

# GENERAL AGREEMENT ON

RESTRICTED

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## TARIFFS AND TRADE

Limited Distribution

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### SUBSIDIES

#### Notifications Pursuant to Article XVI:1 of the General Agreement

#### JAPAN

The following notification has been received from the delegation of Japan.

This notification is to be submitted in accordance with the procedures of document L/6111 in order to contribute to the appropriate operation of the provisions of Article XVI of GATT, although the measures described in this notification are unlikely to fall within the purview of subsidies referred to in Article XVI.

#### 1. MEASURES FOR RICE, WHEAT AND BARLEY

##### I. Nature and extent of measures

##### (a) Background and legal basis

Under the Food Control Law (1942 Law No. 40), the Government is carrying out the supply and demand operation as well as price adjustment of rice, wheat and barley in order to ensure food for the population and to stabilize the national economy. From the same standpoint, the Government likewise exercises integral control on the exportation and importation of these products.

##### (b) Incidence

##### (i) Rice

As for Government purchasing rice, the Government purchases this product to the amount of which the Government needs to control it through purchasing from domestic producers at the Government purchasing prices (producer prices) which are determined on the basis of the production cost, commodity prices and other economic conditions to ensure the reproduction of the product. The Government selling prices at which rice is sold to the wholesalers are determined so as to stabilize the consumers' household economy, taking into account factors such as the cost of household, commodity prices and other economic conditions in general.

(ii) Wheat and Barley

With respect to wheat and barley produced by domestic producers, the Government also purchases these commodities. The Government purchasing prices are determined, taking account of the cost of production and other conditions of production, supply and demand situations of wheat or barley, and other economic situation to contribute to the improvement of its efficiency and quality with a view to ensuring reproduction of these products. The Government selling prices of wheat and barley to mills are determined, with due regard being paid to the cost of wheat computed by pooling of imported and domestic wheat and barley, the consumer's prices of rice as well as other economic factors, giving consideration to consumer's household expenditure stability.

(c) Amount of deficit

The deficit in the control account of rice, wheat and barley under the Food Control Special Account for the fiscal year 1986 was ¥328,200 million (excluding the deficit incurred from the surplus disposal of rice).

II. Effect of measures

(a) Estimated quantitative trade effects of the measures

As for rice, it is one of the basic policies to ensure the balanced supply and demand situations in the domestic market. As the gap exists between potential supply and actual demand of rice, due to the decrease of domestic consumption of rice and improvement of productivity, production adjustment is now under way in order to bring production in line with demand.

The producers' associations, as for the amount to exceed the limit of Government stock, carry out to store it for adjustment on their own initiative.

With respect to wheat and barley, Japan depends most of their supply on import, and the amount of demand and import are generally stable.

(b) Statistics<sup>a/</sup>

(Unit: '000 tons)

	Fiscal Year	Production	Consumption	Import	Export
Rice	1983	10,366	10,979	18	384
	1984	11,878	10,938	165	0
	1985	11,662	10,849	30	0
	1986	11,647	10,796	41	0
Wheat	1983	695	6,059	5,544	0
	1984	741	6,164	5,553	0
	1985	874	6,101	5,194	0
	1986	876	6,054	5,200	0
Barley	1983	379	2,585	2,275	0
	1984	396	2,471	2,284	0
	1985	378	2,455	2,071	0
	1986	344	2,326	1,942	0

Note:<sup>a/</sup> The figures are derived from "The Food Balance Sheets".

2. MEASURES FOR SWEET AND WHITE POTATOESI. Nature and extent of measures(a) Background and legal basis

In order to prevent the drops in price of sweet and white potatoes (hereinafter referred to as "potatoes") below the normal price level, the Government enforces the production and sales adjustment program of potato starch produced therefrom, and purchases and sells them as provided for in the Agricultural Products Price Stabilization Act of 1953 (hereinafter referred to as "the Act").

(b) Incidence

(i) When the price of potato starch is below a normal level for a certain period of time despite the production and sales adjustment program based on the Act, the Government shall purchase them. Potato starch which is produced in violation of the production and sales adjustment program by the government is to be excluded from the government purchase.

(ii) The government purchasing price of potato starch is determined on the basis of the standard purchasing price which is obtained by the price of potatoes determined by the government and processing and marketing costs.

(iii) Starch thus purchased by the Government is sold in the market. It is provided for, however, that the selling price should not be lower than the standard purchasing price and the prevailing market price.

(c) Amount of deficit

There was no financial payment for the fiscal year 1986.

II. Effect of measures

The measures are to avoid the price fluctuations and have no significant effect on international trade.

While the production of potato starch has declined almost by half from 800,000 tons in 1965 to 390,000 tons (average from 1983 to 1985), the import of starch has steadily increased, even for the last three years, from 99,000 tons in 1983 to 192,000 tons in 1985.

(The figures for production are those in starch year (from October to September in the following year), and the figures for import are those in calendar year.)

3. MEASURES FOR SUGAR

I. Nature and extent of measures

(a) Background and legal basis

The Law Concerning Special Measures for Sugar Resources was enacted in 1964, for the purpose of raising the production of sugar crops, in order to improve agricultural management, to stabilize farmers' income and to maintain the domestic supply of sugar. In accordance with the said Law, the Government tried to maintain the minimum producers' price through the purchase operations of sugar manufactured from domestic sugar beets or cane by setting up the minimum producers' price of sugar. However, the price of domestic sugar showed considerable fluctuation reflecting that of overseas sugar prices, and the purpose of the measures was not fully achieved. It followed that the Sugar Price Stabilization Law was

enacted in June 1965, for the purpose of stabilizing the price of domestic sugar through the stabilization of that of imported sugar, and thereby safeguarding farmers' income of sugar crops and contributing to stabilize national living conditions. Furthermore, under the said Law, the Government, having maintained the policy of non-restricted importation of sugar, adopted necessary measures to prevent a violent fluctuation of the domestic sugar price as well as to support the price of domestic sugar.

(b) Incidence

In order to stabilize the price of imported sugar, the Government sets up the price range of sugar, taking into consideration the fluctuation of the sugar price in international market. If the price of imported sugar falls below the floor price, Japan Raw Silk and Sugar Price Stabilization Agency transfers the difference between those two prices to the Sugar Price Stabilization Fund; and if the price of imported sugar exceeds the ceiling price, the difference between those two prices is filled up by the said Fund.

For the purpose of supporting the price of domestic sugar, the Agency carries out purchase and resale operations by purchasing domestic sugar at the level of production cost in case the estimated marketing price of imported sugar is lower than the production cost of the domestic sugar, and reselling it into the market at a price corresponding to the reselling price of imported sugar fixed by the Agency. Deficits arising from this operation are to be met by two sources: first, the surplus accrued to the Agency from its operational transactions of imported sugar, minus the amount which was transferred to the Sugar Price Stabilization Fund, and, second, the subsidies given to the Agency by the Government.

(c) Amount of subsidy

In order to support the price of the domestically produced sugar, ¥25,472 million was financed as a subsidy to the Japan Raw Silk and Sugar Price Stabilization Agency in Fiscal Year 1986.

II. Effect of measures

Raw sugar imports were liberalized in August 1963. The large portion of the sugar consumption in Japan depends on the imported sugar. Accordingly the domestic

sugar price had shown large ups and downs, affected by the fluctuation of the international sugar price. The stabilizing measures of sugar price prevent large fluctuation of sugar price and contribute to steady consumption by supplying sugar at a stable price. The purpose of the support system of domestic sugar price is to maintain domestic production at a reasonable price level. It is not considered, therefore, that imports of sugar are adversely affected by these measures. The domestic production of sugar is 89,000 tons on the average from 1983 to 1985, and the import is 1,920,000 tons on the average for the same period. (The figures are crude sugar basis of a polarization 96° in calendar year.)

#### 4. MEASURES FOR SOYABEAN AND RAPESEED

##### I. Nature and extent of measures

###### (a) Background and legal basis

In order to cope with the influence of the import liberalization of soyabeans on the prices of domestic soyabeans and rapeseed, the Soyabeans and Rapeseed Subsidy Temporary Measures Law was enacted in 1961 with the purpose of contributing to maintain the soyabeans and rapeseed production and to stabilize farmers' income through the deficiency payment system.

###### (b) Incidence

The amount of the subsidy per unit which is applicable nationwide, is calculated by subtracting the Standard Selling Price from the Basic Price, and the subsidy thus calculated is granted to the producers in proportion to the amount of the sale through the producers' associations to whom sale was entrusted.

The Basic Price is determined by the Minister for Agriculture, Forestry and Fisheries each year with a view to ensuring reproduction, taking account of the cost of production for producers who intend to produce soyabeans or rapeseed mainly for selling, and other conditions of production, supply and demand situations of soyabeans or rapeseed, and other economic situations.

The Standard Selling Price is determined by the Minister for each year's crop as producers' selling price based on the amount obtained by subtracting the marketing costs from the standard selling price of producers' associations.

(c) Amount of subsidy

In fiscal 1985, ¥30,828 million was paid for producers of soyabeans and ¥255 million for those of rapeseed. The amount of subsidy per unit (60 kg) was ¥14,456 for soyabeans and ¥9,525 for rapeseed.

II. Effect of measures

(a) Estimated quantitative trade effect of the measures

In 1961, when the import of soyabeans was liberalized, its production was 387 thousand tons and the production of rapeseed was 274 thousand tons, while the imports of these commodities were 1,158 thousand tons and 20 thousand tons respectively. In spite of the increasing tendency of demand for these products since then, their domestic production continued to fall from year to year. In 1986 the production of soyabeans fell to 245 thousand tons and that of rapeseed 2 thousand tons, while the imports recorded were 4,817 thousand tons for soyabeans and 1,440 thousand tons for rapeseed. Under those circumstances, it is not considered that these measures have an adverse effect on imports of these commodities.

(b) Statistics

	(Unit: '000 tons)		
Calendar year	1984	1985	1986
<b>Soyabeans</b>			
Production	238	228	245
Consumption	4,662	4,839	4,818
Import	4,515	4,910	4,617
<b>Rapeseed</b>			
Production	3	3	2
Consumption	1,290	1,464	1,473
Import	1,299	1,469	1,440

5. MEASURES FOR COCOON AND RAW SILK

I. Nature and extent of measures

(a) Background and legal basis

The demand for raw silk fluctuates considerably because of domestic and international business conditions and changes in fashion, etc., while the production is not flexible enough to cope with these changes. Therefore, the price of cocoon and raw silk is vulnerable to violent fluctuations, which bring about instability to the management of the cocoon and raw silk industry.

Under the Cocoon and Raw Silk Price Stabilization Law, Japan Raw Silk and Sugar Price Stabilization Agency (Note: replaced the former Japan Raw Silk Corporation and the former Sugar Price Stabilization Corporation in October, 1981. Hereinafter referred to as "the Agency") conducts operations to stabilize the price of cocoon and raw silk at a level appropriate in the light of the conditions of production, supply and demand, and other situations with a view to contributing to stabilization of management of cocoon and raw silk industry.

(b) Incidence

Measures to stabilize the price of cocoon and raw silk

The Agency purchases raw silk, upon the application of producers, etc., at the price which the Agency determined on the basis of the standard cost within budgetary limits, and sells it through the public tender or in other ways when the market price of raw silk rises or is likely to rise above the maximum price.

The price range with the maximum and standard prices for raw silk are determined by the Minister with a view to stabilizing the price of raw silk at a level appropriate in the light of the conditions of production, supply and demand situation of raw silk and other economic factors.

The Agency may be entrusted with the purchase and sale services of the dried cocoon within the scope of a limited quantity, in case the purchase and sale transaction of cocoon is likely to be carried out at a price less than the standard price of cocoon and the Federations of Agricultural Cooperatives offered.



The standard price of cocoon are set by the Minister taking account of standard price of raw silk with a view to realizing the price of cocoon at a level appropriate in the light of the conditions of production, supply and demand situation of cocoon and other economic factors.

(c) Amount of subsidy

There has been no subsidy paid in connection with recent purchase and sale operations of these commodities. However, there was a certain amount of subsidy paid for a deficit resulting from the operations before 1984.

II. Effect of measures

(a) Estimated quantitative trade effects of the measures

As the measures stated under I(b) above aim to stabilize the prices of cocoon and raw silk, they cannot be considered to have effects on trade.

(b) Statistics

(Unit: ton)					
	Calendar year	Production	Imports <sup>a/</sup>	Exports	Consumption <sup>b/</sup>
Cocoon	1984	50,352	1,460	0	58,393
	1985	47,274	0	0	52,011
	1986	41,465	363	0	45,082
Raw silk	1984	10,780	1,521	0	12,120
	1985	9,592	2,098	0	13,093
	1986	8,341	1,957	0	10,581

Note: a/ Raw cocoon equivalent

b/ Shows the figures transferred to the end-users of raw silk

6. MEASURES FOR MILK, MILK PRODUCTS

I. Nature and extent of measures

(a) Background and legal basis

Since April 1966, the Government has been authorized to provide producers with a subsidy for milk for

manufacturing through the Livestock Industry Promotion Corporation under the Act for Temporary Measures Concerning Deficiency Payment to Producers of Manufacturing Milk enacted in June 1965. At the same time, the Corporation undertakes purchase and resale operations for milk products with a view to stabilizing the market prices of main milk products at the level of the stabilization target price which the Government sets.

The objectives of this scheme are to ensure supply of milk and milk products at stable prices and to encourage a sound development of the Japanese dairy industry which only has a short history and is not well established. Under this scheme, full consideration is given to restraining milk production by inefficient producers and to supply and demand situations in determining the guaranteed prices of milk for manufacturing.

(b) Incidence

The following products are subject to purchase and sale operations by the Livestock Industry Promotion Corporation; butter, sugared condensed whole milk, sugared condensed skimmed milk and powdered skimmed milk.

The difference between the guaranteed price and the basic marketing price of milk for manufacturing is subsidized to producers through the Livestock Industry Promotion Corporation. In this scheme, the guaranteed price is determined on the basis of production costs of milk in districts where production costs are relatively low and rationalization in production is expected in the future, with a view to ensuring reproduction in the principal districts where milk for manufacturing is produced. A limit is set for the quantity of milk for manufacturing for which the subsidy payments are made.

(c) Amount of subsidy

¥41,469 million was provided to the Livestock Industry Promotion Corporation as a subsidy to producers in fiscal 1986.

II. Effect of measures

(a) Quantitative trade effect of the measures

The price stabilization measure only aims at keeping the prices of milk products stable. As mentioned earlier, the subsidy measure is to aim at stabilizing dairy farming on a more rationalized basis and to aim at promoting

development of agriculture in districts which have no dependable sectors other than the dairy farming, through supporting producers for manufacturing milk and carrying out the supply and demand adjustment. It is not, therefore, considered that this measure has an effect on international trade.

(b) Statistics

		(Unit: '000 tons)		
		FY1984	FY1985	FY1986
Milk	Production	7,200	7,436	7,358
	Import	-	-	-
	Export	-	-	-
Butter	Production	80	91	81
	Import	2	2	2
	Export	0	0	0
Powdered skimmed milk	Production	161	186	171
	Import	100	96	89
	Export	0	0	0
Sugared condensed whole milk	Production	52	49	48
	Import	0	0	0
	Export a/	0	0	0
Sugared condensed skimmed milk	Production	14	14	14
	Import	-	-	-

Note: a/ Includes sugared condensed skimmed milk.

7. MEASURES FOR BOVINE MEAT AND PORK

I. Nature and extent of measures

(a) Background and legal basis

Under the Livestock Products Price Stabilization Act enacted in 1961, price stabilization schemes were established for pork and bovine meat in 1962 and 1975

respectively. Under the schemes the Livestock Industry Promotion Corporation conducts purchase and sale operations of the above mentioned meats to prevent abnormal fluctuations of market prices which go beyond a predetermined range.

The objectives of the schemes are to ensure the sound growth of the Japanese livestock industry, which has but a short history and is not well established, and to ensure the stable supply and prices of livestock products whose weight is becoming increasingly great in our diet.

(b) Incidence

Bovine meat and pork are subject to the purchase and sale operations of the Corporation.

When wholesale prices of domestic bovine meat and domestic pork go beyond the aforesaid price range due to the imbalance of demand and supply,

(i) in case wholesale prices exceed the maximum price, the Corporation increases sales of imported and domestic bovine meat and domestic pork which it keeps and tariff rates for imported pork are reduced or exempted.

(ii) in case wholesale prices fall below the minimum price, the Corporation takes measures to stabilize demand and supply and price of bovine meat and pork by withdrawing domestic bovine meat and domestic pork from the markets (The Corporation purchases meat or stores it for adjustment. In addition to this, producers voluntarily take measures for withdrawal of domestic pork from the markets in recent years).

In connection with these price stabilization measures, the Livestock Industry Promotion Corporation conducts the purchase and sale operations of most of imported bovine meat and thereby stabilizing the demand and supply as well as the price of bovine meat.

(c) Amount of deficit

Management costs of this price stabilization system are borne by benefits derived from the operation of the funds of the Corporation. The Amount of the fund to the Corporation in the fiscal year 1986 is ¥98 million.

II. Effect of measures(a) Quantitative trade effect of measures

The sole aim of the measures in I. (b) mentioned above is to stabilize prices of bovine meat and pork. These measures are not considered to have any effect on international trade.

(b) Statistics

		(Unit: '000 ton)	
Fiscal Year		Bovine meat	Pork
1984	Production	539	1,433
	Export	0	0
	Import	213	262
	Consumption	752	1,697
1985	Production	556	1,559
	Export	0	0
	Import	225	272
	Consumption	774	1,813
1986	Production	563	1,558
	Export	0	0
	Import	268	292
	Consumption	817	1,890

Note: On carcass basis  
1986: Provisional

8. SMALL AND MEDIUM ENTERPRISES SPECIAL LOAN MEASURES

I. Nature and extent of measures

(1) Background

A number of small and medium enterprises, seriously hurt by the yen's appreciation by over 60% against the U.S. dollar (based on the IMF formula) in 15 months since the end of September 1985, are facing business crises such as bankruptcies or lay-offs. The Small and Medium Enterprises Special Loan Measure (referred to as the "Loan Measure" hereafter) is a domestic measure, emergent and temporary in nature; it is premised on the recent appreciation of the yen and is meant to address the problems of small and medium enterprises thrown into financial crisis by such changes, on the understanding that the situation has become so severe that it cannot be left as it is. It is hoped that the Loan Measure will facilitate the positive adjustment of Japanese industries such as business conversion and the switching of their sales focus from overseas to the domestic market.

(2) Incidence

The following is a general outline of loan conditions and other aspects of the financing system

1) Use of funds

(a) Operating funds

Operating funds to be used with a view to facilitating business adjustment such as business conversion and shift to domestic market while avoiding temporary business crises

(b) Equipment funds

equipment funds for business conversion (available only for the production of goods and services for domestic demands)

2) Scale of financing

500 billion yen

3) Interest rates

Operating funds;

(a) not related to equipment funds 5.0 per cent per annum  
(5.7 per cent per annum after the fourth year)

(b) directly related to equipment funds 4.85 per cent per annum  
(5.55 per cent per annum after the fourth year 6.05 per cent per annum after the eighth year)"

equipment funds 4.85 per cent per annum  
(5.55 per cent per annum after the fourth year, 6.05 per cent per annum after the eighth year)"

4) Repayment period and grace period

	<u>repayment period</u>	<u>grace period</u>
operating funds	within 5 years	within 1 year
(in special cases	within 6 years	within 3 years)
equipment funds	within 15 years	within 2 years

5) Maximum loan to each client

operating funds 60 million yen

equipment funds 250 million yen

6) Lending institutions

The Small Business Finance Corporation, The People's Finance Corporation, The Shoko Chukin Bank, The Okinawa Development Finance Corporation

(note) These institutions follow normal banking practices such as obtaining collateral security.

7) Period

December 2, 1985 -- March 31, 1988

- 8) Requisite conditions for applicant companies  
Applicants must be companies which are being adversely affected by the sudden appreciation of the yen and so recognized according to the provisions of the Temporary Law on Business Conversion and Adjustment Measures for Small and Medium Enterprises. Specifically, they must be companies which belong to particular industries being hard hit and which are also showing or are expected to show production or sales below a certain level.

- (3) Budget for lowered interest on loans by financial institutions

A subsidy for financial institutions to cover the interest differences, ¥1.1 billion, will be spent out of the general account for FY1986.

(note) Funds for this Loan mainly come from the Fiscal Loan and Investment Program of the Japanese Government of which sources are from postal savings and others, and, as such, must be repaid.

## II. Effect of measures

(1) The equipment funds provided by this financing system are used for equipment necessary to carry out business conversion. Operating funds are used with a view to facilitating business adjustment such as business conversion and shift to the domestic market while avoiding bankruptcies which might be caused by suspension of new orders as a consequence of sudden large-scale fluctuations in the exchange market. This measure is intended to promote social and economic policy objectives as referred to in Article 11: 1 of the Subsidies Code.

(2) This Loan is extremely limited in terms of the scale of financing, the maximum loan to each client, the loan conditions attached and the limited duration of the program. It will neither increase exports nor decrease imports, nor will it be so intended.

## 9. THE REINSTATEMENT OF REFUNDS ON LOSS CARRYBACK

### I. Nature and extent of measures

#### (1) Background

See "Small and Medium Enterprises Special Loan Measure".



(2) Incidence

- 1) Both "The System of Refunds on Loss Carryback" and "The System of Loss Carryforward" are prevalent in tax system. These are established in order to average out tax burden on income of juridical person which fluctuate with economic changes. Similar systems also exist in other industrialized countries.
- 2) "The Refunds on Loss Carryback" in Japan is described in Article 81 of the Corporate Income Tax Law, but the measure has been suspended temporarily since FY 1984 through FY 1987 because of the Japanese Government's huge budget deficits in accordance with Article 66 - 15 of the Special Law on Taxation. The measure is, however, operative for certain cases such as a dissolution.
- 3) Since the income of small and medium enterprises would fluctuate critically due to the sharp, large-scale appreciation of the yen, the Japanese Government decided to reinstate "Refunds on Loss Carryback" to the small and medium enterprises recognized according to the provisions of the Temporary Law on Business Conversion and Adjustment Measures for Small and Medium Enterprises only in FY 1986 and FY 1987 in accordance with Article 81 of the Corporate Income Tax Law.

II. Effect of measures

As seen in the above, similar programs are implemented in other industrialized countries as well for reasons particular to taxation, and it will neither increase exports nor decrease imports, nor will it be so intended.

10. OTHER MEASURES BASED ON TEMPORARY LAW ON BUSINESS CONVERSION AND ADJUSTMENT MEASURES FOR SMALL AND MEDIUM ENTERPRISES

These measures include special treatment in regard to the Small and Medium Enterprises Credit Insurance Law and rescheduling of loans used for equipment modernization. These measures have the same background as the Loan Measure and the tax system mentioned above, and, as such, will neither increase exports nor decrease imports.