



## TRADE POLICY DEVELOPMENTS PAPER NO. 9

### REPORT ON JAPAN

(for the period July - September 2011)

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*This report has been prepared by the Centre for International Trade and Economic Laws (CITEL), Jindal Global Law School, Sonapat, NCR of Delhi under a project of the Centre for WTO Studies, Indian Institute of Foreign Trade (IIFT), New Delhi.*

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## List of Abbreviations

ACTA- Anti-Counterfeit Trade Agreement

AD- Antidumping

AJA- Association of Japanese Animations

AMA- Anti-Monopoly Act

APP- Asia-Pacific Partnership on Clean Development and Climate

ASEAN- Association of South East Asian Nations

Bn- Billion

BOJ- Bank of Japan

CEM- Clean Energy Ministerial

CEPEA- Comprehensive Economic Partnership in East Asia

CEPEA- Comprehensive Economic Partnership in East Asia

CV- Countervailing

CVD- Countervailing Duty

DFC- Dedicated Freight Corridor

DI- Diffusion index

DMIC- Delhi-Mumbai Industrial Corridor

EAFTA- East Asian Free Trade Agreement

EPA- Economic Partnership Agreement

ERIA- Economic Research Institute for ASEAN

ESCI- Energy-Smart Communities Initiative

EU- European Union

FDI- Foreign Direct Investment

FIT: feed-in tariff

FTA- Free Trade Agreement

FY- Financial Year

GATT- General Agreement on Tariff and Trade

GSEP- Global Superior Energy Performance Partnership

ICT- Information and Communication Technologies

IPEEC- International Partnership for Energy Efficiency Cooperation

IPR- Intellectual Property Rights

JETRO- Japan External Trade Organization

JFTC- Japan Free Trade Commission

JPEPA- Japan Philippines Economic Partnership Agreement

JVA- Japan Video Software Association

KWh- Kilo Watt hour

M & A- Mergers and Acquisitions

METI- Ministry of Economy, Trade, and Industry

MLIT- Ministry of Land, Infrastructure, Transport and Tourism

MoF- Ministry of Finance

MPA- Metropolitan Priority Area for Investment and Industry

MW- Mega Watts

ODA- Official Development Assistance

ONEP- Office National de l'Eau Potable

PM- Prime Minister

PPP- Public-Private Partnership

R&D- Research and Development

ROK- Republic of Korea

SME- Small and Medium Enterprise

SMEA- Small and Medium Enterprise Agency

TEPCO- Tokyo Electric Power Company

TICAD- Tokyo International Conference on African Development

TPP- Trans-Pacific Partnership

US- United States

USD- US Dollar

WTO- World Trade Organization

## Executive Summary

- The report highlights the recent trends in Japan's economy, especially in the aftermath of the March 11, 2011 earthquake. The report highlights the September 2011 *Tanken* results which have shown a significant improvement in corporate sentiment over the past quarter. However the deficit of ¥775.3bn (August, 2011) continues with downward trend affecting employment and investment. The growth has been aptly defined as: "*the economy is still picking up although the pace decelerates.*"
- The report highlights the fiscal and monetary policy released during the review quarter, indicating the increased spending for recovery and bank's policy of maintaining a near zero interest rate.
- Japan has been making special efforts towards 'kinsua', i.e. bonds of friendship, through anticipated agreements with countries like EU. A Comprehensive Economic Partnership Agreement in East Asia (CEPEA) has been proposed.
- Japan has introduced certain mandatory as well as voluntary beef testing procedures for countries affected by the earthquake for better safety.
- The report highlights the proposal made by the Council on Customs, Tariffs, Foreign Exchange and Other Transactions with respect to the extension of countermeasures against Byrd Amendment Act, which are set to expire in August 2011.
- The report highlights Japan's initiatives under Export promotion measures, especially the Cool Japan Initiatives.
- On 15 July, 2011, a Ministerial ordinance was adopted by the Japanese Cabinet to expand the scope and nature of JBIC operations. It would extend to: (1) export finance for developed countries (e.g export of aircrafts, vessels and other infrastructure exports); (ii) investment finance to support Mergers and Acquisitions (M&A) by Japanese companies; (iii) project finance for projects in developed countries including natural gas power generation. The next quarterly report will attempt to understand these policy measures and its trade distorting aspects.
- The report presents the data on several recovery loans and subsidies schemes launched by the state during the review quarter.
- The report highlights the changes introduced in the IPR guidelines and competition policy including measures taken against Malaysia for copyright infringement.
- The report delves into the various strategies for promotion and enhancement of the agriculture and renewable energy sector in Japan.

**ISSUES FOR THE NEXT REPORT: HIGHLIGHTING CONCERNS FOR INDIA**

The following are certain key issues which shall be monitored closely in the next review reports. Some of these issues are of key concerns to the WTO norms and the same could be vital for India's understandings of Japan's trade policy.

- The subsequent reports shall monitor the growing bonds of friendship (Kinsua) with other nations, especially EU, US and East Asian Nations. Japan's involvement in TPP and ACTA is crucial as both the agreements are speculated to have crucial concerns for developing countries, including India.
- Monitoring the growing Japan-China and Japan-Korea ties along with its focus on the multi-polar world could be of importance to India, as these nations are India's key trading partners. The report shall continue to track developments in this regard.
- The report shall monitor the final decision of the Cabinet in furtherance to the proposal presented by the Council on Customs, Tariffs, Foreign Exchange and Other Transactions with respect to the extension of countermeasure against the US. The countermeasure has been in response to Byrd Amendment Act which the WTO held to be inconsistent.
- The future of the Comprehensive economic agreement signed between India and Japan which came into effect during the review quarter would be monitored closely and the trade gains speculated from the same would be assessed.
- The next quarterly report shall examine in depth the "E-FACE" (Enhanced Facility for Global Cooperation in Low Carbon Infrastructure and Equity Investment) programme.
- The report shall closely monitor Japan's initiatives for export promotion which has started with the global cultural market in targeting food, fashion and allied industries. The Japan-Singapore ties have been highlighted in this report. India could be a good destination for Japan and the two countries could strengthen relationship on this front, as there is a growing demand for these industries in India.
- The validity of the loans/assistance programs along with special subsidies and targeted measures in agriculture and energy sector shall be closely monitored in the future reports. The possibility of these initiatives being WTO inconsistent cannot be ignored.

## QUARTERLY REVIEW REPORT (JULY-SEPTEMBER, 2011)

### JAPAN

#### Part I Economy of Japan: An overview of the review quarter

The First Trade Policy Monitoring Report focussed on the economic situations prevailing in Japan, in the aftermath of the natural calamities which affected the nation on March 11, 2011. The current report identifies the economic recovery programmes initiated in Japan and the role of trade policy instruments in effecting the recovery.

The reports and surveys published by various agencies indicate that Japan has been making a steady recovery and is on the course of reconstruction. An economic report released by the Cabinet Office in early October, 2011 highlights the trends during July-September, and as follows: “*the Japanese economy is still picking up although the pace decelerates.*” Overseas demand is sluggish in sectors other than transportation equipment, where production is recovering rapidly, and after a peak in July; corporate sentiment has weakened in reaction to the slowdown in overseas economies and the strong Yen. Although the pace of the decline in global manufacturing sentiment has been slowing recently, the Cabinet Office believes that the deterioration thus far will affect Japan’s production from this point forward.

The overall trend of trade with other nations shows that: China’s imports from Japan slowed sharply in September, from a 16.5% y-o-y rise in August to a 9.3% increase. The estimates indicate that imports were down 7.0% month-on-month on seasonally adjusted basis, the first negative growth since April (10.8% decline). South Korea’s (down 9.1%) and Taiwan’s (down 4.0%) imports from Japan were sluggish. According to the Ministry of Finance (MoF), exports raised 1.0% yoy in the first 20 days of September, compared to a 12.7% increase in imports. As in August, the import of fuel as an alternative for nuclear power was pushing up imports.<sup>1</sup>

#### I.A. Key Macro-economic variables

The performance of the other key macro-economic variables and their trends reported during the review quarter were:

##### Foreign demand

According to the Cabinet Office, seasonally adjusted trade volumes dropped 0.02% Month-on Month (m-o-m) in August for the first monthly decline in four months. However, given the fact that major producers had planned to increase production by 2.8% m-o-m in the month, the result were rather disappointing. In addition, while the level of production had recovered to 95% of the pre-earthquake level in July, export volumes recovered to only 88% of the pre-earthquake level in August. Under the influence of the global manufacturing activities as well, the trade balance turned to a deficit of ¥775.3bn in August.

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<sup>1</sup> Japan Economics Weekly, Economics Research, 20 October 2011, available at <http://www.credit-suisse.com/researchandanalytics>

## Corporate Sentiment

The September 2011 *Tanken* results showed a significant improvement in corporate sentiment over the past quarter, reflecting recoveries in industrial production and exports as supply chain problems have been rapidly resolved, as well as a surge in demand for flat-panel TVs ahead of the late July analog-to-digital switchover. Some sectors are anticipating further improvements in business conditions through December as economic activity continues to return to "normal", but with capital spending apparently remaining weak, there is also considerable wariness regarding the global economic outlook and the prospect of a domestic demand pullback.

The business conditions DI arose 11 bp from the June survey for large manufacturers and 6pt for large non-manufacturers to +2 and +1 respectively. The motor vehicles sector (+65pt) and other machinery & equipment manufacturers showed relatively big improvements as they recovered from particularly steep post-quake falls, while non-manufacturers benefited from improved consumer sentiment (accommodations, eating & drinking services: +22pt; services for individuals: +13pt) and the restoration of transportation networks (transport & postal activities: +13pt).

## Investment

Investment in plant and equipment (excluding software) marked a third successive decline, falling 6.6% Quarter on Quarter (q-o-q) on an all-industries basis as manufacturers registered their first contraction in five quarters (-10.9% q-o-q) while non-manufacturers cut back their capital spending for a fourth straight quarter (-4.1% q-o-q). Total investment (including software) was down for the first time in four quarters, falling 7.8% from a year earlier. Core machinery orders (private demand excluding orders from the shipping and electrical power sectors) raised 11.0% m-o-m) in August, much stronger than the Bloomberg consensus forecast (3.9%). While machinery orders have been very volatile in the last three months (-8.7% m-o-m in July, +7.7% in June), they have risen 1.6%mom on average since the beginning of the year. Orders weakened temporarily in March-April after the Great East Japan Earthquake, but have continued to show a sustained moderate recovery since the autumn of 2009.

## Employment

The unemployment rate dropped 0.4 percent point to 4.3%. However, the major reason for the fall in the labor force (-420K mom, seasonally adjusted, excluding Fukushima, Miyagi, and Iwate), rather than a drop in the unemployed population, -240K mom, as the employed population decreased 160K in August. Corporate employment also fell 120K in August. Additionally, the job-offer-to-applicant ratio rose 0.02pt to 0.66 in August. As for the future, the employment situation should remain sluggish overall amid an expected slowdown in exports and industrial production, while jobs in some sectors, like construction, should be supported by rebuilding activity after the quake.

## I.B. Bank of Japan Current account and Monetary base

The monetary base expanded 16.4%mom (seasonally adjusted, annualized) in September for the second straight month of substantial gains. The pace of year-on-year growth picked up from 15.9% to 16.7%. Growth in banknotes in circulation accelerated slightly from the last month (+2.9%yoy), but growth in current account balances shows a sharp acceleration from +79.4%yoy in August to +84.9% in September, showing that the BoJ continues to keep monetary conditions loose.<sup>2</sup>

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<sup>2</sup> *Id.*

The performance of these indicators towards the pace of economic recovery of Japan shall be monitored in the next report.

## **I.C. Fiscal policy in Japan**

On August 12, 2011, a Cabinet Decision laid down specifications of the Medium-term Fiscal Framework (FY2012–FY2014) in Japan. The summarized version of the cabinet decision has been stated as follows:

**Background of this decision-** The government first incorporated the concept of Medium-term Fiscal Framework into “Fiscal Management Strategy,” by the Cabinet Decision dated June 22, 2010, in order to work out annual budget with an outlook over several fiscal years considering the economic and fiscal forecasts and prospects.

“Fiscal Management Strategy” sets forth the first Medium-term Fiscal Framework from FY2011 to FY2013 and states that “*the Medium-term Fiscal Framework will be revised around the middle of every year to create a new Medium-term Fiscal Framework for the subsequent three years starting from the following fiscal year.*” In line with this statement, the government sets out the Medium-term Fiscal Framework for FY2012–FY2014 to set down new measures on both revenue and expenditure sides.

**Proposed scheme in the light of the natural disasters-** In the light of damages caused by natural disasters, the central and local governments of Japan are estimated to spend at least ¥19 trillion for the next five years and ¥23 billion for the next ten years on their recovery/reconstruction projects (financed by public funds), which will inevitably put additional significant burdens on public finance. In this situation, the government plans to revise the Medium-term Fiscal Framework, recognizing that recovery/reconstruction from earthquake disasters is a top-priority matter at the time of unprecedented national crisis. The decision therefore states that the fiscal framework should not constrict recovery/reconstruction processes.

In accordance with the “*Basic Policy for Reconstruction from the Great East Japan Earthquake*” (Decision of the Reconstruction Headquarters in response to the Great East Japan Earthquake dated July 29, 2011), which designates separate revenue sources for earthquake disaster recovery/reconstruction projects and sets up a new framework for balancing revenues and expenditures on a multi-year basis, the government will give due considerations, such as creating separate management programs in the Medium-term Fiscal Framework. Moreover, Japan has been posting a massive annual fiscal deficit of the order of ¥30 trillion to ¥40 trillion even before the Great East Japan Earthquake, keeping an increase in public debt outstanding.

This means Japan is facing an “emergency situation” from fiscal perspectives as well. For this reason, the government will make all-out efforts for recovery/reconstruction from earthquake disasters regardless of the fiscal frameworks, while steadily working on achieving fiscal consolidation target, in order to secure confidence in the government bond market.

Securing market confidence through these efforts and revitalizing the Japanese economy are essential for making a successful recovery from earthquake disasters as well as revitalizing the entire Japan.

### ***Instruments of fiscal policies suggested by the Decision***

Government bonds issuance- In order to make sure that the fiscal consolidation targets are achieved and to make clear government's active stance toward fiscal consolidation, thereby securing confidence in the market, the government will make every effort to ensure that the amount of government bonds newly issued in FY 2012 (except for reconstruction bonds as set forth in Paragraph 1, Article 8 of Basic Act on Great East Japan Earthquake Reconstruction; hereinafter, such bonds are referred to as Reconstruction Bonds") does not exceed the level in the FY 2011 initial budget (about ¥44 trillion).

The government will also make every effort to steadily reduce the amount of newly issued government bonds (except for Reconstruction Bonds) after that toward the achievement of the fiscal consolidation targets.

#### Measures on revenue

As for the Comprehensive Reform of the Tax System, including individual income taxation, corporation taxation, consumption taxation, and property taxation, etc., the direction of reform is presented in Article 104, Paragraph 3 of the supplementary provisions of the Tax Reform Act 2009 as well as in the FY2010/FY2011 Tax Reform Outlines. In addition, "Definite Plan for the Comprehensive Reform of Social Security and Tax" (Decision by the Headquarters of the Government and Ruling Parties for Social Security Reform on June 30, 2011) summarized in line with "Promotion of Social Security Reform" (Cabinet Decision on December 14, 2010), also suggests specific directions of the Comprehensive Reform of Social Security and Tax.

The government will further deepen the deliberations in line with these documents and will take the necessary legislative measures by the end of FY2011 in accordance with the roadmap as described in Article 104 of the supplementary provisions of the Tax Reform Act 2009. Special taxation measures shall be subject to zero-based review according to the policy presented in the FY2010 Tax Reform Outline as well as in the FY2011 Tax Reform Outline. In principle, new taxation-related measures involving reduction in revenue have to be introduced while making sure that there are new resources to cover the reduction in accordance with II. 2. (1) in Fiscal Management Strategy.

#### Measures on expenditure

(i) To achieve the fiscal consolidation targets, "primary balance expenses" (expenditure of the government's general account minus national debt service and the refund to the Settlement Adjustment Fund) during the period from FY 2012 to FY 2014 shall not, in substance, exceed the level in the initial budget for the previous fiscal year (this amount is referred to as the "Overall Expenditure Limit"), and shall be reduced as far as possible by permanent reduction of expenditures.

(ii) Notwithstanding (i), with regard to the expenditures for recovery/reconstruction from the Great East Japan Earthquake that exceeds the amount compensated for by the reduction of other existing expenditures, and are financed by Reconstruction Bonds, additional non-tax revenues, or temporary taxation, the amount of such expenditures shall be managed separately with their revenue sources and shall be added to the "Overall Expenditure Limit."

(iii) Notwithstanding (i), in accordance with the "Basic Policy on Framework for Overall Settlement of Type-B Hepatitis Lawsuits" (Cabinet Decision dated July 29, 2011), with regard to the expenditures that are related to benefits or other payments to type-B hepatitis patients, and are financed by temporary taxation, the amount of such expenditures shall be managed separately with their revenue sources and shall be added to the "Overall Expenditure Limit."

(iv) If significant economic risks resulting from the Earthquake or other factors materialize, the government will strive for flexible and agile fiscal management. The gap between the basic pension's government contribution rate (1/2) and 36.5% from FY2012 onward (hereinafter, this gap is referred to as "pension gap") will be financed by revenue sources secured from the Comprehensive Reform of the Tax System. For this reason, "Overall Expenditure Limit" from FY2012 onward includes the pension gap financed by revenue sources secured from the Comprehensive Reform of the Tax System.

The final clause of the proposed schemes state that no amendment will be made hereinafter.<sup>3</sup>

The progress of these policies and the scope of their operation shall be covered extensively in the next review report.

## **I.D. Monetary policy in Japan**

According to the release of statements made by BOJ on monetary policy of Japan, on September 7, 2011, at the Monetary Policy Meeting the Policy Board, the BOJ decided, by a unanimous vote, to set the following guideline for money market operations for the intermeeting period:

*The Bank of Japan will encourage the uncollateralized overnight call rate to remain at around 0 to 0.1 percent.*

**Overview of Japan's recovery status provided by BOJ-** Japan's economic activity has been picking up steadily while the supply-side constraints caused by the earthquake disaster have been mostly resolved. Production and exports have continued to increase, almost recovering the pre-quake levels. In this situation, domestic private demand has been picking up. Meanwhile, financial conditions have generally continued to ease, albeit with weakness observed in the financial positions of some firms, mainly small ones. The year-on-year rate of change in the CPI (all items less fresh food) is around 0 percent, revised downward to reflect the base-year change.

Japan's economy is expected to return to a moderate recovery path from the second half of fiscal 2011, backed by an increase in exports reflecting firm overseas demand and by a rise in domestic demand for restoring capital stock. The year-on-year rate of change in the CPI is expected to remain at around 0 percent for the time being.

Regarding risks to the economic outlook, the effects of balance-sheet adjustments on the U.S. economy and the possible consequences of the sovereign debt problems in Europe continue to warrant attention. As for emerging and commodity-exporting economies, there remains a high degree of uncertainty about whether price stability and economic growth can be realized at the same time. It is necessary to carefully monitor how Japan's economy will be affected by the uncertainty regarding the developments overseas and the ensuing fluctuations in the foreign exchange and financial markets. Regarding risks to the price outlook, inflation could rise more than expected if international commodity prices increase, while there is also possibility that the rate of inflation will deviate downward from the Bank's baseline scenario due, for example, to a decline in medium- to long-term inflation expectations.

**Reference to the previous Monetary Policy Meeting-** At the previous Monetary Policy Meeting, the Bank decided to increase the size of the Asset Purchase Program by about 10 trillion yen, based on the

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<sup>3</sup> Medium-term Fiscal Framework (FY2012–FY2014), Cabinet Decision, August 12, 2011 *available at* [http://sv1.npu.go.jp/policy/policy01/pdf/20110812/20110812\\_siryou01\\_en.pdf](http://sv1.npu.go.jp/policy/policy01/pdf/20110812/20110812_siryou01_en.pdf)

recognition that downside risks to the economic outlook called for closer attention. The Bank has subsequently been steadily implementing the decision, especially through the purchase of financial assets.

***Proposed scheme***—The Bank further commits itself to continuing the virtually zero interest rate policy until it judges that price stability is in sight on the basis of the "understanding of medium- to long-term price stability." In order for Japan's economy to overcome deflation and return to a sustainable growth path with price stability, the Bank will continue to consistently make contributions as the central bank by pursuing powerful monetary easing through the comprehensive monetary easing measures as described above, ensuring financial market stability, and providing support to strengthen the foundations for economic growth.<sup>4</sup>

The idea of proposing the zero interest rate policy and its impact on the currency has been a matter of much debate and discussion. The subsequent reports shall highlight the efficacy of this policy coupled with other tools of the monetary policy.

### **I.E. Overall economic outlook post the previous quarter**

On August 15, 2011, a Cabinet Decision presented an Overall Picture of Policy Promotion in Japan. In accordance with "the Guideline on Policy Promotion"<sup>5</sup> for restarting initiatives for revitalizing Japan as well as subsequent discussions at related organizations and councils, the Government decided to push ahead with the following efforts for revitalizing Japan (i.e., "ensuring the sustainability of public finance and the social security system" and "redesigning and refortifying national strategies toward new growth") in parallel with reconstruction following the earthquake.

The decision comes as a vital document highlighting the official statistics on the impact of earthquake on Japan's economy.

#### ***Impact of earthquake on Japan's economy***

At the time of preparation of the previous Quarterly review report, the exact estimation of losses due to earthquake disaster was not ascertained.

However this report projects some statistical references. It states that as a consequence of the disaster, Industrial production activities and exports have decreased because of the damage to stock mainly in the afflicted region (approximately 16.9 trillion yen),<sup>6</sup> supply chain disruptions, and the power constraints in the jurisdiction of Tokyo Electric Power Company and Tohoku Electric Power Co.

#### ***Policy Action***

Apart from consolidating reconstruction and electricity supply, the revitalization program identifies the following areas which require deliberation and policy action:

The decision states that the economic downturn risks such as the deterioration of overseas economic conditions and appreciation of the yen must be watched carefully. To steadily work on reconstruction from the earthquake, stability in the financial and capital markets and the exchange market is extremely important. Excessive fluctuations in the exchange markets will have a negative impact on economic and

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<sup>4</sup> Statement on monetary policy, September 7, 2011, Bank of Japan, *available at* [http://www.boj.or.jp/en/announcements/release\\_2011/k110907a.pdf](http://www.boj.or.jp/en/announcements/release_2011/k110907a.pdf)

<sup>5</sup> "The Guideline on Policy Promotion: For the Revitalization of Japan" (Cabinet Decision dated May 17, 2011)

<sup>6</sup> Estimating the Monetary Value of Damages in the Great East Japan Earthquake", Cabinet Office [Disaster Management] June 24, 2011

financial stability. The Government will continue to carefully observe trends in the exchange markets and take firm action when necessary. Furthermore, it will quickly work on preventing the hollowing-out of the industry by implementing the FY2011 third supplementary budget. The Bank of Japan is expected to share the basic perspectives on macroeconomic management shown in this “Overall Picture” with the Government and to continue to underpin the economy by appropriate and flexible monetary policy management, engaging in close exchanges of information and liaison with the Government.

In the light of the recent financial and fiscal situations of Europe and the United States, the decision necessitates to maintain the stability of the financial markets and market confidence. The Government of Japan will advance further consideration on the basis of the “Definite Plan for the Comprehensive Reform of Social Security and Tax” compiled in June 2011 and the “Basic Guidelines for Reconstruction in response to the Great East Japan Earthquake.” Furthermore, the Government will steadily carry out government revitalization efforts as well as legislative or other necessary actions to ensure the sustainability of the social security system and public finance, which had been major issues before the earthquake. Through these efforts, the Government will steadily work on measures toward fiscal consolidation described in the Fiscal Management Strategy.

### ***Economic and Fiscal Outlook***

The decision also provided a brief overview of the economic and fiscal outlook of Japan. The policy decision on fiscal reforms was released on August 12, 2011 therefore this decision further reiterated certain points in this regard.

- The decision states that growth rate in FY2011 is expected to be  $-0.4\%$  in nominal terms and  $0.5\%$  in real terms because of the impact of the Great East Japan Earthquake. The growth rate in FY2012 is expected to be in the mid-to-high  $2\%$  range in both nominal and real terms because of a steady increase in reconstruction-related demand, such as rebuilding the damaged stock, generated by implementing the measures based on the “*Basic Guidelines for Reconstruction in response to the Great East Japan Earthquake.*”
- As the earthquake might have risks to restrict economic growth in the medium- and long-run, the Government will work on early recovery from the earthquake. To address the appreciation of the yen and to prevent the hollowing-out of the industry, the Government will make efforts to advance necessary reforms, which include initiatives to reinforce growth capacity that are outlined in this document (“Overall Picture of Policy Promotion”), and laying out other foundations for self-sustaining growth.
- The inflation rate will gradually become higher in tandem with economic recovery and stabilize thereafter.
- With regard to employment, the Government aims to reduce the unemployment rate to the  $3\%$  range as soon as possible by taking scrupulous employment measures to ensure stable lives for the disaster-affected people and by, in advancing efforts for new growth, implementing measures that are highly effective in creating jobs.
- Public finance is expected to proceed toward fiscal consolidation, helped by the Government’s steady efforts to achieve the targets described in the Fiscal Management Strategy.

- In the fiscal management strategy, which has been discussed in the earlier part of this report, the Government mentioned of securing special revenue sources and set down a new framework to balance revenues and expenditures on a multiyear basis. On the basis of this framework, the Government will give extra considerations, such as creating separate management programs in the Medium-term Fiscal Framework. Moreover, with the concept to steadily work on improving the fiscal balance, the Government will prepare for the FY2012 budgeting process in accordance with the revised Medium-term Fiscal Framework.<sup>7</sup>

### ***Comprehensive reform of social security and tax***

The “Definite Plan for the Comprehensive Reform of Social Security and Tax” mentioned in the decision suggests specific directions for the comprehensive reform of social security and tax. The Government will further examine possible solutions in line with the reform plan; work out specific reform programs in individual fields such as children and child raising, medical and long-term care services, and pension; and take the necessary legislative actions in FY2011 in accordance with the roadmap as described in Article 104 of the supplementary provisions of the Tax Reform Act 2009.

### ***Prevention of Hollowing-out of the Industry and Development of Overseas Markets***

To get over the unprecedented risks of industrial hollowing out, the Government will make all-out efforts to eliminate two destabilizing factors: limited electricity availability and nuclear power plant accidents. In addition to pushing ahead with restoring/reconstructing supply chains, the Government will hold the “Liaison Council between the Government and Organizations Concerned for the Reconstruction of the ‘Japan Brand’ and Measures to Reputational Damage” to overcome the reputational damages and restore/reconstruct the Japan brand.

As an important agenda in the medium and long run, it is important to expand the flow of humans, goods, and money with overseas nations; enhance an industrial competitive edge; and shift to new industrial/market structures capable of addressing possible changes in environment. For this reason, the Government will work on the following projects: (1) enhancing location competitive edge and creating sales/production bases in Asia, (2) fostering/utilizing globalized human resources by putting in place the “Interim Report by The Council on Promotion of Developing Globalized Human Resources” and accepting highly skilled foreign human resources,<sup>8</sup> (3) cultivating overseas markets and supporting overseas business expansion through creating infrastructures overseas and enhancing Cool Japan strategies, (4) establishing a labor market that alleviates human resource shift to new industries, enhancing capabilities of financial/capital markets, and strengthening profit-earning capacities of small- and medium-sized enterprises (SMEs), and (5) pushing ahead with innovation from the viewpoint of improving the industrial competitive edge, and effectively using ICTs (information and communications technologies) and future-oriented/international-oriented regulatory/system reforms.

### ***Strengthening Bonds between Countries***

To strengthen the bonds between countries, the Government will consider the basic policy for strengthening *kizuna* (the bonds of friendship) with other countries, such as promoting high-level economic partnerships based on the “Basic Policy on Comprehensive Economic Partnership”<sup>9</sup> and establishing economic security, taking into consideration factors such as the sentiments of the farmers and fishermen who have suffered enormous damage because of the earthquake and the nuclear incident, the progress in the international negotiations, and concerns of deindustrialization.

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<sup>7</sup> “Medium-term Fiscal Framework (FY2012 to FY2014)”, Cabinet Decision, August 12, 2011

<sup>8</sup> “Interim Report by the Council on Promotion of Developing Globalized Human Resources”, Decision of the Global Council on Promotion of Developing Globalized Human Resources, June 22, 2011

<sup>9</sup> “Basic Policy on Comprehensive Economic Partnerships”, Cabinet Decision, November 9, 2010

In particular, the Government will strive to launch negotiations for a Japan-EU EPA promptly, and complete a joint study on a Japan-China-ROK trilateral FTA within this year and launch negotiations next year. The Government will strengthen its efforts for the promotion of Japan-Australia EPA negotiations as well as for an early resumption of Japan-Korea EPA negotiations. In addition, it will actively work to achieve an early conclusion of a joint EPA study with Canada, to start negotiations with Mongolia, and to launch promptly negotiations for a Comprehensive Economic Partnership Agreement in East Asia (CEPEA) and an East Asian Free Trade Agreement (EAFTA). Concerning the Trans-Pacific Partnership (TPP) Agreement, taking the point that the TPP is a matter affecting the reconstruction of agriculture in the afflicted region—as well as other points such as the status of progress in international negotiations and concern over the hollowing-out of the industry—into account, the Government will discuss the matter thoroughly. The timing of a decision on whether to join negotiations for the TPP Agreement will be considered from an overall perspective and decided as early as possible.

The other plans on agriculture, fisheries and forestry have been discussed elaborately in Part V of this report.

## **PART II: TRADE AND INVESTMENT FRAMEWORK**

### **II. A. Trade and Investment Overview in Japan-I**

#### **JETRO “*Global Trade and Investment Report*”**

On August 11, 2011, JETRO released the 2011 “*Global Trade and Investment Report*.” The first part of this report described the downside risks remaining for the world economy due to higher prices of international commodities, rapid influx of capital into emerging countries, and re-expansion of global imbalance and other deemed risks. The report highlights the following statistics about global trade:

- JETRO estimates that world merchandise exports in 2010 increased by 22.2% to 15.0 trillion USD in nominal terms, and by 16.5% in real terms (except fluctuations in commodity prices).
- The growth in real terms brought the world trade volume back to the level before the world financial crisis in 2008.
- More recent numbers show that exports of 22 major countries/regions in the first quarter of 2011 recorded 21.2% growth over last year. Japan’s exports in 2010 grew by 32.1% to 767.0 billion USD (customs clearance basis), and imports by 25.2% to 691.4 billion USD, showing a dramatic recovery from a significant trade volume reduction in 2009. The earthquake in March, however, had a considerable impact on Japan’s trade.
- Global foreign direct investment (FDI) registered its third straight decline in 2010, dropping 4.4% from a previous year to 1.22 trillion USD (JETRO estimates; net flows based on balance of payments).
- FDI in advanced countries declined, whereas those into emerging countries recovered and shows its presence.

- In the meantime, the total value of cross-border M&As in 2010 increased for the first time in the last 3 years, and the momentum has carried over into the first half of 2011, with an increase of 42.6% over the previous year.

The later part of the report described the framework and status of trade and investment status in Japan. The key issues highlighted were:

***Japan's outward FDI shows recovery*** - Japan's outward FDI (net flows based on balance of payments) in 2010 declined by 23.3% from a year earlier to 57.2 billion USD. This was because of the decline of reinvested earnings in 2009, which was reflected in 2010 data. In actuality, the outward FDI began increasing from the fourth quarter of 2010. Many outward M&A deals have been occurring towards emerging economies in extensive types of business. Meanwhile, Japan's inward FDI had a steep decrease due to a large-scale withdrawal in the financial sector, while those from Asia including Singapore and China had a dramatic increase of 3 times over last year.

***Japanese firms' overseas units account for 53.1% of their whole operating profits***- According to data on Japanese firms' overseas income collected by JETRO from the consolidated financial statements of 375 listed companies whose fiscal year ends between December 2010 and March 2011, overseas units accounted for 42.4% of sales (not including exports from Japan) and 53.1% of operating profits. The overseas profits exceed those of domestic, which has only ever occurred once before in 2008. The overseas profits are of great significance to Japanese companies, as firms with overseas offices have had a quicker recovery of profit than the listed companies as a whole.

***Export restrictive measures and subsidies for industries are common trade rule issues***- The report states that several countries possessing natural resources are introducing measures to restrict the export of certain natural resources. Last July the WTO ruled against such practices in China, which had scanted export of raw materials such as coke, saying they were a violation of trade laws. In addition to the protection offered by the WTO, trade rules set by FTAs will be more essential tools for Japan to stably secure natural resources through import. The countries extensively take financial assistance measures to protect their own domestic industries. The measures include ones for export subsidy, which allegedly violate compliance with the WTO's subsidy rules. Many WTO cases are recently at stake over such subsidies, especially those related to the environmental industry.

***The percentage of Japan's trade covered by FTAs increases up to 18.2 % though the pace dips below that of neighboring Asian countries***- The report highlights that as of June 2011, 199 free trade agreements (FTAs) were in force worldwide. Cross-regional FTAs and FTAs between countries with large-scale trade volumes are prominent. With the FTA agreement with India taking effect in August, 18.2% of trade in Japan is now with FTA partner countries. South Korea's ratio of 25.2% exceeds Japan, with the EU-South Korea FTA taking effect in July. The ratio in Korea could go up to 35.4%, depending on congressional approval of a US-Korea FTA.

***Influence of the Great East Japan Earthquake on trade***- Influences of the earthquake on exports were visible in industrial goods, including automobiles and semi-conductors, and in food, such as frozen fish, baby food and tobacco. Recovery of the supply chain system has been much faster than initially expected, and the export decline is beginning to bottom out.

***Reaffirming Japan's strengths in developing overseas business***- The report stated that Japan has established a definitive position in the Asian production network by providing high-quality products. A number of cases in which foreign companies have set up offices in Japan even after the earthquake imply that Japan's multi-layer industries and market continue to offer much opportunity. By maintaining or

enhancing incentive policies for promoting inward FDI, Japan's attractiveness as a center for business administration, R&D, and manufacturing in Asia may well grow even stronger.

***Japan's overseas business leading the way to recovery-*** The report highlights that the volume of Japan's trade and investment in emerging economies is increasing, yet does not match the pace of growth set by South Korea or China. Some Japanese SMEs are, however, developing overseas markets with their strengths in product development and technologies. Japan's energy-saving as well as disaster prevention technologies and consumer products would well match with increasingly eco-friendly Asian consumers. Japan's adaptation to its rapidly aging society brings about an opportunity to explore the overseas business market, and the service industry has recently been expanding overseas. Reinforcing these strengths in developing overseas business shall contribute to the prevalence of "Japan brand."<sup>10</sup>

## II. B. Trade and Investment Overview in Japan-II

### ***Prime Minister's policy speech before Diet***

On September 13, 2011, the Japanese PM delivered a policy speech before the 178th Session of the Diet, highlighting the recent developments in Japan, especially in the aftermath of the nuclear disaster and his agenda for reforms in the future. The issues discussed encompassed the domestic policy on energy and fiscal reforms and included international concerns such as value of yen, bilateral trade negotiations and convergence of the multi polar world. The issues pertaining to energy policy have been discussed in Part V of this report. This section will highlight the Japan's agenda in trade and other strategic ties with various nations.

### ***Implementation of bold countermeasures to the appreciating yen and industrial hollowing-out-***

The policy speech stated that historical levels of yen appreciation paired with the rise of emerging economies and other factors are precipitating an unprecedented industrial hollowing-out crisis. The exporting companies and small to medium-size enterprises that have led Japanese industry in the past are now crying for help. Unless something is done, there is the concern that domestic industries will drop in strength and employment will be lost. If that happens, overcoming deflation and reconstruction in the affected areas will become significantly more difficult tasks.

The PM further stated that countries in Europe, the US and Asia are engaging in a location battle where national efforts are being made to attract companies to their countries. In order for Japan to prevent the hollowing-out of its industries and maintain domestic employment, concerted efforts of Bank of Japan is required, which conducts monetary policy, in utilizing all policy means available. First, Japan should utilize reserve funds and the third supplementary budget to implement emergency economic countermeasures that include the bold enhancement of location subsidies. Furthermore, Japan should also advantage of the merits of the appreciating yen to support Japanese companies in purchasing foreign companies and acquiring resource interests.

***Bonds of friendship-*** The policy statement indicated that Japan-U.S. alliance remains at the cornerstone of Japanese diplomacy and national security, and also a publicly shared asset fostering the stability and prosperity of not only the Asia-Pacific region, but also the world.

The significance of the Japan-U.S. alliance relationship that has been strengthened over the long course of more than half a century was reconfirmed during the disaster, through "Operation Tomodachi." In

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<sup>10</sup> JETRO Releases its 2011 Global Trade and Investment Report, August 11, 2011, News JETRO, *available at* <http://www.jetro.go.jp/en/news/releases/20110811498-news>

addition to moving quickly to build relations of trust at the leader level, Japan aims to work to deepen the Japan-U.S. alliance on various levels, focusing particularly on security, economics, and exchanges of culture and human resources, thus deepening and developing an alliance relationship that is appropriate for the 21st century.

Regarding the issue of the relocation of Futenma Air Station, in line with the Japan-U.S. agreement, it is important to avoid a situation in which the Air Station becomes fixed in its current location and ensure that the burden on Okinawa is alleviated. Japan will make every effort in this regard, while explaining the situation sincerely to the people of Okinawa to ask for their understanding. Japan will also actively implement measures for the revitalization of Okinawa.

***Strengthening bilateral relations with neighboring countries-*** The Asia-Pacific region is expected to remain as a center for global growth in the future and Japan will naturally continue to strengthen political and economic relations with countries in the region and also to deepen exchanges in cultural aspects. Japan will make efforts to build trust as a fellow member of the region and ensure robust relations.

In relations between Japan and China, in view of next year's 40th anniversary of the normalization of relations between the two countries, Japan will work to promote specific cooperation in a broad range of areas and, while seeking for China to play an appropriate role befitting its responsibilities as a member of the international community with greater transparency. Japan will work to deepening their strategic relationship with China of mutual benefit.

In relations between Japan and the Republic of Korea (ROK), Japan aims at further strengthening the relations, based on a future-oriented vision towards the next one hundred years. In relations with North Korea, in cooperation with other countries and based on the Japan-DPRK Pyongyang Declaration, Japan seeks to normalize its diplomatic relations with North Korea through the comprehensive resolution of the outstanding issues of concern, including the abduction, nuclear, and missile issues, and settling the unfortunate past. Regarding the abduction issue, this is a grave issue that relates to national sovereignty and as the responsibility of the state. Japan will spare no effort towards achieving the return of all abductees to Japan at the earliest possible juncture.

In relations with Russia, in addition to continuing tenacious efforts to resolve the issue of the Northern Territories, which is of prime concern, Japan will work to build an appropriate relationship as a partner in the Asia-Pacific region.

***Linkage in a multi-polar world-*** In order to cultivate assured bonds with each country in a multi-polar world, great strength of will be required to join together in resolving the challenges that the world faces in common. These "kizuna -bonds of friendship-" must be broadened and expanded in multiple tiers of society, in various public and private sector bodies.

One example of such efforts based on such "kizuna" is recovery and reconstruction from the Great East Japan Earthquake. The disaster-affected regions have benefited from the provision of countless instances of warm support from countries around the world. This assistance can be said to be one of the significant fruits of Japan's contribution to the international community in the post-war period and the trust the world places in us. Japan is the only country in the world to have suffered the devastation of an atomic bombing and is also a country that has suffered from the recent unprecedented disaster. In addition to continuing to take the lead among nations to appeal for nuclear disarmament and nuclear non-proliferation, Japan must pay back the kindness that has been shown by the world, by sharing the lessons and knowledge we have gained in the areas of nuclear safety and disaster prevention with other countries.

Efforts to strengthen linkages between countries in economic aspects are termed "economic *cooperation*." As a part of such cooperation, essential challenges are efforts to ensure growth in the global economy and prevent the hollowing out of industry. Based on the "Basic Policy on Comprehensive Economic Partnerships" Japan will make strategic moves seeking to conclude high-level economic partnership agreements (EPA). In specific terms Japan will advance the EPA negotiations with the ROK and Australia, and will aim to initiate negotiations in the near term for a Japan-EU EPA and a Japan-China-ROK EPA. In addition, with regard to the participation in the negotiation of the Trans-Pacific Partnership (TPP) Agreement, Japan will conduct thorough discussions with a view to reaching a conclusion as soon as possible.

With regard to measures relating to such issues as securing natural resources and energy as well as a stable supply of food, Japan will proceed actively with economic diplomacy. In addition, in respect of various global challenges, including assistance to developing countries and a response to international negotiations on climate change, a response to the situation in the Middle East and North Africa, and measures for fragile states, Japan will continue to make an active contribution.<sup>11</sup>

**Other reforms-** The policy speech also mentioned the purview of other reforms in Japan including strengthening of Economic growth and fiscal health as they are like two wheels of the same vehicle. Efforts must be made to realize the New Growth Strategy formulated last year and a strategy should be made that takes into account the circumstances after the disaster to revitalize Japan.

In order for the Government to act as a "*control tower*" overseeing important national policies, including the realization of these strategies, Japan will gather the knowledge of the industrial, government, and academic sectors, consolidate existing meeting structures, and establish a new meeting structure, that would be administered under the aegis of the PM himself.

The PM asserted that it is the dynamism of private companies such as small and medium-size enterprises that will lead Japan's economic growth. Therefore Japan will develop an environment conducive to generating new industries and ample employment opportunities mainly in the environmental energy sector, which is also linked to resolving the problem of global warming, and the medical-related sector, which is in high demand due to Japan's longevity society. Moreover, in order to deepen relations with growing foreign markets, Japan will strategically promote economic partnerships and advance market development in a concerted effort between the public and private sectors, while at the same time strengthening efforts to attract expertise and funding from overseas.

In addition, reforms on agriculture, post offices and rural support were also highlighted in the policy speech.

## **II.C. Trade Negotiations and Trade cooperation agreements during the review quarter**

### ***ACTA***

On October 1, 2011, the Ministry of Foreign Affairs of Japan held the signing ceremony for the Anti-Counterfeiting Trade Agreement (ACTA) at Iikura Guest House, Ministry of Foreign Affairs. The negotiation has been carried out among Australia, Canada, the European Union and its Member States,

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<sup>11</sup> Policy Speech by Prime Minister Yoshihiko Noda to the 178th Session of the Diet, September 13, 2011, Speeches and Statements by the PM, *available at* [http://www.kantei.go.jp/foreign/noda/statement/201109/13syosin\\_e.html](http://www.kantei.go.jp/foreign/noda/statement/201109/13syosin_e.html)

Japan, the Republic of Korea, Mexico, Morocco, New Zealand, Singapore, Switzerland, and the United States, and reached a general agreement at the negotiation meeting held in Japan in October 2010, followed by the completion of technical and translation work in April 2011.

The Agreement was inspired in significant part by Japan's proposal at the G8 Gleneagles Summit in 2005 to create a new international framework against counterfeit and pirated products, in the context of the heightened awareness of the need for a higher degree of intellectual property protection. Its negotiation has been led by a strong initiative of Japan, the United States and other key partners.

On the preceding day, September 30, 2011, an international symposium entitled, "Global Intellectual Property Strategy and the Reconstruction from the Great East Japan Earthquake: Eliminating Counterfeit and Pirated Products through ACTA", was held in Sendai as a side event of the signing ceremony.<sup>12</sup>

### ***Japan-Mexico***

On September 22, 2011, the Protocol Amending the Agreement between Japan and the United Mexican States for the Strengthening of the Economic Partnership was signed by both parties in Mexico to revise the Agreement between Japan and the United Mexican States for the Strengthening of the Economic Partnership (Japan-Mexico EPA).

The purpose of this amendment is to move up the date of elimination of tariffs on auto parts and other items and introduce a system for declaration of origin by approved exporters. METI expects that this amendment will promote the liberalization and facilitation of trade and investment between the two countries and further invigorate both economies by deepening the mutually beneficial economic partnership in various fields.

The Japan-Mexico EPA entered into force in April 2005. On the occasion of fourth- and fifth-year re-consultation on agricultural products under the EPA, which started in September 2008, both sides initiated re-consultation in order to improve (upgrade) the EPA over a wide range of areas, such as further liberalizing the trade of goods as requested by the industrial community and introducing an approved exporter system that is convenient to use. During the summit meeting between Japan and Mexico in February 2010, both leaders affirmed that the re-consultation should be accelerated. In February 2011, at the sixth meeting of the Joint Committee under the Japan-Mexico EPA, both sides confirmed the conclusion of re-consultation on major issues. Since then work has been conducted to finalize the text of the revision protocol in preparation for its signing.<sup>13</sup>

### ***ASEAN***

On September 20, 2011, the ASEAN+3 Ministers on Energy Meeting and EAS Energy Ministers Meeting were held in Brunei Darussalam, Southeast Asia. Delegates from 13 countries and 18 countries participated in the meetings respectively. In ASEAN+3 Ministers on Energy Meeting, the ministers agreed to enhance ASEAN+3 energy cooperation to secure a sustainable energy future for East Asia, considering that the demand for energy will continue to rise, increasing the need to balance energy security with economic competitiveness and environmental sustainability.

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<sup>12</sup> Holding of the Signing Ceremony for the Anti-Counterfeiting Trade Agreement (ACTA), METI, Press Release, September 2011 *available at* [http://www.meti.go.jp/english/press/2011/0927\\_02.html](http://www.meti.go.jp/english/press/2011/0927_02.html)

<sup>13</sup> Signing of the Protocol Amending the Agreement between Japan and the United Mexican States for the Strengthening of the Economic Partnership, METI, Sep 2011, *available at* [http://www.meti.go.jp/english/press/2011/0923\\_02.html](http://www.meti.go.jp/english/press/2011/0923_02.html)

In the EAS Energy Ministers Meeting, the ministers agreed that, in addition to the ongoing cooperation, they would prepare a master plan mainly in accordance with studies undertaken by Economic Research Institute for ASEAN and East Asia (ERIA). The plan will include the following approaches:

- (1) Charting the outlook for energy demand and saving potential over the medium-to- long term;
- (2) Coordinating emergency response policies and measures in cases where the supply of oil or other energy sources is stopped;
- (3) Enhancing the use of existing fossil fuel resources in the region; and
- (4) Improving electric power infrastructure in the region.<sup>14</sup>

### ***Japan-Saudi Arabia***

On September 18, 2011 a comprehensive memorandum concerning cooperation on water and wastewater management was concluded between the Ministry of Water and Electricity of the Kingdom of Saudi Arabia and Japan's METI and Ministry of Land, Infrastructure, Transport and Tourism (MLIT).

Scope and areas of cooperation- Overall management of water and wastewater (including seawater desalination, sludge treatment, prevention of water leakage, customer service, and water-related facilities)

Forms of cooperation- Human resources development, exchange of information, research and studies, implementation and development of water-related projects, promotion of cooperation between government and private organizations

Other issues- Facilitation of entry and exit of officials and equipment for relevant projects, protection of intellectual property, etc.<sup>15</sup>

### ***Japan-US***

On July 29, 2011, the Second Japan-U.S. Clean Energy Policy Dialogue was held in Washington D.C. in the U.S.

This dialogue was based on the new Japan-U.S. initiatives announced by Prime Minister Kan and President Obama on November 13, 2010 and the Joint Statement by Mr. Ohata, former Minister of Economy, Trade and Industry and Dr. Chu, the United States Secretary of Energy released on November 18, 2010 and was held following the first policy dialogue.

At the meeting, after Japan explained about the latest status of the impact of the earthquake and the nuclear power station accident, the parties had discussions on how the Japan-U.S. cooperation on clean energy should be in the future and utilization of policy financing in relation to clean energy. A fact sheet

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<sup>14</sup> Results of Participation in ASEAN+3 Ministers on Energy Meeting and EAS Energy Ministers Meeting by Mr. Kitagami, Vice Minister of Economy, Trade and Industry, METI, Sep 2011, *available at* [http://www.meti.go.jp/english/press/2011/0920\\_02.html](http://www.meti.go.jp/english/press/2011/0920_02.html)

<sup>15</sup> Japan concludes a memorandum with the Kingdom of Saudi Arabia in the water sector, METI, Sep 2011, *available at* [http://www.meti.go.jp/english/press/2011/0918\\_01.html](http://www.meti.go.jp/english/press/2011/0918_01.html)

was released at the Japan-U.S. Summit Meeting between Prime Minister Kan and President Obama on November 13, 2010. A joint statement was announced on November 18, 2010 by Japan and the U.S. on the activities of two initiatives: the Energy-Smart Communities Initiative (ESCI) and the Japan - U.S. Clean Energy Policy Dialogue. The First Japan-U.S. Clean Energy Policy Dialogue was held in Washington D.C. in the U.S. on February 11, 2011.<sup>16</sup>

On September 12- 13, 2011, METI and United States Department of Energy and Ministry of Employment and the Economy of Finland jointly held the 1st workshop for the Global Superior Energy Performance Partnership (GSEP) in Washington D.C. At the 1st Clean Energy Ministerial (CEM) held in July 2010, the "Global Superior Energy Performance Partnership (GSEP)" was established under the CEM and the International Partnership for Energy Efficiency Cooperation (IPEEC) as a joint initiative between Japan and the United States for energy conservation.

Under the GSEP, six working groups will operate as an international framework of public-private partnership for superior energy performance. Japan led the activities of three task forces (steel, cement and power) under the Asia-Pacific Partnership on Clean Development and Climate (APP), which completed its activities in April this year. Under the framework of GSEP, Japan will continue and expand its partnership activities for each sector.

This time, the 1st workshop will be held in Washington D.C. on September 12th and 13th, as a preparatory meeting for future activities of these working groups. At the workshop, public and private leaders will gather to promote cooperation for energy conservation by sharing information on the latest projects and academic study results, and will discuss the work programs of the short- and long-term working groups, aiming to submit a progress report to the 3rd CEM. Through the activities at GSEP, Japan will have initiative to promote public-private partnerships with global nations and to disseminate clean energy technologies.<sup>17</sup>

### ***Japan-India***

On August 1, 2011, the Japan-India Comprehensive Economic Partnership Agreement entered into force. METI pledged to make efforts for proper implementation of this Agreement, aiming to further enhance the economic relationship between both countries.

The objective of this Agreement, as was elaborated in the first quarterly review report is to liberalize and facilitate trade with India, which has the third-largest economy in Asia and has maintained strong growth in recent years, to promote investments between both countries, and to improve systems for related fields, etc. Upon the entry into force of this Agreement, it is expected that the economic relationship between Japan and India will further be strengthened. It is also expected that this Agreement will be a powerful driving force for the Comprehensive Economic Partnership in East Asia (CEPEA). This Agreement is Japan's 12th EPA, following the economic partnership agreements which have already come into force with Singapore, Mexico, Malaysia, Chile, Thailand, Indonesia, Brunei, ASEAN,

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<sup>16</sup> Summary of the Second Japan-U.S. Clean Energy Policy Dialogue, METI, Aug 2011, *available at* [http://www.meti.go.jp/english/press/2011/0801\\_05.html](http://www.meti.go.jp/english/press/2011/0801_05.html)

<sup>17</sup> 1st Workshop for the Global Superior Energy Performance Partnership (GSEP), METI, Sep 2011, *available at* [http://www.meti.go.jp/english/press/2011/0906\\_02.html](http://www.meti.go.jp/english/press/2011/0906_02.html)

Philippines, Switzerland and Vietnam. METI will make efforts for proper implementation of this Agreement, aiming to further enhance the economic relationship between both countries.<sup>18</sup>

Further in a meeting of the heads of States on September 23, 2011, both leaders welcomed the entry into force of the Japan-India Comprehensive Economic Partnership Agreement (CEPA) and expressed their expectations that the agreement will boost the economic relations of the two countries. Furthermore, Prime Minister Noda stated that he also looked forward to seeing progress on the negotiations for the social security agreement in order to promote private sector activities. Both leaders agreed to make efforts for the realization of the Delhi-Mumbai Industrial Corridor (DMIC) and the Dedicated Freight Corridor (DFC).<sup>19</sup>

### ***Japan-Philippines***

On September 27, 2011, Prime Minister of Japan, Yoshihiko Noda held a summit meeting at the Prime Minister's Office concerning bilateral relations between Japan and Philippines. Both leaders confirmed that the two countries share basic values, market economy, and strategic interests and that they position the relations between the two countries as "strategic partnership".

In the economic field, Prime Minister Noda stated that Japan would continue to contribute to the economic development of the Republic of the Philippines through the improvement of infrastructure and the investment environment. President Aquino affirmed his strong commitment to improving the business environment. They welcomed the smooth implementation and operation of the Agreement between Japan and the Republic of the Philippines for an Economic Partnership (JPEPA) and decided to continue consultations in order to further improve the acceptance of candidates for qualified nurses and certified care workers. President Aquino expressed his gratitude for the assistance that Japan has extended to the Republic of the Philippines, to which Prime Minister Noda replied that Japan would continue its assistance to the Republic of the Philippines as an important ODA target country.

In terms of the political and security fields, the two leaders decided to frequently hold summit/ministerial meetings, convene multi-layered policy dialogues, including Vice-Ministerial Strategic Dialogue which was decided to establish, and strengthen exchange and cooperation between maritime safety authorities and defense authorities. Prime Minister Noda stated his wish to continue active support for peace in Mindanao. President Aquino expressed his appreciation for Japan's contributions so far and expressed his strong commitment to the achievement of peace.

Concerning people-to-people exchange, the importance of youth exchanges was emphasized, with Prime Minister Noda stating that Japan would invite 400 Filipino college students to Japan next year as "Philippine-Tohoku Goodwill Ambassadors". Regarding regional and international issues, the two leaders confirmed that they would actively contribute to regional cooperation frameworks, and confirmed that they would closely collaborate with each other especially in the run-up to the East Asia Summit in November. They also had an exchange of views on issues faced by the region and the international

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<sup>18</sup> Entry into Force of the Japan-India Comprehensive Economic Partnership Agreement, METI, Press Release, Aug 1, 2011, available at [http://www.meti.go.jp/english/press/2011/0801\\_01.html](http://www.meti.go.jp/english/press/2011/0801_01.html)

<sup>19</sup> Japan-India Summit Meeting (Overview), September 23, 2011 available at [http://www.kantei.go.jp/foreign/noda/statement/201109/23india\\_e.html](http://www.kantei.go.jp/foreign/noda/statement/201109/23india_e.html)

community such as the South China Sea and North Korea, in which they shared the recognition that the abduction issue by North Korea is a serious violation of human rights.<sup>20</sup>

In furtherance the “strategic partnership” also incorporated several other points. They expressed satisfaction that Japan and the Republic of Philippines enjoy dynamic and mutually-beneficial economic relations including robust trade, investments and development cooperation. Prime Minister Noda stated that taking in the vitality of Asian countries, including the Republic of the Philippines, which are developing dynamically and sustainably, is essential for Japan's economic growth. President Aquino welcomed Japan's policy to strengthen economic relations with Asian countries.

***Japan-Philippines Economic Partnership Agreement-*** The two leaders welcomed the smooth implementation and operation of the Agreement between Japan and the Republic of the Philippines for an Economic Partnership (JPEPA). They welcomed the convening of the Joint Committee and Sub-Committees established under the Agreement, including the recent meeting of the Sub-Committee on the Improvement of the Business Environment held in Manila on 15 September. They confirmed the importance of continuing dialogues with Japanese business groups, to further promote investment. Furthermore, they recognized that the promotion of the movement of natural persons under the Agreement will serve the two countries' interests, and decided to continue consultations in order to further improve the current situation including the smooth dispatch and acceptance of Filipino candidates for qualified nurses and certified care workers. President Aquino expressed his gratitude for various measures taken by the Government of Japan to support Filipino candidates such as introducing Japanese language training before their dispatch to Japan, and welcomed ongoing cooperation between the two Governments in this regard. President Aquino emphasized the importance of increasing the passing rates of Filipino nurses in the Japanese National Examination for nurses. They confirmed that both Governments will cooperate towards a successful first General Review of the Agreement pursuant to Article 161 of the Agreement, to maximize mutual benefit.

***Promotion and enhancement of investment-*** The leaders confirmed the importance of improving the business environment and further promoting investment between the two countries. President Aquino affirmed his Administration's commitment to promoting good and accountable governance and the improvement of the business environment, including continually enhancing administrative transparency and predictability. Prime Minister Noda expressed his high appreciation for the efforts by President Aquino.

President Aquino requested Japan's support for his Administration's Public-Private Partnership (PPP) program, which prioritizes infrastructure and development projects, in furtherance of the "Philippine Development Plan 2011-2016." In response, Prime Minister Noda stated that Japan will support the improvement of the investment environment through the active utilization of Official Development Assistance (ODA), and thereby promote private investment and contribute to the development of the Republic of the Philippines. In this regard, he announced that Japan will dispatch a public-private mission to the Republic of the Philippines by March 2012 and hold a seminar in Manila which will contribute to the improvement and development of infrastructure in the country.

The leaders also stressed the importance of the exchange and cooperation between business groups such as the Japan-Philippines Economic Joint Committee in advancing infrastructure development to

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<sup>20</sup> Japan-Philippines Summit Meeting , September 27, 2011, Speeches and Statements by the Prime Minister, *available at* [http://www.kantei.go.jp/foreign/noda/statement/201109/27philippines2\\_e.html](http://www.kantei.go.jp/foreign/noda/statement/201109/27philippines2_e.html)

encourage investments. They confirmed the importance of the timely conclusion of the Republic of Philippines' ongoing process with regard to the Japanese terrestrial digital TV broadcasting system.<sup>21</sup>

### ***Japan –Colombia***

On September 12, 2011, the leaders of both the nations met and the following outcomes were published:

With regard to economic relations, President Santos welcomed the signing of the investment agreement between Japan and Colombia, saying that it presents the best opportunity for both countries to strengthen bilateral relations, in light of the recent improvement of the public safety situation in Colombia as well as its current role in South America, unlike when there was not always a sufficient environment to maximize the potential of bilateral relations. The President also said that he is eager to start a joint research process toward future economic partnership agreement (EPA) negotiations. He explained that Colombia enjoys the greatest growth of foreign investment among Latin American nations thanks to its efforts to improve the investment environment, and expressed his expectation for reinforced economic relations with Japan. In response, Prime Minister Noda appreciated President Santos' efforts in the area of public safety, and requested him to continue these efforts for the further strengthening of economic relations, referring to the heightened interest toward Colombia within Japan's economic circle. Concerning EPA, Prime Minister Noda said that he would like to start with launch joint research with Colombia.

President Santos also said that, in addition to economic relations, Colombia is eager to cooperate with Japan in addressing various issues in the international arena, including cooperation in the environmental front toward the success of COP17 on climate change, as countries sharing common values of democracy and basic human rights. In this connection, Prime Minister Noda expressed concern over the human rights situation in North Korea, and in particular over the issue of abduction of Japanese nationals, and said that Japan will continue calling on the international community to address the issue. The two leaders also agreed to continue dialogue concerning the United Nations reform.<sup>22</sup>

### **Investment framework**

On September 12, 2011, the Cabinet signed the Agreement between Japan and the Republic of Colombia for the Liberalization, Promotion and Protection of Investment (the Japan-Colombia Investment Agreement).

The Agreement provides for rules concerning the protection of investment and the improvement of the investment environment. It is expected to increase the legal stability of the investment environment in Colombia and consequently facilitate Japanese companies' investment activities there.

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<sup>21</sup> Japan-Philippines Joint Statement on the Comprehensive Promotion of the "Strategic Partnership" between Neighboring Countries Connected by Special Bonds of Friendship , September 27, 2011, Speeches and Statements by Prime Minister, *available at* [http://www.kantei.go.jp/foreign/noda/statement/201109/27philippines\\_e.html](http://www.kantei.go.jp/foreign/noda/statement/201109/27philippines_e.html)

<sup>22</sup> Japan-Colombia Summit Meeting, September 12, 2011 *available at* [http://www.kantei.go.jp/foreign/noda/statement/201109/12colombia\\_e.html](http://www.kantei.go.jp/foreign/noda/statement/201109/12colombia_e.html)

With the third largest population in Latin America and steady economic policies in place, Colombia is one of the major countries in Latin America, which has recently attracted great attention for abundant natural resources and rapid economic growth. Since the nation is expected to serve as a base for business with its neighbouring countries, the Agreement, once signed, will help Japan strengthen relations with Latin American countries.

This will be Japan's 17th investment agreement to be signed (or 27th if investment chapters of bilateral EPAs are included). Colombia will be the second Latin American country for Japan to sign an investment agreement with after Peru (or fourth if investment chapters of bilateral EPAs with Mexico and Chile are included).<sup>23</sup>

The analysis of presented in the first quarterly review report highlighted the shifting trends in Japan's policy towards trade negotiations and trade agreement with other nations. The progress monitored in the previous report coupled with the recent developments in this report indicates that Japan is living up to its policy of increasing ties with other nations (Kinsua) for mutual trade benefits. The aggressive stance of the government policy towards more and more of such EPAs as indicative from the PMs Speech shall be an area for further monitoring and analysis.

## II. D. Aid for Trade

***Japan-Indonesia*** According to a press release of July 7, 2011, based on the Memorandum of Cooperation signed and agreed between the Governments of Japan and Indonesia for the concept of Metropolitan Priority Area for Investment and Industry (MPA) in JABODETABEK Area in December 2010, JICA launched the MPA Master Plan Study in May 2011 to materialize the MPA concept.

Beginning from May 2011, the Master Plan Study spent approximately one year to undertake the following: 1) formulation of a city vision for Jabodetabek in 2020 by taking into account prediction of the socioeconomic conditions of Indonesia in 2030, 2) formulation of a comprehensive infrastructure plan to be achieved in Jabodetabek by 2020 and identification of priority projects, and 3) acceleration of the Fast Track Projects which are scheduled to start by the end of 2013 at the latest.

In recent years, Indonesia has achieved stable economic growth. In order to ensure further growth in Jabodetabek, the driving force of the Indonesian economy, the highest priority must be placed on resolving the problem of inadequate urban infrastructure. To address this problem and develop Jabodetabek as an area that is more attractive as an investment destination and better suited to industrial development, as well as being friendly to people and the environment, the Jakarta MPA concept was proposed as a collaborative endeavor between Japan and Indonesia, and the Memorandum of Cooperation was signed at the ministry level of both governments in December 2010. A steering committee composed of cabinet members and others of both countries has been established along with a technical committee composed of sub-ministerial level staff, and close exchanges of opinion will take place concerning the development of the area with an aim of solving Jakarta's infrastructure problems. At the first MPA Steering Committee meeting held in March 2011, the Governments of Japan and Indonesia agreed on the framework of the master plan study as well as the Fast Track Projects, the construction phases of which are to start by the end of 2013 at the latest. The MPA master plan study was commenced based on these agreements.

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<sup>23</sup> Signing of Investment Agreement between Japan and the Republic of Colombia, METI, Sep 2011, *available at* [http://www.meti.go.jp/english/press/2011/0909\\_02.html](http://www.meti.go.jp/english/press/2011/0909_02.html)

The fundamental concepts for formulating a Jabodetabek infrastructure development plan under the master plan study are “safe and secure” and “environmentally-friendly technology.” These fundamental concepts are vital for socioeconomic development in Indonesia, and these are fields in which Japan has advanced technologies and rich experiences. This master plan study covers nine areas: public transportation networks, roads, airports, ports, industrial estate, power supply, water supply/sewer systems, waste management, and flood control. JICA will move forward with the study while coordinating with other on-going technical and financial cooperation.

Within the MPA framework, public-private partnerships (PPPs) are planned to be actively utilized to achieve the Fast Track Projects and other priority projects, and implementation is planned to move forward using the dynamism and funding of the private sector. In the selection of the companies commissioned for the study, it was required that the mission member included specialists with knowledge and experience in infrastructure investment and infrastructure project management, in addition to the conventional expertise in urban planning. This requirement was included as the MPA Master Plan will not only focus on formulating a master plan, but put priority on realizing the individual projects. Based on these criteria, a joint venture of 11 companies was selected as the commissioned study team : consultants (Nippon Koei, Oriental Consultants, and Mitsubishi Research Institute) and trading and industrial companies (Mitsubishi Corp., Chiyoda Corp., JGC Corp., Taisei Corp., Tokyo Metro, Hitachi, Metropolitan Expressway, and NYK Line) will join forces to undertake the study and began an on-site survey together with Indonesian experts and officials. The aim of such a study group structure is to enhance the feasibility and attractiveness of the infrastructure development plan as well as of individual projects considered and proposed under the master plan study. During the study process, knowledge, opinions, requests, candidate projects and other input from the private sector in Japan and Indonesia will be taken into consideration. Through these measures, the MPA master plan study aims to promote the utilization of advanced technologies of the Japanese private sector in order to promote both sustainable economic development of Jakarta Metropolitan area and Indonesia as a whole.<sup>24</sup>

***Japan- Cambodia*** On August 23, 2011, JICA signed an agreement with the Royal Government of Cambodia in the country's capital, Phnom Penh, to provide a loan of up to 4.269 billion yen for assistance for the West Tonle Sap Irrigation and Drainage Rehabilitation and Improvement Project.

The objectives of this project are to rehabilitate and maintain the irrigation facilities in six impoverished agricultural areas in three provinces in the west of the Tonle Sap Lake (Battambang, Pursat and Kampong Chhnang Provinces) and provide them with a stable supply of water for agriculture, as well as establishing and strengthening Farmer Water User Communities and Groups and providing agricultural extension techniques to increase agricultural productivity and improve the livelihoods of farmers in the target areas. Funds from the loan will be allocated for public works for the irrigation system rehabilitation and maintenance, equipment procurement expenses and consulting services (detailed design work, tender assistance and construction management).

In the irrigation sector in Cambodia, JICA has provided assistance for irrigation facility rehabilitation projects in the past in the form of grants, and has also implemented technical cooperation projects with the Technical Service Center of Ministry of Water Resources and Meteorology as the counterpart agency, improving the organizational capacity of the Center and supporting the training of personnel and irrigation engineers. Also in the agriculture sector, JICA has conducted technical cooperation aiming for

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<sup>24</sup> "Master Plan Study for Establishing Metropolitan Priority Area for Investment and Industry (MPA) in JABODETABEK Area" Under Way, Press release, July 7, 2011, JICA available at <http://www.jica.go.jp/english/news/press/2011/110707.html>

the improvement of agricultural extension. The experience of capacity development in above technical cooperation projects is expected to be utilized in this loan project.<sup>25</sup>

**Japan-Morocco** On July 29, 2011, JICA signed two Japanese ODA loan agreements in the Moroccan capital of Rabat, one with the Caisse pour le Financement Routier of the Kingdom of Morocco to provide a loan of up to 5.981 billion yen for the Rural Road Improvement Project (II), and the other with the Office National de l'Eau Potable (ONEP) of the Kingdom of Morocco to provide a loan of up to 17.44 billion yen for assistance for the Fez and Meknes Regions Water Supply Project.

In recent years, Morocco has diversified its economy (including textiles, tourism and automobiles) and strengthened economic ties to Europe, achieving favorable economic growth that includes an average economic growth of 5 percent since 2001. However, the poverty rate is 15 percent of the total population, with approximately 70 percent of the poor living in rural areas, making the issue of reducing regional disparities crucial to ensuring sustained economic growth into the future. In order to attenuate regional disparities, boost the income of the poor and improve the living environment, a higher rate of access to public services must be achieved through such basic infrastructures as roads, water and electricity.

The features of the Japanese ODA loans are outlined below.

*(1) Improving the living environment of rural residents and spurring economic activities through rural road improvements*

In Morocco, road improvements in rural areas have not progressed to the extent of urban areas, limiting the economic activities of rural residents and giving rise to regional economic disparities. The Government of Morocco has therefore placed high priority on rural economic development through rural road improvements and is implementing a Second National Program of Rural Roads to improve 15,500 kilometres of rural roadway between 2005 and 2012. The objectives of JICA's Rural Road Improvement Project (II) are to assist such measures in Morocco and to contribute to sustained economic growth there by correcting regional disparities. At the Second TICAD Ministerial Follow-up Meeting held in May 2010, Japan announced that it would provide up to two billion dollars in ODA loans for infrastructure projects over two years, and this is one application of that commitment.

*(2) Improving living conditions with safe water*

The Government of Morocco is working with the private sector to reduce poverty and attenuate regional disparities based on the National Human Development Initiative formulated by King Mohammed VI in May 2005. One area with a particularly high priority is the water supply sector. While steady growth has been seen in the access rate, a number of issues must be addressed to improve the water infrastructure. These include improving the overall national water access rate, transitioning from common water taps to water supplied to individual homes in rural areas, and meeting the demand for water with consideration to the rising population, urbanization and higher living standards in Morocco. In response, the Fez and Meknes Regions Water Supply Project will provide a stable supply of potable water in regional cities where demand is growing because of rising population, expansion in the number of regions where water is supplied and an increased number of homes with individual water access. This will improve the living environment in those regions, and by extension also reduce poverty. In the Yokohama Action Plan issued at TICAD IV, the Japanese Government announced that water supply facilities would be provided to supply safe drinking water to 6.5 million people. This project will be implemented as a part of the TICAD support policy, and will benefit 2.3 million Moroccans.

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<sup>25</sup> Signing of Japanese ODA Loan with the Kingdom of Cambodia, August 23, 2011, Press release, JICA available at <http://www.jica.go.jp/english/news/press/2011/110823.html>

To contribute to more balanced economic and industrial development in Morocco, it is JICA's intention to continue to provide assistance that corrects regional and social disparities, strengthens economic competitiveness and provides infrastructure for sustained economic growth.<sup>26</sup>

The continuing efforts of Japan in aid for trade initiatives shall be covered in the subsequent quarterly reports as well.

## **PART III: TRADE POLICY AND PRACTICE BY MEASURE**

### **III.A. Trade Regulation**

(1) On September 26, 2011, the statutory transitional period for the regulation on the sale of lighters ended. Because of a high incidence of accidents caused by disposable lighters, METI partially revised the Enforcement Order for the Consumer Product Safety Law to subject disposable lighters and multi-purpose lighters to restrictions from December 27, 2010. According to the order, the regulated lighters must fulfil safety requirements, including child resistance-a function to prevent easy operation by children-, in addition to ensuring safety from the viewpoints such as structure, strength and flammability. Therefore from September 27, 2011 onward, the rule becomes that any lighter other than those carrying the PSC mark as proof of satisfying the safety requirements may not be sold.<sup>27</sup>

(2) On August 19, 2011 Japan engaged in certain testing of beef products. This was subsequently extended on till September 25, 2011. As a result of finding beef in commercial distribution with radioactive caesium exceeding the provisional regulation values, and on discovering that contaminated rice straw feed was the source of the problem, the following steps have been taken under the Act on Special Measure Concerning Nuclear Energy Preparations:

All beef from the prefectures of Fukushima, Miyagi, Iwate and Tochigi has been restricted from entering commercial channels until beef animals and products are proven not to exceed the provisional regulation values. The following measures will have to be followed:

- a. In Planned Evacuation Zones, Emergency Evacuation Preparation Zones and other specifically designated areas, all cattle will be subject to examination and only those cattle that show levels below the 500 Bq/kg regulation level will be allowed to be marketed.
- b. In other areas of Fukushima prefecture an examination of all farms will be carried out and samples drawn from every farm. Only those farms that show levels significantly below the regulation value will be approved for entering commerce. Cattle will continue to be subject to regular examinations.
- c. In Miyagi, Iwate, Tochigi Prefectures all cattle on farms that have had problems with feed management will be examined, and only those radioactive caesium values within the provisional regulation value will be approved for marketing. All other cattle farms in these prefectures will have their farms sampled and

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<sup>26</sup> July 29, 2011, Signing of Japanese ODA Loan with the Kingdom of Morocco, JICA Press Release, *available at* <http://www.jica.go.jp/english/news/press/2011/110729.html>

<sup>27</sup> End of the transitional period for regulations on lighters, METI, press release, Sep 2011, *available at* [http://www.meti.go.jp/english/press/2011/0927\\_03.html](http://www.meti.go.jp/english/press/2011/0927_03.html)

tested, and if they show levels below the regulation values, marketing will be approved. These farms will be subject to regular examination hence.

d. Other prefectures in Japan have voluntarily decided to institute similar testing regimes for the beef produced in their areas.<sup>28</sup>

### **III.B. Tariffs**

In September 2005, Japan initiated countermeasures against the United States in connection with the Byrd Amendment, which has been confirmed as being inconsistent with WTO Agreements. The countermeasures, which impose additional tariffs, have been renewed five times to date and it expired at the end of August 2011.

However, as the United States continues to perform distribution that was found to be illegal, the Japanese Government decided on an extension of the applicable period of the countermeasures by one year, with the tariff rates changed. During August, 2011 in meeting of the Council on Customs, Tariffs, Foreign Exchange and Other Transactions the following recommendations were presented for the final approval of the Cabinet.

#### ***The Byrd Amendment and Japan's countermeasures***

- The Byrd Amendment is legislation under which the U.S. Government distributes fiscal revenues derived from antidumping (AD) and countervailing (CV) duties collected from foreign companies to U.S. domestic producers who filed or supported an appeal for application of AD and CV measures.

- Even after the WTO's ruling of January 2003, which concluded that the Byrd Amendment constituted a violation of the WTO Agreements, the U.S. Government had maintained the aforementioned disposition. Accordingly, in September 2005, the Japanese Government decided to adopt countermeasures by imposing an additional 15% tariff on 15 items of U.S. origin, including steel products. (The EU, Canada and Mexico also implemented similar countermeasures.)

- In February 2006, the U.S. enacted a law that repealed the Byrd Amendment. However, this law contains transitional provisions under which all duties on entries of goods filed before October 1, 2007 shall be subject to the distribution under the Byrd Amendment. Thus illegal distribution is expected to continue for a substantial period of time, even beyond that year.

#### ***Extension of countermeasures***

- Since the countermeasures require calculations based on the amount of funds distributed in the prior year, they must be reviewed each year, and the current countermeasures that were reviewed and extended last September expired at the end of August this year.

- In order to urge the U.S. Government to immediately stop the distribution under the Byrd Amendment and rectify its acts in violation of the WTO Agreement, it is necessary for the Japanese Government to continue with the imposition of the ongoing countermeasures.

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<sup>28</sup> Government Actions to Ensure the Safety of Beef and Other Food, August 29, 2011, Government of Japan, available at [http://www.kantei.go.jp/foreign/kan/topics/201108/measures\\_beef.pdf](http://www.kantei.go.jp/foreign/kan/topics/201108/measures_beef.pdf)

- However, as the funds distributed in the last year have been reduced, the upper limit of countermeasures for FY 2010, which is calculated from these funds, is expected to be reduced as well. Therefore, the Japanese Government will change the tariff rates for the extended countermeasures.

**Outline of countermeasures for FY 2011**

- Based on 1 and 2 above, a one-year extension of the countermeasures with revised tariff rates was proposed and approved at the meeting of the Council on Customs, Tariff, Foreign Exchange and Other Transactions convened in August 2011.

- Accordingly, additional tariffs shall be imposed with the tariff rates changed from 4.1% to 1.7% on the following two items, and the Japanese Government will decide on the extension of the applicable period of the countermeasures by one year in a coming Cabinet Meeting.<sup>29</sup>

	Tax No.	Item	Tariff rate from Sept. 1, 2011 to Aug. 31, 2012	Tariff rate from Sept. 1, 2010 to Aug. 31, 2011
1	8482.10	Ball bearing	1.7%	4.1%
2	8482.20	Tapered roller bearing (including one combining a cone and a tapered roller)	1.7%	4.1%

The next quarterly review report shall have a special focus on the actual decision of the Cabinet taken in furtherance to this proposal.

**III. C. Trade Remedies**

No AD or CVD measure is reported to have been taken by Japan for the review quarter.

**PART IV: MEASURES AFFECTING EXPORTS**

**IV. A. Export Ban**

(1) On 20<sup>th</sup> July, 2011, in relation to the violation of the Foreign Exchange and Foreign Trade Act by Seibu Kosan Ltd., the METI made an administrative sanction to ban exports for one year and a month, starting from July 27, 2011 to Seibu Kosan Ltd., pursuant to the provision of Article 53, Paragraph 1 under the Act. The details of the ban in summarized as follows:

In spite of a notice received in March 2009 from the METI Minister indicating that application for permission should be filed, Seibu Kosan Ltd., exported a used power shovel to North Korea via China in April of the same year without obtaining permission from the METI Minister pursuant to the provision of Article 48, Paragraph 1 of the Foreign Exchange and Foreign Trade Act (Foreign Exchange Act).

Seibu Kosan Ltd. was thus subjected to the following administrative sanction imposing an export ban:

Goods banned from export	All goods
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<sup>29</sup> Extension of Japan's countermeasures against the U.S. Byrd Amendment, METI Press release, Aug 2011, available at [http://www.meti.go.jp/english/press/2011/0805\\_01.html](http://www.meti.go.jp/english/press/2011/0805_01.html)

Export ban regions	All regions
Export ban period	From July 27, 2011 to August 26, 2012 (One year and a month)

Hiromitsu Tsutsumi, the director of the company was subjected to the same administrative sanction imposing an export ban.

(2) On July 28, 2011, in relation to the violation of the Foreign Exchange and Foreign Trade Act, by FARST Co., Ltd., the METI made an administrative sanction to ban exports pursuant to the provision of Article 53, Paragraph 2 under the Act. The summary is as follows.

*Outline of the Incident*

- The export of luxury goods to North Korea requires permission from the Minister of Economy, Trade and Industry. Without obtaining relevant permission, FARST Co., Ltd. (City of Sakaiminato, Tottori) exported luxury goods (pianos) to Dalian, China in February 2009 for the purpose of export to North Korea via Dalian. Since November 15, 2006, export of luxury goods to North Korea has been banned as a measure under the Act in accordance with the United Nations Security Council Resolution.
- Furthermore, in October 2009, in spite of the ban on exports to North Korea under the Act, FARST Co., Ltd. exported confectionery to Dalian, China without permission from the METI Minister for the purpose of export to North Korea via Dalian. Since June 18, 2009, export of any goods to North Korea has been banned as a unique Japanese sanction measure under the Act.<sup>30</sup>

*Administrative Sanction*

Party subject to the sanction	FARST Co., Ltd.
Goods banned from export	All goods
Export ban regions	All regions
Export ban period	From August 3, 2011 to February 2, 2012 (six months) Export via a third party is also banned.

**IV. B. Export Promotion**

(1) The Cool Japan Creative Director Project aims to develop and implement a comprehensive communication strategy for editing various elements of Japanese culture and communicating them to people in Japan and abroad. To announce the outcomes of the Cool Japan Strategy Promotion Program to overseas, the Project aims to establish an integrated concept attractive to people overseas and put it into practice. The Creative Team set up on September, 23 2011, during the review quarter will build a mechanism (open platform) through which ideas on programs and communication schemes to promote the Cool Japan Strategy are gathered, evaluated then edited and will pave the way for embodying these ideas.

<sup>30</sup> Administrative Sanction (Export Ban) pursuant to the Foreign Exchange and Foreign Trade Act, METI Press Release, Aug, 2011, available at [http://www.meti.go.jp/english/press/2011/0728\\_01.html](http://www.meti.go.jp/english/press/2011/0728_01.html)

(2) In June 2010, the Government of Japan announced the “New Growth Strategy”. One of the key policy measures to stimulate the economic growth was the promotion of infrastructure-related exports to emerging economies. It aims to create infrastructure-related business worth Yen 19.7 trillion (US Dollar 220 bn) in the next ten years. JBIC launched on 1 April 2011, “E-FACE” (Enhanced Facility for Global Cooperation in Low Carbon Infrastructure and Equity Investment) with the aim of promoting a package of infrastructure related exports to emerging countries. On 15 July, 2011, a Ministerial ordinance was adopted by the Japanese Cabinet to expand the scope and nature of JBIC operations. It would extend to: (1) export finance for developed countries (e.g export of aircrafts, vessels and other infrastructure exports); (ii) investment finance to support Mergers and Acquisitions (M&A) by Japanese companies; (iii) project finance for projects in developed countries including natural gas power generation. The next quarterly report will attempt to understand these policy measures and its trade distorting aspects.

(3) During September 2011, METI implemented its "Cool Japan Strategy Promotion Program (Overseas Development Support Project)" focusing on the support of overseas sales channel exploitation etc. by small and medium enterprises (SMEs) as the first step of its "Cool Japan" strategy, which aims at an acquisition of 8 to 11 trillion yen in the global cultural industry market in 2020.

In 2011, METI selected 13 projects from publicly invited candidates and will implement three of them (projects in Tohoku food, fashion and content fields) in Singapore. METI believes that Singapore positively takes advantage of creative industries as a leverage to vitalize its economy, invite tourists and exploit markets in the area, and is willing to cooperate with Japanese SMEs and creators leading "Cool Japan".

The Ministers shared the view that creative industries were new growing industries and that they would create new opportunities for small and medium enterprises to bring richer consumer lifestyles in Asia. The Ministers reaffirmed that cooperation in the creative industries was an important new pillar of ties between Japan and Singapore.

The Ministers agreed on "Cooperation in Creative Industries" that will promote the following cooperation between the two countries:

- Cooperation for creative industries in both countries, exploitation of overseas markets;
- Collaboration in design and other specific fields, exchange of organizations concerned, exchange of human resources;
- Exchange and matching between the industrial worlds of the two countries through holding of related seminars and events (ex. "Cool Japan Months" held from October);
- Establishment of a working-level conference.<sup>31</sup>

The progress of such initiatives shall be tracked in the future reports and the potentials of India-Japan ties buildings on these lines would be proposed.

## **PART V: MEASURES AFFECTING PRODUCTION AND TRADE**

### **V. A. Loans and Assistance**

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<sup>31</sup> Release of Joint Press Statement on Enhancing Cooperation with Singapore in the Creative Industries, METI, Sep 2011, available at [http://www.meti.go.jp/english/press/2011/0923\\_01.html](http://www.meti.go.jp/english/press/2011/0923_01.html)

Considering the impact of the Great East Japan Earthquake and the strong yen, the Small and Medium Enterprise Agency (SMEA) decided that Safety-net Guarantee (No. 5) should cover all the 82 industries in the second half of FY 2011. Moreover SMEA also decided to continue the "Great East Earthquake Recovery Emergency Guarantee" and the "Great East Japan Earthquake Recovery Special Loan" programs in the second half of FY 2011.

By the first program, whereby Credit Guarantee Corporations guarantee 100% of loans made to small and medium enterprises (SMEs) both engaged in any of the industries designated as experiencing declines in business conditions and certified by the head of the local government as suffering difficulty in maintaining stable management. The guarantee limits under the program are separate from those for the general guarantee.

The Great East Earthquake Recovery Emergency Guarantee program is designed to help SMEs affected directly or indirectly by the disaster (including damage to a company's good name caused by unfounded rumors), and 100% of the loans are guaranteed by Credit Guarantee Corporations (aside from general guarantees). This will bring greater benefits than the existing programs through preferable interest rates, loan periods and deferment periods.

The Great East Japan Earthquake Recovery Special Loan program is designed to help SMEs affected directly or indirectly by the disaster (including damage to a company's good name caused by unfounded rumors) and will bring greater benefits than the existing programs through preferable interest rates, loan periods and deferment periods.

In the first half of FY 2011, all 82 industries were entitled to apply for Safety-net Guarantee (No. 5) in principle, in the aftermath of the Great East Japan Earthquake. SMEA has decided to maintain the same eligibility criteria in the second half of FY 2011 to cover all the industries in principle, considering the influence of the Great East Japan Earthquake and the high yen. The eligibility for Safety-net Guarantee (No. 5) will also be eased for SMEs experiencing a sharp decline in sales or similar difficulties due to the impact of the strong yen.

Likewise, the Great East Japan Earthquake Recovery Emergency Guarantee Program will continue throughout the second half of FY 2011.

SMEs meeting the following requirement will additionally be eligible- Due to the impact of the high yen, sales for the last month fell 10% or more from the same month last year, in principle, and average monthly sales for the three months including the subsequent two months are expected to decline 10% or more from the same period last year.

The program on Great East Japan Earthquake Recovery Special Loan was implemented for SMEs affected directly or indirectly by the disaster (including the damage of harmful reputation by the unfounded rumors) by the Japan Finance Corporation and Shoko Chukin since May 23, 2011, and considering the severe damage, SMEA has decided to continue this program in the second half in FY 2011.<sup>32</sup>

## **V. B. Subsidies**

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<sup>32</sup> Measures to assist SMEs' financing in response to the Great East Japan Earthquake and the strong yen, METI, Press Release, September 2011, *available at* [http://www.meti.go.jp/english/press/2011/0927\\_01.html](http://www.meti.go.jp/english/press/2011/0927_01.html)

(1) On 20<sup>th</sup> July, 2011, METI selected 6 projects to be granted the FY 2011 “*Subsidies for Strategic Promotion of Invigoration of Commercial Activities in Central Cities*” from applications in response to METI’s call for proposals.

#### *Outline of the subsidy program*

The government aims to develop compact and vibrant communities by subsidizing commercial revitalization projects that are planned and implemented jointly by private enterprises, community development companies and shopping district promotion associations in cooperation with local communities. To be eligible for the subsidy, a project must take place in a district (city center) where both “concentration of urban functions in the city center” and “the recovery of the vibrancy of the city center” are pursued in a coordinated manner in accordance with a basic plan authorized under the Act on the Improvement and Revitalization in City Centers. Direct financial support by the government is expected to increase the effectiveness of initiatives to reinvigorate city centers.

These projects to be subsidized were selected based on the results of deliberations by external experts<sup>33</sup>

(2) According to the news portal of METI, as updated on September 16, 2011, the “*Act on Purchase of Renewable Energy Sourced Electricity by Electric Utilities*” was approved at the 177th session of the Diet. This Act obliges electric utilities to purchase electricity generated from renewable energy sources (Solar PV, Wind power, Hydraulic power, Geothermal and Biomass) based on a fixed-period contract with fixed price. This will come into effect on July 1st, 2012.

Under the Act, costs incurred by the utility in purchasing renewable energy sourced electricity shall be transferred to the entire electricity customers, who pay the “Surcharge for renewable energy” in general proportional to electricity usage.

Under the Act, the following items would also be purchased:

Electricity generated from solar PV, wind power, hydraulic power (below 30MW), geothermal and biomass shall be purchased.

The FIT rate and contract period shall be determined corresponding to the type, form of installation, scale etc. of renewable energy sources. The rate and period shall be notified by the METI on the basis of the opinion from the newly established independent committee (members shall be appointed after authorization by the Diet). In the process of deciding the rate and period, METI minister shall consult with the ministers concerned (the Minister of Agriculture, Forestry and Fisheries, Minister of Land, Infrastructure, Transport and Tourism, Minister of the Environment and Minister of State for Consumer Affairs). To intensively promote the generation of renewable energy sourced electricity, special consideration shall be taken for the profit of the renewable energy sourced electricity suppliers in decision of the FIT rate for three years from the enforcement of the Act.

The following points shall be taken into consideration when deciding the rate and period:

*Rate-* Power generation cost usually required for supply of electricity using the renewable energy sourced power plant, profit to be earned by the renewable energy sourced power suppliers, etc.

*Period-* Typical period from installation of renewable energy sourced power plant to the time when renewal of the equipment becomes necessary.

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<sup>33</sup> Announcement of Award of FY 2011 Subsidies for Strategic Promotion of Invigoration of Commercial Activities in Central Cities, METI, July 2011, available at [http://www.meti.go.jp/english/press/2011/0720\\_01.html](http://www.meti.go.jp/english/press/2011/0720_01.html)

For coverage of the cost required for the purchase, it is approved that each electricity utility requests its customers to pay additional charge (Surcharge for renewable energy) on electricity price proportional to the electricity usage.

A plant or office engaged in a business with a ratio of the purchased electricity (kWh) to its sales amount (1,000 yen) exceeding a certain level and consuming beyond a certain amount of electricity shall be exempted from payment of 80% or more of the Surcharge.

Electricity customers that were significantly damaged by the Great East Japan Earthquake shall not be requested to pay the Surcharge from July 1, 2012 to March 31, 2013.<sup>34</sup>

The impact of these assistance and subsidies shall be closely monitored to evaluate if any form of assistance beyond the scope of recovery and reconstruction is being granted by the government and if the same could be made actionable under the WTO regime.

## V. C. Intellectual Property Regime

(1) The Committee on Examination Standards, under the Patent System Subcommittee of the Intellectual Property Policy Committee, the Industrial Structure Council, started discussion on the revision of the Examination Guidelines with respect to Part I, Chapter 1, “Requirements for Description and Claims” in September 2010.

The draft revision of the Examination Guidelines was prepared based on the discussion by the Committee on Examination Standards and subjected to public comments (from June 22 to July 21, 2011). In consideration of these results, the JPO shall revise the Examination Guidelines concerning the following requirements.

The Examination Guidelines will be revised as follows:

- The determination procedure regarding a violation of the requirements will be clarified, in response to opinions such as those pointing out that examination of the requirements is sometimes stricter than required and that judgment varies from one examiner to another.
- What the examiner should describe in the notice of reasons for refusal and how applicants can respond to the notice of reasons for refusal will be clarified, in response to opinions such as those pointing out cases where the notice of reasons for refusal does not mention specific reasons for the judgment of a violation of the requirements, leaving the applicant uncertain how to respond, and those requesting that the options for applicants who have received the notice of reasons for refusal should be clarified.
- The JPO will enhance explanations regarding the issues in (1) and (2) above with specific examples.

These revisions are expected to foster both uniform and appropriate decision during the examination of the requirements and smoother communication between the examiner and the applicant during examination by documentary proceeding. The revised Examination Guidelines will apply to examination on and after October 1, 2011.<sup>35</sup>

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<sup>34</sup> Present Status and Promotion Measures for the introduction of Renewable Energy in Japan, METI Press Release, Sep 16, 2011, *available at* [http://www.meti.go.jp/english/policy/energy\\_environment/renewable/pdf/summary201109.pdf](http://www.meti.go.jp/english/policy/energy_environment/renewable/pdf/summary201109.pdf)

<sup>35</sup> JPO to revise the Examination Guidelines regarding “Requirements for Description and Claims”, METI Press Release, September 2011, *available at* [http://www.meti.go.jp/english/press/2011/0928\\_01.html](http://www.meti.go.jp/english/press/2011/0928_01.html)

(2) The Office of Intellectual Property Protection decided to start investigation of the case regarding pirated products in Malaysia, as requested by the Association of Japanese Animations (AJA) and the Japan Video Software Association (JVA) under the Investigation System for Intellectual Property Rights Violations Abroad. AJA and JVA have been notified of this decision.

METI has established this organization as the government's single consultation office about intellectual property issues that promptly responds to requests for advice from rights-owners and companies. Inaugurated in April 2005, the Investigation System for Intellectual Property Rights Violations Abroad (Mutual Agreement Procedures) allows private enterprises and other parties to file petitions to request the government to investigate intellectual property rights violations taking place abroad. The government decides whether to start an investigation in response to each petition and, if a positive decision is made, completes the investigation within six months. Where needed, the government proceeds to take measures through bilateral consultation with the country involved or by other means. Based on the investigation results, the government will take measures as necessary, such as requesting the Malaysian government to take remedial actions

On July 8, 2011, AJA and JVA filed a petition under the above system. The government reviewed it and decided that investigation should be started because the case is strongly suspected to involve copyright infringement. The Office of Intellectual Property Protection notified both associations of this decision on August 4.

The petition claims as follows: In Malaysia, numerous DVDs containing pirated video content from Japan are sold on the market. Since these pirated DVDs bear hologram stickers pursuant to the nation's "Trade Descriptions (Optical Disc Label) Order 2010," they mislead consumers into believing that they are legitimate products.<sup>36</sup>

## **V. D. Competition regime**

Bid-rigging is one of the most serious anticompetitive conducts and constitutes the violation of the Antimonopoly Act.<sup>37</sup> In some of bid-rigging cases, it was found that officials of procuring agencies were involved in or even led them. The AMA is applicable to enterprises which commit bid-riggings, but not to the procurer side. Against the backdrop, the "Act on Elimination and Prevention of Involvement in Bid Rigging, etc. and Punishments for Acts by Employees that Harm Fairness of Bidding, etc." (Act No. 101 of 2002) (hereinafter "Involvement Prevention Act") was enacted in Japan. According to the Involvement Prevention Act, the JFTC may, when it recognizes involvement of an official of procurement agency in a bid-rigging, demand that the head of the agency should implement improvement measures necessary for eliminating the said involvement. Once the agency receives the demand from the JFTC, it shall perform necessary inspection and implement measures to eliminate such involvement by its employee.

Unfortunately, cases have been continuously observed to which the Involvement Prevention Act applies. Having recognized such circumstance, the JFTC conducted a survey, by questionnaires to and interviews with procuring agencies (central and local governments, and government-owned institutions) subject to the Involvement Prevention Act, to identify the state and challenges in deterring such involvements. The objective of the survey is to help procuring agencies improve the effectiveness of preventive measures taken by them.

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<sup>36</sup> Start of investigation under the Investigation System for Intellectual Property Rights Violations Abroad, METI, Aug 2011, available at [http://www.meti.go.jp/english/press/2011/0804\\_01.html](http://www.meti.go.jp/english/press/2011/0804_01.html)

<sup>37</sup> Hereinafter "AMA"- This legislation was explained elaborately in the 1<sup>st</sup> review quarter report.

The report on the survey published on September 28, 2011, showed extensive scope of the preventive measures. For example, it mentioned that only about 25% of procurement agencies provide their employees with training courses on the Involvement Prevention Act in the last three years. Among other things, the report stresses, based on the analysis of previous cases, that it is essential for senior officials to explicitly show every employee the intent as an organization that involvement in bid-rigging would never be justified.<sup>38</sup>

## PART VI- TRADE POLICY AND MEASURE BY SECTOR

### VI. A. Agriculture

The PM policy speech in the 178<sup>th</sup> Diet session reiterated the idea that "*agriculture is the backbone of a country*". Food supports and nurtures life. Due to the very fact that consumers demand a high standard of safety and reassurance, the agriculture, forestry, and fisheries industries of Japan may possibly become growth industries that assume the lead in the new era. Using efforts to revitalize agriculture, the core industry in affected areas in the Tohoku region, as a gateway, concrete measures will be compiled in order to swiftly revitalize the agriculture, forestry, and fisheries industries in accordance with the midterm recommendations of the Council for the Realization of the Revival of the Food, Agriculture, Forestry, and Fishery Industries.

The major developments in the field of agriculture, during the review quarter include the following:

(1) *Easing import controls introduced in response to the accident at the Fukushima Daiichi Nuclear Power Station of Tokyo Electric Power Company (TEPCO) in Malaysia*- On July 1, 2011, the Malaysian Government decided to require only certificates of product areas in importing products from all prefectures in Japan. However, food products harvested and processed in 8 prefectures of Fukushima, Gunma, Ibaraki, Tochigi, Miyagi, Kanagawa, Saitama, and Chiba required total lot inspection in Malaysia.<sup>39</sup>

(2) On August 2, 2011, the Council to Promote the Revitalization of Food, Agriculture, Forestry, and Fisheries published an Interim Report for the Revitalization of Japan's Food, Agriculture, Forestry, and Fisheries.

Context of the report- According to the report Japan's food, agriculture, forestry, and fisheries are facing serious circumstances, such as declining incomes, serious shortages of core farmers, and an aging population. Vitality of rural areas is also declining. Enhancing the competitiveness and soundness of food, agriculture, forestry, and fisheries is a critical issue to be tackled without delay. At the same time, if Japan's trade and investment environment becomes worse to that of other countries, it may lead to the loss of employment opportunities in the future.

On the other hand, the situation immediately after the Great East Japan Earthquake reminded Japan of the necessity of stable food supplies in the event that food production and distribution are interrupted. Taking this opportunity, people concerned with agriculture, forestry, and fisheries need to reform their mind-set with a view to meeting people's expectations for these industries, which are the fundamental

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<sup>38</sup> JFTC Published the Report concerning Measures Taken by Procuring Agencies to Prevent Procurement Officials from Being Involved in Bid-rigging, September 28/2011, Japan Fair Trade Commission, *available at* <http://www.jftc.go.jp/en/pressreleases/archives/individual-000442.html>

<sup>39</sup> Easing import controls introduced in response to the accident at the Fukushima Daiichi Nuclear Power Station of Tokyo Electric Power Company (TEPCO) in Malaysia, MAFF, July 1, 2011, *available at* [http://www.maff.go.jp/e/quake/press\\_110701-malaysia.html](http://www.maff.go.jp/e/quake/press_110701-malaysia.html)

building blocks for the life of the people. Bringing domestic and foreign markets into the view, it is necessary to recognize again the originality, advantages, specialties, and specific features of products from Japanese agriculture, forestry, and fisheries, thereby swiftly restoring the “Japan brand”. Therefore, the report specifically described the seven strategies for the revitalization of agriculture, forestry, and fisheries.

*Strategy 1- Enhancing the competitiveness and soundness*

This can be done by securing ambitious core farmers and gathering scattered farmlands. Along with the appropriate promotion of the Program for the Direct Payment of Income Support and the shift of cultivated lands into larger blocks, schemes to gather scattered farmlands and to enhance the competitiveness and soundness of agriculture can be implemented.

*Strategy 2- Enhancing the competitiveness and soundness*

The Sixth Industrialization, transformation into growing industries, and more efficient distribution system should be implemented. Under this strategy, reconstructing the distinctive features of “deliciousness,” “safety,” and “environmental friendliness” should be done with respect to the production skills, manufacturing skills, management, and marketing.

Based on the new relationships between supply side and demand side, initiatives contributing to the reconstruction of “Japan brand” should be considered, such as a festival for food, agriculture, forestry, and fisheries with a wide range of participation, including foreign consumers, stakeholders in industry, and governments.

Export strategies, including enhancement of exporting system, should be rebuilt in order to restore confidence in Japan’s agricultural, forest, and seafood products and foods, thereby recovering from the decline and increasing exports again.

*Strategy 3- Promoting the utilization of resources in rural areas for energy production is the third strategy of the government.*

In order to promote the initiatives mentioned above, technological development of renewable energy should be accelerated, and, at the same time, an independent decentralized energy system (smart village), which is resistant to disasters and highly efficient, should be introduced as a model.

*Strategy 4- Revitalization of forests and forestry with the goal of 50 % wood self-sufficiency, promoting “Forest and Forestry Revitalization Plan” should be executed.*

*Strategy 5- Revitalizing fisheries are another agenda which can be executed by Forest and resource management.*

Initiatives should be taken by distributors and processors for stable supply of safe seafood products should be supported. In addition, functions for distribution and processing in fishing ports, which function as a central platform for the Sixth Industrialization, improved quality and hygiene control, and production and distribution of seafood products, should be strengthened.

*Strategy 6- This pertains to constructing earthquake resistant infrastructures for agriculture, forestry, and Fisheries.*

*Strategy 7- This aims at taking effective countermeasures against nuclear disasters.*

The various actions undertaken by the government in furtherance to these strategies over the covered time frame shall be closely monitored in the next review reports.

## **VI. B. Manufacturing sector**

The conditions of certain small and medium enterprises (SMEs) in Japan, post the natural calamities indicated the following trend.

From July to September 2011, the business conditions DI for all industries improved by 8.2 percentage points from negative 34.8 in the preceding quarter to negative 26.6, decreasing the negative gap.

The business conditions diffusion index (DI) for the manufacturing sector improved by 8.3 percentage points from negative 28.8 in the preceding quarter to negative 20.5, decreasing the negative gap. Looking at the business conditions DI of each industry, the negative gap expanded for three industries: chemical products industry, electricity/ information and telecommunication equipment / electronic parts industry, and machinery industry. However, DI improved with decreasing the negative gap for transportation equipment because the supply chain recovered and large enterprises restarted their plants. Further, the negative gap decreased in 11 other industries including wood and wooden products, pulp/ paper/paper processing products and food industries.

The business conditions DI for the non-manufacturing sector improved by 7.7 percentage points from negative 36.5 in the preceding quarter to negative 28.8, decreasing the negative gap. By industry, the negative gap decreased for all of wholesale, service, construction and retail industries.

The financing DI for all industries improved by 5.9 percentage points, from negative 26.8 in the preceding quarter to negative 20.9. The DI measuring long-term financing difficulty improved by 1.5 percentage points from negative 13.9 in the preceding quarter to negative 12.4. And the DI of short-term financing difficulty improved by 1.5 percentage points, from negative 10.3 in the preceding quarter to negative 8.8 with the negative gap reduced.<sup>40</sup>

## **VI. C. Health sector**

During October 25-28, 2011, the Ministry of Health, Labour and Welfare, Japan, organized the ASEAN & Japan High Level Officials Meeting on Caring Societies, held annually since 2003, with participation of the high-level administrative officials who are in charge of health and social welfare from ASEAN countries, for strengthening the development of human resources and promoting collaborative relationships between the ASEAN countries and Japan.

The High Level Officials Meetings serve as a vital platform which supports the ASEAN+3 Health Minister's Meetings and the ASEAN+3 Ministerial Meetings on Social Welfare. The proceedings, discussions, and recommendations of the previous eight High Level Official Meetings were reported to the above-mentioned ASEAN+3 Meetings, in which ASEAN countries expressed profound gratitude for the initiative taken by Japan and expectations to the further meetings.

## **VI. D. Energy sector**

The PM policy speech before the 178<sup>th</sup> meeting of *Diet*, focussed on the reconstruction of energy policy in Japan. The policy stated that the first step towards rebuilding Japan's economy is reconstructing its energy policy. Japan continues to face a situation where the supply and demand of electricity is constrained due to the nuclear power station accident. Without the stable provision of electricity, which is the very "blood" of Japan's economy and society, the foundation for Japan's affluent lifestyle will lose stability and the nation will become unable to bolster domestic industrial activities.

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<sup>40</sup> 125<sup>th</sup> survey of SMEs business conditions, (July-Sep, 2011), METI, Press Release, Sept. 2011, *available at* [http://www.meti.go.jp/english/press/2011/0929\\_01.html](http://www.meti.go.jp/english/press/2011/0929_01.html)

The speech further stated that in order to empower Japan to escape the situation of being forced to endure energy-saving measures, Japan will spend the next one or two years implementing supply and demand countermeasures. At the same time, Japan aims to revise from scratch the current Basic Energy Policy, which lasts until 2030, and will create a new strategy and plan by around summer of next year. In doing so, Japan will steadily consider a mid- to long-term energy composition that citizens can feel comfortable with from the perspective of energy security as well as using cost analyses, while widely taking into account the views of wide-ranging groups of citizens.

Concerning nuclear power generation, the speech highlighted that it is unproductive to grasp nuclear power as a dichotomy between "zero nuclear power" and "promotion." In the mid- to long-term, Japan must aim to move in the direction of reducing our dependence on nuclear power generation as much as possible. At the same time, however, Japan will restart operations at nuclear power stations following regular inspections, for which safety has been thoroughly verified and confirmed, under the premise that a relationship of trust is developed with the local government. As per an organizational restructuring of nuclear safety regulation, the Nuclear Safety and Security Agency will be established as an affiliated agency of the Ministry of the Environment and will work to boldly unify regulations for nuclear power safety.

Japan will utilize its advanced technological power to pair regulatory reform with measures to promote dissemination in transmitting a cutting-edge model for energy conservation and renewable energies to the world.

### ***Innovative strategies for energy and environment in Japan***

On July 29, 2011, The Energy and Environment Council published a report titled, Interim Compilation of Discussion Points for the Formulation of "Innovative Strategy for Energy and the Environment", which spelt out the basic lessons learnt from Fukushima nuclear plant disaster and laid different strategies for the future. This report highlighted issues enumerating strategy process for short-term, medium-term and long-term actions.

#### *Short-term (actions for the next three years): Conducting energy structural reform ahead of initial schedule*

- Making all efforts to stabilize immediate supply and demand for energy.
- Deepening national discussions for reducing dependency on nuclear energy and deciding the measures.
- The government will start reform of demand structure, diversification of supply structure that is more efficient and more environment-friendly, and electric power system reform projects. At the same time, it will thoroughly investigate nuclear accident/safety programs and re-examine policies and regulations for nuclear power. It will decide appropriate actions for reducing dependency on nuclear energy after deep national discussions.
- For immediate supply and demand for energy is unstable, the government stabilizes it by taking measures for peak-time electricity shortage and cost increasing based on Measures to Stabilize the Immediate Supply and Demand for Energy. As for nuclear energy, nuclear power plants will be utilized if their safety is confirmed.
- The government will immediately develop policy supports and systemic reform plans in half a year or a full year to reform demand structure and diversify supply sources, aiming at synergy effects with social awareness-raising programs.

#### *Medium-term (toward 2020): Aiming at a new best mix and new energy systems*

- Around 2020 at latest, the government will work on diffusing and encouraging distributed energy systems.

- It will implement full-scale strategies based on a new energy mix, including reduction of dependency on nuclear energy.

*Long-term (toward 2030 or 2050 from 2020): Realizing outcomes from a new best-mix and new energy systems*

- The government will attain a new best energy mix from 2020 to 2030 or 2050 and make efforts so that new electric power systems based on new technology schemes be established and take root.
- Different suggestions were made for incorporating reforms in the areas of: fixed-price purchase (FIT: feed-in tariff) program, Overseas export and international contribution of problem-solving social systems in green innovation. These suggestions were a part of plan under: (1) Energy saving; (2) Renewable energies; (3) Resources and fuel; (4) Nuclear energy; (5) Electric power system; (6) Energy and environment industry.

The focus of most of the nations including Japan on the energy sector especially the renewable energy is an upcoming area where policies are designed. The subsequent reports will cover the impact of these policies and the level to which Japan is able to achieve its target with the given state contribution.

## Annexure I

### WTO dispute settlement during the review quarter

#### Implementation notified by respondent

Dispute details	Complainant	Respondent	Provisions involved	Disputed matter	Proceedings and current status
DISPUTE DS376	Japan	European communities	GATT 1994: Art. <u>II</u> , <u>II:1</u> , <u>X:1</u> , <u>X:2</u> , <u>XXIII</u> , <u>XXIII:1</u>	The United States, Japan and Chinese Taipei assert that a number of EC customs classification legal instruments, alone or in combination with Council Regulation (EEC) No. 2658/87 of 23 July 1987 on the tariff and statistical nomenclature and on the Common Customs Tariff, including all annexes thereto, as amended, appear to be inconsistent with the EC's and its member States' obligations under	On 16 August 2010, the panel reports were circulated to Members The panel report can be summarized as: The European Communities fails to accord treatment no less favourable than that set forth in its Schedule to the commerce of the other WTO Members, in particular certain flat panel display devices that are capable of receiving and reproducing video images both from an automatic data-processing machine and from a source other than an automatic data-processing machine, or that have a DVI interface, whether or not they are

				<p>Article II:1(a) and II:1(b) of the GATT 1994 and their Schedules, and therefore nullify or impair benefits accruing to the United States, Japan and Chinese Taipei under the GATT 1994.</p> <p>The United States and Chinese Taipei also claim that the publication of certain amended explanatory notes in the EC Official Journal after their application by its member States is inconsistent with the EC's obligations under Article X:1 and X:2 of the GATT 1994.</p>	<p>capable of receiving signals from another source. Thus, the European Communities is inconsistent with Article II: 1(a) of the GATT 1994. Therefore, the United States has failed to establish that the measures are inconsistent with Articles II: 1(a) and II: 1(b) of the GATT 1994 because the concessions require duty-free treatment for the products falling within their scope.</p> <p>In conclusion, the panel found that to the extent that the European Communities has acted inconsistently with Articles II:1(a), II:1(b), X:1 and X:2 of the GATT 1994, it has nullified or impaired benefits accruing to the United States, Japan and Chinese Taipei under that Agreement.</p> <p>On 6 July 2011, the European Union and Japan notified the DSB of Agreed Procedures under Articles 21 and 22 of the DSU. This was followed by an adoption of the panel report by the respondent on July 20, 2011.</p>
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