



TRADE POLICY DEVELOPMENTS PAPER NO. 31

TRADE POLICY MONITORING REPORT

OF

JAPAN VOL. VI

(July 2012- September 2012)

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This report is prepared at the request of CWS, IIFT, New Delhi.

Executive Summary & Agenda for Next Report

1. Exports of machines and raw materials declined during this quarter. Japan's exports of general machines and raw materials have been on the decrease, with the exception of some products. On the other hand, those of video equipment and automobiles showed a significant increase, while foodstuff, which was greatly affected by Chinese import restrictions on food after the Great East Japan Earthquake last year, also picked up.
2. On September 28, 2012, Japan International Co-operation Agency (JICA) signed Japanese ODA loan agreements with the Government of India to provide loans of up to a total of 98.338 billion yen for two projects.
3. On July 24, 2012, METI announced 15 programs under the Cool Japan Strategy Promotion Program for FY2012.
4. Japan did not initiate any trade remedy case during this quarter.
5. On September 26, 2012, METI prepared a model contract which will be useful for finalizing contracts between electric utilities and businesses that generate electricity using renewable energy sources, based on the feed-in tariff scheme for renewable energy.
6. The developments in the Canada-Feed-in-Tariff case, brought to the WTO by Japan and EU will have significant interest with respect to the involvement of the State in the Energy Sector.

TRADE POLICY MONITORING REPORT OF JAPAN (JULY- SEPTEMBER, 2012)

PART I- ECONOMIC AND TRADE ENVIRONMENT

Economic and Macro-economic Fundamentals

According to the Monthly Economic Survey released by the Cabinet Office, Japan, the Japanese economy was on the way to recovery at a moderate pace during July 2012. This pace was partly due to the reconstruction demand, even though the difficulties continued to prevail. The highlights of the economic condition in July have been characterized as follows:

- *Industrial production is still picking up slowly. Exports show signs of picking up.*
- *Corporate profits are picking up. Business investment is picking up slowly.*
- *Firms' judgment on current business conditions shows a small improvement as a whole, mainly driven by large firms.*
- *The employment situation is picking up, although it still remains severe partly due to the earthquake disaster.*
- *Private consumption is increasing at a moderate pace.*
- *Recent price developments indicate that the Japanese economy is in a mild deflationary phase.*

Concerning the short-term prospects, movements toward sound economic recovery in the Japanese economy are expected to take hold due to reconstruction demand to some extent. However, there are widespread concerns about further slowing down of overseas economies while a high degree of uncertainty about the prospects of the Eurozone debt crisis still remains. These circumstances, including negative effects that could stem from sharp fluctuations in the financial and capital markets are downside risks of the Japanese economy. It should also be noted that there is still a risk of constraints of electric power supply and the adverse effects of deflation on the economy.

In this light the Government decides to decisively work together with the Bank of Japan toward the exit from deflation which is the biggest challenge of Japanese economy in the short term, in addition to making its best effort in promoting the reconstruction from the Great Earthquake and in avoiding the slowdown of the economy. The Government aims at utmost effort to prevent the economy from falling into vicious cycle between yen appreciation and deflation.

Toward defeating deflation, reforming the economic structure predisposed to deflation is essential as well as appropriate macroeconomic policy management. The Government expects the Bank of Japan to continue powerful monetary easing until the exit from deflation is ensured while working closely with the Government. The Bank of Japan decided to revise the purchasing method under the Asset Purchase Program to steadily increase the amount outstanding of the Program on July 12th.¹

So far as the economic situation in August concerns, the following characteristics summarize the same:

¹ Monthly Economic Report Executive Summary (Jul 2012), Cabinet office, <http://www5.cao.go.jp/keizai3/getsurei-e/2012jul.html>

- *Industrial production levels off recently. Exports are in a weak tone.*
- *Corporate profits are picking up. Business investment is picking up slowly.*
- *Firms' judgment on current business conditions shows a small improvement as a whole, mainly driven by large firms.*
- *The employment situation shows signs of improvement, although some severe aspects still remain.*
- *Private consumption is on the increase at a moderate pace.*
- *Recent price developments indicate that the Japanese economy is in a mild deflationary phase.*

As a part of the macro-economic policy management, the Government of Japan decided “Rebirth of Japan: A Comprehensive Strategy” on July 31st and the “Budgetary Request Guidelines for FY2013” on August 17th, to tackle the problem of deflation.

During September, 2012, statistics showed that the economic recovery appears to be pausing due to deceleration of the world economy. The condition has been characterized as:

- *Both industrial production and exports are in a weak tone.*
- *Corporate profits which have been picking up show signs of leveling off recently. Business investment as a whole is picking up slowly while some weak movements are also seen recently.*
- *Firms' judgment on current business conditions shows a small improvement as a whole, mainly driven by large firms.*
- *The employment situation shows signs of improvement, although some severe aspects still remain.*
- *Private consumption is almost flat while some weak movements are seen lately.*
- *Recent price developments indicate that the Japanese economy is in a mild deflationary phase.*

Trade balance

Exports have been in weak tone along with a slowing down of the world economy. By region, exports to Asia are in a weak tone. Exports to the U.S. have been flat recently. Exports to the EU have been gradually decreasing. As for short-term prospects, there were concerns that exports are expected to continue being influenced by a slowing down of the world economy, for the time being.

With respect to imports, they have been flat too. By region, imports from Asia have been flat. Imports from the U.S. have been gradually increasing. Imports from the EU have been flat. As for short-term prospects, imports are expected to show steady movement.

The deficit of the balance of goods and services has been flat. The deficit in the balance of trade in July increased, as export values have decreased and import values have been flat. The deficit in the services trade has also been flat.²

Legislative and Policy developments

(i) On August 30, 2012, the Small and Medium Enterprise Agency announced the Act to Partially Amend the Act on Promoting Small and Medium Enterprises' (SMEs') New Business Activities for Encouraging Cultivation of Overseas Demand for SME Products. This was enacted in the ordinary Diet session on June 21, 2012, and promulgated on June 27, 2012. The Act aims to strengthen the business capabilities of SMEs. The main features of the Act aim at: 1) designating SME support service providers for boosting SMEs' activities; and 2) facilitating financing of SMEs' overseas subsidiaries to push ahead with the SMEs' overseas business expansion.³

(ii) On October 30, 2012, Cabinet took a policy decision to tackle the problem of deflation in Japan. In this regard, the Government and the Bank of Japan would aim to carry out the following measures:

1. The Government and the Bank share the recognition that the critical challenge for Japan's economy is to overcome deflation as early as possible and to return to a sustainable growth path with price stability. The Government and the Bank will work together and make their utmost efforts to address this challenge.

2. The Bank recognizes that the challenge mentioned above will be met through the combination of (i) efforts by a wide range of economic agents to strengthen the economy's growth potential and (ii) support from the financial side. The Bank strongly expects the Government to vigorously promote measures for strengthening Japan's growth potential. The Bank judges 'the price stability goal in the medium to long term' to be within a positive range of 2 percent or lower in terms of the year-on-year rate of change in the CPI. The Bank aims to achieve its goal of 1 percent for the time being in terms of the year-on-year rate of increase in the CPI through the pursuit of powerful monetary easing, conducting its virtually zero interest rate policy and implementing the Asset Purchase Program mainly through the purchase of financial assets. The Bank will continue with this powerful easing until it judges the 1 percent goal to be in sight. In doing so, it will ascertain whether there is any significant risk to the sustainability of economic growth, including from the accumulation of financial imbalances.

In the October 2012 issue of the 'Outlook for Economic Activity and Prices' released on October 30, 2012, the Bank presented the projections for the CPI. The Bank will continue with this powerful easing aiming at achieving the goal of 1 percent. The Bank will report the outlook for prices regularly

² Monthly Economic Report Executive Summary (Sep 2012), Cabinet Office, <http://www5.cao.go.jp/keizai3/getsurei-e/2012sep.html>

³ The SME Business Capabilities Enhancement Support Act has Come into Force Today, August 30, 2012 at: http://www.meti.go.jp/english/press/2012/0830_02.html

at the Ministerial Council on Exiting Deflation. The Bank will also continue to make efforts to explain its thinking on the conduct of monetary policy clearly to the market.

3. The Government strongly expects the Bank to continue powerful easing as outlined in section 2 until the exit from deflation is ensured. In order to overcome deflation, the Government recognizes that reforming the economic structure predisposed to deflation is essential in addition to appropriate macroeconomic policy management. Therefore, based on the Prime Minister's instruction on October 17, 2012, the Government will promptly formulate economic policy measures to counter risks of a downturn that Japan's economy faces at this juncture and to accelerate measures for realizing economic revitalization. In addition, based on the 'Comprehensive Strategy for the Rebirth of Japan,' which was decided by the Cabinet on July 31, 2012, the Government, focusing on through fiscal 2013, will mobilize optimal policy measures including regulatory and institutional reforms, budget, fiscal investment and loan program, and tax in order to dynamically mobilize goods, people, and money.⁴

Japan-China: Trade Progress

The total trade between Japan-China in the first half of 2012 witnessed a modest rise due to China's economic slowdown, while the export growth fell. Converting yen-denominated statistics for imports (preliminary) and exports (revised) released by Japan's Ministry of Finance in July 2012 to US dollars, the Japan External Trade Organization (JETRO) found that Japan's total trade with China rose 1.1% to US\$165.1 billion in the first half of 2012, setting a new record on a first-half-year basis, and the second largest on a half-yearly basis, behind the second half of 2011 which registered US\$181.8 billion. Imports from China rose 7.5% to US\$91.3 billion, while exports to China fell 5.7% to US\$73.7 billion, marking the first drop in 3 consecutive first-half-year periods since 2009. As a result, Japan's balance of trade logged a deficit of US\$17.6 billion, an increase of 2.6 times over the same period of the previous year. This was the first deficit exceeding US\$10 billion in 5 consecutive first-half-year periods since 2007.

According to the Ministry, as the currency of settlement for Japan's exports to Asia in the second half of 2012, the US dollar, Japanese yen and Chinese yuan account for respectively 50.2%, 47.1% and 0.4%, while the figures reach 72.0%, 26.3% and 0.2% for Japan's imports from Asia. The US dollar is the most-used currency for trade settlement.

Export data

Exports of machines and raw materials decline due to China's economic slowdown. Owing to China's sluggish rise in domestic demand due to its economic slowdown (its real GDP growth rate over the first half of the year: 7.8%) and the strong yen, Japan's exports of general machines and raw materials have been on the decrease, with the exception of some products. On the

⁴Measures Aimed at Overcoming Deflation, October 30, http://www5.cao.go.jp/keizai1/2012/121030_measures_aimed_at_overcoming_deflation.pdf

other hand, those of video equipment and automobiles showed a high increase, while foodstuff, which was greatly affected by Chinese import restrictions on food after the Great East Japan Earthquake last year, also picked up.

Import data

A steady increase was noted in Japanese imports from China in the first half of 2012. However, the growth remained single-digit due to stagnant domestic demand. In addition to imports of electrical equipment such as communication devices, those of transportation equipment centering on automobile components were on the rise. Food imports also posted a positive growth centering on fish and shellfish.⁵

PART II- TRADE AND INVESTMENT POLICY FRAMEWORK

Trade Agreements/negotiations and trade co-operation talks

Japanese SMEs engaged in exports have more room to consider using FTAs

As of the end of July 2012, the number of FTAs in effect has reached 221 in the world (an increase of 22 from a year earlier). Conclusion of South Korea's FTAs with the EU and the U.S. have boosted the FTA coverage rate (or trade shares of FTA partner nations) of the country to 34.0% of its total trade. Meanwhile, Japan is also considering new FTA possibilities in response to the call of the "era of FTAs between major trade powers," though its FTA coverage rate currently remains at 18.6%. Regarding FTAs with emerging economies¹, which have significant market allure though many of them are imposing high tariffs as well as various investment restrictions, it is necessary for Japan to further examine potential economic effects of the FTAs, taking the situation surrounding FTAs already in effect into account. According to a questionnaire survey conducted by JETRO, the utilization rate of FTAs by Japanese firms has been increasing year by year. In recent years, they actively use FTAs between third countries centering on Asia. The utilization rate of small- and medium-sized enterprises (SMEs) in exports, however, remained at 24%, while the figures of large-scale companies marked 42%. Therefore, SMEs engaged in exports have room to make further use of FTAs as a way to reduce cost. Given the fact that many SMEs, about 30%, replied they were not familiar with institutions and utilization procedures of FTAs, information provision aimed to promote utilization of FTAs is essential for this to happen.¹

⁵JETRO Survey:Analysis of Japan-China Trade in the first half of 2012, August 27, 2012 at: <http://www.jetro.go.jp/en/news/releases/20120827326-news>

Japan-Turkey

On July 19, 2012, Japan and Turkey agreed to sign a 'Memorandum on Establishing a Framework for Cooperation in Economic Relations between the Government of Japan and the Government of the Republic of Turkey'. Subsequently, the ministers held the First Japan-Turkey Trade and Investment Summit (TRINS) launched on the basis of the Memorandum. The prospects for Japan-Turkey EPA were discussed during the meeting. Minister Edano stated that Turkey had served as a bridge between Asia and Europe, and Japanese enterprises gave considerable attention to Turkey as an emerging market. Moreover, Minister Edano stated that in terms of the Japan-Turkey EPA, the industrial circle of Japan also expected an early conclusion of the agreement and therefore launching of the joint research would be a timely action. In response, Minister Caglayan welcomed the First Japan-Turkey Trade and Investment Summit and stated that since cooperation between Japanese and Turkish companies had already proceeded, especially in the fields such as construction and manufacturing, he expected further investment from Japanese enterprises to Turkey. In addition, Minister Gemba welcomed the success of the Japan-Turkey Business Partnership Forum held in Istanbul on July 5 aimed at the advancement into the Iraqi market and stated that he expected further progress in cooperation between the two countries in a third country including Iraq.

Minister Edano stated that Japanese enterprises were showing their interests in projects in Turkey, and requested Minister Caglayan to support Japanese enterprises so that Japan's superior technologies and experience could be utilized in Turkey. Moreover, Minister Edano requested Minister Caglayan to make customs and product authentication procedures transparent and efficient, to ease the tuner tax on sales of TVs and to strengthen measures against the distribution of fake products, from a viewpoint of preparation in a business environment in Turkey. In addition, Minister Edano proposed to steadily follow these issues through working-level discussion. In response, Minister Caglayan stated that he had already given support through the Investment Environment Preparation Committee of Turkey concerning the issues that Japanese enterprises face when they operate business in Turkey, and he would like to further strengthen Japan-Turkey economic relations, taking the results of the First Japan-Turkey Trade and Investment Summit held this time into consideration.⁶

APEC

The APEC meeting convened on August 30, 2012 in Moscow, deliberated on issues including: commitment to strengthening domestic demand where appropriate and restoring confidence, facilitating job creation, reducing high public deficits and debts, and implementing structural reforms to boost growth and reduce external imbalances, fiscal sustainability. APEC remains a valuable

⁶ Signing on the "Memorandum on Establishing a Framework for Cooperation in Economic Relations between the Government of Japan and the Government of the Republic of Turkey" by Minister for Foreign Affairs Gemba, Minister of Economy, Trade and Industry Edano, and Minister of Economy of the Republic of Turkey Caglayan on the First Japan-Turkey Trade and Investment Summit, July 19, 2012 at: http://www.mofa.go.jp/announce/announce/2012/7/0719_02.html

forum for discussion of practical measures to advance issues of mutual concern to member economies. The discussions this year are vital for three important topics: financial inclusion, in particular financial literacy, financial policy measures to address the impact of natural disasters, and treasury systems.⁷

Japan-South-Africa

On July 2, 2012, the Agreement between the Government of Japan and the Government of the Republic of South Africa regarding mutual assistance and cooperation between their Customs administrations was signed and entered into force. The preamble recognised the need for international cooperation in matters related to the application and enforcement of the customs laws of their respective countries. The agreement incorporated vital provisions including: exchange and communication of vital information; providing assistance on request, special surveillance; arrangement for official visits, execution and manner of sending requests, use and confidentiality as well as exemption with respect to the information provided by customs authorities; technical co-operation etc.⁸

Japan-China-Korea

In the Trilateral Summit Meeting of the three countries held in Beijing on May 13, 2012, a conclusion was reached among the leaders of 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. Following this meeting, the working-level meeting was held as a part of the preparation work participated by the working level officials of the three countries. The participants discussed arrangements for the future preparation work, including domestic procedures, the scheme of the China-Japan-Korea FTA negotiation, and other matters. The three countries agreed that they will continue arranging matters in order to launch negotiations within the year.⁹

Japan-Columbia

The Government of Japan decided to enter into negotiations on an Economic Partnership Agreement (EPA) between Japan and the Republic of Columbia at the Japan-Columbia Leaders' Meeting held in the U.S. on September 25, 2012. The highlights of the deliberations on the contents of the EPA included:

⁷ 19th APEC finance meet, August 30, 2012 at: http://www.mof.go.jp/english/international_policy/convention/apec/ap_20120830_e.htm

⁸ The detailed agreement is available at: http://www.mof.go.jp/customs_tariff/trade/international/cmaa/ka20120702e.pdf

⁹The Working-Level Meeting on the Preparation for the Launch of China-Japan-Korea FTA, August 21, 2012 at: http://www.meti.go.jp/english/press/2012/0821_02.html

Trade of goods- A high-level EPA that consistent with the WTO Agreements should be targeted so that as many market access opportunities as possible are provided to both countries. A realistic and flexible approach should be taken regarding sensitive items.

Trade of services-Both countries should aim for an ambitious commitment to ensure high-level market access and transparency.

Investment- Provisions on investment should be included in the EPA by incorporating the Agreement between Japan and the Republic of Colombia for the Liberalization, Promotion and Protection of Investment, for instance.

In conclusion, the joint study group showed the recognition that a comprehensive and high-level EPA should contribute in bringing greater benefit, and further promote the economic integration between both countries. In addition, the joint study proposed that the governments of Japan and Colombia promptly start negotiations for the EPA between both countries.¹⁰

Trans-Pacific Partnership Agreement

During August 2012, United State's Congressional Research Service (CRS) agency published a report highlighting the prospects for Japan in the TPP and certain issues of interface between the US and Japan. The report highlights:

Although Japanese leaders have not made a final decision yet on the TPP, they have been engaging in discussions with each of nine TPP partners separate from the main TPP negotiations. (Canada and Mexico have not officially joined the discussions.) At this writing, Japan has completed discussions with six of the countries, all of which support Japan's participation and all of which already have been or are in the process of negotiating bilateral FTAs with Japan. Discussions with the United States, Australia, and New Zealand continue.

The Obama Administration has identified three issues that Japan needs to address as "confidence building measures" if the United States is to support Japan's entry into the TPP: Japanese restrictions on imports of U.S. beef; market access in Japan for cars made by the Detroit-based U.S. manufacturers; and preferential treatment for insurance and express delivery subsidiaries of stateowned Japan Post. No deadlines have been set for completion of the consultations.

The TPP is the leading U.S. trade policy initiative of the Obama Administration and a core component of Administration efforts to "rebalance" U.S. foreign policy priorities toward the Asia- Pacific region by playing a more active role in shaping the region's rules and norms. As the second largest economy in Asia, the third largest economy in the world, and a key link in global supply/production chains, Japan's participation would be pivotal to enhancing the credibility and viability of the TPP as a regional free trade arrangement.

Japan's membership in the TPP with the United States would constitute a de facto U.S.-Japan FTA. A large segment of the U.S. business community has expressed support for Japanese participation in the TPP, if Japan can resolve long-standing issues on access to its markets for U.S. goods and services. However, the Detroit-based U.S. auto industry has expressed strong opposition to Japan participating in the TPP negotiations.

¹⁰Report of the Joint Study Group for an Economic Partnership Agreement (EPA) between Japan and the Republic of Colombia, July 27, 2012 at: http://www.meti.go.jp/english/press/2012/0727_01.html

The question of whether to join the TPP trade talks has generated enormous attention and controversy inside Japan. Opposition to joining has been particularly strong among vested interest groups, such as the agricultural community and has divided both Japan's ruling party and largest opposition party. Many analysts believe that current Japanese prime minister Yoshihiko Noda is committed to entering Japan in the negotiations after he completes some domestic priorities in the late summer and early fall. However, Noda's hold on power is tenuous, and in August the major opposition parties forced him to promise to call parliamentary elections at "an early date," presumably by early 2013. Noda's party, the Democratic Party of Japan, is widely expected to do poorly and perhaps lose the premiership. The largest opposition party has opposed the TPP unless certain exceptions are allowed. Given Japan's political uncertainty, even if Japan succeeds in joining the negotiations, it is not clear if any government in Tokyo will be strong enough to overcome this opposition when it comes time to approving a final agreement.

The outlook for Japan's entry into the TPP negotiations remains unclear at this time and depends on a number of factors. Perhaps the most critical factor is whether Japanese political leaders can reach a political consensus on whether to proceed with the negotiations and then whether Japan can reach agreement with the TPP partners on conditions of its entry. The addition of Canada and Mexico, which will formally join the negotiations in the fall of 2012, could complicate the negotiations as well, as those two countries may have their own demands for Japan.

The TPP issue presents both risks and opportunities for the United States and Japan. On the one hand, if successful, it could reinvigorate an economic relationship that has remained steady but stagnant, by forcing the two countries to address long-standing, difficult issues, and allowing them to raise their relationship to a higher level. On the other hand, failure to do so could indicate that the underlying problems are too fundamental to overcome and could set back the relationship. It could signify the failure of the United States and/or Japan to deal with domestic opposition to a more open trade relationship.

Aid for Trade

Japan-India

On September 28, 2012, Japan International Co-operation Agency (JICA) signed Japanese ODA loan agreements with the Government of India to provide loans of up to a total of 98.338 billion yen for two projects. The features of the assistance included:

(1) To provide assistance using Japanese technology to solve urbanization problems in India- With rapid population growth accompanying economic development, the major urban areas in India face a number of problems. The Tamil Nadu Transmission System Improvement Project will provide assistance for power transmission network improvements to increase the power transmission capacity in State of Tamil Nadu, including Chennai where many Japanese companies have operations. The project will install transmission lines with low transmission loss and underground transmission lines that can be brought into dense urban areas, both excellent Japanese technologies, to develop a power transmission network that is more efficient and reduces carbon dioxide emissions.

(2) Improve access to safe water for inclusive growth- Located in Northwestern India, State of Rajasthan has an annual rainfall of 531 millimeters, less than half the national average in India (1,200

millimeters), and there is a chronic water shortage. One of the districts in State of Rajasthan with the most severe water shortages is Nagaur, where the underground water contains excess of fluoride, causing health problems such as dental and skeletal fluorosis among residents. The Rajasthan Rural Water Supply and Fluorosis Mitigation Project (Nagaur) will construct water supply facilities for safe water.¹¹

Japan-Brazil

On September 4, 2012, JICA signed a Japanese ODA loan agreement with the government of the State of Para, Brazil, to provide a loan of up to 16.411 billion yen for assistance for Belem Metropolitan Trunk Bus System Project. By improving the trunk bus transportation system, the project will alleviate traffic congestion and air pollution in the Belem metropolitan area of State of Para in northern Brazil, which have steadily worsened, and will improve the living environment for local residents. Because this project will curb greenhouse gas emissions, it is expected to have an effect in reducing climate change. The funds of the Japanese ODA loan will be allocated to the introduction of bus-ways (exclusive roads and lanes) through improvement of existing roads, as well as to consulting services.¹²

Japan-Egypt

On September 5, 2012, deliberations were done by JICA in-order to aid Egypt for post-revolution nation-building with a focus on aid to the Egypt-Japan University of Science and Technology (E-JUST).¹³

Japan-Jordan

On August 14, 2012, JICA signed a Japanese ODA loan agreement with the government of the Hashemite Kingdom of Jordan in Amman to provide a loan of up to 12.234 billion yen for the Human Resource Development and Social Infrastructure Improvement Project. The objective of this project is to expand the facilities for human resource development, health and medical care services, and primary/secondary education with the aims of industrial development and public service improvements in Jordan, thereby contributing to the stability of its economy and society.¹⁴

Japan-Somalia

¹¹Signing of Japanese ODA Loan Agreements with the Government of India, September 28, 2012, at: <http://www.jica.go.jp/english/news/press/2012/120928.html>

¹²Signing of a Japanese ODA Loan Agreement with Federative Republic of Brazil, September 4, 2012 at: <http://www.jica.go.jp/english/news/press/2012/120904.html>

¹³Vice-President Koderu Holds Talks with Muslim Brotherhood Deputy Chairman El-Shater, September 18, 2012 at: <http://www.jica.go.jp/english/news/press/2012/120918.html>

¹⁴Signing of a Japanese ODA Loan Agreement with the Hashemite Kingdom of Jordan, August 14, 2012 at: <http://www.jica.go.jp/english/news/press/2012/120814.html>

On July 18, 2012, JICA signed a memorandum with the World Food Programme (WFP) on assistance for a drought relief project on the outskirts of Gode in Somali Region. JICA has begun a new project near Gode in Somali Region to respond to the need for a local water supply. The project aims to improve the water supply situation in the area. In addition to supplying water trucks for emergency water supply, the project is supplying water tanks and a chlorine compound as well as establishing water supply points on an emergency basis around the Gode area. Other efforts include formulating a mid- to long-term water supply plan for Gode town. For agriculture, assistance is planned to use water from a neighboring river for stable production. The signing of this memorandum will allow the World Food Programme to provide the support needed for the smooth implementation of JICA projects mentioned above, including providing JICA personnel working locally on the project with such as accommodations, office space and vehicles, and sharing safety information.¹⁵

PART III- TRADE POLICY AND PRACTICE BY MEASURE

Trade Remedies

None reported during the period

Standards and Barriers to Trade

None reported during the period

Government Procurement

None reported during the period

PART IV- MEASURES AFFECTING EXPORTS

Export promotion

On July 24, 2012, METI announced 15 programs under the Cool Japan Strategy Promotion Program for FY2012. From the perspective of constructing a new business model that can obtain even more profits from abroad, METI is aiming to increase the value added to, and to improve the international competitiveness of Japanese industry, by incorporating the element of 'Cool Japan' into Japanese products and services based on Japanese lifestyle and values as well as the new industrial structure in Japan. For this purpose, it is necessary to establish a mechanism for 'large profit-earning,' by developing and reinforcing distribution systems, utilizing the appeal of content when acquiring markets abroad (outbound), and by exploring regional commodities and reinforcing the transmission of information when attracting tourists and revitalizing a region (inbound). From such a perspective, in order to support the expansion of businesses abroad by companies and creators who assume the

¹⁵Memorandum Signed with the World Food Programme, July 19, 2012 at: http://www.jica.go.jp/english/news/press/2012/120719_02.html

role of diffusing ‘Cool Japan,’ METI decided to implement the FY2012 Cool Japan Strategy Promotion Programs, following the 13 programs of the last fiscal year.¹⁶

PART V- MEASURES AFFECTING PRODUCTION AND TRADE

Subsidies

(i) On August 31, 2012, the Small and Medium Enterprises Agency (SME Agency) implemented several financing assistance measures to absolutely ensure financing for small and medium enterprises (SMEs) in the second half of FY 2012. E.g. Creation of a new guarantee program (Business Capabilities Enhancement Guarantee Program) in October 2012, in which guarantee charges for SMEs would be reduced or abolished when SMEs strive to improve their business conditions while receiving support from external experts, such as financial institutions or tax accountants. Through this program, the SME Agency will strongly support SMEs' financial conditions as well as their actions for improving business conditions.¹⁷

(ii) As for the subsidy system for the purchasing of private use eco-friendly vehicles in Japan, (the ‘Eco-car Subsidy,’ or the subsidy for diffusion of eco-friendly vehicles), applications for approximately 1.36 billion yen (approximately 14,000 applications) were filed on September 13, and the total amount based on the accepted applications reached around 261.6 billion yen. As a result, the outstanding budget for the subsidy was approximately 13.1 billion yen.¹⁸ Further, applicants were requested to apply by February 28, 2013, for new vehicles registered by January 31, 2013. It is announced that depending on the sales situation of the vehicles subject to the subsidy, the subsidy may exceed its budget (about 274.7 billion yen) before the application deadline on February 28, 2013.¹⁹

Taxation

On July 6, 2012, the Agreement between the Government of Japan and the Government of the Principality of Liechtenstein for the Exchange of Information relating to Tax Matters was signed on July 5, 2012, in Vaduz (Liechtenstein). This Agreement provides a detailed mechanism for the exchange of tax information, with a view to preventing cross-border fiscal evasion and tax avoidance. This Agreement is the seventh international agreement for the exchange of tax

¹⁶FY2012 Cool Japan Strategy Promotion Program, July 24, 2012 at: http://www.meti.go.jp/english/press/2012/0724_01.html

¹⁷Announcement of Financing Assistance Measures for SMEs in the Second Half of FY 2012, August 31, 2012 at: http://www.meti.go.jp/english/press/2012/0831_01.html

¹⁸The Announcement regarding the Outstanding Budget for the Subsidy for Privately-owned Environment-friendly Vehicles (“Eco-cars”) and Closing Acceptance of Applications, September 14, 2012 at: http://www.meti.go.jp/english/press/2012/0914_01.html

¹⁹The Announcement regarding Closing Acceptance of Applications for the Subsidy for Privately-owned Environment-friendly Vehicles (“Eco-cars”), July 6, 2012 at: http://www.meti.go.jp/english/press/2012/0706_04.html

information that Japan signed, following the Agreements with Bermuda, the Bahamas, the Cayman Islands, the Isle of Man, Jersey and Guernsey, and it will be expected to contribute to expanding the international information exchange network aiming at the prevention of cross-border fiscal evasion and tax avoidance.

Japan and the Principality of Liechtenstein will notify each other, in writing, of the completion of their respective internal procedures necessary for the entry into force of this Agreement. The Agreement will enter into force on the thirtieth day after the latter of the dates of receipt of the notifications. At the same time, the signing of the Joint Statement also took place, which confirms the common understanding regarding development of the relationship between both countries in the field of taxation.²⁰

Intellectual Property Rights Regime

During the review quarter, JICA replied to the consultations sought by the UK Department of Health (dated April 16, 2012) on its proposal for standardization of all tobacco products. The response by the Japanese organization seemed reluctant with the proposal. Since Japan traditionally has been vehement on the protection of IPR and special safeguards against counterfeit, it suggested that the UK proposal would violate the trade-mark rights and also lead to confusion among consumers in differentiating different products with standardised packaging and may lead to counterfeit. In this light, Japan suggested that UK should re-consider its proposal.²¹

The other co-operation steps taken by JICA and JPO included the following:

JICA- The standardised packaging of tobacco products (proposed law in UK, UK Dept of Health on April 16 sought for consultation) can cause confusion to consumers in differentiating products, can lead to counterfeit. Thus UK should reconsider its proposal.

(i) During September 9-11, the International Intellectual Property Protection Forum and the Government of Japan dispatched the 8th high-level Government-Private-Sector Joint Mission to China for Intellectual Property (IP) Protection to Beijing. The mission exchanged views with the Government of China on enhanced detection of violators of IP rights in regional areas, repeated violations by counterfeiters, inappropriate applications to register trademarks of Japanese companies, and other issues.²²

(ii) On July 11, 2012, in Singapore, the Japan Patent Office (JPO) and the Intellectual Property Office of Singapore (IPOS) concluded a memorandum of cooperation on a bilateral basis to develop further cooperation in patent examination, etc. Another memorandum of cooperation was

²⁰ Signing of the Tax Information Exchange Agreement between the Government of Japan and the Government of the Principality of Liechtenstein, July 6, 2012 at: http://www.mofa.go.jp/announce/announce/2012/7/0706_01.html

²¹ For detailed reply, available at: <http://www.jipa.or.jp/english/opinion/pdf/120709.pdf>

²² METI Exchanged Views with the Government of China on Intellectual Property Issues, September 11, 2012 at: http://www.meti.go.jp/english/press/2012/0911_02.html

concluded on the same day between the JPO and ASEAN IP Offices. Specific cooperation included in the memorandum were as follows:

Recognition of JPO as a competent International Searching Authority (ISA) and International Preliminary Examining Authority (IPEA) under the Patent Cooperation Treaty (PCT) for PCT international applications filed with IPOS as a receiving office.

- Promotion of public awareness of IP
- Interexchange of IP experts
- Holding IP related symposium and training programs
- Improvement of examiners' capabilities in prior art search and patent examination
- Exchange of information on IP systems and operations thereof
- Exchange of information on international activities and trends relating to IP.²³

(iii) On July 11, 2012, the Second ASEAN-Japan Heads of Intellectual Property Offices Meeting was held in Singapore, and the Japan Patent Office and ASEAN IP Offices concluded a memorandum of cooperation on intellectual property. Based on this memorandum, the JPO will further develop cooperation with ASEAN IP Offices in the field of intellectual property, by providing support for human resources development and introduction of IT, accession to international treaties on trademarks and industrial designs, and implementation of anti-counterfeit measures through raising public awareness of intellectual property protection. Specific cooperation items included in the memorandum are as follows:

- Exchange of experience in and knowledge on industrial property policies, and improvement of systems for protecting IP, including revision to laws (statutes and case laws), regulations, and manuals, in accordance with international standards;
- Sharing of examination workload on an international level, exchange of experience in and knowledge on examination quality control and training for examiners, and transparent and streamlined examination procedures and operations (including sharing of statistical data), in accordance with domestic legislations of the respective countries;
- Improvement of industrial property administration, including exchange of experience in administrative management as well as information technology infrastructure/system management;
- Promotion of the use of industrial property in the private sector, including SMEs;
- Exchange of information and cooperation regarding appropriate measures to increase the public awareness of industrial property;
- Cooperation in human resource development to improve capabilities of personnel of ASEAN IP Offices.²⁴

²³Conclusion of Memorandum of Cooperation on Intellectual Property between the Japan Patent Office and the Intellectual Property Office of Singapore, July 12, 2012 at: http://www.meti.go.jp/english/press/2012/0712_02.html

Competition Law Regime

(i) On August 17, 2012, the Japan Fair Trade Commission (JFTC) held a Training Course for Senior Officials of the Chinese Antimonopoly Agencies on the Japanese Antimonopoly Act and Policy from August 20 to 28, 2012 in Tokyo and Sapporo, in cooperation with the Japan International Cooperation Agency (JICA). The training course provided senior officials of Chinese Antimonopoly Agencies with an opportunity to obtain the knowledge on the Japanese Antimonopoly Act and its implementation, with the purpose of contributing to the further developments of Chinese competition legislations and building the capacity for proper enforcement of the competition law.²⁵

(ii) During August 16 to September 14, 2012, JFTC held the 18th Training Course for Developing Countries on the Competition Law and Policy in Tokyo and Hyogo, in cooperation with the JICA. This training course mainly targeted officials of younger competition authorities to enhance their capacity. The training course consists of lectures about Japan's Antimonopoly Act and competition policy. Participants comprised from²⁶:

China	1
Indonesia	2
Kenya	2
Nicaragua	1
Pakistan	1
The Philippines	1
Vietnam	2

²⁴Conclusion of Memorandum of Cooperation on Intellectual Property between the Japan Patent Office and the ASEAN IP Offices, July 11, 2012 at: http://www.meti.go.jp/english/press/2012/0711_02.html

²⁵The JFTC holds the Training Course for Senior Officials of the Chinese Antimonopoly Agencies on Antimonopoly Act and Policy, August 17, 2012 at: <http://www.jftc.go.jp/en/pressreleases/archives/individual-000494.html>

²⁶ The JFTC holds the 18th Training Course for Developing Countries on Competition Law and Policy, August 15, 2012 at: <http://www.jftc.go.jp/en/pressreleases/archives/individual-000493.html>

PART VI- TRADE POLICY BY SECTOR

Energy

(i) On September 26, 2012, METI prepared a model contract which will be useful for finalizing contracts between electric utilities and businesses that generate electricity using renewable energy sources, based on the feed-in tariff scheme for renewable energy. Under the Feed-in tariff scheme for renewable energy, businesses that generate electricity using renewable energy sources are able to have electric utilities purchase electricity generated from such energy sources during a fixed period at a fixed price based on contracts between such businesses and utilities. METI has produced a model contract to contribute to the smooth finalization of contracts between such businesses and electric utilities. METI created the model contract in accordance with the Act on Special Measures Concerning New Energy Use by Operators of Electric Utilities and other provisions defined in the related laws and regulations, while considering practical requirements and other procedures related to fundraising activities of such businesses.²⁷

(ii) On July 11, 2012, the Agency for Natural Resources and Energy held the Fourth Japan-Indonesia Coal Policy Dialogue in Fukuoka City, Fukuoka Prefecture, with the Ministry of Energy and Mineral Resources of Indonesia, in order to promote a wide range of cooperation, from the coal exploration and development to the coal consumption. The following results were achieved out of the meeting:

- Both countries confirmed the continuous cooperation in areas such as the maintenance of ongoing and stable coal trading, the coal exploration and development, and the development of relevant human resources.
- In Indonesia, the effective utilization of low rank coal, which accounts for about half of the coal reserves in the country, is an important policy issue. Both countries affirmed that the cooperation between Indonesia and Japan on the liquefaction, gasification and upgrading of low rank coal should be further promoted. In addition, aiming for the commercial utilization of low rank coal, the Government of Japan requested the Government of Indonesia to consider the introduction of incentives, including tax exemption, for the development and utilization of low ranked coal.
- There are many plans for the introduction of high-efficiency coal fired power generation in Indonesia, and both countries reaffirmed the importance of further cooperation in this area. At the same time, the Government of Japan requested the government of Indonesia to properly evaluate the advanced construction and operation technologies of Japanese companies in new coal fired power generation projects.²⁸

²⁷Release of a Model Contract for the Feed-in Tariff Scheme for Renewable Energy, September 26, 2012, at: http://www.meti.go.jp/english/press/2012/0926_01.html

²⁸The Fourth Japan-Indonesia Coal Policy Dialogue, July 12, 2012 at: http://www.meti.go.jp/english/press/2012/0712_01.html

(iii) On August 22, 2012, the Agency for Natural Resources and Energy of Japan and the Ministry of Energy of the Russian Federation held the second meeting of the Japan-Russia Working Group (WG) for Cooperation in the Petroleum and Natural Gas Sectors in Tokyo. At the meeting, both sides confirmed the importance of promoting further mutually-beneficial cooperation in the petroleum and natural gas sectors in the Far Eastern and Eastern Siberia regions, such as the LNG projects in Vladivostok and the joint oil and gas exploration projects in Eastern Siberia, in anticipation of the APEC Economic Leaders' Meeting in Vladivostok in September, 2012. The next meeting is scheduled to be held in Russia in the latter half of 2013.²⁹

WTO-Dispute Update

Counter-measures: Japan-US Byrd amendment

On July 30, 2012, it was decided that METI will extend Japan's countermeasures against the U.S. Byrd Amendment which was confirmed as being inconsistent with the WTO Agreements. The countermeasures are those which Japan initiated against the United States in connection with the Byrd Amendment by imposing additional tariffs in September 2005 and they have been renewed six times to date. The countermeasures which were due to expire at the end of August 2012, but as the United States continues to perform distribution that has been found to be illegal, the Government of Japan decided on an extension of the applicable period of the countermeasures by one year, with the current items and tariff rates changed, in the Cabinet Meeting, following a recommendation made in the Council on Customs, Tariffs, Foreign Exchange and Other Transactions held on July 30, 2012.³⁰

²⁹Second Japan-Russia Working Group for Cooperation in the Petroleum and Natural Gas Sectors Held in Tokyo, August 22, 2012 at: http://www.meti.go.jp/english/press/2012/0822_01.html

³⁰Extension of Japan's countermeasures against the U.S. Byrd Amendment, July 30, 2012 at: http://www.meti.go.jp/english/press/2012/0730_01.html