



TRADE POLICY DEVELOPMENTS PAPER NO. 25

TRADE POLICY MONITORING REPORT

OF

JAPAN

(April 2012- June 2012)

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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 consultancy project awarded by the Centre for WTO Studies, Indian Institute of Foreign Trade (IIFT), New Delhi.

EXECUTIVE SUMMARY

- The GDP shows slight increase along with the increase in volume of exports. But trade deficits show no improvement.
- As a fiscal policy measure, Japan might witness the passage of legislation pertaining to consumption tax, though the political tussle continues.
- The trade meetings and negotiations continued and Japan actively took part in several such meetings with countries including, Australia, China, Russia. The quarter also witnessed Japan's out-reach to countries including Iraq and Africa. Negotiations with ASEAN and other Asian countries continued.
- Japan and Korea also concluded an investment agreement during the quarter.
- Aid for trade activities continued during the quarter with Japan's aid extending to countries such as South Sudan, Vanuatu etc.
- As a measure of export promotion, 'Cool Japan' strategies continued and the quarter witnessed the growing ties between Tokyo and Beijing.
- In the realm of tax policy, the US and Japan partnered for devising policies to prevent tax evasion at the international level.
- In the area of Intellectual Property Right, Japan investigated the continued infringement of IP laws by China. It suggested that the measures taken by the Chinese government have not been conclusive as more surveillance is required.
- Japan conducted an in-depth analysis into its industrial sector, especially the functioning of SMEs wherein it was revealed that to maintain its competitive edge it has to fight against growing competition provided by countries such as India, China.
- As a part of WTO dispute settlement mechanism, Japan remained active in initiating the much publicized dispute against China on the issue of rare earth metals and their exports.

THEMES TO BE FOCUSED DURING THE NEXT REPORTS

- The negotiation between Japan and EU especially in the area of energy etc. would continue to be strategically important for India, which is in the process of finalizing its FTA with the EU.
- The advantages and collaboration with respect to 'cool Japan' strategies is yet to be worked out between India and Japan. Future co-operation in this regard would remain crucial.
- The Progress in the RCEP negotiations need to be studied

Economic Condition

The first preliminary GDP estimates for first quarter of 2012 showed real growth of +4.1% (qoq, annualized).¹ Analysts state that this came in above prior expectations (Bloomberg consensus: +3.5%; Credit Suisse forecast: +3.8%), supported by resilient consumption and rebuilding investment in the earthquake devastated area. It also included a temporary rebound from the widespread flooding in Thailand around the end of last year. Thus it is suggested that the growth rate in Q2 would normalize to a slower pace.

Foreign demand and external balance

Customs-cleared trade data for April 2012 have reported a ¥480.2 billion deficit in seasonally adjusted terms to mark the fourteenth straight month of deficits. This is about the same pace as the January-March aggregate deficit (¥1.44 trillion, or -1.2% of GDP), with no clear sign that the trade deficit is improving despite the cyclical recovery in exports.

The BOJ's data on real imports and exports showed strong 6.3% mom growth (0.0% in March) in export volume in April. The US's ISM New Orders Index and China's PMI indicate that economic sentiment in the manufacturing industry is nearing its peak, and METI's forecast survey projects weak growth with a 4.1% mom drop in production in May. For this reason, it is predicted that there is a good chance that the growth in export volume could gradually slow.

In addition, import volume rose 2.0% mom (up 3.9% in March). The current account surplus was ¥785.5 billion seasonally adjusted in March, down from ¥856.2 billion in February. The Jan-Mar aggregate amounted to ¥1780.5 billion, or an annualized pace of around ¥7 trillion. This is equivalent to about 1.4% of GDP, below the 2.1% ratio in 2011.

¹ Japan's Economics Weekly, Credit Suisse, Economics Research, 24 May 2012 available at: https://doc.research-and-analytics.csfb.com/docView?sourceid=em&document_id=x451607&serialid=NKG8NPZVU%2F1b7zdiZCco1f%2BEATvCzY%2FH%2Bgtzufaql58%3D (last visited on 09.09.2012)

According to forecasts, the trade balance is expected to contract as exports recover around the April-June quarter.

Employment

March's unemployment rate was flat from 4.5% in February, as a (-)170K fall in employees (seasonally adjusted) was offset by a shrinking labor force (-210K). On a quarterly basis, January employment rose +240K, confirming a gradual recovery path. The quarterly increase in employment was seen across a wide range of sectors, such as manufacturing (+150K), information & communications (+70K), financial services (+60K), medical & healthcare (+70K), and other services (+150K).

Bank of Japan statistics

The monetary base increased 90.5% mom (seasonally adjusted, annualized) in April, after the 11.7% construction in March. The monetary base shrank 0.3% y-o-y, partly due to the expansion in the liquidity supply in response to the Tohoku earthquake in this same month a year earlier. At 0.9%, growth in banknotes in circulation was flat from the previous month. The current account balance decreased 2.9%, after falling 3.6% in March.

Monetary Policy updates

The BOJ decided to leave monetary policy unchanged at its monetary policy meeting held on 22-23 May, 2012. The bank left the size of its asset purchase program, through which it buys long-term JGBs and other assets, at ¥70 trillion and put off making additional easing measures. The meeting offered no surprises, in line with the market consensus.

Fiscal policy and political situation

On May 21, 2012, Prime Minister Yoshihiko Noda reaffirmed his determination to pass the legislation for a consumption tax in the current Diet session, stating during a special parliamentary committee meeting on the integrated social security and tax reforms that his intention to pass the bill after serious debates between the government and opposition parties is “unwavering.” However several oppositions to the ruling party might come its way in the light of this action.

At a special parliamentary committee meeting on the integrated social security and tax reforms held on May 22, Deputy Prime Minister Katsuya Okada remarked on the DPJ's public pension scheme, in which the minimum guaranteed pension is a pillar. His statement that "there is no need to be hung up on the DPJ proposal if the parties can decide on a final draft in discussion together" suggested that the DPJ proposal could be withdrawn if the ruling and opposition parties reach a consensus. However, the LDP is pressing its own counter-proposal, which does not bode well for interparty negotiations.

PART II- TRADE AGREEMENTS AND NEGOTIATIONS

Trade Meetings

Japan-Australia

The 15th round of negotiations on the Japan-Australia Economic Partnership Agreement (EPA) was held from April 23 to April 27 in Canberra. In this round, useful discussions were held in areas such as trade in goods and services, investment, rules of origin, and food supply. A summary of the discussions is as follows:

- (1) In respect of market access of trade in goods, both sides had broad range of discussions on their concerns based on the discussions so far, regarding both primary products and industrial products.
- (2) In respect of trade in services and investment, both sides continued discussions on their respective requests and the draft texts.
- (3) In respect of rules of origin, both sides continued discussions on remaining issues including the draft text.
- (4) In respect of food supply, both sides discussed the draft text regarding stable supply of food.² Similar issues were also deliberated upon in the 16th negotiation rounds held in Tokyo, Japan.

² Summary of the 15th Round of Negotiations on the Japan-Australia Economic Partnership Agreement, Ministry of Foreign Affairs, Japan, April 27, 2012 at http://www.mofa.go.jp/announce/announce/2012/4/0427_03.html (last visited on 09.09.2012)

Japan-China

At the Japan-China-ROK Trilateral Summit Meeting held in Beijing on May 13, 2012, a conclusion was reached among the leaders of the three countries that China-Japan-Korea FTA negotiations should be launched within this year, and that the three countries should immediately start preparation work, including domestic procedures and working level consultations.³

Later the three countries also signed the ‘Agreement among the Government of Japan, the Government of the Republic of Korea and the Government of the People's Republic of China for the Promotion, Facilitation and Protection of Investment (the Japan-China-Korea Trilateral Investment Agreement)’. The agreement aims at improving the investment among these countries thereby contributing to their economic growth. This forms the first legal framework among these countries in the field of economy, which has not only economic but also political significance from the aspect of enhancing their relationships.⁴

Japan-South Africa

On May 31, 2012, ministers from Japan and South-Africa, exchanged views on the Japan-South Africa industrial cooperation and other issues, and signed a joint statement to further strengthen economic ties between the nations. This becomes vital in the context that South Africa has started attracting Japan's industries as an emerging market in the African region and as a supplier of numerous resources, including rare metals. The ministers exchanged views on an approach to promoting bilateral cooperation, including the facilitation of infrastructure and resources development, and trade and investment in South Africa. In particular, both nations agreed to jointly study the promotion of Japanese companies' investment in South Africa, and the fostering of supporting industries and technology transfer in auto-parts and other industries, under the leadership of the Japan-South Africa Joint Trade Committee (JTC), established in 2006. Japan

³ The Working Level Meeting on the Preparation for the Launch of China-Japan-Korea FTA, METI, June 2012 at: http://www.meti.go.jp/english/press/2012/0620_01.html (last visited on 07.09.2012)

⁴ Signing of the Japan-China-Korea Trilateral Investment Agreement, May 2012 at: http://www.meti.go.jp/english/press/2012/0513_01.html (last visited on 09.09.2012)

and South Africa also confirmed that they would support each other to advance a project for supporting Africa's development plans, preparing for the fifth Tokyo International Conference on African Development (TICADV), which will be held in Yokohama in June 2013. After the talk, the Ministers signed a joint statement to further strengthen economic ties between the nations.⁵

Japan-Russia

On the occasion of the APEC Meeting of Ministers Responsible for Trade (MRT) which took place in Kazan, Russia, Japanese and Russian ministers attended the Fifth Japan-Russia Investment Forum. The meeting was followed by a signing ceremony of agreements on economic partnership projects between Japanese and Russian companies.⁶

Japan-Iraq

On June 7, 2012, Japan and the Republic of Iraq signed the 'Agreement between Japan and the Republic of Iraq for the Promotion and Protection of Investment'. The purpose and the proposed effects of the agreement would be:

1) Protection of investment and improvement of the investment environment- The Agreement stipulates 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 Iraq and to facilitate Japanese companies' investment there.

2) Enhancement of bilateral relationship- As Iraq is endowed with abundant resources and a large market of over 30 million people, it is expected for Japanese companies to expand their business in various areas, such as energy, infrastructure, trading, investment and other industrial areas. The Ministry of Economy, Trade and Industry (METI) is now aiming at the enhancement of Japan-Iraq economic ties through the promotion of business activities, including the first Japan-Iraq Joint Economic Committee held in Tokyo on May 29, 2012. It is expected that the

⁵ Japan-South Africa Joint Statement for Strengthening Economic Ties, May 2012 at: http://www.meti.go.jp/english/press/2012/0531_01.html (last visited on 09.09.2012)

⁶ Keynote Speech of Minister Edano at the Fifth Japan-Russia Investment Forum, June 2012, METI, at: http://www.meti.go.jp/english/press/2012/0607_04.html (last visited on 09.09.2012)

Agreement will facilitate Japan-Iraq investment activities and bilateral personnel exchanges involving such activities.⁷

Japan-Mongolia

The First Round of Negotiation for the Mongolia- Japan Economic Partnership Agreement (JMEPA) was held from June 4-7, 2012 in Mongolia. The scope of negotiations include broad range of issues such as Trade in Goods, Trade in Services, Rules of Origin, Customs Procedures, Investment, Intellectual Property, Competition, Cooperation and Improvement of Business Environment.⁸

Japan-ASEAN

From April 25-28, the “ASEAN Road Show” took place in Sendai and Tokyo with the ASEAN Economic Ministers (AEM) visiting these places for the purpose of promotion of trade/investment, etc. The highlights of the meeting included:

1) Boosting trade and investment between ASEAN and Japan in the evolving regional architecture

- Promoting mutual investment between Japan and ASEAN, especially investments by SMEs
- Welcoming the “Asia Caravan” by JETRO to introduce high-quality products to ASEAN, strengthening support for service industries in ASEAN, including retail, distribution and other businesses, and supporting trade through NEXI's trade and investment insurance
- Reviewing and improving the ASEAN+1 FTAs and bilateral EPAs into more user-friendly agreements, with a view to advancing wider regional integration
- Working toward the launch of negotiations for the Regional Comprehensive Economic Partnership (RCEP) by year-end through the ASEAN Plus Working Groups
- Materializing the idea of “connectivity master plan plus”

⁷ Signing of Bilateral Investment Agreement between Japan and the Republic of Iraq, METI, June 2012 at: http://www.meti.go.jp/english/press/2012/0607_04.html (last visited on 09.09.2012)

⁸ The First Round of Negotiation for the Mongolia- Japan Economic Partnership Agreement (JMEPA) Held, June 2012, METI at: http://www.meti.go.jp/english/press/2012/0607_01.html (last visited on 09.09.2012)

2) Strengthening strategic economic relations between ASEAN and Japan towards the future

- Developing the Roadmap with a vision of doubling trade for the mutual benefit of ASEAN and Japan for the next decade by the next AEM-METI meeting in August 2013
- Focusing on the following five priority areas: trade and investment liberalization, facilitation and promotion, system harmonization, improvement of logistics and distribution networks, narrowing development gaps, and promoting advanced industrial development
- Soliciting inputs from the business community on the Roadmap, and Supporting the dialogue with the Secretary General and the Federation of Japanese Chamber of Commerce and Industry in ASEAN (FJCCIA) in July 2012
- Promoting and supporting the efforts of the Asia Professional Education Network (APEN) and the Economic Research Institute for ASEAN and East Asia (ERIA) to strengthen networks of SMEs, and supporting efforts geared towards human resource development for SMEs by JCCI and Japan International Cooperation Agency (JICA).
- Strengthening on-going public-private dialogs to realize the Smart Communities in South-East Asia through mission schemes organized by New Energy and Industrial Technology Development Organization (NEDO).

3) Establishing a Disaster Resilient Society in East Asia

- Promoting the Disaster Management Network for the ASEAN region, including utilizing the Satellite Network System
- Tasking ERIA to further study the disaster preparedness of ASEAN's supply chain networks
- Supporting individual disaster management system focusing on disaster risk assessment and business continuity plans.⁹

⁹ The ASEAN Road Show Held in Japan, May 2, 2012, METI at: http://www.meti.go.jp/english/press/2012/0502_03.html (last visited on 06.09.2012)

Japan-Africa

During May 30 to June 7, 2012, JETRO sent business missions consisting of Japanese coffee-related firms to two major coffee-growing countries, Kenya and Rwanda. The mission was aimed to visit local coffee plantations and processing factories of quality beans used in specialty coffee and inspect their production process. Coffee tastings was scheduled by local exporting firms to savor the various flavors of beans from each area.

The import volume of coffee beans to Japan in 2011 indicates an overconcentration of suppliers from Columbia and Brazil, which together account for about 50% of imports. Given the situation, many companies involved in trading, roasting and retailing coffee are trying to differentiate themselves by selling specialty coffees from a wide variety of production areas. By dispatching this mission, JETRO aimed to promote business talks between Japanese firms and African coffee producers as well as bring a diversification of coffee suppliers.¹⁰

Investment agreement

On May 11, 2012, the Government of Japan decided at its Cabinet Meeting to sign the Agreement among the Government of Japan, the Government of the Republic of Korea and the Government of the People's Republic of China for the Promotion, Facilitation and Protection of Investment.¹¹

Aid for Trade

Japan-Myanmar

The Government of Japan decided to extend Grant Aid for two projects in the Republic of the Union of Myanmar up to 583 million yen and 251 million yen, respectively. On April 21, 2012,

¹⁰ JETRO mission to Rwanda and Kenya to diversify coffee bean suppliers, April 19, 2012 at: <http://www.jetro.go.jp/en/news/releases/20120420487-news> (last visited on 06.09.2012)

¹¹ Decision of Signing of the Japan-China-Korea Trilateral Investment Agreement, May 11, 2012 at: http://www.mofa.go.jp/announce/announce/2012/5/0511_01.html (last visited on 06.09.2012)

notes to this effect were exchanged in Tokyo. The Project for Mangrove Rehabilitation Plan for Enhancement of Disaster Prevention in Ayeyawady Delta was the first project in the list.¹²

Japan-South Sudan

On June 28, the Japan International Cooperation Agency (JICA) signed Grant Agreements with the Government of the Republic of South Sudan to provide grants for three projects: the Project for the Improvement of Water Supply System of Juba in South Sudan (grant limit: 3.869 billion yen), the Project for Improvement of Juba River Port (Detailed Design)(grant limit: 75 million yen) and the Project for Construction of Nile River Bridge (Detailed Design)(grant limit: 131 million yen). These were the first Grant Agreements signed between Japan and South Sudan, which became independent in 2011. For the purpose to ‘consolidate peace’, the Government of South Sudan requested the Japanese Government and JICA to assist the above three projects, because Japan had been engaged in the area of urban planning and infrastructure restoration in Juba.¹³

Japan-Vanuatu

On June 13, 2012, ODA Loan Agreement with Vanuatu was signed between Japan and Vanuatu up to 4.945 billion yen for the Port Vila Lapetasi International Multi-Purpose Wharf Development Project.

The objectives of this project are to construct a new wharf dedicated to international freight in the Port of Port Vila, in the country's capital, to strengthen the ability to deal with international freight, which is being imported at a rapidly rising rate, as well as the ability to deal with tourists on cruising ships, with a view to mitigating freight delays and improving the flow of goods. The loan funds for this project would be allocated to the construction of a pier, a container yard and

¹² Exchange of Notes for Grant Aid for the Republic of the Union of Myanmar, April 21, 2012 at: http://www.mofa.go.jp/announce/announce/2012/4/0421_02.html (last visited on 06.09.2012)

¹³ JICA, June 28, 2012 at: <http://www.jica.go.jp/english/news/press/2012/120628.html> (last visited on 06.09.2012)

freight handling facilities and the like, as well as consulting services (bidding assistance, overall project management and construction monitoring).¹⁴

Japan-Korea

On June 4, 2012 Japanese ODA Loan Agreement was signed with the Republic of Kenya for Creating Infrastructure in East Africa's Gateway to Make the Regional Transportation Network More Efficient. This project will construct a road connecting the new container terminal of the Kenya's Port of Mombasa, a logistical hub for East Africa, to the Northern Corridor, as well as a road to the south of Mombasa Bay. The objective of the project is to make the distribution of goods smoother, particularly around the Port of Mombasa to stimulate socioeconomic development in the region as a whole.¹⁵

Japan-Cape Verde

On April 2, 2012, JICA signed an ODA loan agreement of up to 6.186 billion yen with the government of the Republic of Cape Verde for 'Electricity Transmission and Distribution Network Development Project'. This is the second ODA loan between Japan and Cape Verde and it will be co-financed by the African Development Bank under the framework of the Enhanced Private Sector Assistance (EPSA) for Africa. The project aims to stabilize power supply and improve access to electricity on 6 islands by implementing new installation, enhancements and update works on their transmission and distribution lines. The project is expected to help improve the country's living environment as well as contribute to the vitalization of its economy. In addition, the reduction of transmission and distribution loss and the electrification of non-electrified rural communes are expected to contribute to climate change mitigation as they would reduce the emission of greenhouse gases. The fund obtained through the ODA loan will be appropriated for the construction of transmission, distribution and substation facilities as well as other necessary costs.¹⁶

¹⁴ JICA, June 13, 2012 at: <http://www.jica.go.jp/english/news/press/2012/120613.html> (last visited on 06.09.2012)

¹⁵ JICA, June 4, 2012 at: <http://www.jica.go.jp/english/news/press/2012/120604.html> (last visited on 06.09.2012)

¹⁶ JICA, April 2, 2012 at: <http://www.jica.go.jp/english/news/press/2012/120402.html> (last visited on 06.09.2012)

With respect to measures affecting trade remedies or standards, there were no developments during the review quarter.

III. MEASURES AFFECTING IMPORTS- SPS MEASURES

COUNTRY	COUNTRIES AFFECTED	PRODUCT	PURPOSE	DATE
JAPAN G/SPS/N/JPN/29	ALL TRADING PARTNERS	LIVER OF BOVINE ANIMALS, FRESH, CHILLED OR FROZEN (HS: 0206.10, 0206.22)	FOOD SAFETY HUMAN HEALTH	MAY, 2012

IV. MEASURES AFFECTING EXPORTS

Export Promotion

To develop the Japanese service industry in China, the Japan External Trade Organization JETRO presented Japan booths at the First China Beijing International Fair for Trade in Services (CIFTIS), in Beijing, China, from May 28 to June 1, 2012. Through the CIFTIS, Japan present a PR campaign of Japan's high-quality services in China in order to enable people to better understand such services, which may help to expand the business of Japanese companies in China.¹⁷ In addition, JETRO held a Japan day event which included a symposium and other sessions in order for people to better understand Japan's high-quality services on May 30, 2012.

As a part of the program at 'Niko Niko Cho Kaigi' at Makuhari Messe on, April 28, 2012, the Ministry of Economy, Trade and Industry held a 'Cool Japan Strategy Conference' focusing on how Japan can convey Cool Japan to the world using social media, in which speakers and public participants held discussions interactively. METI also hopes that this new attempt will lead

¹⁷ Japan Booths at the First China Beijing International Fair for Trade in Services -Promoting the Attractiveness of Japan's High-Quality Services, METI, May 2012 at: http://www.meti.go.jp/english/press/2012/0514_01.html (last visited on 07.09.2012)

many participants to discover ideas on new ways to expand the "Cool Japan" policy abroad through active discussions.¹⁸

PART IV MEASURES AFFECTING PRODUCTION AND TRADE

Taxation

Building on their longstanding and close relationship with respect to mutual assistance in tax matters, the United States and Japan intensified their co-operation in combating international tax evasion. On 18 March 2010 the United States enacted provisions commonly referred to as the Foreign Account Tax Compliance Act (FATCA), which introduced reporting requirements for foreign financial institutions (FFIs) with respect to certain accounts.

FATCA, however, has raised some issues, including that financial institutions in Japan may not be able to comply with all of the reporting, withholding and account closure requirements of FATCA because of legal restrictions.

In furtherance of the policy objectives of FATCA, the United States is open to adopting with interested countries, either an intergovernmental approach to implement FATCA (which would involve reporting by FFIs to their own governments followed by the automatic exchange of this information with the United States), or a framework for intergovernmental cooperation to facilitate the implementation of FATCA (which would provide for reporting directly between the FFIs and the United States in a manner consistent with FATCA requirements, supplemented by exchange of information on request).

Japan is supportive of the underlying goals of FATCA, and is interested in exploring a framework for intergovernmental cooperation to facilitate the implementation of FATCA and improve international tax compliance. The United States affirmed its willingness to cooperate

¹⁸ 'Cool Japan Strategy Conference @ Niko Niko Cho Kaigi', April 2012 at: http://www.meti.go.jp/english/press/2012/0420_05.html (last visited on 06.09.2012)

with Japan by collecting and exchanging information under the existing income tax convention on accounts held in U.S. financial institutions by residents of Japan.¹⁹

Intellectual Property Rights

Japan-Vietnam international co-operation

The Japan Patent Office (JPO) and the National Office of Intellectual Property of Vietnam (NOIP) agreed that the JPO will act as a competent International Searching Authority (ISA) and International Preliminary Examining Authority (IPEA) for PCT international applications filed in Vietnam on and after July 1, 2012. The addition of Vietnam will bring the number of countries for which the JPO acts as a competent ISA and IPEA to five, including Japan, and it will be the third such country in the ASEAN region, following the Philippines and Thailand. With this measure, the JPO's high-quality examination results will become accessible for PCT international applications filed in Vietnam, which is expected to contribute to creating an environment for ensuring appropriate protection of R&D achievements made by Japanese companies in Vietnam.²⁰

Japan's initiatives to combat counterfeit and piracy

The Ministry of Economy, Trade and Industry and related ministries compiled and released the 'Annual Report on the Office of Intellectual Property Protection,' which summarizes measures that the government has taken to combat counterfeit and pirated goods in the past year.²¹

Japan's survey on IPR infringement in China

METI conducted the "FY 2010 Field Survey of Intellectual Property Rights (IPR) Infringements in China". This field survey was conducted in order to identify how Japanese companies are

¹⁹ Joint Statement from the U.S. and Japan Regarding a Framework to Facilitate FATCA Implementation, June 21, 2012 http://www.mof.go.jp/tax_policy/summary/international/240621us-1.pdf (last visited on 7.09.2012)

²⁰ The JPO to Act as a Competent International Searching Authority (ISA) and International Preliminary Examining Authority (IPEA) for PCT international applications filed in Vietnam, June 2012, METI at: http://www.meti.go.jp/english/press/2012/0627_03.html (last visited on 07.09.2012)

²¹ Release of Annual Report on the Office of Intellectual Property Protection (2012), June 2012, METI at: http://www.meti.go.jp/english/press/2012/0626_02.html (last visited on 07.09.2012)

suffering from IPR infringements in China and how they are using available remedies, and this is the sixth survey.

In the present survey, over 60% of the respondent Japanese companies replied that they had at some point or another, or were currently having their IPR infringed in China, indicating that they continue to suffer from substantial damage from such infringements. It was also found that about 60% of the infringed companies use some remedies against such infringements. About 90% of the claimed infringements involve “infringements relating to the Internet,” which has dramatically increased compared to the last survey. Furthermore, an increasing number of Japanese companies claim that “their trademarks were inappropriately registered”

As a measure against such infringements, the Chinese government initially boosted the control over IPR infringements in China (“the special control over infringements of intellectual property rights” that was conducted from October 2010 to June 2011), which produced certain effects mainly in the criminal departments of the Chinese authorities. Many Japanese companies, however, are still dissatisfied with such actions by the Chinese government, stating that the “*penalties were inadequate,*” or “*the authority did not provide information on the decision it would make,*” and Japan will further request the Chinese government to enhance its efforts to prevent IPR infringements.

In order to strengthen IPR protection actions in China, METI exchanged a memorandum of understanding with China’s Ministry of Commerce and State Administration for Industry & Commerce, and implemented inter-governmental dialogues such as the Working Groups on Counterfeit Goods.²²

Subsidies

The Ministry of Economy, Trade and Industry selected 51 successful applicants out of 206 for the Innovation Center Establishment Assistance Program: “Subsidy for Advanced Technology Demonstration and Evaluation Facility Development (corporate demonstration/evaluation facility development or cultivation program).”

²² Results of the Sixth “Field Survey of Intellectual Property Rights Infringements in China”, April 2012, at: http://www.meti.go.jp/english/press/2012/0426_02.html (last visited on 07.09.2012)

1. Overview of the subsidy program- The programs aim to promote the commercialization of new technology as well as to accelerate recovery from the Great East Japan Earthquake, and to realize a “new growth” of Japan, through subsidizing the cost of developing facilities to demonstrate and evaluate innovative technologies developed in Japan to date and enhancing investment for research and development.

2. Selection process- The secretariat (Mizuho Information & Research Institute, Inc.) responsible for running the program accepted applications from December 26 (Monday), 2011, to February 6 (Monday), 2012.

Successful applicants were selected based on examination by a third-party committee comprised of external experts. The third-party committee was organized by the secretariat.²³

Competition

On May 17, 2012, JFTC Published the Results of Fact-Finding survey on the Trade between Hotels and Suppliers. The JFTC conducted the fact-finding survey on the trades between hotels and their suppliers, in terms of the abuse of superior bargaining position prohibited by the Antimonopoly Act. The survey results revealed that the requests for purchasing and using unnecessary products and/or services accounted for a large portion of the percentage, specifically 42.4%, compared to other types of acts possibly leading to the abuse of superior bargaining position.

The Secretary-General of the JFTC, said, “*The hotels needs to recognize such a fact, with strong leadership of top managements, to check promptly whether or not the acts possibly lead to the abuse of superior bargaining position, and once such cases identified, a quick remedy should be made voluntarily by hotels.*” The JFTC would hold seminars for the hotels to prevent such violations.²⁴

PART V TRADE POLICY BY SECTOR

Industrial sector

²³ Announcement of Successful Applicants for the Innovation Center Establishment Assistance Program: Subsidy for Advanced Technology Demonstration and Evaluation Facility Development, April 2012, http://www.meti.go.jp/english/press/2012/0427_04.html (last visited on 07.09.2012)

²⁴ <http://www.jftc.go.jp/en/pressreleases/archives/individual-000481.html> (last visited on 08.09.2012)

On June 1, 2012, the results of the report titled, '*JETRO's Survey on Business Conditions of Japan's Small and Medium-sized Parts Suppliers and Their Status and Challenges for Asian Expansion*' was published.

Based on the results of the survey which was conducted for a period of one year starting July 2011, JETRO analyzed the recent Asian market environment and changes in relationships with customers from the suppliers'. Key points of the report include:

- Due to the continued decrease in stable domestic demand associated with the overseas production shift by major manufacturers, the subject SMEs have strengthened efforts to develop and expand their business overseas including other parts of Asia.
- In other Asian markets, many manufacturers, which used to import products from Japan, have been accelerating local procurement for the parts and components to realize cost reduction and shorter lead time. Japanese parts suppliers are also facing reduced orders from overseas.
- The companies have been motivated to move overseas based on their own needs rather than by requests from their clients. The growing motivation includes a sense of crisis against the shrinking domestic market, needs for exploring new markets and customers and strengthening their spheres of business so that they can meet the demand from major manufactures oriented towards "global optimized procurement."
- In spite of the harsh business environment in Japan, more than a few SMEs found additional work orders through expansion in Asia. In reality, there have been quite a few cases where Asian expansion helped to increase work orders for the headquarters of the SMEs in Japan.
- Throughout the Asian markets, the presence of local companies and other firms from Taiwan, South Korea and China have been increasing. Japanese suppliers commonly recognize that they will be forced to fiercely compete with these foreign firms including through cost.
- Local enterprises in the Chinese and Indian markets have gained power making use of their overwhelmingly low cost performance. They have made remarkable progress in product quality management and technological development and have become a significant threat to Japanese firms. Taiwanese firms have also strengthened their sales

strategies in Asian markets, selling their products boasting “quality equal to Japan-made products with much lower price.

- Some client manufacturers state that they do not deal with suppliers who have no unique technology in a single production process. Being a Japanese firm alone is not a benefit for the subject SMEs in business even with Japanese client companies overseas. These suppliers need to provide comprehensive strengths in cost, quality and delivery date, competing with other Asian firms under the same conditions.
- In the development of sales channels in other Asian markets, in particular China and India, the subject SMEs, which include producers of parts and components, industrial tools and test equipment, and facilities and machinery, have been targeting these foreign competitors as a sales destination and valuing them equally or more than Japanese client companies in the same regions.

JETRO committed that it would further assist Japanese SMEs and their overseas subsidiaries operating in harsh management environments by offering local business information and assisting in finding sales channels, establishing local bases and developing global human resources.²⁵

Energy

The 4th EU-Japan Energy Dialogue was held on a ministerial level on June 7, 2012, in Tokyo. Both sides exchanged views on energy policies, nuclear energy, cooperation in energy technology research, energy security, nuclear energy and other related issues.²⁶

PART VI- WTO DISPUTE UPDATES

On March 13, 2012, Japan requested consultation with China under the WTO Agreement, together with the United States and the European Union, regarding export restrictions on the three raw materials. (Already covered in the China Report). This was followed by the consultations that were held on April 25 and 26, 2012.

²⁵ <http://www.jetro.go.jp/en/news/releases/20120601009-news> (last visited on 07.09.2012)

²⁶ Summary of the 4th EU-Japan Energy Dialogue, METI, June 2012 at: http://www.meti.go.jp/english/press/2012/0607_02.html (last visited on 07.09.2012)

Based on the result of the consultations with China, Japan requested the establishment of a panel under the WTO Agreement regarding China's export restrictions, together with the United States and the European Union. Japan aimed at seeking an appropriate solution of this issue in accordance with the WTO Agreements.²⁷

²⁷ Japan requests the establishment of a panel under the WTO Agreement regarding export restrictions, METI, June 21, 2012 at: http://www.meti.go.jp/english/press/2012/0627_01.html (last visited on 07.09.2012)