

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

RESTRICTED

MTN.GNG/NG10/W/8

12 August 1987

Special Distribution

Group of Negotiations on Goods (GATT)
Negotiating Group on Subsidies
and Countervailing Measures

Original: English

COMMUNICATION FROM JAPAN

The following communication has been received from the delegation of Japan with the request that it be circulated to members of the Group.

According to the agreed negotiating plan for the Group on Subsidies and Countervailing Measures, participants are requested to submit proposals on issues to be taken up in the negotiations during the period of "initial phase." In accordance with this negotiating plan and without excluding the possibility of additional submission in the future, Japan submits following proposals taking into account the negotiating objective of this Group in the Ministerial Declaration launching the Uruguay Round.

I. General

The Ministerial Declaration states that negotiations on subsidies and countervailing measures shall be based on a review of the SCM Code with the objective of improving GATT disciplines relating to all subsidies and countervailing measures that affect international trade. It is clearly envisaged in the Declaration that this negotiating group deals with issues on both subsidies and countervailing measures. Although the SCM Code

managed to some degree to clarify the interpretation of GATT provisions and the Committee established under the Code has continuously examined issues relating to both subsidies and countervailing measures, a number of outstanding problems still exist to be solved. Japan proposes following issues to be taken up for negotiations in this group with a view to improving GATT disciplines. In this context, Japan believes that issues relating to agriculture should be primarily dealt with in the Negotiating Group on Agriculture in light of the Declaration specifying "the negotiating group (on Agriculture) having primary responsibility for all aspects of agriculture."

II. Subsidies

Among issues in subsidies area, the definition of a subsidy should be examined in the first place. Japan considers that a financial contribution by a government be considered as an essential criterion for determining the existence of a subsidy.

Article XVI:1 of the GATT provides that any contracting party should notify the subsidy granted which operates to increase exports or to decrease imports. To reach a common understanding on the scope of the subsidy which so operates would help improve transparency in this Article.

Article XVI:1 also provides that when it is determined that serious prejudice to the interests of any other contracting party is caused by any subsidization, the said contracting party should discuss the possibility of limiting the subsidization. In this respect, examinations should be made on definition of "serious prejudice" and on whether a contracting party granting

the subsidy has an obligation to limit the said subsidy (in latter case, reference should be made to the provisions of Article 8.3 of the Code).

Clarification of the scope of Article 9 of the Code regarding export subsidies on products other than certain primary products is required. The content of the Illustrative List should also be clarified.

III. Countervailing Measures

The GATT recognizes a contracting party's right to impose countervailing measures in order to offset the injury to domestic industry caused by a subsidized products, but, since the abuse of countervailing measures would impede international trade, it provides necessary conditions and procedures for applying the measures. To date, however, there has been no agreement on basic concepts such as what kind of government measures are regarded as countervailable subsidies, or how the amount of a subsidy is measured. It is the definition of countervailable subsidies and the criteria for the calculation of the amount of the subsidy that are the most fundamental and significant issues regarding countervailing measures, and hence an agreement should be reached on these matters. As mentioned above, it is Japan's view that a financial contribution by a government is an essential criterion for determining the existence of a subsidy. With this in mind, an early agreement on the concept of specificity in view of determining the definition of countervailable subsidies would facilitate the work to be followed in the group.

With regard to the industrial policy type measures, Japan views that it is not necessary to take up this issue in general term, since these measures, composed of research and development programmes, structural adjustment, etc., could be adequately dealt with in more specific terms if necessary.

Countervailing duties, as mentioned, may be applied to offset the injury to a domestic industry from subsidized imports. Problems have arisen currently from the absence of common understanding on the scope of the term "domestic industry." The definition of the term needs to be clarified. It should be noted that the panel report in the SCM Committee found that grape growers should not be interpreted to be included in wineries. Japan considers the review of the definition of domestic industry is of great importance in light of the fact that it leads to the review of the scope of petitioners requesting the investigation for the countervailing measures.