

GENERAL AGREEMENT ON

C/RM/M/30
14 January 1993

TARIFFS AND TRADE

Limited Distribution

COUNCIL
12-13 October 1992

TRADE POLICY REVIEW MECHANISM
JAPAN
MINUTES OF MEETING

Chairman: Mr. B.K. Zutshi (India)

	<u>Page</u>
I. INTRODUCTORY REMARKS BY THE CHAIRMAN OF THE COUNCIL	2
II. OPENING STATEMENT BY THE REPRESENTATIVE OF JAPAN	3
III. STATEMENTS BY THE DISCUSSANTS	9
IV. STATEMENTS BY MEMBERS OF THE COUNCIL	13
V. COMMENTS AND RESPONSE BY THE REPRESENTATIVE OF JAPAN	26
VI. FURTHER COMMENTS	29
VII. CONCLUDING REMARKS BY THE CHAIRMAN OF THE COUNCIL	30

I. INTRODUCTORY REMARKS BY THE CHAIRMAN

1. The Chairman recalled the objectives of the Trade Policy Review Mechanism, as decided by the CONTRACTING PARTIES on 12 April 1989 (BISD 36S). The Council meeting would be based on two reports, one prepared by the Japanese Government (C/RM/G/30) and the other by the GATT Secretariat (C/RM/S/30A and 30B). As usual, the Secretariat had sought clarification on the factual information contained in its report from the Government of Japan.

2. The Chairman suggested that this, the second trade policy review of Japan, should concentrate on major developments over the past two years and be structured along the two main themes of:

- (i) General objectives of Japan's economic and trade policies, including the macroeconomic situation; policy implications of its resurgent trade surplus; the dichotomy between Japan's outward-oriented manufacturing objectives and agricultural goals of food security and maintaining farm incomes; and use of "grey-area" VERs as well as market-opening agreements with major trading partners.
- (ii) Main trade policy instruments used to achieve these objectives, including recent trade liberalization; the rôle played by tariff and non-tariff barriers; the uneven structure of assistance, particularly between manufacturing and agricultural activities; the costs to domestic consumers and to the Japanese economy as a whole inherent in this structure; and the transparency of trade and sectoral measures.

3. Three contracting parties, Australia, the United States and Hong Kong had provided questions in advance on matters they wished to raise during the meeting. These points were not in any way to limit the scope of the discussion.

4. The Chairman thanked H.E. Ambassador K. Kesavapany and Mr. Pierre Gosselin for their personal contributions to the meeting as discussants. He invited the representative of Japan to give his introductory statement, followed by the two discussants.

II. OPENING STATEMENT BY THE REPRESENTATIVE OF JAPAN

5. Japan is pleased to participate in its second GATT trade policy review. Remarkable developments in the world economy since Japan's initial review in August 1990, including increased economic interdependence among nations following the end of the Cold War have, I believe, increased the important rôle to be played by GATT. Japan considers that trade policy reviews of each contracting party contribute highly to strengthening the GATT system.

6. Although the Secretariat report includes comprehensive analyses of Japan's trade policies, it does, to our regret, contain a number of references which are based on simplistic analyses, apparent misunderstandings a lack of precise grasp of our trade policies and their backgrounds.

7. The basic objectives of Japan's trade policies, as reaffirmed in our report, are to develop a healthy national economy through free and non-discriminatory trade, and to contribute to the development of the world economy. Japan considers it most effective and important that trade be conducted according to multilateral trading principles. Japan is fully committed to the GATT. The foundation of Japan's various trade laws and regulations is the principle of "freedom as a rule, restrictions only as exceptions". It has voluntarily implemented a series of measures to improve market access, as well as actively participating in previous multilateral trade negotiations to further strengthen the GATT system.

8. Japan's trade policy since the Plaza Accord of 1985 has focused on formulating harmonious external economic relations. As combined results of the sharp yen appreciation, the expansion of domestic demand and a series of market-opening measures in accordance with the "Action Program", Japan's trade surplus fell substantially from US\$ 82.7 billion in 1986 to US\$ 52.1 billion in 1990. Moreover, Japan's manufactured import ratio increased significantly from 31 per cent in 1985 to 50.8 per cent in 1991. Although Japan's current account surplus rose again to US\$ 72.9 billion in 1991, this was largely due to nominal and temporary factors, such as increased export prices from the yen appreciation and decreased gold imports for investment purposes.

9. The Package of Comprehensive Economic Measures announced in August 1992 comprised financial measures amounting to ¥ 10.7 trillion aimed at smoothly shifting the Japanese economy, which is currently undergoing an adjustment phase, onto a non-inflationary and sustainable growth path led by domestic demand. Implementation of these economic measures will contribute to stable development of the world economy. Furthermore, the Government of Japan, with a view to shaping harmonious external economic

relations, has taken a series of measures to improve market access. Some specific examples include:

- (1) In the field of mining and industrial products, the Japanese Government has autonomously eliminated tariffs on as many as 1004 items since April 1990, without requesting reciprocal tariff reductions by trading partners;
- (2) A 10-year extension to its GSP scheme from April 1991 in the belief that it contributed substantially to promoting exports and raising export earnings for developing countries. Since implemented in August 1971, the share of Japanese imports of eligible GSP items from beneficiaries has increased from 17.7 to 52.5 per cent.
- (3) With regard to non-tariff measures, Japan has continued to introduce international standards and simplify procedures, as well as promoting mutual certification through the "Action Program for Improved Market Access". This year, the Japanese Government took measures to further improve Government procurement procedures. The function of the Office of Trade and Investment Ombudsman (OTO) in processing complaints, in cooperation with the administrative organizations and the private sector, to improve market access has been strengthened; and
- (4) In June 1990, the Japanese Government announced a Declaration on the Openness of Direct Investment Policy to further promote foreign direct investment. In April 1991, the Foreign Exchange and Foreign Trade Control Law was revised to make procedures relating to direct investment more open and transparent.

10. These measures were taken with a view to shaping harmonious external economic relations. They also demonstrate Japan's strong commitment to the maintenance and strengthening of the GATT system, while trying to prevent trading partners from resorting to protectionism on the grounds of existing trade imbalances. In other words, these measures show Japan's firm commitment to a free and non-discriminatory multilateral trading system.

11. The Secretariat report states, in Chapter V, that Japan's import system is much more protective in agriculture than for manufactured products, and also points out in the Summary Observations that further liberalization of agricultural trade could contribute to the strengthening of the multilateral trading system. In response to this argument, I wish to emphasize that Japan, with a total of US\$ 27.5 billion, is the world's largest net importer of agricultural, forestry and fishery products, and that Japan has been steadily expanding its market for foreign agricultural products, thus greatly contributing to the expansion and stabilization of

world agricultural trade. Moreover, I would like to draw the Council's attention to the fact that Japan has been strenuously reducing its support and protection to agriculture. Since the beginning of the Uruguay Round in 1986, Japan has implemented market-opening measures, despite many domestic difficulties. As a result, in 1990, Japan's food self-sufficiency ratio on a calorie basis had declined to as low as 47 per cent, with a 30 per cent self-sufficiency ratio for cereals on a quantity basis. No other developed country in the world has such a low self-sufficiency ratio, and this has heightened the concern of Japanese citizens for securing stable food supplies.

12. Japan believes strongly in the necessity for maintaining and strengthening the multilateral free trading system. On the other hand, however, when discussing agriculture, various factors must be borne in mind that distinguish agricultural trade from that of industrial products. Agricultural production, unlike industrial output, has the unique constraint of being affected by land and climatic conditions. Also, due regard should be given to agriculture's multifarious non-trade rôles, such as food security, conservation of the environment and vitalization of rural communities. It is hoped that the review of Japan's agricultural import system will be conducted by the Council taking these factors into consideration.

13. More specifically, Japan disagrees with the Secretariat's analysis in Note V.1 that Japan's agricultural protection policies have prevented scarce factors, such as labour and land, from being transferred to industrial uses. Japan's counter-argument is that considerable labour has been transferred to non-agricultural sectors in line with growth in agricultural productivity, thus promoting overall economic growth. In addition, no restraint has been imposed on the conversion of agricultural land in the area where urbanization is promoted from the view point of land policy, and about two-thirds of newly urbanized areas have come from farm land.

14. The Secretariat's simulation, in Note V.4, of the impact of liberalizing sensitive items attempts to presuppose the Uruguay Round results, without taking account of any underlying political, economic and social factors. Japan is concerned that such attempts might hurt the credibility of the Secretariat, which is supposed to prepare objective and accurate reports for Council discussions. In this connection, I wish to also point out that the Secretariat's analysis in Note V.3 is based on a simplistic model that presupposes specific tariff levels on products for which quantitative restrictions have recently been removed.

15. Concerning the Secretariat's critical comments that Japan's import policies based on food security sacrifice consumer's interests through

transferring income to producers, Japan would like to emphasize that its notion of food security aims at securing long-term food supplies. Japan hopes that a comprehensive agreement, including the point above, will be achieved in the Uruguay Round that ensures the stability and development of agricultural trade.

16. The Secretariat report strongly criticizes Japan's VERs as undermining transparency and efficiency in world trade. However, as also stated in the Secretariat report, VERs are a substitute for safeguard actions by importing countries. Japan mainly takes VER measures because importing countries adopt measures that are inconsistent with GATT rules. In principle, VER measures are only used when requested or consented to by the importing country. Japan takes VERs only as emergency and unavoidable measures and to the minimal extent necessary.

17. Although Japan's VERs have been extended in some cases, Japan does not encourage the use of VERs by the private sector to protect domestic firms. Japan does not wish to take measures that will undermine domestic resource allocation. The Secretariat report strongly criticizes the VER as a measure that helps bilateralism. Japan's view is that it should not be overlooked that the problem lies mainly on the importing side.

18. Japan disagrees with Note IV.3 of the Secretariat Report that its financial and tax incentives for promoting manufactured imports benefit only exporters, and that they may distort Japan's resource allocation as do import restrictions used to redress trade deficits. The Secretariat's analysis is extremely unbalanced and inappropriate because it highlights the possible effects of export subsidization, without taking into account their positive aspects. Japan does not accept that this tax system subsidizes exports. Simple calculations show that the benefits accruing to domestic industries from these measures are negligible due to:

- the cost-reducing effects through substitution of imported for domestically-produced goods is negligible; and
- imported capital goods covered by the tax system accounting for only a small portion of the total cost.

19. With a view to shaping harmonious external economic policies, Japan has implemented comprehensive measures to expand imports, including the reduction and elimination of tariffs; improved institutional and infrastructure facilities for promoting imports; and greater support for export promotion programs of trading partners. These measures have the same purpose and import-expansion effects as tariff reductions, since they reduce initial importation costs and improve competition between domestic and foreign goods. It follows that these measures rationalize resource

allocation. Furthermore, the tax system in question covers a wide range of final consumer goods.

20. Japan rejects the Secretariat's comments as neglecting the reality of the system. In Japan's view, questioning the export subsidization effects of this system is like questioning the same effects of tariff reductions. The system of tax incentives is neither trade restrictive nor managed-trade oriented. On the contrary, the system receives high appreciation from many countries because of its great trade-promoting effects.

21. A number of countries have claimed that the recent import promotion measures are implemented to favour a specific country. However, it should be noted that the Government of Japan observes the m.f.n. principle in implementing these measures.

22. The Secretariat's report mentions two specific cases in which administrative guidance allegedly affected Japan's imports. Inclusion of these cases, based on sheer speculation or rumour, in the report without verification must be questioned. Administrative guidance without legal foundation has not, and cannot, infringe upon imports, that is, the right to conduct trade transactions. In Japan, such administrative power can only be exercised on the basis of law. In other words, government interference in economic activities guaranteed by the Constitution, such as the freedom to conduct business transactions, is impossible without specific legal authorization. The view of the Secretariat's report which over-emphasizes the influence of administrative guidance is questionable, and Japan assures the Council that such guidance does not negatively affect specific commercial transactions.

23. The need to ensure transparency of administrative guidance is strongly recognized. In this regard, the Japanese Government is to implement administrative guidance in writing. The Council's attention is also called to the fact that, as stated in the Secretariat's report, the Japanese Government is currently expediting drafting of an administrative procedural law to ensure further transparency of administrative procedures, including guidance. The draft bill will soon be submitted to the Diet.

24. Japan recognizes the important rôle of competition policies in making the Japanese market more open; promoting fair and free competition among domestic and foreign enterprises; protecting consumer interests; and bringing about a higher quality of life. It is for these reasons that the Fair Trade Commission has strengthened its rigorous enforcement against violations to the Antimonopoly Act.

25. Furthermore, to strengthen the deterrence against such violations and improve the transparency of enforcement activities, the Fair Trade

Commission has implemented measures such as raising surcharges, strengthening criminal penalties and publishing the "Antimonopoly Act Guidelines concerning distribution Systems and Business Practices" (see Government report, page 81 for details).

26. Japan conducts various trade consultations with major trading partners within the GATT framework, while taking into account the nature of the economic or trade issues and the overall bilateral relationship. Japan is committed to maintaining and strengthening the GATT multilateral free-trade system.

27. The Japanese Government's report describes in detail the SII and other trade dialogues with the United States. We are aware of criticisms that these trade dialogues indicate Japan's inclination towards bilateralism. These criticisms are, however, groundless. All measures arising from these dialogues with the United States are applied to other trading partners on an m.f.n. basis. The Secretariat report strongly criticises the Action Plan with the United States on auto parts as representing the Japanese Government's endorsement of the targets set by private enterprises. However, I would like to point out that the Government is in no position to interfere with the activities of individual private enterprises, and it has not ordered the private sector to take any particular action. The "Action Plan", containing two separate elements on auto parts, is a private sector initiative that should be welcomed as a desirable move to expand trade. One element refers to measures to be taken by the Government, and the other refers to the target plan by the Japanese automobile industry. We would like to make it clear that this does not mean that the Japanese Government has endorsed the measures to be taken by the private sector.

28. Japan is indeed committed to the multilateral free-trade system, and it was to this end that it undertook a series of market-opening measures, beginning with the "Action Program" in 1985. It must be clearly understood that the view that Japan refrains from applying certain GATT rules is ill-founded. Japanese trade policies are aimed at being consistent with GATT rules and Japan has actively contributed to the strengthening of GATT functions and rules in both the Tokyo and Uruguay Rounds. Moreover, Japan is beginning to more actively use GATT rules including dispute settlement procedures. Japan continues to resolutely pursue trade policies based on GATT rules, including those resulting from the Uruguay Round. Japan also believes that an early and successful conclusion to the Round is of utmost importance.

III. STATEMENTS BY THE DISCUSSANTS

29. The first discussant (Ambassador Kesavapany) focused on general aspects of Japan's trade and economic policies by drawing on the cataclysmic changes in the international economy since the initial TPRM review of Japan, and their impact on the domestic economy.

30. The most dynamic changes to have occurred were the collapse of the Soviet Empire and the end to the Cold War. These had altered the traditional world economic order and led to the formation of newly emerging economic alliances in which Japan, as one of the top three economic superpowers, must play an important rôle. Japan would be expected to assume greater international responsibilities and obligations, such as maintaining an open-trading system and assisting developing countries.

31. Another noteworthy development had been the accelerating trend towards regionalism, as indicated by the decision to move to a Single European Market by 1 January 1993 and the formation of NAFTA. These developments had given impetus to closer economic integration and cooperation in the Asia-Pacific region which, although less complete than the European and North American cases, had been strengthened through such fora as ASEAN, APEC and the recently proposed East Asian Economic Caucus (EAEC). Japan was seen as the key linchpin in EAEC's formation as a counter to the European and American trade blocs.

32. Whether such regional developments would be at the expense of third countries was unclear. One observer has noted that trade problems could only be resolved by countries seeking multilateral rather than narrow bilateral or regional solutions. Japan's lukewarm reaction so far to the EAEC proposal no doubt partly reflected its continued criticism of preferential trading arrangements, that they may create exclusive economic trading blocs based on protection. More fundamental, however, would be Japan's reluctance to jeopardise its security, economic and trade links with the United States.

33. Japan continued to show in all these developments, especially those in Asia, a certain tentativeness in meeting its leadership responsibilities. It remained ambivalent and uncertain over its future rôle. Coinciding with the problem of Japan coming to grips with the "new international order", was the unprecedented domestic economic slow down following the bursting of the "bubble". This, in turn, occurred at a time when dynamic social changes, such as reductions in working hours and the provision of better housing and social amenities, are taking place.

34. Despite these shortcomings, there were signs that Japan was beginning to take the necessary steps to meet its international obligations. Japan's

current "Five-Year Economic Plan" aimed to promote growth through domestic demand and to integrate Japan more closely into the world economy. Promoting domestic demand, for example, through the two economic stimulatory packages announced in March and August of 1992, would help address Japan's current account surplus, which was a cause of concern to its trading partners. This should, hopefully, lead to greater market access and improved transparency in Japan's trade practices, and a willingness by the Japanese Government to reduce protection through continued liberalization.

35. However, despite Japan's market-opening measures, the World Competitive Report (1992), still listed Japan both as the most competitive developed economy, and among the two most protectionist. The same report indicated that Japan was also the fourth most difficult economy for foreign investors to acquire company control. In the discussant's view, this showed the need for Japan to implement international business norms and to eradicate the keiretsu system.

36. Referring to Japan's stated position of achieving an early and successful conclusion to the Uruguay Round, the discussant hoped that Japan would tackle the thorny issue of agriculture by making the necessary decisions in the final stages of the Round. By and large, in the negotiations Japan had been mindful of developing country concerns, especially those of least-developing economies.

37. The second discussant (Mr. Gosselin) commented on the remarkable success and economic flexibility of the Japanese economy. Following the Plaza Accord yen appreciation, Japan had successfully shifted from export-led to domestic demand-fuelled growth; changed the composition and geographical destination of exports, along with foreign investment patterns; and developed intra-industry trade. As a major power depending for its vitality on international trade, Japan bore a special responsibility to ensure that the trading system functioned properly.

38. Japan's criticism of regional trading arrangements, as potentially leading to inherently trade-diverting trading blocs, contrasted with its approach to settling disputes via bilateral negotiations aimed at limiting exports or increasing imports. These often non-transparent arrangements, although outwardly "multilateralized", led to third country allegations that their trade was adversely affected. Examples included the Japan/US Semiconductor Arrangement and the Global Partnership Plan.

39. Japan's preference for using bilaterally-managed trade was exemplified by its recent decision to reduce the trade surplus by promoting manufactured imports through distortive financial incentives. Just as import controls tax exports, import incentives could subsidize exports. A

preferable response would be for Japan to remove existing impediments to effective market access.

40. Despite strengthening its competition law and enforcement, Japan was often criticized for not adequately addressing anti-competitive behaviour. Two major areas of external concern are the rôle of keiretsu as a barrier to entry for foreign investment or imports, and the tied distribution system. It was repeatedly argued that the keiretsu-dominated distribution system was complex, inefficient, expensive and discriminated against imports.

41. A number of features of Japan's trading system are relevant to the transparency issue. Given Japan's proclivity to use bilaterally managed trade, considerable scope existed for administrative guidance. This was evident, for example, in the Global Partnership Plan. Although this had been presented as a non-binding or industry-to-industry arrangement, statements of Government intent gave rise to legitimate concerns from third countries, especially those which saw their traditional business drying up. Such practices did nothing for the trading system and only whet the appetite for further "quick bilateral fixes" discriminating against third countries.

42. Despite efforts to remove trade impediments by rationalizing its standards and certification procedures, progress had been slow. Only 5.2 per cent of Japan's industrial standards, for example, coincided with international norms. Similarly, a review of food standards by the Ministry of Health and Welfare to determine whether differences between Japan's standards and those of the Codex Alimentarius are scientifically warranted, was likely to take years. As the OTO played an important adjudicating rôle in this area, it would be useful to know its composition and degree of independence from the Government, as well as whether its decisions were binding on all parties and subject to appeal.

43. Japan had recently taken steps to improve market access in Government procurement. The minimum bid time was extended from 10 to 50 days; and special procedures, including the right for suppliers to appeal to the Procurement Review Board, have been implemented for computer products and services. Extending the system of bid challenges to other products would contribute significantly to transparency and predictability.

44. Most quantitative restrictions had been eliminated. Market access had also been improved by tariff cuts, although these were mainly on items already attracting low rates. Access continued, however, to be hampered by the complex and distortive tariff structure. High peaks and numerous tariff concessions, including end-use provisions, increased tariff escalation and dispersion. Protection could therefore be finely tuned to

particular industries. Specific or alternative tariff rates provided additional protection against cheaper goods, such as primary plastics, base metals and some agricultural products. Moreover, substantial seasonal tariff peaks on certain fruit, including bananas, protected growers during the harvest season, and high above-quota tariffs operated on certain imports, especially leather, textiles and some agricultural products. Japan's level of tariff bindings was high in industrial goods, but much lower in agricultural products.

45. Import procedures constituted barriers to the Japanese market. Customs clearance times for both sea and air cargo were fairly long. There had been little improvement in this field. Furthermore, the c.i.f. basis of "value-for-duty" discriminated against more distant suppliers. Japan should, however, be commended as one of the few countries that did not exclude textiles and clothing from its GSP scheme.

46. In agriculture, where Japan is clearly not internationally competitive, a complex array of trade and regulatory measures was used to erect high barriers against competitive imports. Although Japan justified these policies in the interests of food security, raising farm productivity and parity of farm and non farm income, he felt that it was debatable whether, in a country with scarce land and labour, such policies were the best approach to meeting these concerns and optimizing resource-use efficiency. The financial and opportunity costs to the Japanese economy of agricultural protection were enormous. They also bore a high price in terms of their effects on bilateral relationships and on the proper functioning of the multilateral trading system, upon which Japan's prosperity relied.

IV. STATEMENTS BY MEMBERS OF THE COUNCIL

47. Council members complimented Japan and the GATT Secretariat for the quality of their highly informative reports, which were considered to provide a good basis for the review. The discussants were thanked for their thought provoking and constructive introduction to the debate.

48. The representative of Sweden, speaking on behalf of the Nordic countries, welcomed the increasing use made by Japan of the GATT system, including the dispute settlement procedures. It was important for smaller and medium-sized countries that Japan and other larger players met their responsibilities by holding to the rules of the international trading system. Despite continued efforts to open its domestic market, Japan still showed a tendency to enter bilateral arrangements contrary to the spirit, if not the letter, of the General Agreement.

49. Prolongation of "temporary" voluntary export agreements, and their increased restrictiveness, appeared inconsistent with free-trade principles. The Swedish representative sought comments on the probable negative effects on third markets of trade diversion induced by Japan's export restraints. He also sought clarification of measures taken to ensure that recent import promotion initiatives centred on correcting Japan's trade surplus with the United States, such as the Global Partnership Plan, would truly be applied on a multilateral basis.

50. These concerns were especially important in the area of Government procurement. The Swedish representative asked how telecommunications products would be procured on an m.f.n. basis, given the 1989 bilateral agreement with the United States and the unclear exception contained in Japan's current offer for NTT procurement. He also expressed the wish that recent reforms, such as lowering of the threshold value to 100,000 SDRs, be incorporated in the Government's procurement offer. Despite these reforms, the share of foreign suppliers in Japanese procurement remained very low.

51. Japan's inspection and testing rules continued to be applied unevenly to imports. Japan was the only industrial country that did not accept manufacturer's type approval for passenger cars. Moreover, Japan discriminated against European car exporters by recognizing test results and procedures from certain U.S. bodies and not from official European certification institutions.

52. The representative of Switzerland referred to Japan's two major concerns of environment and international trade as well as political harmony contained in the current Five-Year Economic Plan. He appreciated efforts to create domestic demand-led growth and introduce market-expansion measures aimed at correcting Japan's trade imbalance. Although Japan's

trade surplus had been successfully contained, and in the case of Switzerland eliminated during the late 1980s, it was now increasing again. While acknowledging the impressive features in Japan's trade policy formulation and coordination processes, Switzerland hoped that these would not prevent future trade policies and practices from reflecting Japan's international responsibilities.

53. Although Japan opposed regional trade blocs, its special trade and investment links with, in particular, several of its Asian neighbours could have similar effects on trade. The Swiss representative requested data on Japan's intra-regional trade and investment flows, and its views on this matter. He hoped that Japan would phase out existing managed trade measures and refrain from introducing new "grey area" measures. These were dangerous as they undermined the credibility of the trading system.

54. While appreciating Japan's tariff reductions, the Swiss representative saw their temporary nature as reducing predictability. He hoped that they would be made permanent during the Uruguay Round. Japan should also address tariff peaks on certain products, and relax stringent health and quarantine regulations on animal products and fruits by adopting international norms. The representative of Switzerland sought clarification from Japan on remaining import quotas applied to industrial and mining products.

55. The representative of Australia emphasised the need for subsequent TPRM exercises to focus on the emerging trends and changes since the previous review. He welcomed Japan's market-opening measures, especially those institutional measures implemented in the August 1992 Economic Stimulation Package, such as the proposed establishment of several foreign access zones, additional government procurement and the increased activities of the OTO in the area of standards and certification.

56. Some progress had been made in agriculture since 1990 in eliminating import quotas on beef, oranges and orange juice, as well as "tariffing" other quotas in accordance with its GATT undertakings. However, Australia remained concerned with the continued levels of agricultural support. Japanese farming remained one of the most highly assisted among industrialized countries. Protection was delivered through a complex array of trade and regulatory measures, including administered domestic prices, high tariffs, deficiency payments, import quotas, controls and state-trading rights. Japanese rice and wheat consumers paid prices that were five and three times world levels, respectively.

57. Australia regretted the Japanese decision to implement the 1988 GATT Panel recommendations, especially on starch and dairy products, selectively. Dairying was Japan's most highly assisted agricultural

activity. Australia would continue to hold both bilateral and multilateral negotiations aimed at liberalizing Japanese imports of these products. The Australian representative noted that Japan's draft agricultural schedule provided for no further tariff reductions on beef beyond those agreed in the 1988 bilateral settlement. He expressed concern over the complexities of Japanese standards, including health and sanitary arrangements as well as certification procedures. These restricted market access for certain agricultural commodities.

58. Japan was to be commended for its commitment to an open, non-discriminatory multilateral trading system. However, Australia was concerned over Japan's opposition, in the Uruguay Round, to the comprehensive tariffication proposal which was fundamental to the agricultural package contained in the Draft Final Act. Under this proposal, importing countries would still be able to provide border protection, as well as making use of a range of provisions, such as temporary safeguards and some flexibility in applying tariff reductions, which could ease the domestic adjustment process.

59. Bilateral developments, especially with the United States - such as the recent agreement on automotive parts - and the European Communities, were a matter of concern to Australia, despite Japan's assurances that its trade would continue to be conducted on commercial grounds. Japan had failed to adequately address concerns regarding its readiness to implement bilateral export restraints at the request of trading partners. He recognized that such acquiescence to bilateral arrangements was not entirely of Japan's own making; and welcomed Japan's assurances that they were applied on an m.f.n. basis. However, they were likely to strain, and erode confidence in, the multilateral trading system. Correspondingly, Japan's trading partners facing domestic adjustment pressures should be prepared to seek relief using internationally-accepted safeguards, rather than resorting to voluntary bilateral export undertakings.

60. The representative of the European Communities acknowledged the 26 per cent increase in Japan's bilateral trade with the EC since 1988. He was concerned, however, with Japan's resurging trade surplus with the Community during the 1990s. During the first 8 months of 1992, the bilateral deficit with Japan had reached \$US 22 billion. The relatively low penetration of the Japanese market by EC exporters was due to their receiving fewer opportunities to participate, especially in the fields of telecommunications, aeronautics and satellites. He stated that Japanese contracts should be awarded exclusively on trade criteria and the market opened in a non-discriminatory and more transparent manner, especially for Government procurement.

61. The EC believed that Japan had not adequately addressed many of its long-standing complaints regarding market access for processed agricultural and fishery products, such as phytosanitary barriers on imported citrus fruit, discriminatory taxes on alcohol and quotas on fish products. He hoped that these concerns would be tackled at the multilateral or bilateral level.

62. The EC representative welcomed the transition underlying Japan's current Five Year Plan from a "producer" to a "consumer" society. The August stimulation package aimed at promoting domestic demand-led growth. The EC feared, however, that these measures would be insufficient to address the Communities' bilateral trade deficit with Japan. These measures should be accompanied by more effective market-opening provisions. The main structural obstacles to imports were in the areas of public investment, tied distribution channels, restrictive practices, competition practices, exclusive business dealings, keiretsu groups and administrative guidance. Despite Japan's good intentions, reforms were implemented slowly. He hoped that the Fair Trade Commission would scrutinize such activities closely, especially distribution networks in the electronics industry.

63. He supported the import promotion schemes introduced since September 1991, but questioned their likely impact on the trade surplus, especially in view of the modest resources allocated to these measures. Moreover, such measures needed to be applied with greater transparency.

64. Japan was a strong supporter of the multilateral system. It should therefore adopt a more positive position in the Uruguay Round negotiations, especially by improving its market access offer which based tariff reductions on bound, rather than applied, levels. High above-quota tariffs were levied on leather products and footwear. Furthermore, while inward foreign investment was generally open, Japan should do more to create a climate conducive for foreign investment. Restrictive business practices, such as difficulties incurred in approving foreign mergers or acquisitions, must be addressed by the Japanese Government.

65. Of particular concern to the EC was the potentially discriminatory effects of Japan's increasing bilateral arrangements with the United States, such as on semiconductors and automotive products contained in the Global Partnership Plan. Japan must ensure that these arrangements were implemented on a non-discriminatory basis.

66. The representative of the Philippines asked whether Japan had any plans to liberalize the seasonal tariff on imported fresh bananas, and on the status of the appeal by the Japan Banana Importers Association that such liberalization was appropriate since bananas did not directly compete

with oranges and apples. He also questioned the import prohibition for health and quarantine reasons on papaya, and wondered what scope existed for Japan to consider the principle of "equivalence" and "an acceptable level of risk", especially for developing country exports.

67. The Philippine representative stated that, although Japan was considering lifting the import ban on papaya, the Philippines had to first satisfy a 7-step programme. After almost 14 years, the Philippines was still at step 2, evaluation of the Philippines' scientific data by Japanese plant quarantine authorities. Moreover, although Japan had in principle accepted the vapour heat treatment (VHT) process, it had imposed other conditions, such as relocating all VHT plants in Manila for security reasons. He requested clarification on this matter and sought Japan's views on the expected time taken to complete the programme.

68. The representative of Canada noted that the Japanese market remained very closed. Low import penetration ratios were particularly evident in industries dominated by keiretsu. He also expressed deep concern regarding efforts by Japan to address trade imbalances through bilaterally managed trade. This placed the multilateral trading system under pressure. In this context, the government-to-government accord on automotive products contained in the Global Partnership Plan with the United States was seen by Canada as a faintly disguised attempt to resolve bilateral trade irritants at the expense of third party interests. Canadian parts suppliers were losing sales as a result. The accord could also deter foreign investment in the Canadian auto industry. He sought assurances from Japan that these arrangements would not adversely affect Canada's auto trade.

69. Canada welcomed Japan's efforts to improve the effectiveness of its competition policy and pursue anti-competitive behaviour through the Fair Trade Commission. However, these were a "second best" alternative to deregulation aimed at genuine market-opening initiatives and unrestricted investment flows. The proposed introduction of an administrative law to improve the transparency of administrative guidance, was welcomed. However, Canada felt that Government decisions should be implemented by using more transparent and predictable regulations, rather than resorting to guidance.

70. Despite Japan's low average duties, a number of tariff features were of concern to Canada. These included the use of c.i.f. values for customs purposes; the complex tariff structure; the widespread occurrence of end-use provisions; the application of different rates to closely competing products, such as on different lumber and oilseeds varieties; and a high degree of tariff escalation and dispersion, including on fish products. Moreover, import quotas and other non-tariff measures were widely used on agricultural and fishery products to maintain domestic

prices well above world levels. Canada sought Japan's justification for controlling imports in the interests of food security. He doubted whether the concept could explain the extension of subsidies to promote forestry development.

71. The Canadian representative also sought clarification on the establishment of the Procurement Review Board. He asked whether its mandate for recommended re-tendering or award of contracts to another supplier was confined to computer parts and services.

72. The representative of Chile complimented Japan for its active participation in the Uruguay Round, its recent market opening measures and the extension of its GSP scheme. However, Japan's generally low tariffs in manufactured products were not matched in agriculture. In this area, a wide range of non-tariff barriers, such as administered domestic prices, production subsidies, and severe phytosanitary regulations restricted or, in the case of apples effectively prohibited, imports. Moreover, tariff peaks and escalation applied to products such as wine, leather, wood products, certain textiles, copper and fruits.

73. Japan's marketing and distribution systems were particularly restrictive to imports. He also raised the lack of an independent official body in Japan to review trade policies; the little use made by Japan of GATT dispute settlement procedures; and the substantial differences in tax rates between alcoholic beverages.

74. The representative of Egypt stated that improved access to the Japanese market through reduced tariff peaks and elimination of non-tariff measures on certain foodstuffs, would both promote structural adjustment in Japan, and assist economic reform in developing countries. Phasing out product exceptions to Japan's GSP treatment would also help. The Egyptian representative noted the very low levels of Japanese investment in the African and Middle East regions.

75. The representative of Argentina referred to Japan's active rôle in the Uruguay Round and its remarkable economic growth during the past 20 years, underpinned by high productivity and export performance. Although Japan had addressed some of the concerns raised at its previous TPRM review, such as reducing tariffs and the elimination of VERs on steel exports to the United States, a number remained. In particular, non-tariff barriers affected some 70 per cent of Japanese imports, especially on foodstuffs, chemical products, leather and textiles, and their incidence fell heaviest on developing countries. Some 26 and 66 per cent of Argentina's exports to Japan of agricultural and leather products, respectively, were covered by non-tariff measures, including phytosanitary and sanitary regulations. These non-tariff measures were a major obstacle

to trade, and helped to explain the low share of Japanese imports from developing countries. The share of Japanese imports from Latin American developing countries had fallen from 7.2 per cent in 1970 to 4.1 per cent in 1990. This diminution was substantially higher than for other least-developed countries' imports entering the Japanese market.

76. The Argentinian representative thought that Japan should adopt a more dynamic attitude in the Uruguay Round to reforming its agricultural sector which, costing annually some \$US 30 billion and maintaining domestic prices for rice and other crops well above world levels, continues to be one of the world's most highly assisted.

77. The representative of the United States referred to Japan's international responsibility to help maintain a fully open and stable global trading system. Japan, as a leading world trader, was a major beneficiary of the system. It could best meet its rôle by removing regulatory, institutional and other structural barriers to imports. This would benefit the Japanese and world economies. The United States believed that import resistance in Japan reflected deeply imbedded practices which, although not specifically aimed at foreigners, made entry difficult for both overseas and domestic firms. That much more needed to be done was evidenced by the low GDP share of manufactured imports in Japan of 4 per cent, compared with 7 per cent in the United States and even higher levels in many European countries.

78. The United States welcomed recent measures to improve the transparency and openness of Government procurement of computer hardware and services; the elimination of market-closing practices in the paper and paperboard sector; and the recent US\$ 86 billion economic stimulation package. However, the United States remained concerned with the limited rôle provided in the package to import promotion measures, including the low funding of \$250 million on Government procurement. In this area, Japan was urged to provide a more ambitious offer in the Uruguay Round.

79. The United States welcomed recent efforts by Japan to increase the transparency of administrative procedures, including the proposed introduction of the administrative procedure law. However, more was needed, such as fulfilling Japan's commitment, under the SII, to publish in English all administrative guidance, except where national security and trade secrets were involved.

80. The United States representative expected that Japan would show additional leadership in the Uruguay Round, especially in agriculture where reform was necessary and agreement on comprehensive tariffication as required by the Draft Final Act was essential. She also hoped that Japan would accept the remaining zero-for-zero initiative on wood, paper and

non-ferrous metals where tariff, sometimes prohibitive, peaks remained, and offer meaningful reductions on processed agricultural products. Furthermore, improved market access was being sought by the United States in financial and legal services, as well as the telecommunications sector.

81. The representative of the Republic of Korea commented on the important trade links between his country and Japan. He welcomed the many market-opening measures recently undertaken by Japan, such as tariff eliminations, import promotional schemes, improvements in investment and distribution systems and liberalizing keiretsu practices, as well as the generally low duties and high level of tariff bindings. Korea shared and appreciated the difficulties faced by Japan in reforming agricultural policies.

82. The Korean representative expressed concern over the resurgence in Japan's global trade surplus, including that with his own country, in the early 1990s. Korea believed this was due to many factors, including Japanese tariff and non-tariff import barriers. Japan had refused requests to remove tariff peaks on goods of Korean interest, such as certain leather, wood, textiles, clothing and numerous agricultural products. He hoped that Japan would consider further tariff reductions in these areas during the Uruguay Round. Moreover, he expressed the view that Japan must assume greater responsibility and take additional measures to strengthen its commitment to the GATT.

83. Hard core quantitative import restrictions, such as tariff quotas and global, bilateral as well as unilateral quotas, existed on agricultural and industrial goods, including foodstuffs, fish, textiles (including silk) and footwear. An import quota of 250 million sheets of dried laver was under-used, since imports were discouraged by allocating quota entitlements to only traditional importers. For seasoned laver, Japan had effectively banned imports by allocating no quota entitlements. Japan had used bilateral pressures to manage trade with developing countries, and two Korean products, tuna and knitted sweaters, were subject to VERs at Japan's request.

84. Korean exports to Japan, such as cars, baby clothes, processed foodstuffs, tobacco leaves and cargo containers, were also affected by a range of formal and informal import measures, including quality standards, inspection, certification, customs procedures and administrative guidance.

85. Structural problems in the Japanese economy were seen by Korea as the main factor restricting imports. These included a complex distribution system that, although not necessarily inconsistent with competition law, appeared to keep out competitive products from the Japanese market. He welcomed recent initiatives to open the Japanese market, but progress was

slow. Moreover, many of the market incentives offered by Japan to promote manufactured imports were geared towards U.S. and EC products, such as cars and semiconductors covered by bilateral arrangements with the United States. He urged Japan to remove these shortcomings to enable developing countries, like Korea, to benefit from its import promotion measures.

86. The representative of Thailand supported Japan's recent efforts to stimulate domestic demand and to promote imports through further opening of its industrial markets. However, its efforts in industrial products remained distinctively different to those in the agricultural sector; this, despite termination of some quotas, continued to be sheltered from imports through high levels of protection. It was imperative that Japan should progressively open its agricultural markets, taking into account the export interests of developing countries. The Thai representative sought clarification from Japan on whether it intended taking any autonomous steps to liberalise agriculture.

87. Thailand remained concerned about Japan's tendency to use bilateral solutions, such as VERs in areas where Japan was competitive. This could undermine confidence in the GATT dispute settlement framework and adversely affect the trading opportunities of other countries. Major trading nations must assume leadership rôles and settle disputes within the GATT system, using internationally agreed rules and procedures. The Thai representative requested more details on Japan's efforts to increase transparency in the formulation and conduct of its trade policies.

88. The representative of Hong Kong was also concerned about Japan's long-standing practice of managing external trade through bilateral arrangements, including VERs, export monitoring arrangements and market opening agreements. Japan had a responsibility to promote the interests of the multilateral trading system. Hong Kong urged Japan to abolish its discriminatory prior confirmation system on silk fabrics from Hong Kong, which excluded silk imports from other countries such as the EC, United States and Switzerland. Following the system's introduction in 1979, Japanese imports of silk fabrics from Hong Kong had declined by 55 per cent. Another concern was the relatively high tariff of 20 per cent on imported fur garments.

89. The representative of Hungary noted the cautious and uneven sectoral incidence of Japan's recent liberalization efforts. Japan continued to apply a number of major non-tariff barriers on industrial and agricultural products. Serious impediments to Japanese imports included extremely complex standard and product certification requirements; stringent regulations covering distribution and related import procedures; standards and testing procedures; and sanitary and phytosanitary regulations, which appeared strict when compared with internationally-applied rules. The

Hungarian representative requested information on Japan's experiences so far in import promotion, such as through the creation in 1990 of the Import Board and the activities of the Japanese External Trade Organization (JETRO).

90. Japan's agricultural policies continued to protect its farming activities from international competition. Recent liberalization in this sector had focused mainly on new products. Strict import controls still existed on traditional Japanese agricultural products like processed fruits and vegetables. In this area, Japan had been among the first OECD countries to extend GSP treatment to Hungary. However, its limited coverage, especially in agriculture, and restrictive quota ceilings on some goods, reduced its benefits. Although appreciating Japan's contribution to the Uruguay Round, Hungary regretted Japan's lack of leadership. The Hungarian representative urged all countries to accept basic rules and disciplines essential to complete the Round, including acceptance of agricultural tariffication without exception.

91. The representative of Poland recognized Japan's active rôle in the GATT, and appreciated its recent market-opening efforts. Trade between the two countries was modest and Poland had a substantial trade deficit with Japan. Natural factors helped explain this development, and Poland appreciated Japan's extension of GSP treatment. Nevertheless, Japan seemed to adopt an uncharacteristically low-key approach to Poland's economic reforms, as evidenced by its policies on credit facilities and virtual absence of Japanese investment in Poland.

92. The representative of Peru commented on the recent growth in Japan's trade surplus, even though it had adopted innovative import promotion and incentive schemes. She thought that these schemes should have global coverage to improve trading opportunities for all countries. The Peruvian representative complimented Japan for its rôle in the trading system and, as one of the major beneficiaries, its untiring defence of multilateralism. Peru appreciated the on-going liberalization measures being implemented in Japan, such as the elimination of several import quotas on manufactured goods, charcoal and some agricultural products like beef, fresh oranges and orange juice. She expressed the wish that these market opening measures would be extended, hopefully through the Uruguay Round, to other agricultural areas, such as cereals, vegetables and fruits like passion fruit pulp, lemons, papaya, bananas, apples, maracuya/passion fruit, and fish products.

93. The Peruvian representative welcomed the extension of Japan's GSP scheme to 31 March 2001 and noted that, in contrast to most other developed countries, Japan had not imposed import quotas on textiles. She hoped that Japan would phase out its "grey area" measures. The Peruvian

representative endorsed Japan's major backing for the formation of a "support group" for Peru, and requested that Japan introduce complementary import facilitating measures on a multilateral basis to improve market access for Peruvian exports. She sought Japan's views on the apparent inconsistency between its defence of the m.f.n. principle, and its application of bilateral voluntary agreements.

94. The representative of Brazil noted the market opening measures taken by Japan since the previous TPRM review. These demonstrated Japan's continued interest in a more equitable trade-oriented international framework, and to the Uruguay Round. Despite these improvements, there remained a serious imbalance between its dynamic industrial and highly protected agricultural sectors. Agricultural assistance policies raised domestic food prices, as in the case of rice, up to five times above international levels, and cost above 1 per cent of Japan's GDP. He hoped that Japan would remove its reservations to comprehensive tariffication which underpinned liberalization and greater transparency in agriculture. He also referred to Japan's high protection for leather, footwear, textiles and clothing.

95. Japan, as a major beneficiary of the trading system, should assume a higher share of the responsibility in dismantling protectionist barriers and promoting a more liberalised and transparent trading system. Tariffication of quotas on some agricultural products, such as for beef at 60 per cent, could not be considered as a liberalizing measure, and Brazil was concerned that Japan had made the removal of milk quotas dependent on the Uruguay Round outcome. He sought details from Japan on any plans to reduce trade barriers in its highly protected sectors.

96. The representative of Austria favourably noted Japan's recent market opening measures and referred to Austria's trade deficit with Japan. Tariff peaks hampered Austrian exports, such as ski boots (27 per cent), leather footwear, except sportswear (60 per cent), uncut bovine leather (up to 60 per cent) and high specific duties were levied on wine. Japan's cumbersome procedures on standards represented a considerable obstacle to imports; Austrian lactose was excluded even though its production standards were more stringent than those in Japan. In the case of wine imports, analysis had to be conducted by both Austrian and Japanese authorities. The Austrian representative expressed the desire that Japan reform its non-tariff barriers.

97. The representative of Mexico requested information on the financing of the August 1992 economic stimulation package and an assessment of its likely impact on GDP growth, inflation, external balances and imports. While congratulating Japan for its institutional import promotion measures, he noted the effects on consumers of protection on agriculture and certain

manufactured products, such as footwear. He wondered whether Japan had any plans to liberalize these areas.

98. The representative of India noted Japan's special responsibility vis-a-vis the multilateral trading system. He welcomed the continuing trend by Japan to open its industrial markets. Japan did not use anti-dumping, countervailing and safeguard measures, had removed import quotas on coal, and implemented efforts on import promotion. However, most of the concerns raised in Japan's previous TPRM review remained. These included its willingness to manage sensitive exports via VERs and monitoring arrangements, as well as addressing trade imbalances with major trading partners through special bilateral arrangements that were likely to undermine confidence in the multilateral trading system. He urged Japan to rely on the multilateral rules and disciplines to resolve trade problems within the GATT framework.

99. Developing countries still had a low share of Japanese manufactured imports. Moreover, despite some improvements, Japanese agriculture, especially rice and dairying, continued to be sheltered from competition through quantitative import restrictions. He expressed the hope that the Uruguay round would successfully address agricultural protectionism.

100. The representative of New Zealand, while welcoming Japan's interest in promoting imports, pointed out that active import promotion was a lower priority than a commitment to multilateral trade liberalization. Japan, along with its trading partners, must share the responsibility of ensuring trade solutions are non-discriminatory. Not to do so could subject the multilateral trading system to potentially damaging pressures.

101. New Zealand sought reform of non-tariff measures protecting Japan's agricultural and fisheries sectors. Of particular concern was Japan's repeated unwillingness to implement the 1988 GATT Panel recommendations on dairy products, such as skimmed milk powder, and continued import quotas on whey, fish and molluscs. Removal of agricultural protection, which had an estimated welfare cost to the Japanese economy of more than 1 per cent of GNP, would improve Japan's resource allocation efficiency, and could stimulate its export earnings by some 3 per cent.

102. New Zealand was concerned that differential tariffs were applied by Japan to similar goods. For example, dutiable imports of pine timber had to compete with other species entering duty free. In addition, numerous end-use provisions increased tariff dispersion, reduced transparency and increased scope for discretionary administrative practices, thus risking the non-discriminatory foundation of the multilateral system.

103. The New Zealand representative expressed his disappointment that Japan's stated enthusiasm for concluding the Uruguay Round had not been translated into firm support for the Draft Final Act, including the key proposals on agricultural liberalization. More consistent application of Japan's liberal trading principles would enable Japan to play a greater leadership rôle in securing a strengthened multilateral system.

V. COMMENTS AND RESPONSE BY THE REPRESENTATIVE OF JAPAN

104. The representative of Japan began by reiterating his country's full commitment to the GATT system and to an early and successful conclusion of the Uruguay Round. He reaffirmed that Japan's bilateral arrangements, with the exception of VERs, were always applied on an m.f.n. basis to include third countries and prevent trade diversion. In connection with the agreement on auto parts with the United States, purchase targets announced by Japanese manufacturers were part of a voluntary plan aimed at promoting import and local procurement on a non-discriminatory basis. Similarly, the US-Japan semiconductor agreement covered improved market access for all foreign made products, and no discriminatory treatment was applied to US semiconductors in its implementation.

105. He expressed concern over the trend for major countries to move towards regional economic integration. If such systems were closed, this could, in Japan's view, jeopardize the multilateral trading system more than any other development. Japan remained outside regional or preferential arrangements and sought to ensure that APEC remained open to third parties. To ensure that these arrangements remained open, Japan believed that some form of review mechanism was needed within the GATT.

106. Japan's agricultural policies aimed at stabilizing Japan's food supply, taking into account consumer demand, to promote food security and vitalize rural areas, subject to its geographical and climatic constraints. These non-trade factors had to be taken fully into account in addition to economic efficiency, when examining agricultural trade policies. It believed similar views are shared by other countries. Japan had nevertheless reduced agricultural support; budget outlays for price and income support falling in 1991 to some 42 per cent of the 1980 level. He rejected the opinion that the Japanese agricultural sector was highly protected by price support, especially as some other major trading partners had increased their budgetary outlays by three or four times over the same period, and that domestic consumers bore a heavy burden. Food expenditure in Japan had fallen to 22 per cent of the household budget in 1986, and this ratio was comparable to that of other developed countries.

107. Import restrictions by Japan on some selected items were taken with a view to assuring stable food supply and effectiveness of production controls. He pointed out that the concept of food security was very important for both developed and developing countries to ensure stable supplies of basic foodstuffs. Japan continued to have difficulties with the draft proposal on comprehensive tariffication in agriculture. It expected a positive understanding of this position from participants to successfully conclude the Uruguay Round.

108. Japan's non-implementation of the 1988 GATT Panel decisions on dairying and starch reflected its disagreement with the Panel's interpretation of Article XI:2, and the Panel's findings on the requirement for imposing restrictive measures thereunder. It was extremely difficult for Japan to implement these recommendations. Japan would decide on appropriate measures for these products following the Uruguay Round outcome. He indicated that Japan had already implemented many of the Panel recommendations and had recently notified further market-improvement measures (24 September 1992, L/7078).

109. Japan's sanitary and phytosanitary measures were not intended to restrict trade. They were based on scientific and rational evidence in accordance with GATT Article XX(b), taking into account the necessity to harmonize these measures internationally. Japan's plant quarantine system was open, and conformed to the International Plant Protection Convention. It was a transparent system that allowed immediate entry of plants with phytosanitary certificates issued by competent government agencies of the exporting country, provided the plants were free from injurious diseases and pests at the time of import inspection.

110. On market access, the Japanese representative stated the view that issues of import restrictions on agricultural products, wine and spirits, woods, leather, textiles and non-ferrous metals should be discussed within the Uruguay Round. He indicated that Japan's decision to base its tariff offers on bound rather than applied rates was consistent with the method of tariff negotiations agreed in the Round. The existing gap between applied and bound rates reflected a series of voluntary tariff reductions undertaken by Japan. Japan's use of c.i.f. values for customs valuation was not discriminatory and was based on the relevant provisions of the General Agreement. Japan had terminated its import quota on coal in April 1992 and there were no remaining import quotas on industrial goods. Japan noted the many remarks welcoming the contribution of its GSP scheme in increasing export income for many developing countries.

111. Referring to the positive appreciation expressed by many speakers on Japan's import promotion measures and the hope that they be expanded, he underlined that all such measures would be implemented on an m.f.n. basis. The import promotion measures in the August package included the creation of importing infrastructure and import promotion areas; strengthening JETRO's import promotion functions; the expansion of loans available for import promotion; due consideration of more foreign goods in government procurement, estimated to raise imports, mainly in experimental research and medical equipment by \$250 million; and enhancing the market access rôle of the OTO. Japan's prior confirmation system for silk fabrics was aimed at eliminating imports of fraudulent origin and monitoring trends, and had no trade restrictive effects.

112. The new measures of November 1991 on government procurement were implemented on a voluntary and autonomous basis as part of Japan's continuing market-opening efforts. NTT procurement of telecommunications equipment was handled on an m.f.n. competitive basis, according to agreed arrangements with the United States. Japan had already indicated that it was prepared to include NTT telecommunications equipment procurement in its offer on government procurement. It firmly supported the introduction of a bid challenge system in an expanded Government Procurement Code.

113. Japanese efforts to adopt international standards and accept foreign test data were in accordance with the objectives of the Standard Code adopted within the framework of the 1985 Action Program. Since then, additional foreign test data, including certain data from designated European test institutes, had been accepted by Japanese authorities. Japan did not accept that its current inspection system for cars restricted imports; the preliminary import inspection can be based on type designation instead of the manufacturer's completion inspection.

114. The Japanese representative emphasized that Japan's antimonopoly provisions were strictly enforced by the Fair Trade Commission. In July 1991, the FTC had issued the "Antimonopoly Act Guidelines Concerning Distribution systems and Business practices" to deter violations. Work by the FTC had found that interlinkages between member firms of the six major keiretsu groups were not strong in terms of stock holding and executive relationships, and were becoming weaker. The activities of the OTO were to be strengthened as part of the recent package of comprehensive economic measures; the OTO Advisory Committee was to report on issues arising from the operation of the standards and certification system by the end of March 1994.

VI. FURTHER COMMENTS

115. The first discussant reiterated the success of Japan's experience in applying intensely nationalistic, economic and trade policies during the post-war period. Japan must open its market to genuine foreign competition, share its technical know-how and play by free and fair rules if it was to meet its expanded international responsibilities.

116. The second discussant expressed disappointment that Japan had failed to confirm that it would make greater use of multilateral solutions, instead of entering bilateral arrangements which, no matter how "multilateralized", had an inherent tendency to skew the benefits towards the participating countries. Japan's response on agriculture had not addressed the overall closed nature of its agricultural régime. Japan, as a major beneficiary from the trading system in areas where it was competitive, should not erect import barriers on products where it was internationally uncompetitive. On the OTO's operations, the second discussant requested additional information on both its composition and arm's-length nature, and how far its decisions were binding on all parties.

VII. CONCLUDING REMARKS BY THE CHAIRMAN OF THE COUNCIL

117. I would like to conclude the second Trade Policy Review of Japan with my own understanding of the salient points emerging from these discussions. As usual, these closing remarks have been prepared on my own responsibility, and are not intended to substitute for the Council's collective appreciation of Japan's trade policies and practices. The full discussion, together with Japan's response, will be reflected in the minutes of the meeting.

118. In his opening statement, the representative of Japan affirmed that Japan's trade policy objectives aimed to achieve healthy development of the national and world economies through free, non-discriminatory trade, conducted in accordance with GATT principles. Japan's recent package of comprehensive economic measures was aimed at moving the economy to a sustainable, non-inflationary growth path led by domestic demand. Japan had also, in the period since the last review, voluntarily implemented a number of measures to improve access to its market, including unilateral elimination of tariffs on over a thousand mining and manufacturing products, a ten-year extension of its GSP scheme, and a variety of steps to liberalize non-tariff measures under the Action Programme for Improved Market Access. Government procurement procedures had been improved, the operations of the Office of the Trade and Investment Ombudsman had been strengthened and provisions regarding direct foreign investment had been revised to make them more open and transparent.

119. He emphasized that Japan was the world's largest net importer of agricultural, forestry and fishery products and that, since the beginning of the Uruguay Round, Japan had been implementing market-opening measures. Japan now had the lowest food self-sufficiency ratio of any developed country. Non-trade aspects of agriculture such as long-term food security, conservation of the environment, and revitalisation of rural communities were very important to Japan. A considerable transference of labour from the farming to the industrial sector had taken place and no restraints were imposed on conversion of agricultural land where urbanization was being promoted. Certain analyses by the Secretariat of the possible impact of trade liberalization in sensitive agricultural items did not take into account the non-trade factors involved. Japan sought a comprehensive agreement on agriculture in the Uruguay Round to ensure stability and development of trade in agricultural products.

120. The main reason for taking voluntary export restraints was that importing countries did not take measures consistent with GATT rules. Japan had taken such measures, as emergency and unavoidable expedients, only on the request, or with the consent of importing countries, and to the minimal extent. The Japanese Government did not encourage the private

sector to resort to VERs. Japan could not accept the Secretariat's analysis of its financial and tax incentives for import-promotion which must be seen in the context of a comprehensive set of import-expansion measures. These had similar positive effects to tariff cuts by reducing initial costs of importation and rationalizing resource allocation. Japan also observed the m.f.n. principle in implementing these measures. The tax measures, whose effect was small, could not be considered as export subsidization.

121. Administrative guidance was impossible without specific legal authorization, and did not negatively affect specific commercial transactions. Japan was to implement administrative guidance in writing, to ensure its transparency. As noted by the Secretariat, Japan was in the process of drafting an administrative procedural law with this objective in view. Competition policy had been reinforced with a strengthening of enforcement by the Fair Trade Commission, as stated in the Government report. Concerning bilateral consultations with major trading partners, all measures taken as a result of dialogue with the United States were to be applied on an m.f.n. basis. He noted that the recently-agreed Action Plan on auto parts contained two elements, one relating to Government measures and the other concerning a target plan by the Japanese automobile industry. This did not mean that the Japanese Government had endorsed the measures to be taken by the private sector.

122. The representative of Japan said that overall, Japan had contributed actively to the strengthening of the GATT system in both the Tokyo and Uruguay Rounds. Japan was coming to use GATT rules more actively, including dispute-settlement procedures; was resolved to continue pursuing trade policies based on GATT rules, including those resulting from the Uruguay Round; and believed that an early, successful conclusion of the Round was of utmost importance.

123. Council members welcomed the efforts made by the Japanese Government, against the backdrop of a deteriorating economic situation and rising current and capital account surpluses, to improve the structural functioning of the Japanese economy, especially in the areas of trade, investment and industrial policies. Members commended the recently-introduced fiscal packages aimed at promoting domestic demand-led growth, and the longer-term objectives contained in the Five-Year Plan; however, comments were made regarding the stagnation of imports of manufactures between 1989 and 1991 and queries were raised concerning the strength of the stimulus to imports likely to result from the new economic measures.

124. Members welcomed the introduction by Japan of a number of trade liberalization measures during the past two years, partly in response to

undertakings announced prior to the last TPRM review. Tariffs had been suspended or reduced on a number of industrial products. Some import quotas, including those affecting beef, fresh oranges and orange juice, had been terminated; in some cases, tariffication of such quotas had led to increased rates of duty. The easing of certain non-tariff measures and the revision of direct investment procedures was also welcomed.

125. Members noted, however, that the recent tariff cuts, concentrated on low-duty items, had increased tariff dispersion and escalation. They emphasized the economic benefits to Japan of greater tariff rationalization and abolition of non-ad valorem forms of tariffs. Tariff peaks remained on significant sectors of interest to many members, but particularly to developing countries. Seasonal tariffs were an important barrier to imports of certain agricultural products, including bananas. The uneven application of tariffs on similar goods in areas such as lumber appeared to discriminate among competing suppliers. Members also noted that Japan's tariff offer in the Uruguay Round, which was based on statutory rates, was likely to result in relatively little reduction in applied rates, which were already lowered by temporary duties.

126. Members welcomed Japan's import promotion measures, including those announced in August 1992. They hoped that these measures, which appeared principally focused on products of interest to major trading partners, would be extended to cover products of interest to a wider range of exporting countries. Attention was drawn to the potential export-stimulating effects of financial incentives for the promotion of imports. Import stimulation should be regarded as a second-best alternative to general trade liberalization.

127. Participants remarked on the uneven structure of assistance between manufacturing and agricultural activities, such as cereals, dairying, beef and sugar. Significant gains to Japanese consumers, as well as the economy generally, could result from improved resource allocation by reduced agricultural support. It was noted that domestic marketing arrangements, underpinned by high tariffs, tariff quotas, import quotas, State trading import monopolies, sanitary/phytosanitary and quarantine regulations, raised consumer prices for food in Japan several times above international levels. Members also referred to Japan's failure, so far, to implement fully the GATT Panel recommendations regarding certain agricultural items, especially dairy products and starch. Some participants questioned the need for Japan to maintain agricultural protection for food security reasons, given the scope for stable supplies from overseas.

128. Members noted the trade-restricting effects of Japan's standards, testing procedures, sanitary and phytosanitary regulations, few of which were in line with international norms. Elaborate, cumbersome procedures

were applied in some cases, leading to substantial delays - in some cases amounting to years - in acceptance of certain goods. Japan was urged to adopt an "acceptable risk" strategy in testing foodstuffs.

129. Members recognized that voluntary export-restraint agreements necessarily involved both exporting and importing partners. However, the continuing persistent use of voluntary export restraints by Japan in certain sensitive areas could lead to diversion of trade into third markets and erode confidence in the multilateral trading system.

130. Many members noted that, although Japan had continuously expressed its support for the m.f.n. principle, its readiness to respond to external pressures from major trading partners by entering bilateral solutions tended to undermine this commitment. Several members commented on the damaging effects for third parties, and for the multilateral system, of arrangements such as those recently negotiated with the United States on semi-conductors and auto components under the Global Partnership Plan, or the new consensus on automobiles with the European Communities.

131. Concerns were expressed regarding the low share of Japanese Government purchases covered by the Government Procurement Code. Members looked forward to improvements in this area, including the extension to all participants of existing bilateral arrangements on computers with the United States.

132. Other points, questions and comments included:

- the continued low share of Japan's imports of manufactures from developing countries; in this context the need was seen to further expand the coverage of, and ceiling levels under, the GSP scheme;
- discrimination in the taxation of alcohol;
- the delays involved in customs clearance;
- lack of clarity in the application of food standards;
- discriminatory effects of the prior confirmation system on silk;
- experience with the Import Board;
- Japan's commitment to put administrative guidance into written, and if possible regulatory, form, and the extent of

clarification to be achieved through the proposed administrative procedures law;

- the need for more stringent policing of anti-monopoly arrangements and of keiretsu;
- the continuing complexities of Japan's distribution system; and
- the procedures for appeals to the OTO and its powers of enforcement.

Members also sought information on any existing plans for further trade liberalization by Japan.

133. In reply, the representative of Japan reiterated Japan's full commitment to the GATT system and to an early, successful conclusion of the Uruguay Round. Concerning specific issues raised by delegations, he said:

- Measures resulting from bilateral talks with Japan's trading partners were always applied on an m.f.n. basis; this applied to all such measures except for VERs. The voluntary import target for auto-parts announced by Japanese car manufacturers was part of a plan aimed at promoting procurement from all countries. In the US-Japan semiconductor agreement there was no discriminatory treatment.
- Japan was not a member of any regional or preferential agreements. It was concerned about the trend towards regional economic integration and the risks which closed regional arrangements could represent for the multilateral trading system. Japan believed that the establishment of a special review mechanism for regional arrangements should be considered within GATT.
- Non-trade concerns should be fully taken into account, along with economic efficiency, in considering agricultural trade policy. Japanese budgetary support for agriculture had fallen at a time when other major traders had increased their outlays substantially. Japan's agricultural sector was not highly protected by price supports. The share of consumer expenditure on food had also declined and was not a heavy burden on Japanese consumers. However, Japan considered the concept of food security as very important for all countries. It must be recognized that Japan had difficulties concerning comprehensive tariffication in agriculture in the Uruguay Round and expected understanding of its position from other participants. Japan's

reservations regarding the GATT panel report on its agricultural restrictions had been made clear; in this connection, Japan had recently notified further market improvement measures and would decide on appropriate steps following the Uruguay Round.

- Sanitary and phytosanitary measures in Japan were based on scientific principles. Plant quarantine was an "open" system which allowed immediate entry of plants with phytosanitary certificates issued by exporting countries, if they were proved free from injurious diseases and pests at import inspection.
- Specific concerns on market access should be addressed in the Uruguay Round context. Japan's tariff offer, based on bound rates, was consistent with the agreement reached in the MTN and with the traditional rule for GATT tariff negotiations. The voluntary reductions in tariffs made by Japan should be duly taken into account. The c.i.f. basis for duty value was consistent with Article VII of the General Agreement. After abolition of the import quota on coal in April 1992, there were no further import quotas on industrial goods. The prior confirmation system for silk fabrics was introduced to eliminate imports with fraudulent origin and had no trade restrictive effects.
- Import promotion measures were implemented on an m.f.n. basis. New measures introduced in August 1992 included provisions for infrastructure; strengthening the import promotion function of JETRO; new loans for import promotion; new government procurement provisions, expected to result in imports of some US\$250 million, and enhancing the market access activities of the OTO. In regard to government procurement, measures introduced in November 1991 were implemented autonomously. NTT procurement procedures were non-discriminatory and competitive.
- Japan had expanded its acceptance of foreign test data, including certain data provided by designated European testing institutes. Type designation for automobiles could be used in place of completion inspection; the current inspections system was not believed to be an import barrier. The OTO was charged with making a report on issues arising from the operation of standards and certification systems by March 1994.
- Japan's Anti-Monopoly Act was strictly enforced by the FTC. Distribution systems and business practices were supervised under new guidelines issued in July 1991. FTC research on six

major corporate groups showed that keiretsu stockholding and management linkages were becoming weaker. Foreign companies which had developed appropriate products for the Japanese markets and chosen good distribution channels had succeeded in entering the market. The OTO had been strengthened in the context of the recent economic package.

134. In subsequent comments, the first discussant noted that Japan's economic success had been built on nationalistic trade policies; opening up of the Japanese market to foreign competition would assist other countries' economic progress. The second discussant recalled that any bilateral trading agreements would inherently tend to tilt the benefits in favour of the participants. In agriculture, Japan should not maintain barriers in areas where it does not have comparative advantage. He sought more information concerning the membership and operations of the OTO.

135. Members of the Council emphasized the responsibility borne by Japan, as a major beneficiary from the multilateral trading system, for ensuring that the system remained open, liberal and effective. They recognized that steps had been taken by Japan in the past two years to open its markets in some areas. The need to ensure that all parties benefit from such market-opening measures was stressed. In this connection, members recognized the considerable importance of a speedy, successful conclusion to the Uruguay Round, noted Japan's clearly stated commitment to the Round, and urged Japan to review its position in agriculture, to enable it to take a more determined leadership rôle in guiding the overall negotiation forward in its critical concluding phase.

136. Members also emphasized the need for Japan to make further progress in reducing non-tariff barriers, including the liberalization and acceleration of administrative procedures in such fields as standards, testing and certification, and sanitary/phytosanitary restrictions. Members looked forward to greater clarity and transparency in administrative guidance and stronger administration of antimonopoly and restrictive business practices legislation. It was emphasized that all trade measures, including bilateral arrangements, taken or promoted by the Japanese Government or industry should be on an m.f.n. basis and in keeping with GATT rules, in order to support the credibility of and confidence in the multilateral trading system.