reached that of other developed countries.

Moreover, as a preferential treatment, floor space for imported goods equal to or less than 1,000 square meters can be established only with notification.

Concerning the LSRS Law, these stages of substantial deregulation measures were implemented in 1990, 1992 and 1994. In addition, the Law will be reviewed in FY 1997 as decided in April 1995.

It must be noted that the location of such stores is restricted by zoning regulations in many countries, including the United States, to facilitate the sound development of a region, which could virtually include the maintenance of an old shopping centre, and the maintenance of the environment, and that some developed countries employ equivalent or more restrictive regulations on large-scale stores than Japan.

Response to the U.S. comment, "sales of LSRS and other retail shops are not under the "zero-sum" situation, therefore, the LSRS law should be abolished."

It is true that it is important to look at the positive aspect of enhanced competition in the retail industry. Based on such considerations, the Government of Japan has made a series of substantial deregulations in these years. However, public concern over the LSRS regulation has been recently diversified. For example, consumers have been more concerned about the negative effects caused by LSRS, such as traffic jams around the store, the deterioration of the environment and so on. In a discussion in a government council board, some members from the Consumer Union continued to oppose the further deregulation of the law despite the counter-argument that such deregulation is necessary to raise the consumers' standard of living through competition enhancement. Thus, the scope of this issue is not limited to whether and to what extent should small scale retailers be protected. However, the deregulation of the LSRS Law will be reconsidered in FY 1997 as decided in the Emergency Economic Measures dated 14 April 1995.

Question by New Zealand, Hong Kong and Korea

Q. How are the quantitative restrictions on leather products "ensuring national security, protecting human and others' life"?

A. Leather and leather footwear industries are principal industries in some of the Japanese regions which have been historically facing serious social and economic difficulties, where the industry bases are fragile and the competitiveness of those industries are weak.

In spite of these situations, Japan abolished the import quota system and introduced the GATT-consistent tariff quota system in 1986. In addition, Japan paid US\$270 million compensation in order to introduce the TQ system at the same time. Furthermore, Japan has expanded quantities under the primary duty rate and improved the administration of the systems, so that market access in these areas has been greatly improved on a global basis.

In the Uruguay Round, Japan submitted its tariff schedule in which it committed to reduce the primary tariff rate by 20 per cent and the secondary tariff rate by 50 per cent as a principle, after a difficult and hard negotiation with domestic interests. The first reduction under the above commitment was already implemented on 1 January this year. Those efforts are expected to contribute to the improvement of market access in this area.

Question by the United States

Q. Foreign competitive biotechnology companies continue to face a significant non-tariff barrier when trying to do business in Japan - the denial of adequate and effective patent protection.

The effect of Japanese policies is to deny U.S. and other biotechnology firms' inventions meaningful patent protection, particularly by granting patents of very narrow scope. This contrasts with U.S. and European practice. How is Japan planning to bring its policies in line with those of other developed countries and to ensure adequate protection of biotechnology inventions?

A. The basic principle of the patent system is that an exclusive right is given as a patent right in compensation for adequate disclosure. Therefore, the requirement for disclosure that the scope of protection (claims) must be based on disclosure of the invention is imposed on an applicant who wishes to obtain a patent right. In this regard, there is no difference between Japan, the United States and Europe.

Moreover, even when an applicant is given the reason for refusal that no technical support is provided, an applicant can prove the contrary instead of limiting claims.

The Japan patent office (JPO) does not uniformly seek to limit claims, a broad claim is accepted as long as it is based on adequate disclosure.

#### Question by Canada

Q. Paragraph 75: Please describe in greater detail the use of foreign certification and testing of goods.

A. Under the "Electrical Appliances and Material Control Law", test data collected by foreign testing bodies designated by the Minister of International Trade and Industry can be accepted. Nine foreign testing bodies among six countries including the Canadian CSA are currently designated.

Pursuant to the CB system, test data collected by the CB inspection body are accepted.

The "IEC" Standards are accepted as technical standards of the "Electrical Appliances and Material Control Law".

#### Question by the United States

Q. A Joint United States Government (USG)/GOJ survey in 1991 demonstrated that prices of automotive parts in the aftermarket averaged 340 per cent higher in Japan than in the United States. How do you account for this?

A. It is true that price differentials exist between those in the Japanese market and those in the overseas markets; however, it is just as true that the Government of Japan is in the midst of making every effort to reduce the differentials by pushing ahead with deregulation.

The United States declared that the automotive parts cited were on average 340 per cent higher in Japan than in the United States. This figure, however, is based on a comparison of the lowest prices; a comparison of the average prices shows that the parts in question are 87 per cent higher in Japan. The original, immediate objective of the price survey was to clarify the respective prices in the United States and Japan of the products and services covered in the survey. For that reason, the survey collected as much data as possible; it would, however have been more reliable if the survey had subjected the average prices to a more thorough comparison.

The price comparison cited by the United States was nothing more than an outlet-to-outlet comparison of the lowest price of a number of outlets surveyed in Japan and the United States, which can hardly be treated as providing indices for price levels in the two countries. Moreover, there is a great possibility that the results will lack generality if the comparisons include special sale prices applied only for a certain period of time to certain outlets.

It is understandable that varying market conditions - for example, conditions pertaining to parts specifications, market size and other factors - will lead to different prices being set.

It is, therefore, entirely possible that differences in manufacturer and the details of specifications will normally generate price differentials depending on the outlets and country being surveyed.

#### Question by the United States

**Q.** Despite a 1992 bilateral (and m.f.n.) agreement aimed at substantially increasing access by competitive foreign producers to Japan's paper products market, foreign market share is basically unchanged. Japanese efforts to promote foreign paper products, especially in the form of direct encouragement in the four key end-user sectors of pharmaceuticals, cosmetics, publishing, and food processing and packaging, have been lacking. When will the GOJ begin such direct encouragement?

**A.** The Government of Japan has been steadily implementing the "Measures to Increase Market Access in Japan for Foreign Paper Products". As a result, in FY 1993 Japanese imports of foreign paper increased by 8.1 per cent over the previous year, and in FY 1994 (from April through January) Japanese imports of foreign paper increased by 8.7 per cent. The share of foreign paper in the Japanese market in FY 1991 when the measures were not yet implemented was 3.8 per cent. In FY 1994 (from April through January) it increased to 4.1 per cent.

In contrast, as the National Trade Estimate Report on Foreign Trade Barriers issued by USTR in 1995 says, strong demand for paper products in the United States and weak demand and prices in Japan caused Japanese imports of the U.S. paper to decrease slightly.

The GOJ encourages the use of foreign paper every year. Particularly, the Ministry of International Trade and Industry encourages major paper distributors, converters and printers to utilize competitive foreign paper and other related government ministries and agencies encourage major corporate user in cosmetics, pharmaceutical, food processing and publishing every year. Moreover, the Ministry of International Trade and Industry makes full use of every chances such as general meetings of paper related associations in order to encourage paper users to use competitive foreign paper.

#### Import Transition of Foreign Paper

	FY 1991	FY 1992	FY 1993	1994 (1-4)
Total imports	1,111 (9.3)	1,009 (-9.1)	1,092 (8.1)	996 (8.7)
From the United States	516 (-)	497 (-3.6)	502 (1.0)	421 (-1.2)
From others	595 (-)	512 (-14.0)	590 (15.2)	575 (-2.6)

#### Question by the European Union

**Q.** The Framework Talks have been the subject of much public debate, with requests being made to Japan to accept sector-specific import commitments of U.S. products. The Japanese Government has on several occasions expressed its refusal to accept such commitments. The Community welcomes this attitude. In the meantime, however, there is great concern that certain perceptions may be created in the process among business circles and government agencies that a special effort is necessary to



increase imports of US products to dispel criticisms. Indeed there is a risk that this will happen even if such commitments are not officially endorsed by the Government. What steps does the Japanese Government intend to take in order to make it clear that no preferences should be given to US products?

A. We have been reiterating that benefits from new measures taken under the Framework Talks will be on an m.f.n. basis and the third party can also enjoy them. We will continue to make efforts to make our standpoint understood correctly whenever such concerns are shown by any country. No U.S.-made products are treated better than non-U.S.-made products under the Framework Talks.

Question by the United States

Q. Can the GOJ name a U.S.-Japan bilateral trade agreement in the last five years that was other than market opening? Hasn't the focus of U.S.-Japan bilateral talks been, for the last decade, on opening the Japanese market, on expanding trade opportunities, and on doing so on an m.f.n. basis?

A. The Government of Japan has continuously been making efforts for market opening and, in the case of bilateral settlement, the Government of Japan has abided by the principle of m.f.n.

In the negotiations of the last ten years, the Government of Japan has expanded the business opportunities for foreign enterprises on an m.f.n. basis.

Accordingly, the Government of Japan has neither pursued purposes other than market opening nor has settled consultations with the United States in ways inconsistent with the m.f.n. principle.

Question by the European Union

Q. What is the Government of Japan's position on the voluntary purchasing plans for auto parts announced by Japanese vehicles manufacturers which were attached to the "Global Partnership Plan of Actions" (Part II) announced by the Government of Japan on 10 January 1992? (This measure is not included in the report.) Does the Government of Japan think that the announcement was a measure effectively to promote purchases of U.S. vehicles parts by Japanese manufacturers including their transplants in the U.S.? If not, how does the Government of Japan explain that the goal of US\$19 billion of component's purchases (by transplants and direct imports) to be achieved by FY 1994 is always referred to by Japanese car manufacturers as if measured in terms of purchases of U.S. components? Does the Government of Japan henceforth intend to avoid appearing to support similar arrangements?

A. With regard to "Global Partnership Plan of Action" (auto and auto parts) published in January 1992, the Government of Japan recognizes that Japanese car manufacturers voluntarily announced it as their utmost endeavour plan assuming the U.S. industry's efforts and based on production projections.

The Government of Japan does not intervene in private enterprises' decision making and does not make comments on them.

Question by Australia

Q. In relation to the supply of legal services, please outline all measures applying to foreign suppliers which condition national treatment for both Japanese and home country law, including public international law. In doing so, please also address aspects of qualification and jurisdictional requirements.

What liberalization measures have been undertaken or are planned by the Government of Japan?

A. A "bengoshi" is a lawyer who can provide all kinds of legal service in Japan. Foreign lawyers who have passed the National Bar Examination and completed a training course at the Judicial Training Institute can provide, qualified as "bengoshi", legal services concerning Japanese law as well as the law of other countries including international law.

Foreign lawyers qualified as "Gaikokuho-jimu-bengoshi" can perform legal business concerning his or her home country law as well as law of the specified foreign country designated by the Minister of Justice.

The special Measures Law concerning the Handling of Legal Business by Foreign Lawyers was amended last year with respect to reciprocity, work experience requirement, joint enterprise, office name, etc. consistent with Japanese commitments under the GATT, and came effective on 1 January of this year. At present the issue of representation of parties by foreign lawyers in international arbitration is being examined by a study commission established by the Ministry of Justice and the Japan Federation of Bar Associations.

Question by Australia

Q. In Japan, many services sub-sectors are subject to competition policy regulations which may condition the market structure, the extent to which foreign participation is allowed, or the level of private versus public sector participation. Please identify which services sub-sectors:

- are closed to foreign participation
- are controlled by the small and medium sized enterprises (SME) Organization Act
- are controlled as cartels under the Environmental Sanitation Act.

A. The Government of Japan does not control competition by applying the SME Organization Act.

The businesses of barber shops and beauty parlours are governed by the Environmental Sanitation Act. Since 31 March 1995, 32 prefectural governments impose regulations for adjustment on the businesses. However, those regulations for adjustment on barbers' or beauty parlours' businesses are scheduled to be abolished in FY 1997 as announced in the Deregulation Action Program, which was approved by the Cabinet Meeting of 31 March 1995.

Question by Australia

Q. What specific tourism and travel-related services are not permitted to be supplied by foreign services suppliers in Japan?

A. There is no restriction on the coverage of tourism and travel-related services that are permitted to be supplied by foreign services suppliers in Japan. All those services are open to foreign service suppliers.

Question by Australia

**Q.** In 1994, Japan signalled that it would allow foreign-based insurance suppliers to cover the insurance of international cross-border delivery of freight. Is this now allowed? What other areas of cross-border supplied insurance are allowed in Japan? By value, what percentage share of Japan's general insurance sector does this represent?

**A.** Insurance contracts on goods being internationally transported by maritime shipping or commercial aviation have been liberalized, and the measures to liberalize cross-border trades on space launching and freight (including satellites) were made from 1 January of this year.

Other than those insurance contracts, reinsurance contracts, travel accident insurance contracts on travellers in foreign countries, insurance contracts on personal effects of travellers in foreign countries and insurance contracts with individual permission by the Financial Minister are permitted.

Japan has already made clear her intention to take measures necessary for making substantial liberalizations of the cross-border insurance transactions for ships of Japanese registration which are used for international maritime transport and aircrafts of Japanese registration, as an integral part of the Insurance System Reform, and submitted the draft amendment law to the Diet.

We have no figures of the share of those cross-border insurances because the data on the cross-border insurance fee is not available.

Question by Canada

**Q.** Given that foreign-owned banks are not eligible for the domestic deposit insurance system, could Japan explain how, in the area of financial services, "Japan generally awards national treatment to inward FDI"?

**A.** The Member shall give national treatment to the other Members in accordance with the condition and restriction described in the schedule of specific commitments under paragraph 1 of Article XVII of the Services Agreement.

Foreign-owned banks coincide with conditions of the schedule of specific commitments in the area of financial services, consequently, they are not eligible for the domestic deposit insurance system.

With regard to the branch in Japan of foreign-owned banks, "deposit insurance" is not relevant because the head office is located in a foreign country. More specifically:

- Head offices of such banks are not affected by Japanese bank administration policies;
- Affection of some banks' failures are slight;
- Branches located in Japan almost never have domestic general deposits, etc.

Question by the European Union

**Q.** The principal obstacles preventing improvement of the market share of foreign firms are government over-regulation, unnecessary requirements and Japanese business practices. Will the Japanese authorities liberalize their rules and allow a stronger competition in the sector?

A. In the area of financial service, we are promoting deregulation of main regulations such as liberalization of the deposit interest rate and implementation of reformation of the financial service system. Also, we have reviewed, as a positive step, the deregulation action program drawn up last month and aimed at a more active market. In the area of insurance, we have just submitted to the national diet an amendment of the insurance law which consists of an acceleration of competition by deregulation and liberalization and so on.

Question by the European Union

Q. The recent adoption of a new law setting the limits for foreign legal practice in Japan is considered insufficient both by the European Union and by foreign lawyers operating in Tokyo. The Japanese authorities also claim that this law is but one step in the direction of a further adaptation of the Japanese legal system to international norms. What further steps does Japan intend to take to allow foreign lawyers greater freedom to operate there?

A. The Special Measures Law concerning the Handling of Legal Business by Foreign Lawyers was amended for the deregulation as follows, consistent with Japanese commitments under the GATS last year and took effect on 1 January of this year:

(a) Reciprocity

The reciprocity is not applied in the examination for approval in relation to the country to which Japan has promised not to apply it in treaties or other international agreements (e.g. WTO member States).

(b) Work experience

Periods of provision of services based on the knowledge of the law of the country of primary qualification as an employee of a bengoshi or gaikokuhojimu-benghoshi in Japan can be included in the required experience of having engaged in practice, within the limit of two years in total.

(c) Joint enterprise

Joint enterprise (Specific Joint Enterprise) with a bengoshi is allowed under certain requirements, enabling collaboration and profit sharing.

(d) Office name

The name of the law firm to which a gaikokuho-jimu-bengoshi belongs in his or her country of primary qualification can be used directly as the name of his or her office.

Further, the issue of representation of parties by foreign lawyers in international arbitration is being examined for liberalization by a study commission established by the Ministry of Justice and the Japan Federation of Bar Associations, and the conclusion of the discussions is expected to be drawn around October 1995 with the aim of formulating necessary measures including adjustment of related laws in time for the next ordinary session of the Diet. It is our view that sufficient deregulation will be made with these measures.

### Questions by the European Communities

Q. In the report of the Government of Japan it is stated that "... through such a forum as APEC, the promotion of cooperative relationships with the nations of the Asia-Pacific region will foster the growth of an open regional economic community in the area" (page 5, 2nd paragraph). Can the Government of Japan explain what are the mechanisms that will ensure that APEC will be an "open regional economic Community"?

A. It is stated in the Seoul Declaration issued in 1991 that one of the APEC's objectives is "to develop and strengthen the open multilateral trading system in the interest of Asia-Pacific and all other economies." The Bogor Declaration issued last year also emphasized APEC leaders' "strong opposition to the creation of an inward-looking trading bloc that would divert from the pursuit of global free trade". The declaration also stressed their determination "to pursue free and open trade and investment in Asia-Pacific in a manner that will encourage and strengthen trade and investment liberalization in the world as a whole," and thus the outcome of trade and investment liberalization in the region "will not only be the actual reduction of barriers among APEC economies but also between APEC economies and non-APEC economies."

Based on these basic understandings, APEC will pursue measures consistent with the concept of open regional economic co-operation.

Q. Paragraphs 91 through to 98 describe steps to improve government procurement procedures and increase transparency.

Are any steps being taken to allow all international suppliers to qualify for government procurement of food aid, on a competitive basis?

A. For the procurement of food aid in the form of a grant, the Government of Japan has made an effort to obtain from overseas suppliers products with an excellent criteria in terms of quality, price and stability, and expeditiousness in supply, and thus in return shall give full consideration to the content of the beneficiary's request, with priority being given to the developing countries.

### Question by Australia

Q. The Japanese Maritime Credit Corporation (MCC) discourages the procurement of foreign-supplied ships and this practice discriminates against the sale of fast aluminium ships by Australian shipbuilders. When will the MCC implement a non-discriminatory policy in regard to lending and technical evaluation?

A. The support scheme of the Maritime Credit Corporation (MCC) does not prohibit MCC from procuring ships built by foreign shipbuilders.

The commercial interest rate (long-term prime rate) is applicable for the MCC scheme.

### Question by the United States

Q. Foreign racehorses were allowed to race in only two Japan Racing Association (JRA) races until 1993. This will increase to 12 by 1999. Although the association is ostensibly a non-government organization, the GOJ has permitted the association to restrict participation by foreign horses, thus, allowing this association, de facto, to control imports. What is the GOJ doing to prevent this association

from continuing to impede foreign imports of horses? Why aren't these practices being prosecuted under the Antimonopoly Act ?

A. Regarding foreign horses in Japanese horse races, Japan would like to point out that this issue is basically different from market access or trade conflicts. This matter should be dealt with between the horse racing organizers in foreign countries and JRA. In recent Japanese horse races, however, JRA has been gradually increasing horse races in which foreign horses can participate, in order to promote international friendship.

In addition, Japan will reduce the tariff on live horses by 15 per cent over six years, as agreed to in the Uruguay Round negotiations.