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List of Abbreviations

AD-Anti Dumping

EPA-Economic Partnership Agreement

FTA-Free Trade Agreement

GATT- General Agreement on Tariffs and Trade 1994

IJEPA-Indonesia-Japan Economic Partnership Agreement

JFTC- Japan Fair Trade Commission

JICA-Japan International Cooperation Agency

JPO-Japan Patent Office

METI-Ministry of Economy, Trade and Industry

MOFA-Ministry of Foreign Affairs

PCT- Patent Cooperation Treaty

RCEP-Regional Comprehensive Economic Partnership

TPP- Trans-Pacific Partnership

TRIMS-Trade-Related Investment Measures

UNFCCC-United Nations Framework Convention on Climate Change

USPTO- Japan International Cooperation Agency

WTO-World Trade Organization

EXECUTIVE SUMMARY

- Japan began its bilateral negotiations with the EU for conclusion of a trade agreement. However the trade talks among Japan-China-Korea are predicted to prolong the successful conclusion of an agreement owing to certain territorial and political disputes between Japan and China.
- Regional Comprehensive Economic Partnership (RCEP) involving Asian countries including India and Japan have been initiated during the review quarter. It outlines negotiation on several facets of trade and investment.
- Japan showed its interest to be a part of the TPP as evidenced from the Prime Minister's speech before the 15th round of TPP in New-Zealand.
- The trade agreement with Canada and Columbia progressed as the countries formulated their respective negotiation mandates.
- Japan continues its aid for trade activities with countries including India, Iraq, Myanmar, Guatemala etc.
- Japan is currently reviewing the expiry on AD duties imposed on electrolytic manganese dioxide (EMD) originating in the Republic of South Africa, the People's Republic of China, and Spain.
- JPO continues in its co-operation efforts with ASEAN and other Asian countries including Singapore and South-Korea.
- Japan and India formulated a comprehensive memorandum on co-operation in energy sector including renewable and nuclear energy.
- Japan initiated consultations under the WTO dispute settlement mechanism against China on its imposition of AD duty on goods from Japan.
- Japan proceeded to the panel establishment stage in the dispute against Argentina.
- Japan won the legal dispute against Canada's feed in tariff program. However the panel did not accept its legal justification on conclusively proving the nature of subsidy and procurement scheme.

Part-I

I. Economic Condition

According to the Monthly Economic Report, 2012, The Japanese economy showed weakness recently due to deceleration of the world economy. An overall highlight of the economy indicated that:

- Exports were moderately decreasing recently. Industrial production was decreasing although its downward trend becomes moderate.
- Corporate profits were in a weak tone, mainly among manufacturers. Business investment showed weakness.
- Firms' judgment on current business conditions showed cautiousness further, mainly among manufactures.
- The improvement in the employment situation appeared to be pausing while some severe aspects still remain.
- Private consumption was almost flat.
- Recent price developments indicated that the Japanese economy is in a mild deflationary phase.

Concerning short-term prospects, weakness would remain for the time being but the recovery is expected to resume with the improvement of the overseas economy while reconstruction demand props up the domestic economy. However, a degree of uncertainty about the overseas economies remains high, implying downside risks of the Japanese economy. The report indicated that attention should be paid to the employment and income situations over the future, and the adverse effects of deflation on the economy.

Business investment

During the review quarter, business investment showed weakness. The Quarterly Financial Statements Statistics of Corporations by Industry, demand-side statistics, showed that business investment decreased for the third consecutive quarter after a substantial increase in the October-December quarter of 2011. In the July-September quarter of 2012, business investment decreased for both manufacturers and non-manufacturers. Capital Goods Shipments, supply-side statistics, have decreased.

According to the Short-Term Economic Survey of Enterprises in Japan (Tankan) (December survey) by the Bank of Japan, planned business investment in the fiscal year 2012 was expected to increase for the second consecutive year for manufacturers, and that for non-manufacturers is expected to increase for the first time in five years, thus that for all industries was expected to increase for the first time in five years. According to the Business Outlook Survey by the Ministry of Finance and the Cabinet Office, planned business investment in the fiscal year 2012 was expected to increase for both large manufacturers and large non-manufacturers.

As for short-term prospects, although business investment is expected to be supported by reconstruction demand, etc., it is likely to continue downward pressure as corporate profits are in a weak tone.

Employment Condition

The improvement in the employment situation appeared to be pausing while some severe aspects still remained.

The total unemployment rate stood at 4.2% in October, unchanged from the previous month. The total unemployment rate of those aged 15 to 24 was 7.7%, an increase of 0.7 percentage points from the previous month. The labor force and the number of employed persons have been increasing, while the number of unemployed persons has been flat. The number of employees has been moving horizontally.

The number of new job offers has been on a decreasing trend recently. The effective ratio of job offers to applicants has been moving horizontally recently. Overtime hours worked in the manufacturing industry have been decreasing.

As for the movement of wages, although contractual cash earnings have been showing steady movement, the total amount of cash earnings has been moving horizontally.

Firms' judgment on current employment conditions showed that the excessiveness of the number of employees has decreased in the whole industry in December, but it has increased in the manufacturing industry.

As for short-term prospects, the improvement in the employment situation is expected to continue pausing, reflecting still-lingering severity. In addition, attention should be given to spreading movements of employment adjustment in the manufacturing industry

Trade Balance

During the review quarter, exports were moderately decreasing recently. By region, exports to Asia have been gradually decreasing. Exports to the U.S. have been moderately decreasing recently. Exports to the EU have been showing signs of leveling off recently. As for short-term

prospects, exports are expected to be leveling off, partly due to the improvement of global supply-demand conditions of electronic components, while overseas economies stabilize.

Imports too had been flat. By region, imports from Asia have been flat. Imports from the U.S. have been growing at a slower pace recently. Imports from the EU have been in a weak tone recently. As for short-term prospects, imports are expected to remain broadly flat for the time being.

The deficit in the balance of trade in October decreased, as export values have slightly decreased and import values have decreased. The deficit in the services trade has decreased.

Policy Stance

The Government in response to this economic condition has pledged to make its best effort in promoting the reconstruction from the Great Earthquake and in avoiding the slowdown of the economy. Furthermore, the Government and the Bank of Japan pledged to work together and make their utmost efforts to overcome deflation as early as possible and to return to a sustainable growth path. In addition, the Government will make maximum effort to prevent the economy from falling into vicious cycle between yen appreciation and deflation, and will implement seamless policy measures.

Toward defeating deflation, reforming the economic structure predisposed to deflation is essential as well as appropriate macroeconomic policy management. Accordingly, the Government will deploy a broad range of policy measures intensively by FY2013 to dynamically mobilize "goods", "people", and "money". The Government decided "Program for Accelerating the Rebirth of Japan" on November 30th.

The Government strongly 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 the increase in the total size of the Asset Purchase Program and the operational details of the Fund-Provisioning Measure to Stimulate Bank Lending on December 20th.¹

SME Business Conditions Survey

During December 2012, METI published the 'SME Business conditions survey' for the duration of October-December, 2012. Overall, the business conditions DI (diffusion index) of all industries showed a decrease somewhat in the negative gap.

¹ Monthly Economic Report (December 2012), Cabinet Office, at: <http://www5.cao.go.jp/keizai3/getsurei-e/2012dec.html>

- From October to December 2012, the business conditions DI of all industries improved by 0.4 percentage points from minus 25.6 in the preceding quarter to minus 25.2, which means that the negative gap decreased somewhat.
- The business conditions DI of the manufacturing sector was flat with zero change from minus 24.4 in the preceding quarter. Looking at the business conditions DI of each industry, the negative gap decreased in seven industries (including pulp, paper and paper products, ceramic products, soil and stone products, and chemicals), and the negative gap deteriorated in seven industries (including machinery equipment, metal products, and furniture and fixtures).
- The business conditions DI of the non-manufacturing sector improved by 0.6 percentage points from minus 25.9 in the preceding quarter to minus 25.3, which means that the negative gap decreased somewhat. Looking at the business conditions DI of each industry, the negative gap decreased in the retail, wholesale, and service industries and the negative gap increased in the construction industries.
- The financing DI of all industries improved by 0.2 percentage points from minus 20.0 in the preceding quarter to minus 19.8, the DI measuring long-term financing difficulty improved by 0.5 percentage points from minus 10.8 in the preceding quarter to minus 10.3, and the DI of short-term financing difficulty improved by 0.2 percentage points from minus 7.4 in the preceding quarter to minus 7.2, which means that the negative gap decreased somewhat.

In this quarter, the business conditions DI of two basic industrial materials industries (iron & steel and non-ferrous metals, and metal products), and three manufacturing and assembly industries (machinery equipment, electrical & information communication equipment and electronic parts, and transportation equipment) deteriorated in all industries, meaning that the negative gap continued to increase as in the preceding quarter. For the next quarter, the negative gap is expected to decrease in all industries.²

Part-II

II. TRADE AND INVESTMENT POLICY FRAMEWORK

IIA. Bilateral and Multilateral Trade Negotiations/Agreements

Japan-Indonesia

²The 130th Survey of SME Business Conditions (October-December 2012), December 2012, at: http://www.meti.go.jp/english/press/2012/1213_03.html

On October 8, 2012, the Governments of Japan and Indonesia and business organizations of both countries held the Fourth Japan-Indonesia Joint Economic Forum in Tokyo. The ministers discussed infrastructure development, improvement of the business and investment climate in Indonesia, and industrial cooperation between Japan and Indonesia.

The Forum adopted a joint press release based on the issues affirmed at the forum by the ministers of the two countries. They confirmed to accelerate the implementation of the “Master Plan for Acceleration and Expansion of Indonesia's Economic Development.” The interim report will be completed by fall 2013. Furthermore, both sides underlined the significance of the implementation of the following measures:

a) Infrastructure Development- Both ministers reaffirmed the necessity of accelerating infrastructure development, responding to the presentation of the business sector on methods for infrastructure development (including improvement of laws and regulations of Public Private Partnership initiative). Furthermore, both sides affirmed to facilitate the procedure to sign the MOU in order to implement the stable and efficient power supply demonstration project in Suryacipta industrial park smoothly. Furthermore, both ministers shared the view toward the establishment of the Joint Crediting Mechanism, and recognized that the both sides will aim at concurring on the bilateral document by the end of this year and starting operation of the mechanism from April next year.

b) Strengthening connectivity- Both ministers recognized the necessity of improving regulations on distribution and logistics sector in Indonesia. To this end, both sides concurred to hold the regular ‘Policy Dialogue on Distribution and Logistics’ between senior officials of Indonesian government and Japanese government, as well as to conduct a training program for the Indonesian government officials and businesses related to the distribution and logistics sector. Both sides also reaffirmed the necessity to address themselves to the ASEAN connectivity master plan, while working closely with private sectors Note.

c) Enhancing Industrial Exchange in Particular Sectors- Both ministers reaffirmed the importance of improving investment environment including the issues presented by Japanese industry and shared the view to address these issues in the process of general review of Indonesia-Japan Economic Partnership Agreement(IJEPA). In addition, both sides recognized the importance of strengthening industrial exchange between the two countries. With respect to Mining Law, both sides received a report on the Indonesia-Japan Dialogue on Material & Mineral Resources Industries. They reaffirmed the need to continue dialogues at various levels to reach solution at earliest stage. Both sides also decided to start drafting the possible document on enhancing cooperation between creative industries of both sides in recognizing the significance of the cooperation activities in promoting ‘Cool Japan’. In addition, with respect to the infrastructure development for sales finance in Indonesia, both sides concurred that Japanese side

will conduct a feasibility study on the improvement of credit information system in Indonesia and to co-host a workshop for public and private sectors in this field.³

Japan-Arab countries

During December 19-20, 2012, the Ministry of Economy, Trade and Industry and the Ministry of Foreign Affairs held the 3rd Japan-Arab Economic Forum in Tokyo, together with the Japan Cooperation Center for the Middle East and other related organizations. The Japan-Arab Economic Forum was established as a framework for ministerial level dialogue for the purpose of further enhancing economic relationship between Japan and Arab states through cooperation in a wide range of areas including trade, investment, energy, science and technology, and human resource development.

Since Arab states are now endeavoring to diversify their economy and industry as their major challenge, it calls for Japan to expand economic relations with the entire Arab region. The forum aimed that Japan's presence and communication capacity will be strengthened in the Arab region and this will eventually contribute to the enforcement of Japan's economic diplomacy, or resource diplomacy, in particular.⁴

Japan-EU

During December 2012, EU and Japan began negotiations for a bilateral trade deal to help create jobs and foster economic growth in the struggling Eurozone.

Since Japan has already removed various non-tariff barriers up front - such as by granting liquor licenses to European operators, it has allayed the suspicion of the EU community. While momentum toward launching talks with Japan has been building over the past few months, some EU legislators and member states have expressed concern that some sectors, particularly automobiles might suffer as the result of a trade deal, unless Tokyo dramatically lowers non-tariff barriers in these areas. The massive influx of cars from South Korea after Brussels' FTA with Seoul took effect last year has fuelled these fears further among European automakers, especially those in France and Italy.

The negotiating directives approved by the European Council's trade ministers require Japanese non-tariff barriers to be eliminated in parallel to any tariff reductions on the EU side. They also direct the Commission to suspend negotiations if progress in non-tariff barriers, railways, and

³Joint Press Release Adopted at the Fourth Japan-Indonesia Joint Economic Forum, October 2012 at: http://www.meti.go.jp/english/press/2012/1010_02.html

⁴Holding of the 3rd Japan-Arab Economic Forum, October 2012 at: http://www.meti.go.jp/english/press/2012/1018_02.html

urban transport roadmaps are not seen within a year of the talks' launch. There is also a safeguard clause to protect sensitive EU sectors, according to the Commission.

As Tokyo and Brussels together make up over one-fifth of global trade, advocates hope that a trade deal could provide a much-hoped-for boost to the EU economy and to Japan, which has encountered its own challenges in its efforts to recover from last year's earthquake and tsunami.⁵

TPP

During November 2012, the Japanese Prime Minister Yoshihiko Noda pledged that he will seek entry to the Trans-Pacific Partnership (TPP) talks. "*We will simultaneously pursue the TPP and a trilateral free trade agreement among Japan, China, and South Korea. This stance will be outlined in our election manifesto,*" Noda told the reporters.

To join the TPP, all 11 current members of TPP must agree on whether to accept Tokyo as a new negotiating party, a process that took seven months for Mexico City and Ottawa.

Despite the gaining momentum, Japanese involvement in the TPP talks is expected to be met with strong opposition from one of the nation's most powerful voting groups: farmers. At this point in the TPP discussions, it appears likely that the proposed pact will force the liberalisation of member countries' agricultural industries, an unwelcome change for Japan's heavily protected farm sector.⁶

Japan-China-Korea

Though China-Japan-Korea have been negotiating on a trilateral FTA, the row between Beijing and Tokyo over a group of contested islands reflects that they would have to wait until at least next year, for the negotiations to finish.

Disagreements between Tokyo and Beijing over the islands, known as Diaoyu in China and Senkaku in Japan, has have long since crossed into the economic arena, already affecting trade between the two nations. Despite urging from Seoul that both parties put aside their territory-based arguments and come to the negotiating table, progress on free trade talks has been stagnant since the island dispute ramped up earlier in 2012. .

⁵EU Ministers Give Go-Ahead for Launch of Japan Trade Talks, Bridges Weekly Trade News Digest, Volume 16, Number 42, 5th December 2012 available at: <http://ictsd.org/i/news/bridgesweekly/151353/>

⁶ICTSD reporting; "Japan Likely To Embrace Free Trade Pact," New York Times, 9 November 2012; "Japan PM Eyes Snap Election After Backing US-Led Trade Pact," Reuters, 11 November 2012; "Japanese Pm Looks To Join Trans-Pacific Partnership Trade Deal," The Globe And Mail, 11 November 2012; "Noda To Dissolve Diet Nov. 16, Paving Way For Japan Election," Bloomberg, 14 November 2012 At: [Http://Ictsd.Org/I/News/Bridgesweekly/149942/](http://Ictsd.Org/I/News/Bridgesweekly/149942/)

Most recently, many had looked to Asia-Europe Meeting (ASEM) as an opportunity for the bickering nations to reconcile. However, in a telling move, Japanese Prime Minister Yoshihiko Noda and Chinese Premier Wen Jiabao failed to hold their customary ASEM bilateral talks at the meeting.

Despite the territory dispute, China is soon expected to enter into another set of talks with both Japan and South Korea, as well as India, Australia, New Zealand, and the 10-nation ASEAN group, for a regional free trade bloc, according to recent comments by South Korean Trade Minister Taeho Bark.⁷

Japan-Canada

During November 26-30, 2012, the first round of the negotiations for a Japan-Canada Economic Partnership Agreement (EPA) was held at the Ministry of Foreign Affairs. At the round, the framework for the negotiations including negotiation structure and negotiating groups was discussed, and both sides shared their understanding. Both sides exchanged their views on a broad range of negotiating areas at Expert-level meetings. The next negotiation (second round) has been scheduled to be held in Ottawa around April 2013.⁸

Japan-Russia

On November 20, 2012, the 10th Meeting of the Japan-Russia Intergovernmental Committee on Trade and Economic Issues was held. As a result of the meeting, the ministers signed a memorandum. Constructive and concrete discussion was held concerning cooperation in the Far East/Siberia region, as well as the fields of energy, energy saving, medical care, modernization and innovation, transport, and agriculture, and measures for the improvement of trade and investment climate.

It was determined that a “Japan-Russia Urban Environment Working Group” would be set up as a new field of cooperation to discuss various issues concerning urban environment and infrastructure, jointly with both the public and private sectors. Moreover, both parties shared the view that they would set up a working group for the improvement of trade and investment climate in Russia. Both sides also welcomed the realization of a series of projects between Japan

⁷ICTSD reporting: “Hopes Fade for Start of Japan-China-Korea Trade Talks,” Wall Street Journal, 5 November 2012; “Japan-China Rift Flares At Summit,” Wall Street Journal, 6 November, 2012; “US-led US-Asian pact spurs China’s Asian trade bloc, S. Korea minister says,” Reuters, 6 November 2012 at: <http://ictsd.org/i/news/bridgesweekly/149538/> <http://ictsd.org/i/news/bridgesweekly/146494/>

⁸ First Round of the Negotiations for a Japan-Canada Economic Partnership Agreement (EPA), November 30, 2012, MOFA at: http://www.mofa.go.jp/announce/announce/2012/11/1130_02.html

and Russia on the occasion of the APEC Economic Leaders' Meeting and shared the view that they would proceed with further cooperation in the Far East/Siberia region.

Concerning energy cooperation, Minister Gemba pointed out that it was important to advance projects with price competitiveness and in a timely manner, and expressed interest of Japanese companies to participate in the Sakhalin III project. Moreover, both sides shared the view that they would advance the Vladivostok LNG project and joint mining search in East Siberia. The Russian side expressed interest in the possibility of exporting electricity by laying undersea cables. Concerning the field of energy saving, both parties exchanged views on projects for which there was the possibility of cooperation between Japan and Russia.

The Russian side expressed strong expectations toward cooperation in the field of radiation medicine. Both sides welcomed the operation of a pharmaceutical production plant by a Japanese enterprise in Russia and shared the view that they would continue to cooperate toward the spread of Japan's advanced medical devices throughout Russia.

Both sides shared the view that they would set up a "Japan-Russia Urban Environment Working Group" for the purpose of improving urban and business environment in Russia. It is planned that in this working group, people from both the public and private sectors of Japan and Russia will discuss various issues concerning urban environment and infrastructure in Russia, utilizing the expertise of Japan, which has overcome various problems including pollution that occurred along with rapid economic growth.

Both sides highly appreciated the results of previous meetings of the Japan-Russia Advisory Council on Modernization of the Russian Economy, and confirmed that concrete projects for modernization will continue to be forwarded on the basis of the principle of mutual benefit. The Russian side expressed interest in the possibility of Japanese enterprises cooperating with RUSNANO and the possibility of investment cooperation from the Japanese side for the Russian Direct Investment Fund.

Both sides also welcomed the advancement of the Japanese automobile industry into Russia in recent years. Minister Gemba raised the issue related to the vehicle utilization tax that Russia had introduced. He also stated that it was important for Russia to resolve the issues of a shortage of freight cars on the Siberian Railway and the need to improve port and harbor facilities in Russia.

Both sides confirmed that cooperation in the field of agriculture was beneficial from the viewpoints of both the improvement of agricultural productivity in Russia and food security in Japan, and that both sides would cooperate for the realization of projects by the private sector concerning agricultural technology and cultivation in the Russian Far East.

Both sides further shared the view that the improvement of Russia's trade and investment climate is crucial for the advancement of Japanese companies into Russia and that both sides would make efforts toward its improvement. From this viewpoint, both parties shared the view that they would set up a working group to discuss institutional problems that Japanese companies face in Russia.⁹

Regional Comprehensive Economic Partnership

On November 20, 2012 a ceremony to launch the negotiations for the Regional Comprehensive Economic Partnership (RCEP) was held in Phnom Penh, Cambodia. At the ceremony, the ASEAN countries, Japan, China, the Republic of Korea, Australia, New Zealand and India ("FTA Partners") announced the launch of RCEP negotiations.

At the launch of negotiations, the leaders of each relevant country adopted the "Guiding Principles and Objectives for Negotiating the Regional Comprehensive Economic Partnership." The key points of this document are as follows.

(1) Scope of negotiations- RCEP will cover trade in goods, trade in services, investment, economic and technical cooperation, intellectual property, competition, dispute settlement and other issues.

(2) Commitment levels- The RCEP will have broader and deeper engagement with significant improvements over the existing ASEAN+1 FTAs, while recognizing the individual and diverse circumstances of the participating countries.

(3) Negotiations for trade in goods- Negotiations will be built on the existing levels of trade liberalization among participating countries and aim to achieve the high level of tariff liberalization.

(4) Negotiations for trade in services- Negotiations will cover all areas of services trade, aiming at achieving a comprehensive and high-quality agreement compatible with WTO rules.

(5) Negotiations for investment- Negotiations will cover the four pillars of promotion, protection, facilitation and liberalization.

Negotiations for the same would commence in early 2013 and aim to complete by end-2015. After the completion of the negotiations, countries other than the 16 states may join.¹⁰

⁹ 10th Meeting of the Japan-Russia Intergovernmental Committee on Trade and Economic Issues (Overview), November 20, 2012, MOFA at: http://www.mofa.go.jp/announce/announce/2012/11/1120_06.html

¹⁰ Announcement of the Launch of Negotiations for the Regional Comprehensive Economic Partnership (RCEP), November 20, 2012, MOFA at: http://www.mofa.go.jp/announce/announce/2012/11/1120_03.html

Japan-Columbia

On December 17, 2012, the first round of negotiations for an Economic Partnership Agreement between Japan and Colombia was held in Tokyo. In this round of negotiations, the scope and Terms of Reference were discussed. Both sides decided to hold the second round of negotiations in Colombia next year and the dates would be decided through diplomatic channels.¹¹

Japan-Mongolia

The Second Round of the Negotiations for the Japan-Mongolia Economic Partnership Agreement (EPA) was held from December 11 to 14, 2012 at the Ministry of Foreign Affairs in Tokyo, Japan. At the Opening Plenary for the Second Round of Negotiations held on Tuesday, the Chief Delegates shared their views on how to move the negotiation process forward.

In expert-level meetings held after the Opening Plenary, negotiators of both sides had intensive and constructive discussions in each area including Trade in Goods, Trade in Services, Rules of Origin, Customs Procedures, Investment, Intellectual Property, Competition, Cooperation, Technical Barriers to Trade, Sanitary and Phytosanitary Measures, Government Procurement and Improvement of Business Environment.

The next round of negotiations will be held in Ulaanbaatar, Mongolia.¹²

Previously on December 6, 2012, on the occasion of the 18th Session of the Conference of the Parties (COP18) of the United Nations Framework Convention on Climate Change (UNFCCC), which is currently held in Doha, Qatar, the Government of Japan had a bilateral meeting with the Government of Mongolia. The ministers confirmed the mutual recognition that they will continue to strengthen and develop the mutual cooperation for maintaining and conserving the environment, and for resolving climate change issues, on the stable foundation built by the Japan-Mongolia relationship, while starting the operation of the Joint Crediting Mechanism by early 2013 as well as signing the bilateral document as soon as possible for the purpose of starting the operation. The Joint Crediting Mechanism is a program in which Japan's contribution to the reduction and absorption of greenhouse gas emissions in partner countries through transferring Japan's low-carbon technology and products is calculated and evaluated as credits for Japan. Currently, the Ministry of Foreign Affairs (MOFA), the Ministry of Economy, Trade

¹¹ First Round of Negotiations for an Economic Partnership Agreement (EPA) between Japan and Colombia, December 17, 2012, MOFA at: http://www.mofa.go.jp/announce/announce/2012/12/1217_01.html

¹² Summary of the Second Round of Negotiations for the Japan-Mongolia Economic Partnership Agreement (EPA), December 14, 2012 at: http://www.meti.go.jp/english/press/2012/1214_01.html

and Industry (METI), and MOE are jointly proceeding bilateral consultation with countries that are interested in the mechanism.¹³

IIB.Aid for Trade

A report published by JICA during November 2012, enlists the total grand aid agreements signed by JICA during the second quarter of FY 2012, from July to September. Key details are provided below for one of the main projects for which an agreement was signed this quarter:

The Democratic Republic of Nepal- The Project for Construction of Sindhuli Road Section III- Since the 1990s, JICA has been providing assistance for construction on the Sindhuli road, and this project will construct a road on the third section, the remaining 18.9 kilometers of the length. The objective is to improve access to the capital of Kathmandu and the Terai region, and complete the 160-kilometer Sindhuli road. The construction of a new route connecting the capital and the southeast region of Terai, a major agricultural belt, will smooth the transport of people and goods and improve access from farming villages to markets. This is expected to stimulate local economic activity and greatly reduce poverty in Nepal.

In addition to this project, JICA is providing assistance for repairs on roads connecting Kathmandu to the Sindhuli road and to construct bridges in rural areas near the road, and is taking measures to improve access to the Sindhuli road for nearby residents. In addition to this road construction, in 2012, JICA began the Project for the Operation and Maintenance of Sindhuli Road, a technical cooperation project to improve road maintenance and management capacity, and is currently implementing the Project for the Master Plan Study on High Value Agriculture Extension and Promotion in Sindhuli Corridor, the objective of which is to improve road access from the surrounding agricultural zone to extend the amount of vegetables, fruit trees and other products that can be transported to the Kathmandu capital region.¹⁴

The other aid activities conducted by Japan during the review quarter included:

(i) India

On October 29, 2012, the Japan International Cooperation Agency (JICA) signed a Japanese ODA loan agreement with the Government of India to provide a loan of up to 28.975 billion yen for assistance for Delhi Water Supply Improvement Project.

¹³Japan Signed the Joint Statement on Environmental Cooperation, Climate Change and the Joint Crediting Mechanism with Mongolia, December 2012, at: http://www.meti.go.jp/english/press/2012/1206_02.html

¹⁴Summary of Grant Aid Agreements for the Second Quarter of 2012, November 7, 2012 at: http://www.jica.go.jp/english/news/press/2012/121107_01.html

Under the project, the water supply facilities including service network to customers will be improved in the National Capital Territory of Delhi, India. The Project will contribute to achieving the equitable and continuous water distribution in the National Capital Territory of Delhi, thereby contributing to upgrading citizen's living standard. The Loan funds will be allocated to reconstruction and replacement of the existing water supply facilities, strengthening of Geographical Information System (GIS) on water supply facilities, and consulting services.¹⁵

Further, during December 2012, the Ministry of Economy, Trade and Industry and the Ministry of Commerce and Industry of India agreed on a list of prospective projects, financing of USD 4.5 billion from Japan to India. This financial assistance is a part of a USD 9 billion Japan-India DMIC facility. The DMIC project is a Japan-India joint development project in a region of India. This project aims to build a freight railway line to connect Delhi and Mumbai (with yen loans of 450 billion yen) and develop infrastructures along the line, such as industrial areas, distribution centers, power plants, roads, sea ports, housing, and commercial facilities, mainly making use of private investments.¹⁶

(ii) Myanmar

On December 28, 2012, the Japan International Cooperation Agency (JICA) signed a grant agreement (G/A) with the Government of the Republic of the Union of Myanmar to provide a grant of up to 1.71 billion yen for assistance for the Project for Urgent Improvement of Communication Networks. The project aims to improve communications, including the use of mobile devices and the Internet. It is expected that it will promote further economic development and investment in Myanmar, and realize the smooth communication networks by the time when Myanmar will host the Southeast Asian (SEA) Games in December 2013, and when Myanmar will serve as the chair of ASEAN in 2014.¹⁷

(iii) Guatemala

On November 6, 2012 the Japan International Cooperation Agency (JICA) signed a Japanese ODA loan agreement with the Government of the Republic of Guatemala in Guatemala City to provide a loan of up to 9.939 billion yen for assistance for the ZONAPAZ Road Improvement Project (II). This project will provide roads in Zonapaz (peace zone), a region that was particularly affected by civil war between 1960 and 1996. The objectives of the project are to

¹⁵Signing of Japanese ODA Loan Agreement with the Government of India, October 29, 2012 at: <http://www.jica.go.jp/english/news/press/2012/121029.html>

¹⁶Japan-India Agreement on the List of Prospective Projects for Japan's USD 4.5 Billion Facility for the Delhi Mumbai Industrial Corridor (DMIC) Project, November 2012 at: http://www.meti.go.jp/english/press/2012/1119_01.html

¹⁷Signing of Grant Aid Agreement with the Republic of the Union of Myanmar, December 28, 2012 at: http://www.jica.go.jp/english/news/press/2012/121228_01.html

strengthen the transportation capacity and improve access to socioeconomic services in the region, as well as improve the standard of living, stimulate the regional economy and rectify regional disparity.¹⁸

(iv) Iraq

On October 14, 2012, the Japan International Cooperation Agency (JICA) signed Japanese ODA loan agreements with the Republic of Iraq to provide loans of up to 67.03 billion yen for four projects. This brings Japan's loans to the country to over 3.5 billion dollars, the amount promised by the Japanese government in 2003 for reconstruction efforts in Iraq.¹⁹

(v) Philippines

On October 10, 2012, the Japan International Cooperation Agency (JICA) signed a loan agreement with the government of the Republic of the Philippines to provide a Japanese ODA loan of up to 7.775 billion yen for the Development Policy Support Program-Investment Climate. The ODA loan will support the development policies of the Philippines using co-financing with the Asian Development Bank (ADB).²⁰

(vi) Peru

On October 12, 2012, the Japan International Cooperation Agency (JICA) signed Japanese ODA loan agreement with the government of Peru in Tokyo to provide loans of up to 8.77 billion yen for assistance for the Energy Renovation Infrastructure Assistance Program and up to 4.396 billion yen for assistance for the Solid Waste Management Project.²¹

¹⁸Signing of Japanese ODA Loan Agreement with the Republic of Guatemala, November 6, 2012 at: http://www.jica.go.jp/english/news/press/2012/121106_01.html

¹⁹Master Plan Study for Establishing Metropolitan Priority Area for Investment and Industry (MPA) in JABODETABEK Area Approved by the Steering Committee consisting of the cabinet members of the Japanese and Indonesian governments, October 9, 2012 at: <http://www.jica.go.jp/english/news/press/2012/121009.html>

²⁰Signing of Japanese ODA Loan Agreement with the Republic of the Philippines, October 10, 2012 at: <http://www.jica.go.jp/english/news/press/2012/121010.html>

²¹Signing of Japanese ODA Loan Agreements with the Republic of Peru, October 12, 2012 at: http://www.jica.go.jp/english/news/press/2012/121012_01.html

Part-III

III. TRADE POLICY AND PRACTICE BY MEASURE

IIIA. Trade Remedies

A result of the examination of the application in accordance with the provisions of related laws and regulations, the Ministry of Economy, Trade and Industry (METI) and the Ministry of Finance (MOF) decided to initiate an expiry review of the anti-dumping duty currently imposed on electrolytic manganese dioxide (EMD) originating in the Republic of South Africa, the People's Republic of China, and Spain.

Background of the review- On August 30, 2012, METI and MOF received an application for the extension of the current anti-dumping duty imposed on electrolytic manganese dioxide originating in the Republic of South Africa, the People's Republic of China, and Spain, from Tosoh Hyuga Corporation and Tosoh Corporation.

Both ministries examined the application in accordance with the provisions of related laws and regulations and found that the application justified the requirements for initiating a review based on the Customs Tariff Act. Therefore, the ministries decided to initiate a joint review on extending the anti-dumping duty (public notice on October 30, 2012).

The review is to be concluded within one year, in principle. The ministries provide opportunities for interested parties to present evidence and information, and collect objective evidence and information through the investigation into exporting companies and domestic manufacturers, etc. Based on collected evidence and information, the ministries will determine whether the expiry of the duty would be likely to lead to continuation or recurrence of dumping and injury, in accordance with the provisions of the international rules under the WTO Agreements and the Customs Tariff Law, and the government will make a decision on whether or not to extend the anti-dumping duty on the subject product.²²

²²Initiation of Expiry Review of Anti-Dumping Duty on Electrolytic Manganese Dioxide Originating in the Republic of South Africa, the People's Republic of China, and Spain, October 2012, at: http://www.meti.go.jp/english/press/2012/1030_05.html

Part-IV

IV. MEASURES AFFECTING EXPORTS/IMPORTS

None reported during the review period

Part-V

V. MEASURES AFFECTING PRODUCTION AND TRADE

VA. Taxation

On November 29, 2012, the Embassy of Japan in Switzerland received the notification from the Government of the Principality of Liechtenstein, informing the completion of its internal procedures necessary for the entry into force of “the Agreement between the Government of Japan and the Government of the Principality of Liechtenstein for the Exchange of Information Relating to Tax Matters” (Tax Information Exchange Agreement between the Government of Japan and the Government of the Principality of Liechtenstein) which was signed on July 5, 2012. The Government of Japan has already sent its notification for the same effect to the Government of the Principality of Liechtenstein. Accordingly, this Agreement will enter into force on December 29, 2012.

This Agreement provides for 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 fifth international agreement for the exchange of tax information that Japan concluded following the Tax Agreements with Bermuda, The Bahamas, Isle of Man, and the Cayman Islands, 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.²³

²³ Entry into Force of the Tax Information Exchange Agreement between the Government of Japan and the Government of the Principality of Liechtenstein, November 30, 2012, MOFA at: http://www.mofa.go.jp/announce/announce/2012/11/1130_01.html

VB. Intellectual Property Rights

(i) On November 15 and 16, 2012, the Trilateral Offices—namely the Japan Patent Office (JPO), the United States Patent and Trademark Office (USPTO), and the European Patent Office (EPO)—held the 30th Trilateral Conference and other meetings in Kyoto, Japan. The conference was organized by the JPO. On this occasion to commemorate the 30th anniversary of the beginning of the trilateral cooperation, these offices reflected on the history of such cooperation and agreed that they will continue to play a leading role, as the world's major patent offices, in establishing a global patent system through the trilateral cooperation.

Following these speeches, a discussion was held in a panel form with participants representing the industry sectors of the trilateral areas, focusing on future trilateral cooperation and reflecting on the achievements made through such cooperation. In this discussion, such representatives acclaimed the role played by the Trilateral Offices and expressed their expectations for further cooperation among the offices toward work-sharing, harmonization of patent systems and operations, and other issues.

The conference considered the global challenges commonly faced by patent offices that today, with economic activities becoming ever more globalized, the number of applications for the same patent being filed for various countries is increasing, which causes the problem that users of the patent systems have to wait longer for examination, and the examination workload at patent offices in countries and regions is growing.

The Trilateral Offices have deepened mutual understanding and built trust in each other by making a variety of efforts, such as patent examination cooperation, including the examination of 10,000 or more applications through the PPH, examiner exchanges through which 600 or more examiners have been exchanged, and more than 150 meetings. Based on such understanding and trust building, the Trilateral Offices agreed to continue further enhancement of various efforts, such as the improvement of the PPH and Patent Cooperation Treaty (PCT), the harmonization of patent systems and operations, and the development of information system foundations.

In addition, the Trilateral Offices compiled their resolutions into the Declaration on the 30th Anniversary of Trilateral Cooperation. In the statement, considering that half of the world's applications are filed with the Trilateral Offices, the offices underlined that they will make use of the experience they have gained and will lead the establishment of a global patent system.

The trilateral cooperation began in 1983, with projects for the digitalization of a huge amount of paper patent documents and the establishment of a database. Since then, the offices have made many achievements, such as the trilateral cooperation in the patent-examination area, including the digitalization of patent filing procedures, the exchanging of patent-related electronic data between the offices, and the Patent Prosecution Highway (PPH).

(ii) During the review quarter, the JPO has been intensifying intellectual cooperation with the rapidly growing ASEAN countries in order to promote further economic development in the region and to support the business activities of Japanese-affiliated companies. The JPO is advancing the cooperation to meet the needs of ASEAN countries in various areas, such as support for fostering human resources, and computerization, as well as participation in international agreements, and cooperation for anti-piracy campaigns through certain measures, such as raising public awareness of intellectual property.

Furthermore, in July 2012, the JPO and IPOS (Intellectual Property Office of Singapore) concluded the Memorandum of Cooperation aiming at enhanced cooperation between the offices. In line with the memorandum, the JPO is now progressing cooperation in patent examination procedures, development of human resources, information exchanges and other efforts with the IPOS.

Based on the memorandum between the offices in July 2012, the JPO and IPOS have agreed that the JPO will act as a competent ISA and IPEA for PCT international applications filed in Singapore on December 1, 2012, or thereafter. With this measure, the JPO's high-quality examination results will become accessible for PCT international applications filed in Singapore, which is expected to contribute to creating an environment for ensuring the appropriate protection of R&D achievements made by Japanese companies in Singapore.

The JPO has also pledged that it will continue its efforts to support the global business activities of Japanese companies by working to act as a competent ISA and IPEA for more ASEAN countries and other Asian emerging countries, etc., and making the JPO's high-quality examination results accessible for PCT international applications filed in those countries, as well as by strengthening its cooperative relations with those countries in the intellectual property field.²⁴

(iii) It has been decided that in-order to foster consumer awareness on preventing counterfeit goods under the concept that they should not buy or accept counterfeit or pirated products, the Japan Patent Office (JPO) will wage an 'Anti-Counterfeiting Campaign' from December 1, 2012, in cooperation with the Intellectual Property Policy Headquarters, related administrations and agencies, and private organizations. The JPO will promote the campaign making use of publication media, such as posters, newspapers and magazine advertisements, a dedicated website, and video clips.²⁵

²⁴The JPO to Act as a Competent International Searching Authority (ISA) and International Preliminary Examining Authority (IPEA) for Singapore, November 2012 at: http://www.meti.go.jp/english/press/2012/1130_03.html

²⁵The JPO Conducts the "Anti-Counterfeiting Campaign" Again This Year, November 2012 at: http://www.meti.go.jp/english/press/2012/1130_02.html

VC. Competition Law and Policy

- (i) During November, 2012, the Japan Fair Trade Commission(JFTC)held its 16th meeting with the Korea Fair Trade Commission (KFTC). The agenda of the meeting included: Recent major cases on the Antimonopoly Act in regional offices; Recent major cases on the Subcontract Act in regional offices and Public relation activities in regional offices.²⁶
- (ii) During November 12-29, 2012, the Japan Fair Trade Commission (JFTC) held the 8th Training Course for the Vietnam Competition Authority (VCA) and the Vietnam Competition Council (VCC) on the Antimonopoly Act and Competition Policy in Tokyo and Hyogo, in cooperation with the Japan International Cooperation Agency (JICA).The training course was held to provide officials of the VCA and the VCC with an opportunity to obtain the knowledge on Japanese Antimonopoly Act and its enforcement, with the purpose of contributing to the enhancement and the proper enforcement of the competition law in Vietnam. The JFTC has held the series of training courses for the VCA since 2009.²⁷

Part-VI

VI. TRADE POLICY BY SECTOR

VIA.Energy

- (i) On November 16, 2012, the 2012 Annual Report on Energy (Japan's "Energy White Paper 2012") was approved by the Cabinet and submitted to the Diet. The Annual Report on Energy was compiled pursuant to Article 11 of the Basic Act on Energy Policy (Act No. 71 of 2002) in which the government is required to submit a report to the Diet on the general situation regarding the measures it has taken in relation to energy supply and demand.²⁸

²⁶The JFTC holds the 16th Regional-Office Level Bilateral Meeting with the Korea Fair Trade Commission, November 9, 2012 at: <http://www.jftc.go.jp/en/pressreleases/archives/individual-000506.html>

²⁷JFTC holds the Training Course for Vietnam Competition Authority and Vietnam Competition Council on the Antimonopoly Act and Competition Policy, November 9, 2012 at: <http://www.jftc.go.jp/en/pressreleases/archives/individual-000505.html>

²⁸2012 Annual Report on Energy (Japan's "Energy White Paper 2012"), November 2012 at: http://www.meti.go.jp/english/press/2012/1116_01.html

(ii) On October 10, 2012, the governments of Japan and India held the Sixth Japan-India Energy Dialogue in Tokyo and agreed to deepen their comprehensive cooperation in the energy sector. The highlights of the agreement included:

- Promotion of cooperation for implementing India's latest energy conservation policy, such as the introduction of a Perform, Achieve, and Trade (PAT) scheme.
- Progress made in the demonstration project for a waste heat recovery system, etc. in industries that consume large amounts of energy.
- Cooperation for developing human resources for enhancing energy management systems in SMEs as well as the capability of regional states to implement laws and regulations.
- Launching a demonstration project for energy management systems utilizing photovoltaic systems and secondary batteries at telecommunication towers in India.
- Launching a technical demonstration project for the Delhi-Mumbai Industrial Corridor (DMIC) Smart Community Project.
- Promotion of cooperation in the development of coal-fired power generation, pumped-storage power generation, as well as electrical power transmission and distribution systems in order to meet the rapid increase in power demand, and promote sustainable economic growth.
- Implementation of diagnosis of facilities of coal fired-power plants in order to improve the efficiency of the plants and environment in India, and cooperation for the transfer of clean coal technology.
- Cooperation in developing highly-efficient technology for using coal, including the demonstration of highly-efficient coal washery technology and a feasibility study concerning a project that combines Upgraded Brown Coal (UBC) technologies with Ultra Super Critical (USC) coal power generation technologies.
- Promotion of cooperation in enhancing the safety of nuclear power plants based on the experience of the accident at the Fukushima Nuclear Power Station and the lessons learned from it.
- Promotion of cooperation for ensuring the stable and low-cost supply of LNG, such as by starting a joint study on the pricing of LNG in the Asia Pacific market.²⁹

²⁹Sixth Japan-India Energy Dialogue was Held in Tokyo, October, 2012 at: http://www.meti.go.jp/english/press/2012/1010_04.html

ANNEXURE I- WTO-DISPUTE SETTLEMENT UPDATE

Consultations

Dispute involving China

December 20, 2012, Japan requested a consultation with the Government of the People's Republic of China, under the WTO Agreement regarding China's measure imposing anti-dumping duties on certain high-performance stainless steel seamless tubes ('HP-SSST') imported from Japan, on which China made a final determination on November 8, 2012.

Background- China initiated an anti-dumping investigation against certain imports of HP-SSST from Japan and the EU on September 8, 2011 and made a final determination to impose anti-dumping duties on November 8, 2012.

Japan considers that China's imposing of anti-dumping duties is inconsistent with the WTO Anti-dumping Agreement (Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade 1994) because of the defects in the determination of injury and a causal relationship and in the investigation procedure.

Japan makes this consultation request with China under the WTO Agreement to seek a solution of this issue.³⁰

Request for establishment of Panel

Dispute involving Argentina

On December 6, 2012, together with the United States and the European Union, Japan requested the establishment of a panel under the WTO Agreement on import restrictions by the Argentina.

Background- Argentina has imposed a series of import restrictions, including non-automatic licenses, a prior import declaration requirement, and a trade balancing requirement on the importation of a wide range of goods. On August 21, 2012, together with the United States, Japan requested a consultation with the Government of the Argentine Republic under the WTO Agreement. The consultations were held on September 20 and 21. Based on the result of the consultations with Argentina, Japan requests the establishment of a panel under the WTO

³⁰Japan requests consultation with China under the WTO Agreement regarding China's measure imposing Anti-dumping Duties on Certain High-performance Stainless Steel Seamless Tubes from Japan, December 20, 2012 at: http://www.meti.go.jp/english/press/2012/1220_01.html

Agreement regarding import restrictions by Argentina, together with the United States and the European Union.³¹

Panel Ruling

Dispute involving Canada

During December 2012, a WTO panel sided with the EU and Japan in their challenge of renewable energy support provided by the Canadian province of Ontario. Brussels and Tokyo had argued that the feed-in-tariff (FIT) system put in place in 2009 violates WTO rules because it requires participating electricity generators to source up to 60 percent of their equipment in Ontario.

The case (DS412 and DS426) had been widely portrayed as an environmental dispute, dealing with the extent to which government authorities can favour domestic producers and suppliers in promoting green energy. At panel hearings earlier this year, however, the arguments from the parties principally focused on the investment aspects of the FIT provisions.

The Panel report confirms the view that the scheme's "local content requirement" violates the WTO's non-discrimination principle enshrined in the General Agreement on Tariffs and Trade (GATT) and the WTO Agreement on Trade-Related Investment Measures (TRIMS). The panelists further demand that Canada brings its measures into conformity. Unless appealed, this would in effect mean that the FIT programme itself may stay in place in its current form, but that the local content requirement must be withdrawn.

Ontario officials have argued that the scheme's design is meant to encourage clean energy production, specifically by providing incentives to energy producers to use electricity from renewable sources. Provisions of the programme, however, also require that to be eligible for such incentives, renewable energy projects include a minimum quota of goods and services deriving from Ontario - in the case of wind, 25 percent, and for solar projects, 60 percent.

There are certain other legal issues in this dispute which need further scrutiny.

Assertions by Brussels and Tokyo that the programme also amounted to illegal subsidies dependent on the use of locally produced equipment, have however been rejected. The three-member panel found that the scheme payments constituted a financial contribution in the form of governmental purchase (the first criterion of a subsidy), but that Japan and the EU had failed to

³¹Japan requests the establishment of a panel under the WTO Agreement regarding import restrictions by Argentina, December 2012 at: http://www.meti.go.jp/english/press/2012/1206_01.html

show that the payments also conferred a benefit (the second criterion of a subsidy). The critical point, in this context, was to determine the appropriate benchmark of comparison for ‘benefit’.

“The outcome [of the approach suggested by the EU and Japan] would fail to reflect the reality of modern electricity systems, which by their very nature need to draw electricity from a range of diverse generation technologies that play different roles and have different costs of production and environmental impacts,” the panelists criticise in the ruling, showing a sensibility towards balancing the different governmental needs associated with electricity generation.

While this finding only remotely changes the overall outcome of the dispute, it may have major ramifications for other ongoing cases. In particular, earlier this winter China had requested consultations with the EU over FIT programmes in Italy and Greece, advancing similar subsidy claims as those brought forward by Japan and the EU in the present proceedings. (DS452)

Further, Canada, on behalf of Ontario, had countered Japan’s and the EU’s claims by portraying the measure as government procurement necessary to facilitate a move toward green energy production.

As such, the programme would be shielded from both GATT national treatment requirements and the TRIMS Agreement provisions being cited in the case, provided that the procurement does not occur with the view of commercial resale. Government procurement is also exempt from the WTO subsidies agreement, provided that it is not conferring a benefit.

In the report, however, the panelists come to the conclusion that the programme constitutes government procurement with a view of commercial resale as it results in a profit for the state of Ontario.³²

³²WTO Panel Rules in Favour of EU, Japan in Canada Renewable Energy Dispute, Bridges Weekly Trade News Digest, Volume 16, Number 44, 19th December 2012