



**TRADE POLICY DEVELOPMENTS PAPER NO. 14**

**REPORT ON JAPAN**  
*(for the period October – December 2011)*

**Authors: James J. Nedumpara and Geetanjali Sharma**

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## TABLE OF CONTENTS

<b>EXECUTIVE SUMMARY .....</b>	<b>3</b>
<b>RELEVANT ISSUES FOR INDIA/ISSUES TO BE HIGHLIGHTED IN THE NEXT REPORTS .....</b>	<b>4</b>
<b>ECONOMIC OVERVIEW .....</b>	<b>5</b>
1.1 ECONOMIC SITUATION IN JAPAN DURING THE REVIEW QUARTER .....	5
<b>1.2 RESULTS OF BUSINESS SURVEYS.....</b>	<b>6</b>
<b>1.3 POLICY INTERVENTIONS TO CHECK YEN APPRECIATION .....</b>	<b>7</b>
1.4 PRIME MINISTER'S ADDRESS AT 179 <sup>TH</sup> SESSION OF DIET.....	12
<b>TRADE OVERVIEW .....</b>	<b>13</b>
1.1 JAPAN AT THE WTO.....	13
1.2 TRADE AGREEMENTS, NEGOTIATIONS AND CO-OPERATION AGREEMENTS DURING THE REVIEW QUARTER .....	14
1.4 AID FOR TRADE INITIATIVES .....	23
<b>PART II .....</b>	<b>24</b>
<b>TRADE POLICY AND PRACTICE BY MEASURE.....</b>	<b>24</b>
2.1 TRADE REMEDIES/CONTINGENCY.....	24
2.2 GOVERNMENT PROCUREMENT .....	24
2.3 SPS AND TBT RELATED MEASURES.....	24
2.4 WTO DISPUTE SETTLEMENT .....	24
<b>PART III .....</b>	<b>25</b>
<b>MEASURES AFFECTING EXPORTS AND IMPORTS.....</b>	<b>25</b>
3.1 EXPORT RESTRICTIONS .....	25
3.2 EXPORT BAN.....	25
3.3 EXPORT PROMOTION .....	26
<b>3.4 INTELLECTUAL PROPERTY RIGHTS.....</b>	<b>28</b>
<b>3.5 ENVIRONMENT .....</b>	<b>30</b>
<b>3.6 TAXATION .....</b>	<b>31</b>
<b>3.7 SUBSIDIES.....</b>	<b>32</b>
<b>PART IV .....</b>	<b>33</b>
<b>TRADE POLICY BY SECTOR .....</b>	<b>33</b>
4.1 AGRICULTURE.....	33
4.2 ENERGY.....	33

## Executive Summary

1. The report highlights the economic conditions of Japan during the review quarter, which is progressing at a slow rate. It describes the trade condition which is essentially that of deficit during the quarter. Special focus is given to the Cabinet order dated October 21, 2011 where the government has introduced a package in the form of countermeasures to check yen appreciation in Japan.
2. Japan's role in the WTO in terms of its stance taken at the meeting of Committee on Agriculture and Committee on SCM has been highlighted. This becomes important as Japan along with the US, has also asked India to maintain a transparent regime of subsidies notification at the WTO.
3. Japan actively concluded trade talks and agreements with countries including: Mongolia, Columbia, Vietnam and Australia. The trade talks between Japan and China on several key sectors including Intellectual Property, Energy and Culture have been extensively covered in the report.
4. Japan's trade talks with African nations, Asia-Pacific regions along with trilateral meet of Japan-US-EU on the issues of rare earth minerals have also been crucial during the review quarter. Japan was also actively involved in several aids for trade initiatives with different nations.
5. Export restrictions amendment orders along with export bans by Japan during the review quarter have been highlighted.
6. The report gives special focus to the export promotion activities of Japan. Japan extensively promoted its exports in Singapore through initiatives such as COOL Japan, CREATIVE Tokyo etc. The same has been highlighted in the report.
7. There have been several developments involving Japan in the Intellectual Property front both at domestic and international level. On the international level Japan successfully concludes ACTA and also supports a domestic anti-counterfeiting campaign within Japan through increased awareness and the slogan "Love the real thing". Co-operation agreements on procedural aspects of patent enforcement were concluded with Norway and China.
8. Japan's proposal on mitigation targets have been presented to the secretariat of UNFCCC before their meeting in November. The proposed commitments of Japan have been highlighted in the report.
9. The report highlights the schemes for taxation and subsidies and policy developments therein during the review quarter. Special focus is also given to sectoral developments in agriculture and energy regime in Japan.

### Relevant issues for India/Issues to be highlighted in the next reports

1. The current review quarter witnessed Japan's dormancy in initiation of any trade remedies action or any dispute at the WTO level. The future reports would highlight such measures if initiated.
2. The subsequent reports shall continue to highlight Japan's bond with other nations. The on-going co-operation between Japan and China on key sectors of intellectual property, energy, culture etc. remains strategically important for India.
3. The next report shall cover in detail, the international ramifications of ACTA on countries such as India. The TRIPS compatibility of ACTA shall be analysed in the next report. The international developments in enhanced participation if any would be highlighted.
4. The impact of the package introduced by Government of Japan against Yen Appreciation shall be assessed.
5. The subsequent reports shall cover developments on the front of export promotion initiatives by Japan. This becomes an important area of study as India can subsequently get involved with Japan and introduce reciprocal initiatives on sectors of tourism, hospitality etc.
6. The developments in Taxation and Competition regime along with sectoral developments in areas such as agriculture, energy shall be tracked in the subsequent reports.
7. The developments with respect to the grant of subsidies by government of Japan for reconstruction and purposes of economic development would continue to be reported in the next report.

## Economic Overview

### 1.1 Economic Situation in Japan during the review quarter

The monthly economic report, released by the Cabinet Office on November 24, 2011 extensively described the state of the economy and economic trends using different tools. The highlights of the report included the following facts:

According to the report, the Japanese economy is still picking up slowly, while difficulties continue to prevail due to the Great East Japan Earthquake. The trends observed have been as follows:

- Industrial production is still picking up slowly. Exports have been flat.
- Corporate profits have decreased. Business investment is leveling off while weak movements are seen recently.
- Firms' judgment on current business conditions is improving. However, small and medium-sized enterprises are cautious about the immediate future.
- The employment situation still remains severe partly due to the earthquake disaster, although it also exhibits signs of picking up.
- Private consumption is almost leveling off.
- Recent price developments indicate that the Japanese economy is in a mild deflationary phase.

Concerning short-term prospects, reflecting supply chain reconstruction and the effects of policy measures, the Japanese economy is expected to continue to pick up in future. However, there are downside risks that could stem from several events, such as constraints of electric power supply, the consequences of the nuclear accident, further slowing down of less resilient overseas economies and volatile fluctuations in exchange rates and stock prices due to the Eurozone debt crisis, and the flood disaster in Thailand. The report notes that there is still a risk of the adverse effects of deflation on the economy and a concern about a possible deterioration of the employment situation.

#### **Gross Domestic Product**

According to the monthly economic report, the real GDP in the July-September quarter of 2011 increased by 1.5% on a quarterly basis (at an annual rate of 6.0%), posting positive growth for the first time in four quarters. Nominal GDP increased by 1.4% on a quarterly basis, posing positive growth for the first time in four quarters.

The report specifies that private consumption is almost leveling off. The consumer confidence index is picking up recently, though the pace of recovery is moderate. Real income of employees is almost flat. The Synthetic Consumption Index, which synthesizes demand-side statistics (Family Income and Expenditure Survey, etc.), and supply-side statistics (Indices of Industrial Producer's Shipments, etc.) decreased in September in comparison to August.

Business investment is leveling off while weak movements are seen recently. The Quarterly Financial Statements Statistics of Corporations by Industry, demand-side statistics, showed that business investment decreased both in the January-March quarter of 2011 and the April.

#### **Investment**

The report indicates that public investment has shown steady undertone, partly due to the effect of the FY2011 supplementary budget. The amount of contracted public works in October 2011 and the amount of public works orders received in September 2011 were higher than in the previous year, partly due to the effect of the FY2011 supplementary budget. As for short-term prospects, a boosting effect by the supplementary budget is expected in the future.

### **Balance of trade**

According to the report, the exports have been flat and imports have been increasing moderately. The balance of goods and services therefore remains on a deficit trend. Exports have been flat because the recovery of overseas economies has weakened.

By region, exports to Asia have been flat. Exports to both the U.S. and the EU have been decelerating recently. As for short-term prospects, it should be noted that there are downside risks of overseas economies, as well as the impacts of the yen's appreciation and the flood disaster in Thailand. Imports have been increasing moderately. By region, imports from Asia have been increasing moderately. Imports from the U.S. have been flat. Imports from the EU have been gradually increasing. As for short-term prospects, although imports are expected to increase moderately, attention should be given to movements of domestic production and consumption.

The balance of trade moved to surplus, as export values have increased while import values have decreased. The deficit in the services trade has been flat. The deficit in the services account exceeds the surplus in the trade account, thus, the balance of goods and services remains on a deficit trend. As for short-term prospects, the balance of goods and services will continue to be on a deficit trend for the time being.

### **Employment**

According to the report, the employment situation still remains severe partly due to the earthquake disaster, although it also exhibits signs of picking up. The employment situation still remains severe partly due to the earthquake disaster, although it also exhibits signs of picking up. The national total unemployment rate including Iwate, Miyagi and Fukushima Prefectures, which was available from last month, was 4.1% in September. The total unemployment rate of those aged 15 to 24 was 6.8%. The national total unemployment rate excluding Iwate, Miyagi and Fukushima Prefectures has decreased 0.2 percentage points from the previous month to 4.1% in September. The labor force and the number of employed persons have been increasing, while the number of unemployed persons has been decreasing. The number of employees has been on a decreasing trend, although it increased in September. The effective ratio of job offers to applicants has been rising because of an increase in the number of new job offers. Overtime hours worked in the manufacturing industry have been moving horizontally. As for the movement of wages, contractual cash earnings are moving horizontally, while the total amount of cash earnings is showing weakness. As for short-term prospects, attention should be given to the impact of the earthquake disaster and production movements.<sup>1</sup>

### **1.2 Results of Business surveys**

The 126<sup>th</sup> survey of SME Business Conditions (October-December 2011) conducted by the Organization for Small and Medium Enterprises and Regional Innovation, published the following results:

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<sup>1</sup> *Monthly Economic Report, Cabinet Office Release*, Policy Research Institute, (Nov. 25, 2011), [http://www.mof.go.jp/english/pri/publication/mf\\_review/cy2011/461/461\\_13.htm](http://www.mof.go.jp/english/pri/publication/mf_review/cy2011/461/461_13.htm)

- There continues a trend toward recovery in business conditions for small and medium enterprises (SMEs), but it is of concern that they would be adversely affected by the strong yen.
  - Looking at the business conditions DI (diffusion index) for all industries by each region, the negative gap decreased in all regions.
  - As for the business conditions DI for the manufacturing sector and the non-manufacturing sector, the negative gap decreased.
1. From October to December 2011, the business conditions DI for all industries improved by 2.3 percentage points from negative 26.6 in the preceding quarter to negative 24.3, decreasing the negative gap.
  2. The business conditions DI for the manufacturing sector improved by 0.5 percentage points from negative 20.5 in the preceding quarter to negative 20.0, slightly decreasing the negative gap. Looking at the business conditions DI of each industry, the negative gap expanded for five industries (transportation equipment, miscellaneous manufacturing, textile, food and ceramic products) and was reduced for nine industries (furniture and fixtures, metal products, iron & steel and non-ferrous metals).
  3. The business conditions DI for the non-manufacturing sector improved by 2.8 percentage points from negative 28.8 in the preceding quarter to negative 26.0, decreasing the negative gap. By industry, the negative gap decreased for all of wholesale, service, construction and retail industries.
  4. The financing DI for all industries improved by 0.1 percentage points, from negative 20.9 in the preceding quarter to negative 20.8; the DI measuring long-term financing difficulty improved by 1.3 percentage points from negative 12.4 in the preceding quarter to negative 11.1; and the DI of short-term financing difficulty improved by 1.1 percentage points, from negative 8.8 in the preceding quarter to negative 7.7. The negative gap decreased for all of these DIs.<sup>2</sup>

### **1.3 Policy interventions to check yen appreciation**

One of the major policy interventions during the review quarter has been the introduction of a package to check yen appreciation in order to stabilize the economic and trade balance in the country. This part of the report comprehensively covers the mandate and scope of the package introduced.

According to a Cabinet Decision of October 21, 2011, in order to preemptively address the downside risk of economy and the risk of hollowing-out of industry stemming from the yen appreciation, the Government will promptly execute certain comprehensive countermeasures against the yen appreciation consisting of the concrete policies. The government aims that by putting into practice the Package and the FY2011 third supplementary budget, the downside risk of the economy will be minimised, which will ensure the path toward sustainable growth. Moreover, by implementing the Package as well as enhancing the strategies for new growth, the Government will make maximum efforts to deter the industry hollowing-out through establishing the economy that is robust against risks. These efforts will help promote the step toward the exit from the deflation.

#### **(a) Basic Principles of the Package**

- i. Maintaining the Stability of Markets

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<sup>2</sup>126<sup>th</sup> Survey of SMEs business conditions (October-December), METI, press release, (Dec. 25, 2011), available at: [http://www.meti.go.jp/english/press/2011/1213\\_01.html](http://www.meti.go.jp/english/press/2011/1213_01.html)

- In collaboration with other governments and international organisations, the Government makes efforts to take necessary actions, considering the measures contributing to securing stability of international financial markets including unconventional measures.
  - Excessive move of the yen appreciation is continuing in foreign exchange market. As the excessive volatility in the foreign exchange markets has negative impact on the economic and financial stability, the Government will continuously watch its development and take decisive actions, without excluding any option, if necessary.
  - Closely observing the influence on the international financial and capital markets by the overseas monetary policy and financial condition and considering the downside risks to the economy, the Government expects that the Bank of Japan will support the economy by appropriate and decisive monetary policy management while working closely with the Government.
  - Given the contagion risks of crises in the current international financial markets, maintaining fiscal discipline is a critical issue for Japan with the huge government debt in order to survive under the strict selection pressure of the markets. The Government continuously makes its best effort to ensure market confidence in the government bond.
- ii. Carefully Selecting Effective Policies to Respond to Yen Appreciation, Hollowing-out, and thereby to Support Growth
- The Government will improve Japan’s competitiveness as a business location and develop growth potentials in the future, and establish a robust economy immunised against yen appreciation by developing “only one” companies in their own fields and companies with non-price competitiveness.
  - The measures contributing to revitalising the Japanese economy including this Package and the reconstruction from the Great East Japan Earthquake should be promoted in an integrated manner. It should be noted that the reconstruction from the Great Earthquake itself is a large scale addition of demand. Therefore, the Government will support the economy for the time being by making an effort to realise the reconstruction demand early as possible.
- iii. Minimizing the “Pain” and Maximizing the Merits of the Yen Appreciation
- The Government will relieve the concerns of those directly hit by the yen appreciation, including firms and workers, to prevent the people’s confidence from deteriorating and the economy from falling into a vicious cycle. Especially, maintaining job opportunities is the first priority.
  - By maximizing the merits of the yen appreciation, the Government will enrich the people’s life and vitalise the industry.
- iv. Producing Results through Progress Management
- Setting a numerical target and deadline for each measure in this Package, the Government tries to quickly produce visible results through progress management. The progress will be thoroughly examined in an inter-governmental taskforce, based on PDCA (“Plan, Do, Check, Action”).
- v. Agenda for New Growth
- The Government will enhance its national strategy for new growth considering the situation after the Great Earthquake, as well as accelerate the realisation of New Growth Strategy (June 2010). Especially, it will squarely tackle the hardship facing companies, by accelerating the establishment of economic partnerships and overcoming the electricity supply constraint.
  - The Government will make an all-out effort to fundamentally review regulations and institutions, which are essential for achieving new growth.

**(b) Summary of the measures**



## 1. Mitigating the “Pain” of the Yen Appreciation

### i. Creating and Securing Employment

- Expand the Employment Creation Fund by 200 billion yen, thereby aiming at creating 100 thousand jobs until FY2013.
- Continue the subsidisation to the firms either hiring new graduates (i.e. those within three years after graduation) as regular workers or employing them on “trial” basis initially and thereafter giving them regular status, and increase the number of “job supporters,” thereby support finding jobs for 100 thousand new graduates.
- Relax the requirement of the Employment Adjustment Subsidy in order for the firms forced to temporarily downsize their business activities due to the rapid yen appreciation to quickly benefit from the Subsidy (starting from October7).
- Extend the expiry date of the fund (by three years) to help high school students in severe economic situation to continue their studies.
- Strengthen the active labour market policies by expanding the budget for vocational training to 40 thousand job seekers, as well as by subsidising the OJT expenses of the firms operating in growth areas (e.g. healthcare and environmental protection) which receive workers from the firms operating in the other areas.

### ii. Expanding the financial support to the firms including SMEs

- Extend the expiry date of the special credit guarantee for the SMEs in effectively all industries which are severely affected by the yen appreciation from the end of this September to the end of March 2012, as well as relaxing the requirement for SMEs to qualify for the guarantee considering adverse effect of the yen appreciation.
- Reduce the interest rate of the loans to the SMEs, etc. by the public financial institutions (e.g. Japan Finance Corporations (JFC)) and/or the public financial institutions (including Development Bank of Japan (DBJ)) by 0.5% point at maximum.

### iii. Supporting Tourism industry Suffering from Both the Earthquake and the Yen Appreciation

- Conduct the intensive promotion activity for attracting inbound tourists, and support the holdings of international conferences in Japan, etc., in order to recover the number of inbound tourists as soon as possible to the level prior to the Great Earthquake.
- Revise and implement the “5-year Basic Plan for Tourism-Oriented Country,” thereby reinforcing the efforts to increase the number of inbound tourists.

### iv. Supporting Agriculture, Forestry and Fisheries Industry

- Strengthening competitiveness of domestic lumbers by streamlining forest paths, etc., as well as supporting the farmers and fishermen affected by the Great Earthquake to continue their jobs.

### v. Early Realisation of Reconstruction Demand

- Accelerate the disposal of disaster wastes, thereby achieving the objective of removing all the disaster wastes from the afflicted areas by the end of FY2011 and conducting their final disposal by the end of FY2013, etc.

## 2. Establishing Robust and Resilient Economy Against Risks

### i. Strengthening Competitiveness by Enhancing the Location Subsidy, etc.

- Establish the subsidy amounting to 500 billion yen to the companies that produce the components and materials indispensable for the supply chain and high value-added products, which choose Japan as their

bases for R&D and production, etc., thereby creating private business investment by more than threefold of the subsidy amount.

- Subsidisation rate: one third for large companies, one half for SMEs
- Implement the cut in effective corporate tax rate stipulated in the FY2011 Reforming Tax Act, and realizing the reduction of tax burden for companies from FY2015 on, after when the corporate surtax for the purpose of financing reconstruction starting from FY2012 will be terminated.

ii. Enhancing Demand by Strengthening Support for Installing Energy Saving and New Energy Equipments

- Create a new “Eco-subsidy for Power Saving” amounting XX billion yen. For households, it subsidises the installation of lithium-ion battery (floor standing type), home energy management system (HEMS), housing solar power system, and fuel cell system. For SMEs and public institutions, etc., it subsidises the installation of building energy management system (BEMS) and highly efficient gas air-conditioning equipment, and the energy saving renovation of buildings.
- Enhance the subsidy for installing in-house power generation equipment.
- Resume “Housing Eco-point system” for one year (that was once terminated this July).

iii. Developing “Only One” Companies and Technologies

- Support the SMEs for the upgrade of manufacturing technologies (i.e. monozukuri) and for the countermeasures against technology drain, in order to develop “only one” companies (i.e. the companies whose products and technologies are so unique that they occupy high shares in the world markets) with non-price competitiveness that are robust against the yen appreciation.
- Accelerate industry accumulation of material areas etc. in Tohoku to develop “Sendai Material Valley.”

iv. Strong Support for Entrepreneurs

- Support infant venture companies having innovative technologies to commercialise them, and enhance the no-collateral and no-guarantor loan of JFC, in order to strongly support the entrepreneurs who challenge new business against the headwind of the yen appreciation.
- Discuss the issue of vitalising venture business including how to enhance the supply of risk money in the Council of Industrial Structure (Ministry of Economy, Trade and Industry).
- The Innovation Network Corporation of Japan (INCJ) is expected to steadily explore the investment opportunities to ventures, through strategic decision-making based on the medium- and long-term impact of investment in addition to its feasibility, etc.

v. Supporting the Challenge to the Global Market

- Support the exporting SMEs to open up overseas markets.
- Enhance the feasibility studies to promote export of infrastructure and system.

vi. Strengthening International Competitiveness through Promoting Comprehensive Special Zone System, etc.

- Designate the first group of the “International Strategic Comprehensive Special Zones (ISCSZ)” by the end of this year, where special treatment in regulation and tax, fiscal and financial support are audaciously provided, and then approving the ISCSZ plans as soon as possible. Around five ISCSZs will be carefully selected as those potentially having competitive advantages.
- Promote the measures to make Japan as an Asian industrial center; swiftly enact relevant bill, and formulate a new programme by the end of this year.

vii. Measures against the Hardships Facing the Companies locating their base in Japan.

- Formulate “the Strategy for Revitalising Japan” by the end of this year, through enhancing (national) strategy toward new growth. Developing the “Innovative Environment and Energy Strategy” by summer 2012, which consists of (i) the New Energy Basic Plan (which will show the best mix of the energy sources), (ii) the Strategy for Energy and Environment Industry, and the Green Innovation Strategy.

With these measures, the Government squarely address the issues of promoting economic partnership, secure and low-cost electricity supply, and striking the balance between economic growth and environmental protection, etc..

- Minimise the risks of nearly 10% power shortage at peak hours and 20% (annualised) hike in electricity cost in the next summer, by mobilising all policy measures. For this purpose, formulate the Action Plan for Stabilising Energy Demand and Supply until the end of October.
- Promote necessary regulatory and institutional reforms to revitalize Japan that will be stronger than before the Earthquake.

### 3. Making the Maximum Use of Merits of the Yen Appreciation

#### i. Promoting foreign M&A and acquisition of natural resources by utilizing the Yen Appreciation Merit

- Establish a framework in which both public and private sectors gather their wisdom from pro-growth national viewpoint to swiftly promote foreign M&A and natural resource acquisition through utilizing lending from Foreign Exchange Financing Special Account to the Japan International Cooperation Bank (JBIC) and JBIC's investment function, etc. In so doing, the stakeholders in practical level closely coordinate to promote the use of the financial scheme the corporate sector across the board including not only large sized companies but also SMEs, under appropriate risk management. The lending facility from the Foreign Exchange Financing Special Account to JBIC is increased from about 8 to 10 trillion yen in order to attract private fund.
- Increase the investment to JOGMEC to support the private companies' acquisition of rare earth minerals and natural gas. Enhancing the investment and the limit of the government guarantee for INCJ to promote foreign M&A.
- Strategically accelerate bilateral negotiations to enhance investment agreement, for the purpose of promoting overseas investment.

#### ii. Sending Japanese Students Abroad and Accepting of High-Skilled Personnel

- Send around 2,000 Japanese high school and college students, etc. mainly from the region hit by the Earthquake to Asia Pacific and North America over the next one year or so, while increasing invitation of students mainly from Asia Pacific and North America to Japan.
- Introduce the “point system” that provides preferential treatment in terms of immigration control for high-skilled personnel by the end of this year.

#### iii. Promotion of “Visualisation” of the Merits of the Yen Appreciation

- Conduct a survey on the merits of the yen appreciation, including consumers' perception and influence on purchasing behaviour, in mid- or late-October, and publishing the result by the end of the year.
- Given reduction of imported fuel costs due to the yen appreciation, request the providers to “visualise” the merits of the yen appreciation in electricity and gas prices.<sup>3</sup>

### **(c)Co-ordinated Government Policy**

Apart from the “Comprehensive Package Responding to the Yen Appreciation”, the Bank of Japan has also pledged to support the economy by appropriate and decisive monetary policy management while working closely with the government. Consequently on October 27<sup>th</sup>, the Bank of Japan decided to expand the size of the Asset Purchase Program.

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<sup>3</sup>*Comprehensive Package Responding to Yen Appreciation*, Cabinet Ministry, (Oct. 21, 2011), Policy Research Institute, [http://www.mof.go.jp/english/pri/publication/mf\\_review/cy2011/460/460\\_11.htm](http://www.mof.go.jp/english/pri/publication/mf_review/cy2011/460/460_11.htm)

#### **1.4 Prime Minister's address at 179<sup>th</sup> session of Diet**

Below are the relevant excerpts from Prime Ministers address at the 179<sup>th</sup> session of Diet, emphasizing on nation's efforts towards reconstruction and expected reforms in the future.<sup>4</sup>The speech is indicative of the future line of reforms and the manner in which it needs to be executed.

##### **Rebuilding Japanese economy**

“Due to the historic appreciation of the yen, the crisis of the hollowing-out of industry is continuing. If large corporations relocate their bases overseas, the small and medium enterprises that are their business partners would be obliged to follow, making it a real possibility that precious places of employment that would normally remain in Japan will be lost. In order to avoid such a situation, based on the recent "Comprehensive Measures Against Yen Appreciation," with the cooperation of the Bank of Japan we will take every possible policy measures, including a response to the strong yen itself.

In order to put our resolve to halt the hollowing-out of industry into action, we will prepare location subsidies amounting to 500 billion yen, approximately three times the cumulative amount of subsidy measures implemented to date. Furthermore, through the provision of 200 billion yen in energy-saving eco-friendly subsidies we will create anticipatory demand for cutting-edge technologies, thus further elevating Japan's outstanding technological capabilities in the fields of environment and energy. To the companies that are endeavoring to overcome the hardship imposed by the appreciation of the yen, we will ease the conditions for employment adjustment subsidies and implement measures for small and medium enterprises amounting to a total of approximately 700 billion yen, focusing on expanding financial assistance.”

##### **Towards Responsible Reconstruction**

“Expenditures for the third supplementary budget are to be more than 12 trillion yen, including the aforementioned assistance measures, as well as response to the recent settlement reached on the hepatitis B problem and so on. We must secure financial resources to support the execution of these expenditures.

First and foremost, with firm resolve we will endeavor to achieve overall Government expenditure cuts and secure non-tax revenues.

In order to further cut personnel costs for national civil servants, we have already submitted a bill to the Diet that would reduce civil servant salaries by approximately 8%, and it is vital that the bill be passed as quickly as possible. I have also started a sweeping revision of civil servant housing, including the issue of housing in Asaka. In the Government Revitalization Unit, "proposal-based policy review" will be implemented on policies and institutions with the mindset of the general public, in addition to carrying out tenacious efforts to eradicate wasteful and inefficient administrative measures.

With the view to the bills related to postal reforms to be passed, government assets that can be sold, such as stock in Japan Post Holdings and Japan Tobacco, will be sold in efforts to gather as many non-tax revenues as possible.

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<sup>4</sup>*Policy Speech by Prime Minister Yoshihiko Noda to the 179th Session of the Diet*, Friday, (Oct. 28, 2011), [http://www.kantei.go.jp/foreign/noda/statement/201110/28syosin\\_e.html](http://www.kantei.go.jp/foreign/noda/statement/201110/28syosin_e.html)

Regional sovereignty reforms are important for empowering regions to make locally-based decisions, and these reforms will also be effective to promote reduction of wasteful administrative measures on the national level. We will promote a reform to integrate local subsidies and other funding into the form of block grants and abolish the ministerial branch offices in principle, while listening to the views of the local communities. We will also work to pass the legislation related to the reform of the system of national civil servants in order to ensure that administrative services are efficient and high-quality.”

## Trade Overview

### 1.1 Japan at the WTO

#### **(a) Committee on Agriculture**

At the regular WTO, meeting of Committee on Agriculture held during September 29-30, members asked Japan how the market price support was calculated and administered and details pertaining to environmental payments relating to rice production.

In the same meeting, U.S., Japan and Cairns group also circulated a few informal papers to strengthen the committee’s role. Japan’s submissions focused on clarifying the meaning of existing regulations on agricultural export restraints. However, few countries believed that this is beyond the committee’s mandate.<sup>5</sup>

#### **(b) Government Procurement Agreement**

On December 15, 2011, members to the plurilateral Government Procurement Agreement (GPA) which included Japan amongst its 42 members reached a historic deal to improve the disciplines for this key sector of the economy and expand the market access coverage valued at between 80 to 100 billion dollars a year. Earlier there were certain speculated issues of controversy between US and Japan. But the amendments have finally been accepted by all parties.

#### **(c) Japan’s contribution towards Standards and Trade Development Facility**

On October 27, 2011, Japan has donated USD 229,654 (approximately CHF 178,400) for 2011 to the Standards and Trade Development Facility set up to help developing countries improve their expertise and their capacity to analyse and implement international standards on food safety and animal and plant health.<sup>6</sup>

#### **(d) Committee on Subsidies and Countervailing Measures**

On October 26-27, during the meeting of Subsidies and Countervailing Measures committee of the WTO, the United States, expressed concern about inadequate notification of subsidy programmes by China and India. US submitted separate counter-notifications against these two countries, under Article 25.10 of the Subsidies Agreement. The United States stated that its counter notification listed 200 subsidy programmes by China, adding that 190 of these are still not notified despite the recent notification by China. It said half of

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<sup>5</sup>US, India, Japan Farm Subsidies Face WTO Ag Committee Scrutiny, Bridges Weekly Trade News Digest , Volume 15, Number 33, (Oct. 5, 2011), available at: <http://ictsd.org/i/news/bridgesweekly/114947/>

<sup>6</sup>Japan donates CHF 178,400 for food, animal and plant health standards, (Oct. 27, 2011), WTO news available at: [http://www.wto.int/english/news\\_e/pres11\\_e/pr644\\_e.htm](http://www.wto.int/english/news_e/pres11_e/pr644_e.htm)

the 200 programmes were by sub-central governments. Canada, Japan, EU, Turkey, Australia, New Zealand and Norway shared the US concerns.

Regarding India, the United States said it had listed 50 subsidy programmes that had not been notified to the Committee. It also said that India's subsidies on textiles and apparel should be phased out. Japan, Canada, Turkey, the European Union, Australia and Norway urged India to submit full subsidy notifications.<sup>7</sup>

## 1.2 Trade Agreements, Negotiations and Co-operation agreements during the review quarter

**(a) Japan-Australia-** The 13th round of negotiations on the Japan-Australia Economic Partnership Agreement (EPA) was held from December 20 to December 21 in Canberra. Fruitful discussions were held in such areas as trade in goods, rules of origin, and improvement of the business environment. In respect of market access of trade in goods, matters of mutual concern regarding agricultural, forestry and fishery products and industrial products were discussed in light of negotiations. The next round of negotiations being the 14th round will be held in Tokyo around February 2012.<sup>8</sup>

**(b) Japan-China & Korea-** The seventh meeting of the Joint Study Committee (JSC) for an FTA among the People's Republic of China, Japan and the Republic of Korea (hereinafter called CJKFTA) was held in Pyeongchang, Korea from December 14 to 16. The JSC released a joint statement announcing the completion of the joint study. Through the joint study, the three countries realized that a CJKFTA is expected not only to expand trilateral trade and investment but also to help evolve a wide range of trilateral cooperation and reaffirmed that a CJKFTA will contribute to the ongoing process of economic integration in the Asia-Pacific region.<sup>9</sup>

**(c) Japan-Mongolia-** The fifth Japan-Mongolia Public and Private Sector Joint Committee on Trade and Investment Promotion and on Mineral Resources Development were held in Tokyo on December 15. At the above meeting, Japan requested improvement of the investment environment in Mongolia and stated about Japan's cooperation through ODA, and further explained about Japan's approaches to globalize medical treatment, cooperation in space technology (communication satellite technology), promotion of environmental bilateral credit, and technical cooperation projects such as JETRO's activity to promote Mongolian cashmere. Mongolia explained about Mongolian economic trends and direction, investment environment, situation of the food industry, agriculture and stock raising and light industries as well as development plans for railways and other infrastructure. Both countries exchanged their views on the importance of an early start to negotiations for Japan-Mongolia EPA.

In the fifth Japan-Mongolia Public and Private Sector Joint Committee on Mineral Resources Development held in the afternoon the same day, the participants exchanged their views on the current situation and future prospects of development and use of mineral resources including coal and rare earths, etc. Japan expressed its expectations for Tavan Tolgoi coal mine development and explained about cooperation in briquette and other projects in the coal area as well as joint survey, human resources development and other projects in the

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<sup>7</sup>Subsidies Committee focuses on improving notifications, (Oct. 26-27, 2011), WTO news, available at: [http://www.wto.int/english/news\\_e/news11\\_e/scm\\_26oct11\\_e.htm](http://www.wto.int/english/news_e/news11_e/scm_26oct11_e.htm)

<sup>8</sup>Joint Press Release with the Ministry of Foreign Affairs, Results of the 13th Round of Negotiations on the Japan-Australia Economic Partnership Agreement, (Dec. 21, 2011)[http://www.meti.go.jp/english/press/2011/1221\\_03.html](http://www.meti.go.jp/english/press/2011/1221_03.html)

<sup>9</sup>Results of the seventh meeting of the Joint Study Committee for an FTA among China, Japan, and Korea, METI (Dec. 25, 2011),[http://www.meti.go.jp/english/press/2011/1216\\_02.html](http://www.meti.go.jp/english/press/2011/1216_02.html)

mineral resources area. Mongolia explained about the current status and future prospect of mineral resources development. The two countries agreed to hold the next meeting in Mongolia in 2012.<sup>10</sup>

**(d) Japan-Columbia-** According to a press release of November 30, 2011, the first meeting of the Joint Study for an Economic Partnership Agreement (EPA) between Japan and the Republic of Colombia was held in Bogota, Colombia on November 28 and 29, 2011. In the meeting, public and private sectors from Japan and Colombia exchanged views on topics such as the scope of the Joint Study and bilateral economic relations between the two countries. Both sides agreed to hold the next meeting in Tokyo, of which the schedule will be coordinated through diplomatic channels.<sup>11</sup>

#### **(e) Japan-China**

##### **▪ Energy**

The Sixth Japan-China Energy Conservation Forum was held on November 26, 2011, in Beijing at the Great Hall of the People and the China National Convention Center. During the ceremony, Minister Edano and Chairman Zhang exchanged a memorandum of understanding ("Memorandum of Understanding between the Ministry of Economy, Trade and Industry of Japan and the National Development and Reform Commission of the People's Republic of China for the Further Development of Cooperation on Energy Conservation and Renewable Energy Use"), agreeing to establish a working group in both Japan and China to foster exchange on policy, technology and standardization as well as to discuss projects aimed at building an energy-efficient society.

Among the joint projects agreed and signed at this Forum, were an increased number of cooperation projects on smart grids and smart communities, in addition to those focusing on energy conservation and environmental technology (e.g., water/sludge treatment, recycling). This indicated the steady expansion of Japan-China cooperation on energy conservation and environmental protection on a business basis.

Prior to the Forum, individual working sessions sent their local missions to such areas as Shangdong, Chengdu, Tianjin, Shenzhen, Shanghai, Nanjing to visit local companies engaged in energy conservation and environmental fields and thereby promote business matching and business-to-business exchange.<sup>12</sup>

##### **▪ Culture**

The Governments of both Japan and China jointly held the "Japanese Animation Festival in Shanghai" from November 25, 2011 in Shanghai.

Japan-China cultural exchanges projects were based on the proposal made by Mr. Wen Jiabao, Premier of the State Council of the People's Republic of China at the Japan-China Summit Meeting held during his visit to

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<sup>10</sup>*Results of the Fifth Japan-Mongolia Public and Private Sector Joint Committee on Trade and Investment Promotion and the Fifth Japan-Mongolia Public and Private Sector Joint Committee on Mineral Resources Development*, METI, Press release, (Dec. 25, 2011), [http://www.meti.go.jp/english/press/2011/1215\\_01.html](http://www.meti.go.jp/english/press/2011/1215_01.html)

<sup>11</sup>*The 1st Joint Study for an Economic Partnership Agreement between Japan and the Republic of Colombia*, METI, press release, (Nov. 16, 2011), [http://www.meti.go.jp/english/press/2011/1130\\_01.html](http://www.meti.go.jp/english/press/2011/1130_01.html)

<sup>12</sup>*Results of the Sixth Japan-China Energy Conservation Forum*, METI, Press release, (Nov. 29, 2011), [http://www.meti.go.jp/english/press/2011/1128\\_01.html](http://www.meti.go.jp/english/press/2011/1128_01.html)

Japan in May 2010. Leaders of both countries agreed to hold a "Movie and TV Week" and an "Animation Festival" according to the proposal, with the "Japanese Movie Week in China" having been held in Beijing and Shanghai in June this year.

Implementation of these projects is expected to expand opportunities for exchange and business in the visual media industry (movies, TV programs, Animation etc.). It is also hoped that the projects will deepen mutual understanding between Japan and China in this sector and eventually help establish a firm base for bilateral relations.<sup>13</sup>

- **Intellectual property**

On October 24-25, 2011, the third meeting of the Japan-China joint IP Working Group (IP WG) was held in Kobe for two days, in accordance with the "Memorandum of Understanding on exchanges and cooperation for the protection of intellectual property (IP) rights" signed in June, 2009 between the Minister of Economy, Trade and Industry of Japan and the Minister of Commerce of China.

The main topics addressed included IP rights protection measures in China in relation to counterfeit and pirated products available on the Internet as well as control of agricultural, forestry and fishery products using Japanese place names. The Japanese side presented proposals and requests on these issues, and the two countries exchanged opinions on them.

Further, the Japanese side introduced the contents of the Anti-Counterfeiting Trade Agreement (ACTA), for which the signing ceremony was held in Tokyo this month. The two countries agreed to act in coordination toward a joint study on matching between ACTA and Chinese laws. It was agreed that the fourth meeting of the IP WG should be held in China within the next fiscal year.<sup>14</sup>

## **(f) Japan-Indonesia**

- **Infrastructure, trade, investment, natural resources & energy**

The Governments of Japan and Indonesia and business organizations of both countries held the Third Japan-Indonesia Joint Economic Forum in Bali, Indonesia on November 18, 2011. The aim of the forum was to discuss comprehensive cooperation on the "Master Plan for Acceleration and Expansion of Indonesia Economic Development (MP3EI)" and in other areas such as infrastructure, trade, investment and natural resources and energy.

At the forum, the two countries agreed to enhance industrial cooperation in various areas through the following approaches under the MP3EI: 1) Hard infrastructure development through specific projects for railways, ports, airports, power plants and transmission network, etc., 2) Soft infrastructure preparation including improvement of customs clearance as well as other procedures and more efficient logistics, improvement of public-private partnership (PPP) scheme and human resource development for

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<sup>13</sup>Japan-China Cultural Exchanges Project "Japanese Animation Festival in Shanghai", METI, Press release, (Nov. 20, 2011), [http://www.meti.go.jp/english/press/2011/1117\\_02.html](http://www.meti.go.jp/english/press/2011/1117_02.html)

<sup>14</sup>Third meeting of Japan-China joint IP Working Group, METI, Press release, (Oct. 26, 2011), [http://www.meti.go.jp/english/press/2011/1026\\_01.html](http://www.meti.go.jp/english/press/2011/1026_01.html)



infrastructure, and 3) Approaches of Initiative for Manufacturing Industry Development Center (MIDEC) etc.

In addition, the two countries affirmed that they would make efforts in improving the business, investment and trade environment in Indonesia through solution of various issues and activation of the Japan-Indonesia Economic Partnership Agreement so that more investment will be made from Japan.<sup>15</sup>

- **Climate change**

According to a press release of November 28, 2011, the Bilateral Cooperation Document on Climate Change between the Government of Japan and the Government of Indonesia was released. This document has been compiled with the recognition that it is essential to promote further dialogue between Japan and Indonesia in the field of climate change. In the document, the following points are confirmed:

- 1) The two countries shall cooperate constructively to ensure a successful 17th Conference of the Parties (COP17);
- 2) Advanced technologies in the industrial and other areas are important to address climate change issues while achieving sustainable growth; and
- 3) In order to enhance mutual understanding on the offset credit mechanism and to promote concrete action for greenhouse gas emissions reduction, the two countries shall broaden the consultation process between the public and private sectors through model projects and other activities in addition to their efforts so far.<sup>16</sup>

**(g) Japan-Russia-** According to a press release of November 14, 2011, in the morning of November 12, 2011 the Minister of Economy, Trade and Industry Yukio Edano, who was attending the APEC Leaders' Meeting, met with Ms. Elvira Nabiullina, Minister of Economic Development of the Russian Federation, and concluded a "Memorandum of Cooperation between the Ministry of Economy, Trade and Industry of Japan and the Ministry of Economic Development of the Russian Federation in the Field of Economic Modernization."

This Memorandum is aimed at developing trade and investment between Japan and Russia, with particular attention to the "economic modernization" program promoted by the Russian government. The Russian government is promoting an economic modernization program. Knowing the Russian government's economic policy and needs will lead to the creation of new business opportunities for Japanese companies. The Ministry of Economy, Trade and Industry (METI) will continue dialogue with the Russian Economic Development Ministry and gather and analyze information mainly on priorities in Russia's economic modernization program. METI will provide obtained information for Japanese industries and assist them in

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<sup>15</sup>Joint Press Release adopted at the Third Japan-Indonesia Joint Economic Forum, METI, Press release, (Nov. 20, 2011), [http://www.meti.go.jp/english/press/2011/1125\\_05.html](http://www.meti.go.jp/english/press/2011/1125_05.html)

<sup>16</sup>Release of Bilateral Cooperation Document on Climate Change between the Government of Japan and the Government of Indonesia, METI, Press release, (Nov. 20, 2011), [http://www.meti.go.jp/english/press/2011/1125\\_02.html](http://www.meti.go.jp/english/press/2011/1125_02.html)

forming specific projects. METI will also continue efforts to improve the trade and investment environment in Russia.<sup>17</sup>

**(h) Japan-African nations-** On November 7, a policy dialogue was held at the Ministry of Economy, Trade and Industry (METI) with the attendance of Mr. Hideichi Okada, Vice-Minister for International Affairs, 28 African Ambassadors to Japan, representatives of Keidanren (Japan Business Federation), supporting organizations (including JICA and JBIC), and Japanese companies. They exchanged opinions for the promotion of trade and investment between Japan and Africa.

The Japanese side expressed its intention to both make active contributions to Africa's sustainable development through green business and other projects and foster investment in the infrastructure sector. The African Ambassadors indicated their enthusiasm and support for the participation of many Japanese companies in infrastructure development projects in Africa.

During the policy dialogue, Vice-Minister Mr. Okada, the Japanese co-chair, stated that METI would support the promotion of trade, investment and technology transfer from Japan to African countries in view of COP17, scheduled at the end of this month, and the Fifth Tokyo International Conference on African Development (TICAD V) in 2013. He also communicated the Ministry's intent to contribute to Africa's reduction of greenhouse gas emissions in cooperation with Japanese industry circles, through green business and other projects.

Keidanren's Vice Chairman Mr. Masahiro Sakane (Chairman of Komatsu) asked the African side to embrace a new international framework, necessary for the implementation of effective measures to combat global warming, and stated that Japanese industry hoped to utilize its outstanding environmental technologies to contribute to Africa's low-carbon growth and sustainable development strategies. Subsequently, representatives of Japanese companies explained the progress of projects carried out in Africa, including those focusing on geothermal energy, photovoltaic energy, electrification in off-grid areas, and industrial energy conservation at factories.

The Ambassador of Republic of South Africa to Japan and African co-chair, Mr. Gert Johannes Grobler, stated that Africa placed particularly high priority on infrastructure, trade and investment, and agriculture and expressed strong anticipation for enhanced investment from Japan in these areas. Many of the African Ambassadors indicated their hopes for advances in the discussion on Japan-Africa economic cooperation through continued dialogue with METI and Japanese industry circles, as well as strong expectations for the expansion of projects involving local African companies.

In light of these discussions, METI pledged to continue to secure opportunities to hold dialogues with African diplomats in Tokyo in the hope of enhancing Japan's win-win economic relationship with African countries.<sup>18</sup>

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<sup>17</sup>*Conclusion of memorandum with the Ministry of Economic Development of the Russian Federation- Toward expanding Japan-Russia economic cooperation mainly on Russian economic modernization* - METI, Press release, (Nov. 25, 2011),[http://www.meti.go.jp/english/press/2011/1114\\_01.html](http://www.meti.go.jp/english/press/2011/1114_01.html)

<sup>18</sup>*Policy Dialogue between METI and African Ambassadors*, METI, Press release, (Nov. 25, 2011),[http://www.meti.go.jp/english/press/2011/1110\\_03.html](http://www.meti.go.jp/english/press/2011/1110_03.html)

**(i) Japan-Asia-Pacific regions-** On October 27, 2011, Japan's members of the APEC Business Advisory Council (ABAC) visited Prime Minister Noda and handed the ABAC 2011 "Letter/Report to APEC Economic Leaders".

The report proposed promotion of regional economic integration including realization of the Free Trade Area of the Asia-Pacific (FTAAP) and promotion of sustainable growth. The Ministry of Economy, Trade and Industry based on the above proposal, plans to tackle issues such as promotion of innovation and green growth in the Asia-Pacific region through APEC activities.

ABAC is APEC's official advisory council established in 1996. Representing the business sector in the Asia-Pacific region, it releases "Letter/Report to APEC Economic Leaders" and holds dialogues between the leaders and ABAC members, taking advantage of the opportunity presented by the APEC Economic Leaders' Meeting every year. ABAC members consist of representatives of the business sector from the 21 economies participating in APEC. From Japan, three representatives have been appointed by the Prime Minister.

As this year's report had been completed, ABAC officials handed it to Prime Minister Noda (October 27) prior to the APEC Economic Leaders' meeting (held in November in Honolulu). Major proposals in the report included: promotion of regional economic integration including realization of FTAAP, and promotion of sustainable growth through advocacy of greener goods and services.<sup>19</sup>

**(j) Japan-US and EU-** On October 4-5, 2011, the Ministry of Economy, Trade and Industry, the New Energy and Industrial Technology Development Organization (NEDO), the U.S. Department of Energy, and the European Commission jointly organized a two-day trilateral workshop in Washington, D.C. on October 4 and 5 for securing stable supplies of rare earths.

The need of this meet was felt because rare earths are indispensable to the future manufacturing of high-tech products because they are used to produce high-performance magnets in motors of hybrid vehicles and wind turbine generators as well as key components of leading-edge information terminals.

The workshop held in Washington, D.C. brought together policy-makers and experts in materials technology from Japan, the U.S. and Europe, which are three major sources of demand in the global rare-earth market. Participants shared the understanding of global issues concerning rare-earth supply and discussed strategic efforts to secure stable supplies of rare earths in the future, including alternative technologies and recycling techniques.<sup>20</sup>

**(k) Japan-Saudi Arabia-** The Japanese Minister, visited the UAE and Saudi Arabia during October 8 to October 11. During his visit to the UAE, METI Minister Edano met with the Deputy Prime Minister Mansour bin Zayed Al Nahyan and other senior government officials and executives of the national oil company to exchange views on the extension of Japanese companies' interests in local oilfields, the participation of Japanese companies in new oilfield projects, and cooperation in human resources development and other areas. In Saudi Arabia, Mr. Edano met with Mr. Ali I. Al-Naimi, Minister of Petroleum and Mineral Resources, and other senior government officials and gained their long-term

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<sup>19</sup>Proposal on "Promotion of Free Trade Area of Asia-Pacific" Presented to Prime Minister Noda -- Submitted by APEC Business Advisory Council, METI, press release, (Nov. 25, 2011), [http://www.meti.go.jp/english/press/2011/1027\\_01.html](http://www.meti.go.jp/english/press/2011/1027_01.html)

<sup>20</sup>Japan-U.S.-Europe trilateral workshop to be held for securing stable supplies of rare earths, METI, Press release, (Oct. 25, 2011), [http://www.meti.go.jp/english/press/2011/1004\\_01.html](http://www.meti.go.jp/english/press/2011/1004_01.html)

commitment to stabilize the crude oil market. Recognizing that Saudi Arabia is diversifying its industry, METI Minister Edano agreed with the country to promote industrial cooperation in various fields.

The UAE and Saudi Arabia are two major oil-producing countries that together account for about 50% of crude oil supplies to Japan. METI believes that tightening relations with them is of great importance to Japan's energy security. In the course of transforming the economic structure dependent on oil revenues and diversifying industry, both countries strongly called for the cooperation of Japan. On the other hand, these two countries are attracting the attention of Japanese companies as prospective emerging markets because of their rapid economic growth and robust demand for infrastructure.

During his visit to the UAE, METI Minister Edano visited the Zakum Oilfield, in which Japanese companies have stakes, and held talks pertaining to on the extension of Japanese companies' interests in oilfields and the participation of Japanese companies in new oilfield projects and exchanged views on cooperation on human resources development and investment promotion for tightening bilateral relations.

In Saudi Arabia, METI Minister Edano met with Mr. Naimi, Minister of Petroleum and expressed Japan's gratitude for Saudi Arabia's support in the form of its supply of LP gas following the Great East Japan Earthquake, while the Saudi side expressed its long-term commitment to stabilize the crude oil market. Both sides exchanged opinions on cooperation in various fields to help Saudi Arabia diversify its industry.<sup>21</sup>

### **(1) Anti-Counterfeiting Trade Agreement**

On October 1, 2011, representatives from Australia, Canada, the European Union, Japan, Republic of Korea, Mexico, Morocco, New Zealand, Singapore, Switzerland, and the United States reaffirmed their commitment to the Anti-Counterfeiting Trade Agreement at a Tokyo signing ceremony hosted by the Government of Japan.<sup>22</sup>

Representatives of eight governments – Australia, Canada, Japan, Republic of Korea, Morocco, New Zealand, Singapore, and the United States signed the Agreement, and took a major step toward its entry into force. Representatives of the European Union, Mexico and Switzerland attended the ceremony and confirmed their continuing strong support for and preparations to sign the Agreement as soon as practicable. All participants expressed their firm resolve to work cooperatively to achieve the Agreement's prompt entry into force, and to support actively its goals.

### **About the Agreement**

The ACTA represents a significant achievement in the fight against the infringement of intellectual property rights, in particular the proliferation of counterfeiting and piracy on a global scale, providing a mechanism for the parties to work together in a more collaborative manner to achieve the common goal of effective IPR enforcement. When it enters into force with all participants, the ACTA will formalize the legal foundation for a first-of-its-kind alliance of trading partners, representing more than half of world trade.

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<sup>21</sup>*Report on visit to the UAE and Saudi Arabia by the Minister of Economy, Trade and Industry Edano*, METI, Press release, (Oct. 18, 2011), available at: [http://www.meti.go.jp/english/press/2011/1011\\_02.html](http://www.meti.go.jp/english/press/2011/1011_02.html)

<sup>22</sup>*ACTA Signing Ceremony, Ministry of Foreign Affairs of Japan*, Press release, (Oct. 17, 2011)[http://www.mofa.go.jp/policy/economy/i\\_property/acta1110.html](http://www.mofa.go.jp/policy/economy/i_property/acta1110.html)

At a symposium in Sendai, Japan on September 30, participants in the ACTA negotiations invited other trading partners to consider joining this emerging consensus on stronger IPR enforcement.

The ACTA provides for: (1) enhanced international cooperation; (2) promotion of sound enforcement practices; and (3) a legal framework for IPR enforcement in the areas of criminal enforcement, enforcement at the border, civil and administrative actions, and distribution of IPR infringing material on the Internet. With respect to the legal framework, the ACTA establish a strengthened standard that builds on the minimum standards of the WTO Agreement on Trade- Related Aspects of Intellectual Property Rights (TRIPS). This marks a considerable improvement in international trade norms for effectively combating the global proliferation of commercial-scale counterfeiting and piracy in the 21st Century.

### **Japan's role in ACTA**

The Agreement was inspired to a large degree by Japan's proposal at the G8 Gleneagles Summit in 2005 to create a new international framework against counterfeit and pirated products, in the context of the heightened awareness of the need for a higher degree of intellectual property protection. In 2006, Japan and the United States jointly reached out to other partners to develop the idea of a new plurilateral agreement to help in the fight against counterfeiting and piracy, leading to an announcement of the initiative in October 2007. The aim of the ACTA initiative was to bring together those countries, both developed and developing, that are interested in fighting the infringement of intellectual property rights, in particular counterfeiting and piracy, and to negotiate an agreement that enhances international co-operation and contains effective international standards for enforcing intellectual property rights.

Formal negotiations started in June 2008 with the participation of Australia, Canada, the European Union and its 27 member states, Japan, Mexico, Morocco, New Zealand, Republic of Korea, Singapore, Switzerland and the United States. The final Round of negotiations was held in Japan in October 2010. Following translation and technical work, the ACTA opened for signature on May 1, 2011. The Government of Japan will receive further signatures, as the Depositary of the ACTA. For those who have already signed, the next step in bringing the ACTA into force is the deposit of instruments of ratification, acceptance, or approval. The agreement will enter into force following the deposit of the sixth such instrument.

### **1.3 Key meetings during the review quarter**

**(a) G-20 Cannes summit-** At the G-20 Cannes Summit (November 3-4, 2011), which focussed on trends in financial market and global economy, Japan reiterated its commitment commits to the expeditious implementation of substantial fiscal measures for reconstruction from the earthquake estimated at least 19 trillion yen (about 4% of GDP), while ensuring the commitment to medium-term fiscal consolidation. Japan stated that it will implement the "Definite Plan for the Comprehensive Reform of Social Security and Tax" which sets out policies including the gradual increase in the consumption tax to 10% by the middle of this decade and to submitting implementing legislation by the end of FY2011 to realise these policies, in order to meet its Toronto commitment. Further, recognizing that private demand has been relatively weak in recent years, Japan committed to implement measures to promote private consumption and investment with the expectation that, expressed as a share of GDP, both components will increase over time. This includes accelerating the implementation of the "New Growth Strategy" comprising policies that will boost demand for a range of services.<sup>23</sup>

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<sup>23</sup>*The Cannes Action plan for growth and jobs, Ministry of Foreign Affairs of Japan, Press release, (Nov. 4, 2011), [http://www.mofa.go.jp/policy/economy/g20\\_summit/2011/action\\_plan.html](http://www.mofa.go.jp/policy/economy/g20_summit/2011/action_plan.html)*

**(b) APEC meeting-** Japan participated in the 18<sup>th</sup> annual APEC meeting in Honolulu, Hawai'i on 10 November 2011. The members reviewed the conclusions of the recent G-20 Leaders Summit meeting in Cannes, and pledged to take coordinated actions to strengthen the global recovery, reinforce financial sector stability, maintain open markets, and build a foundation for strong, sustainable, and balanced growth. The focus of the meeting was: (1) Strengthening Regional Economic Integration and Expanding Trade, (2) Promoting Green Growth, and (3) Regulatory Convergence and Cooperation. The Leaders' Declaration listed policies that member economies agreed to implement, including the following:

- "Common principles to promote effective, non-discriminatory, and market-driven innovation policy" to prevent innovation policy from restricting trade and investment
- Measures to liberalize trade and investment in environmental goods (e.g., products contributing to reducing environmental burdens) and services, including reducing the tariff rates applicable to environmental goods to 5% or less by the end of 2015

In order to increase the resiliency of the global banking system, members also committed to implement the new Basel Committee on Banking Supervision framework, which raises the quantity, quality, and international consistency of capital and liquidity. To reduce moral hazard and risks to taxpayers, members agreed to implement effective resolution regimes for systemically important financial institutions. In line with international efforts, members agreed to undertake regulatory reforms so that all standardized OTC derivative contracts are traded on exchanges or electronic trading platforms, where appropriate, and cleared through central counterparties. Members also pledged to enact reforms to see that OTC derivatives contracts are reported to trade repositories and non-centrally cleared contracts are subject to higher capital requirements.<sup>24</sup>

Japan also participated in the Economic Leader's meeting at APEC on November 12-13, 2011. The Economic Leaders' Meeting, chaired by President Obama, focused on "growth and jobs creation," "regulatory reform and competitiveness," and "energy efficiency and energy security." The major themes of the meeting included:

- Growth and job creation- Following a report by the IMF's Managing Director, Ms. Christine Lagarde, member economies discussed the impact of the European economy on the Asia-Pacific region, the necessity of regional cooperation, and the importance of regional economic integration toward growth and employment. Prime Minister Noda, after announcing his decision to begin consultations toward participating in the TPP negotiations with the countries concerned, explained his views on and responses to global economic conditions, and Japan's economic growth strategy.
- Regulatory reform and competitiveness- Discussions were held on regulations focusing on utilizing the private sector as engine of growth. Member economies made presentations on their ideas and experiences concerning the development and review of regulations.
- Energy efficiency and energy security- During the session on energy efficiency and energy security, Prime Minister Noda delivered keynote remarks on (1) Japan's energy conservation efforts to achieve the world's highest energy efficiency, (2) challenges Japan is taking on in its future energy policy, and (3) future cooperation on energy in the Asia-Pacific region. Member economies explained their policies aimed at increasing energy efficiency and discussed ways to ensure energy security while reducing environmental impacts, such as optimizing energy mix and utilizing natural gas.<sup>25</sup>

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<sup>24</sup>18<sup>th</sup> Apec Finance Ministers' Meeting, Joint Ministerial

Statement, [http://www.mof.go.jp/english/international\\_policy/convention/apec/ap\\_111110.pdf](http://www.mof.go.jp/english/international_policy/convention/apec/ap_111110.pdf)

<sup>25</sup>Overview of Economic Leader's Meeting (APEC, 2011), METI, Press release, (Nov. 20, 2011), [http://www.meti.go.jp/english/press/2011/1116\\_01.html](http://www.meti.go.jp/english/press/2011/1116_01.html)

## 1.4 Aid for trade initiatives

**(a) Japan-Malaysia-** On December 27, the Japan International Cooperation Agency (JICA) signed a Japanese ODA loan agreement with the Government of Malaysia to provide up to a total of 6.697 billion yen for the Development Project for Malaysia-Japan International Institute of Technology (MJIT). MJIT is an academic institution established under Universiti Teknologi Malaysia to introduce Japanese-style engineering education.<sup>26</sup>

**(b) Japan-Australia-** The Australian Agency for International Development (AusAID) and the JICA signed a new partnership on international development. The Memorandum of Understanding was signed in Tokyo which commits the two agencies to work more closely together to increase aid effectiveness and help developing countries lift their people out of poverty and share the benefits of economic growth. Through the new partnership, the two agencies have agreed to increase the exchange of information between them, and to enhance cooperation in sectors such as education, disaster risk management, transport and infrastructure.<sup>27</sup>

**(c) Japan-Serbia-** On November 24, JICA signed a Japanese ODA loan agreement with the Public Enterprise Electric Power Industry of Serbia in Belgrade, the capital of the Republic of Serbia, to provide a loan of up to 28.252 billion yen for assistance for the "Flue Gas Desulphurization Construction Project for Thermal Power Plant Nikola Tesla." The present project is the first Japanese ODA loan for the Republic of Serbia and the Republic of Serbia is the 105th country to receive a Japanese ODA loan. The project will construct the first flue gas desulphurization plant at the thermal power plant Nikola Tesla A in the Republic of Serbia, decreasing sulphur dioxide (SO<sub>2</sub>) and dust, which are air pollutants, improving the environment in the Republic of Serbia, and contributing toward the attainment of EU environmental standards, in consideration of the Republic of Serbia joining the EU in the future. The loan funds for this project will be allocated to the construction of the flue gas desulphurization plant and consulting services (including tender assistance and construction monitoring).<sup>28</sup>

**(d) Japan-Vietnam-** On November 11, JICA signed a Loan Agreement with the Asia Commercial Joint Stock Bank (ACB), one of the largest private commercial banks in Vietnam, for Industrial Human Resources Development Project. After completing the appraisal of the Project under pilot approach based on the New Growth Strategy 2011 (approved by Cabinet decision on January 25, 2011), the Loan Agreement has come to be signed. In this project, JICA will support under PSIF Esuhai Co., Ltd. (Esuhai) for school building construction in order to assist its business expansion with an aim of competent industrial human resources in Vietnam. For executing the project, JICA will provide a loan to Esuhai through ACB.<sup>29</sup>

Before this, on November 2, JICA also signed Japanese ODA loan agreements with the Government of the Socialist Republic of Vietnam to provide loans of up to 92.645 billion yen (for six projects) in the presence of the Prime Minister of Vietnam, H.E. Mr. Nguyen Tan Dung. On June 15, 2011, Japanese ODA loan

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<sup>26</sup>*Signing of Japanese ODA loan with Malaysia*, (Dec. 28, 2011),  
JICAhttp://www.jica.go.jp/english/news/press/2011/111228.html

<sup>27</sup>*Joint Statement on the new AusAID-JICA Partnership for International Development Cooperation*, (Dec. 20, 2011),  
JICAhttp://www.jica.go.jp/english/news/press/2011/111212.html

<sup>28</sup>*Signing of Japanese ODA loans with Republic of Serbia*, (Nov. 24, 2011),  
JICAhttp://www.jica.go.jp/english/news/press/2011/111124.html

<sup>29</sup>*First Project Signed for Private Sector Investment Finance since Program Resumed*, (Nov. 11, 2011),  
JICAhttp://www.jica.go.jp/english/news/press/2011/111111.html

agreements were signed for up to 40.946 billion yen (for two projects), bringing the total agreed loans signed in fiscal 2011 to 133.591 billion yen (for eight projects).<sup>30</sup>

**(e) Japan-Afghanistan-** On October 21, an opening ceremony was held at the Embassy of Afghanistan in Tokyo, Japan, in conjunction with the acceptance of Afghans to study at universities around Japan. The 47 participants who recently arrived in Japan were the first group under the Project for the Promotion and Enhancement of the Afghan Capacity for Effective Development (PEACE), conducted by the Japan International Cooperation Agency (JICA).<sup>31</sup>

**(f) Japan- Africa-** On October 17, 2011, JICA signed an agreement with the African Development Bank (AfDB) to provide a Japanese ODA loan of up to 8.44 billion yen for assistance for the Private Sector Assistance Loan under the Joint Initiative titled EPSA for Africa (III). This project is being implemented as a part of Enhanced Private Sector Assistance for Africa (EPSA for Africa) announced by the Japanese government in June 2005. Under this project, JICA will provide funding, through AfDB, to African private sector with the aim of boosting economic growth, as well as to alleviating poverty in the region. This will be carried out through AfDB Private Sector Financing Operations for private companies and others located or registered in AfDB member nations in Africa region.<sup>32</sup>

## Part II

### Trade Policy and Practice by Measure

#### 2.1 Trade Remedies/Contingency

There were no developments with respect to initiations of AD, CVD, Safeguards or other trade contingency measures during the review quarter.

#### 2.2 Government Procurement

There were no developments during the review quarter

#### 2.3 SPS and TBT related measures

None reported during the review quarter.

#### 2.4 WTO Dispute Settlement

There were no developments involving Japan at the WTO dispute settlement body.

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<sup>30</sup>*Signing of Japanese ODA Loan with the Socialist Republic of Vietnam*, (Nov. 2, 2011), JICA,<http://www.jica.go.jp/english/news/press/2011/111102.html>

<sup>31</sup>*Bridge to the Future for Afghanistan and Japan*, (Oct. 24, 2011), JICA,<http://www.jica.go.jp/english/news/press/2011/111024.html>

<sup>32</sup>*Signing of Japanese ODA with African Development Bank*, (Nov. 18, 2011), JICA,<http://www.jica.go.jp/english/news/press/2011/111018.html>



## Part III

### Measures affecting exports and imports

#### 3.1 Export Restrictions

According to a decision of December 20, 2011 titled, "Cabinet Order to Partially Amend the Export Trade Control Order", certain amendments were proposed. Among the goods that require approval from the Minister of Economy, Trade and Industry under Article 2, Paragraph 1 of the Export Trade Control Order (Cabinet Order No. 378 of 1949) agricultural, forestry and fishery products have been placed under export restrictions in order to ensure stable supply in Japan.

The order specifies that if the destination is the areas specified in Appended Table 3-2 of the Export Order (Countries against which arms embargo resolution or the like was made at the UN Security Council: "Arms Embargo Countries"), export is more strictly controlled than that for other areas (Article 4, Paragraph 1, Items 3 to 6 under the Export Order).

Since the resolution to take sanction measures including arms embargo against Libya and the resolution to lift the sanction measures including arms embargo imposed on Sierra Leone were adopted at the UN Security Council, the order deletes Sierra Leone from and add Libya to the Arms Embargo Countries. The two proposals shall accordingly be effective from April, 2012 and February, 2012.<sup>33</sup>

#### 3.2 Export ban

(a) On December 8, 2011, in relation to the violation of the Foreign Exchange and Foreign Trade Act by ISSHIN TRADING CO., LTD. and Lee Chul Woo, the Ministry of Economy, Trade and Industry made an administrative sanction to ban exports pursuant to the provision of Article 53, Paragraph 2 under the Act.

Background- Lee Chul Woo, Representative Director of ISSHIN TRADING CO., LTD. (Kyoto City, Kyoto) exported canned coffee in July 2009 and used tires in August 2009 and June 2010 to Dalian, China for the purpose of export to North Korea without obtaining relevant permission from the Minister of Economy, Trade and Industry (METI Minister) though their exports to North Korea requires permission from the METI Minister under the Act.

The summary of ban is as follows:

- Party subject to the sanction- ISSHIN TRADING CO., LTD. and Lee Chul Woo
- Goods banned from export: All goods
- Export ban regions- All regions
- Export ban period- From December 14, 2011 to July 13, 2012 (seven months)<sup>34</sup>

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<sup>33</sup>*Cabinet Order to Partially Amend the Export Trade Control Order*, METI, Press release, (Dec. 28 2011), [http://www.meti.go.jp/english/press/2011/1220\\_03.html](http://www.meti.go.jp/english/press/2011/1220_03.html)

<sup>34</sup>*Administrative Sanction (Export Ban) Pursuant to the Foreign Exchange and Foreign Trade Act*, METI, Press release (Dec. 20, 2011), [http://www.meti.go.jp/english/press/2011/1208\\_02.html](http://www.meti.go.jp/english/press/2011/1208_02.html)

(b) According to a press release of November 16, 2011, in relation to the violation of the Foreign Exchange and Foreign Trade Act by Kim Seihou, Masahiro Nakagi and Akihiro Banno, the Ministry of Economy, Trade and Industry made an administrative sanction to ban imports pursuant to the provision of Article 53, Paragraph 2 under the Act.

Background- On April 23, 2009, Kim Seihou, Masahiro Nakagi and Akihiro Banno illegally imported clothing (ladies' wear) of North Korean origin, via China, without permission from the METI Minister, though import of these goods requires permission from the METI Minister.

The summary of ban is as follows:

- Party subject to the sanction: Kim Seihou
- Goods banned from import: All goods
- Place of origin or shipment subject to import ban: All regions
- Import ban period: From November 22, 2011 to January 21, 2012 (two months).
  
- Party subject to the sanction: Masahiro Nakagi
- Goods banned from import: All goods
- Place of origin or shipment subject to import ban: All regions
- Import ban period: From November 22, 2011 to December 21, 2011 (one month)
  
- Party subject to the sanction: Akihiro Banno
- Goods banned from import: All goods
- Place of origin or shipment subject to import ban: All regions
- Import ban period: From November 22, 2011 to December 21, 2011 (one month)

### 3.3 Export promotion

#### **(a) COOL Japan Initiatives**

(i) On October 6, Mr. Tadahiro Matsushita, Senior Vice Minister of Economy, Trade and Industry, visited Singapore, accompanied by representatives of small and medium enterprises engaged in apparel and food industries, to support projects to promote "Cool Japan." This visit by Senior Vice Minister Matsushita is the first action taken for "cooperation in the creative industries" agreed between Mr. Yukio Edano, Minister of Economy, Trade and Industry, and Dr. Yaacob Ibrahim, Singapore's Minister for Information, Communications and the Arts, on September 23, 2011.

Background of COOL Japan- In cooperation with related ministries, the Ministry of Economy, Trade and Industry is implementing the Cool Japan Strategy, which aims to capture 8-11 trillion share of the global market for cultural industries in 2020, as proposed by the Public-Private Expert Panel on Creative Industries. To achieve this target, METI launched the Cool Japan Strategy Promotion Program this fiscal year to intensively assist SMEs in developing overseas markets in sectors such as content, fashion, food, regional products, traditional culture and craftsmanship. Thirteen projects have been selected through an open call for applications, and three of them (focusing on food in Tohoku, fashion and content, respectively) will be launched in Singapore, as a trend-setting place in Southeast Asia.

The joint press statement on bilateral "cooperation in the creative industries" issued on September 23 by METI Minister Yukio Edano and Singapore's Minister for Information, Communications and the Arts

Yaacob Ibrahim states that the two countries will “promote cooperation in creative industries and explore possibilities of joint market development in the region” and “strengthen business ties and mutual understanding through participation in exhibitions, seminars and other events organized within the creative industries of the two countries (e.g. Cool Japan Months).”

(ii) To support overseas expansion of Japanese SMEs in creative industries, METI will further implement the following three projects.

(1) Restaurants, food processing companies, distribution companies, chefs and patissiers working in liaison with producers in the Tohoku region will join forces to develop new menus and cultivate markets in Japan and abroad. In partnership with food service companies in Singapore, they will develop menus and introduce them in a Singaporean restaurant chain in order to establish new Japanese food brands, including those for ingredients from Tohoku.

(2) Fifteen apparel brands in Harajuku, Japan’s street culture center, will run a pilot store in a department store (Tangs) on Orchard Road, Singapore, for three months from October. They aim to advertise the “Harajuku brands” to local consumers and assess their response and needs. By provoking the attention of local people through events such as online sales, they also seek to build business ties with local retail and distribution companies and expand business throughout Asia.

(3) METI will cooperate with small and medium content creation companies in Japan and major Japanese companies operating in Singapore (e.g., Kirin, Toyota, Panasonic, Canon) to develop characters and increase the recognition of Japanese brands, with the goal of improving the image of Japanese companies and supporting overseas business expansion of small and medium content creation companies.

(iii) During October, 2011, Cool Japan Months campaign was launched in Singapore. Under this campaign, the public and the private sectors jointly promoted campaign events aimed at promoting, products and services developed under the concept of Cool Japan to feature Japanese culture and creativity, including fashion, design and anime in the local market.

The Cool Japan Months Reception took place on October 6 to mark the opening of a series of campaign events. During the Reception, a business partnership agreement was signed between a Japanese apparel firm representing the Harajuku brands and a Singaporean distribution company. This was the first step toward implementation of the bilateral ministerial agreement and cooperation in the creative industries.<sup>35</sup>

## **(b) CREATIVE TOKYO Project**

According to a press release of October 11, 2011, in cooperation with local authorities and the relevant government offices, the Ministry of Economy, Trade and Industry is going to carry out various domestic projects to advance the idea of the “construction of creative hubs”, suggested by the public-private expert panel on creative industries, as a part of the “Cool Japan Promotion Strategy Project”. These include a concept which aims to activate the whole of Japan by reviving the Japanese creative industries through the use of local resources and tourist attractions. As a part of it, METI intends to foster the “CREATIVE TOKYO” project. METI, Tokyo metropolitan government, the relevant government offices, shopping

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<sup>35</sup>*Cool Japan overseas expansion projects launched in Singapore*, METI, Press release, (Nov. 20, 2011), [http://www.meti.go.jp/english/press/2011/1006\\_01.html](http://www.meti.go.jp/english/press/2011/1006_01.html)

streets, department stores, developers, academia, related event promoters and nonprofit organizations will all unite with the aims of reviving Tokyo as a brand and activating the other parts of Japan in mind.

In addition, as a kickoff event for the full-scale launch of the grand project, METI also hosted “CREATIVE TOKYO FORUM” on November 4, 2011. In this symposium, key figures from Asian creative cities, influential debaters and creators came together to discuss the potential of the future creative industries, and the revival and reformation of Japanese society.

Furthermore, METI is also carrying out the project of TOKYO AUTUMN. TOKYO AUTUMN is the title of the platform which would promote the creative events taking place in Tokyo throughout autumn. Various city districts would unite in order to convey to the rest of the world just how fascinating Tokyo is, and to invigorate the consumption and to attract an international selection of tourists.<sup>36</sup>

### **3.4 Intellectual Property Rights**

#### **(a) JPO-NIPO co-operation**

According to a report published by METI on November 30, 2011, the Japan Patent Office (JPO) was proposed to commence a Patent Prosecution Highway (PPH)<sup>37</sup> pilot program with the Norwegian Industrial Property Office (NIPO) and the Icelandic Patent Office (IPO), respectively, on December 1, 2011. This would take the number of Japan’s PPH partners to 19. This PPH will allow Japanese companies to protect their technologies promptly by effective patents in Norway and Iceland, leading to the facilitation of their business expansion.

This PPH pilot program applies to (1) applications assumed as patentable by the JPO through its domestic examination and (2) PCT applications having received a positive written opinion from the JPO, serving as the International Searching Authority (or the International Preliminary Examining Authority). In either case, applicants are entitled to request an accelerated examination of the corresponding applications under the PPH at NIPO and the IPO on the basis of the official opinions of the JPO. The PPH will allow Japanese companies to protect their technologies promptly by effective patents in Norway and Iceland, leading to the facilitation of their business expansion in these countries.

With a view to helping Japanese companies obtain foreign patents promptly and steadily, the JPO will continue efforts to expand the scope of countries eligible for the PPH programs and to standardize and simplify the PPH request procedures. By expanding the PPH, the JPO seeks to widen the use of examination results of other offices so as to shorten the examination period and improve the efficiency of the examination process.<sup>38</sup>

#### **(b) JPO’s Anti-counterfeiting campaign**

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<sup>36</sup>*The advancement of the CREATIVE TOKYO project*, METI, Press release, (Nov. 27, 2011), [http://www.meti.go.jp/english/press/2011/1011\\_01.html](http://www.meti.go.jp/english/press/2011/1011_01.html)

<sup>37</sup>*Patent Prosecution Highway (PPH): A scheme whereby patent applicants whose applications have been assumed as patentable by a patent office are entitled to request, through a simple procedure, an accelerated examination of the corresponding applications in another patent office.*

<sup>38</sup>*Commencement of the Patent Prosecution Highway pilot program between the JPO and the Norwegian Industrial Property Office/the Icelandic Patent Office*, METI, Press release, (Nov. 20, 2011), [http://www.meti.go.jp/english/press/2011/1130\\_04.html](http://www.meti.go.jp/english/press/2011/1130_04.html)

According to a press release of November 30, 2011, JPO intends to raise consumer awareness on the importance of Intellectual Property protection especially on the issues of counterfeit. Under a slogan of “Love the real thing”, the Japan Patent Office would wage an “Anti-Counterfeiting Campaign” from December 1, 2011. With the aim of making consumers reaffirm the “aesthetics of real thing” and the “affluence of real thing” and of raising awareness on the importance of IP protection, this public awareness campaign intends to use various media, including posters and a special website. To bring awareness to as many people as possible on the importance of IP protection through this campaign, the JPO will send its message via various media, such as posters, a special website and movies.<sup>39</sup>

### **(c) JPO and SIPO co-operation**

On October 18, 2011, the Commissioner of the Japan Patent Office and the Commissioner of the State Intellectual Property Office of the People's Republic of China (SIPO) agreed that the two offices would launch a Patent Prosecution Highway (PPH) pilot program on November 1, 2011. This will make Japan China's first PPH partner. Through this PPH, Japanese companies will become able to promptly protect their technologies in China by effective patents. The PPH is expected to facilitate Japanese companies' business expansion in China.

Japan believes that China is an important country in this endeavor because the number of patent applications filed there has surged in recent years to reach 390,000 in 2010. China has surpassed Japan to become the second largest country after the U.S. in the number of applications. Having set the goal of further increasing this number to 750,000 by 2015, China is becoming a major power in intellectual property. China's number of intellectual property lawsuits is increasing as well, even exceeding the figure in the U.S., where litigation is commonplace. China is also the second largest foreign destination of patent applications filed by Japanese, after the U.S., having received approximately 30,000 applications in 2010. To facilitate Japanese companies' business expansion in China, the JPO has been urged to create an environment to promptly protect the technologies of these firms by effective patents.

Despite the growing importance of China in the field of intellectual property, patent applications entitled to expedited examination in China are limited to those that serve the national interest and the public good. This situation has resulted in a strong need for the implementation of the PPH program between Japan and the China, which has been expressed by applicants who desire earlier patent grants and protection of their technologies in China.

Patent applications through the PPH are also expected to help reduce the examination workload, while increasing the accuracy of examination at a patent office like SIPO, which is experiencing a surge in the number of applications and is seriously searching for a way to balance the quality and quantity of examination.

The JPO has been working with SIPO to make an arrangement for launching a PPH program, with a view to accelerating the patent granting procedure in both offices and enhancing the examination cooperation for reducing the examination workload and improving examination accuracy. In May this year, a pre-pilot program (an internal confirmation procedure) was initiated by using a prescribed number of applications. This has enabled both offices to confirm the validity of procedures at each office prior to the implementation of the PPH.

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<sup>39</sup>The JPO conducts the "Anti-Counterfeiting Campaign" again this year, METI, Press release, (Nov. 17, 2011), available at: [http://www.meti.go.jp/english/press/2011/1130\\_03.html](http://www.meti.go.jp/english/press/2011/1130_03.html)

JPO Commissioner Iwai and SIPO Commissioner Tian met in Beijing on October 18 and agreed to launch the PPH pilot program between the JPO and SIPO on November 1, 2011—a decision that makes Japan China's first PPH partner. The JPO expects that the program will allow Japanese companies to protect their technologies faster in China and to acquire effective rights for them, consequently helping Japanese companies smoothly operate business in China.

This arrangement has taken the number of Japan's PPH partners to 17, and the share of applications filed to PPH partners among all foreign applications originating in Japan will increase from 70 percent to 87 percent. By continuing efforts to expand the scope of countries eligible for the PPH programs and to standardize and simplify the PPH request procedures, the JPO will seek to support applicants' faster patent grants overseas and wider use of examination results of other offices under the PPH programs in order to reduce the workload of patent examiners and improve the efficiency of the examination process.<sup>40</sup>

### 3.5 Environment

On October 25, 2011, Japan sent its submission on mitigation to the Secretariat of the United Nations Framework Convention on Climate Change toward the COP17, before its meet in Durban, South Africa was scheduled from November 28 to December 9. In the submission, Japan pronounced its ultimate goal of expeditiously adopting a new comprehensive legally-binding document which will establish a fair and effective international framework with participation of all major economies to achieve the reduction of global GHG emissions at least 50% by 2050, recognizing the 2 degrees global goal. The submission further indicated that Japan believes that it is important to embark on necessary works at COP17 through clarifying the steps toward the future comprehensive framework.<sup>41</sup>

The highlights of the submission included:

**Operationalization of the Cancun Agreements as a basis for post-2012 climate regime and a comprehensive framework-** A robust MRV system and newly established mechanisms such as the Green Climate Fund, the Adaptation Framework, the Technology Mechanism and new market mechanisms need to be operationalized in a balanced manner, as these mechanisms will serve as a basis for post-2012 climate regime and for a comprehensive framework.

**Mitigation efforts-** It is important for all major emitters to steadily implement their pledges without waiting for the establishment of a comprehensive framework. Launching a process to clarify and update mitigation targets/actions of all major emitters anchored under the Cancun Agreements by using a common template would be a useful and practical step forward.

**Enhanced MRV-** In order to ensure transparency of mitigation efforts of all major emitters, the establishment of a robust MRV system is indispensable. Parties should decide the guidelines of the biennial (update) reports and on modalities and procedures of IAR/ICA at COP17, based on which Parties submit the 1st biennial (update) reports in 2013.

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<sup>40</sup>JPO-SIPO Commissioners Meeting: JPO and SIPO to launch Patent Prosecution Highway, making Japan China's first PPH partner, METI, (Nov. 17, 2011),[http://www.meti.go.jp/english/press/2011/1018\\_02.html](http://www.meti.go.jp/english/press/2011/1018_02.html)

<sup>41</sup>Climate Change: Japan's submission on mitigation, Ministry of Foreign Affairs, Press release, (Oct. 25, 2011),[http://www.mofa.go.jp/announce/announce/2011/10/1025\\_01.html](http://www.mofa.go.jp/announce/announce/2011/10/1025_01.html)

## 3.6 Taxation

### **(a) Japan-Cayman Islands Agreement**

On October 14, 2011, the Government of Japan notified the Government of the Cayman Islands, of 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 Cayman Islands for the Exchange of Information for the Purpose of the Prevention of Fiscal Evasion and the Allocation of Rights of Taxation with respect to Income of Individuals (Tax Agreement between the Government of Japan and the Government of the Cayman Islands)” which was signed on February 7, 2011. On the same date, the Embassy of Japan in the United Kingdom received the notification for the same effect from the Government of the Cayman Islands. Accordingly, this Agreement will enter into force on November 13, 2011.

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, and also provides for tax exemption with respect to income of individuals such as pensions, for the purpose of promoting personal exchange between Japan and the Cayman Islands. Following the Tax Agreements with Bermuda and The Bahamas, and the Tax Information Exchange Agreement with the Isle of Man, this Agreement is the fourth international agreement focusing on the exchange of tax information that Japan concluded, 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.<sup>42</sup>

### **(b) Tax reforms in Japan**

On December 10, 2011, Ministry of Finance released a paper titled, FY2012 Tax Reforms. The paper stated that in the light of basic perspectives underlying the FY2010 and FY2011 Tax Reforms and the Comprehensive Reform of the Tax System, the government will reform tax system with a central focus on (a) taxation measures towards realizing the New Growth Strategy, (b) efforts towards ensuring equity of taxation and promoting fairness of taxation, (c) local tax reform towards substantiating local taxes and establishing local autonomy, and (d) continuation of considering the measures in the FY2011 tax reform.

There were several changes proposed with respect to rules of individual taxation, property tax and corporate tax. Proposed changes also pertained to environmental taxes. Taking into account the view of promotion of global warming countermeasures and maintenance and promotion of technical superiority in automotive industry, the government would change environmental standards of “eco-car tax cut”, and extend automobile tonnage tax for three years by April 2015, extending reduction measures for vehicles with high environmental performance. The government also plans to introduce "Carbon Dioxide Tax of Global Warming Countermeasure" with the aim of controlling the emission of energy-originated CO<sub>2</sub> which accounts for about 90% of greenhouse gas causing global warming.

In the area of International Taxation, the paper indicated that having signed the Convention on Mutual Administrative Assistance in Tax Matters (CMAA) during November 2011, the legislation concerning mutual assistance in tax collection will be reviewed as necessary for the ratification of the CMAA and other conventions. A new reporting requirement will be introduced for those individual residents who hold overseas assets of more than JPY 50 million in aggregate value to file annual reports of those assets with the tax authority. With a view to preventing tax avoidance by excessive interest payments, the amount of net

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<sup>42</sup>Entry into force of tax agreement between government of Japan and government of Cayman Islands, Ministry of Foreign Affairs, Press release, (Oct. 17, 2011), [http://www.mofa.go.jp/announce/announce/2011/10/1017\\_01.html](http://www.mofa.go.jp/announce/announce/2011/10/1017_01.html)

interest paid to affiliated persons exceeding 50% of adjusted income will not be deducted in the financial year.<sup>43</sup>

### **3.7 Subsidies**

#### **(a) Subsidy Program for Projects Promoting Asian Site Location in Japan**

According to a press release of December 2011, under the FY 2011 “Subsidy Program for Projects Promoting Asian Site Location in Japan”, submitted proposals were reviewed and ten of them were selected. This program is intended to sustain and strengthen high-value-added business locations in Japan and to achieve sustainable growth of the Japanese economy by assisting global companies' establishment of new high-value-added business locations in Japan, such as Head Sites or R&D Sites, which have been proven to have a significant impact on the Japanese economy, as well as by attracting and concentrating high-value-added business operations that match the strength of the Japanese economy.

The government's New Growth Strategy (Cabinet decision on June 18, 2010) stipulated that the government will aim to revive Japan "as an Asian business center" by considering an incentive system that includes tax incentives tied to the degree of contribution to the employment of highly skilled persons in order to encourage foreign firms to build and concentrate their Asian head sites and R&D sites in Japan. The launch of such an incentive system is in view for FY 2011 as well as cross-cutting measures to improve the business environment. This system is expected to promote the establishment of new high-value-added business locations in Japan and thereby double employment by foreign firms and inward direct investment.

Likewise, the "Strategies to Revitalize Japan" (Cabinet decision on August 5, 2011), the "Comprehensive Package Responding to the Yen Appreciation - Establishing Robust and Resilient Economy against Risks" (Cabinet decision on October 21, 2011), and "Program for Promoting Japan as an Asian Business Center and Direct Investment into Japan" (the Conference decision on December 16, 2011) requires the government to promote Japan as an Asian business center by providing incentives such as reduced corporate taxes and an improved business environment through the enactment of the bill on the promotion of Japan as an Asian business center, with the goal of inviting global companies to set up high-value-added business sites in Japan. Accordingly, making Japan an Asian business center has become one of Japan's key policies.<sup>44</sup>

#### **(b) Subsidy for Advanced Technology Demonstration and Evaluation Facility Development**

During December 2011, the Ministry of Economy, Trade and Industry accepted 113 applications for the Second-Term Innovation Center Establishment Assistance Program: The Subsidy for Advanced Technology Demonstration and Evaluation Facility Development (corporate demonstration/evaluation facility development program). As a result of examination, 25 of them were adopted. This subsidy program aims to partially assist with the cost of developing facilities to demonstrate and evaluate innovative technologies developed in Japan to date and thereby promote the use of such facilities for demonstration and evaluation, consequently paving the way for the mass production of new products based on demonstrated/evaluated

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<sup>43</sup>FY 2012 Tax Reforms, Ministry of Finance, (Dec. 10, 2011)[http://www.mof.go.jp/english/tax\\_policy/tax\\_reform/fy2012/tax2012a.pdf](http://www.mof.go.jp/english/tax_policy/tax_reform/fy2012/tax2012a.pdf)

<sup>44</sup>Announcement of projects selected under FY 2011 “Subsidy Program for Projects Promoting Asian Site Location in Japan”, METI, (Dec. 20, 2011), [http://www.meti.go.jp/english/press/2011/1221\\_01.html](http://www.meti.go.jp/english/press/2011/1221_01.html)



technologies. Successful applicants were selected based on examination by a third-party committee, which was organized by the secretariat through bringing together external experts.<sup>45</sup>

## Part IV

### Trade policy by sector

#### 4.1 Agriculture

On October 25, 2011, Prime Minister Yoshihiko Noda held the second meeting of the Headquarters to Promote the Revival of the Food, Agriculture, Forestry, and Fishery Industries at the Diet building. Discussion took place on the Basic Policy and Action Plan for the Revival of the Food, Agriculture, Forestry, and Fishery Industries in Japan, which was subsequently approved by the Headquarters. Based on the discussion, the Prime Minister said that the Basic Policy and Action Plan for the Revival of the Food, Agriculture, Forestry, and Fishery Industries will provide the framework for new policy measures for agriculture, forestry and fisheries going forward.

In terms of the content, the Basic Policy and Action Plan include the revitalisation of agriculture, forestry, and fisheries in the disaster-stricken regions as well as countermeasures for the nuclear disaster. Above all, this is intended to bolster the competitiveness of Japan's agricultural industry, increase expenditure for this sector, and revitalize regional communities in an intensive manner over the next five years. The prime minister asked all stakeholders for cooperation from the related ministers in order to steadily implement the content of the Basic Policy and Action Plan.<sup>46</sup>

#### 4.2 Energy

##### **(a) Report of subcommittee, the Advisory committee for natural resources and energy**

The Fundamental Issues Subcommittee of the Advisory Committee for Natural Resources and Energy which was formed to provide advice to the Minister of Economy, Trade and Industry towards the establishment of a new Basic Energy Plan for Japan, released a report during December, 2011. The report stated that in the aftermath of the Great East Japan Earthquake and nuclear accident, the Ministry of Economy, Trade and Industry needs to totally review the current Basic Energy Plan and start discussions on developing a new version in cooperation with the Energy and Environment Council, which is formulating an "Innovative Strategy for Energy and the Environment." Using this summary report as a basis for a full-dress discussion, the Subcommittee will proceed to deeper consideration early in the next year with the presentation of possible energy mix scenarios slated for around the next spring.<sup>47</sup>

##### **(b) Review of current basic energy plan**

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<sup>45</sup>*Announcement of successful applicants for the Second-Term Innovation Center Establishment Assistance Program: The Subsidy for Advanced Technology Demonstration and Evaluation Facility Development (corporate demonstration/evaluation facility development program)*, METI, (Dec. 20, 2011), [http://www.meti.go.jp/english/press/2011/1209\\_03.html](http://www.meti.go.jp/english/press/2011/1209_03.html)

<sup>46</sup>*HQ to promote revival of food, forest, agriculture and fisheries industries*, The Prime Minister in Action, News, (Oct. 25, 2011), [http://www.kantei.go.jp/foreign/noda/actions/201110/25nourin\\_saiseisuishin\\_e.html](http://www.kantei.go.jp/foreign/noda/actions/201110/25nourin_saiseisuishin_e.html)

<sup>47</sup>*Report by the Fundamental Issues Subcommittee*, The Advisory Committee for Natural Resources and Energy, METI Press release, (Dec. 20, 2011), [http://www.meti.go.jp/english/press/2011/1220\\_05.html](http://www.meti.go.jp/english/press/2011/1220_05.html)

During October of 2011, the Fundamental Issues Subcommittee began discussions toward reviewing the current Basic Energy Plan (which was revised in June 2010) from zero base and formulation of a new plan to include a new energy mix and measures for its realization. The major themes covered in the report included: Perspectives required in rethinking of the Basic Energy Plan, An energy policy that emphasizes the “demand side, An energy policy that emphasizes “consumers” and “ordinary citizens” as well as “regional communities”,an energy policy that supports national strength while making an international contribution energy policy that utilizes diverse power and energy sources and need for technical innovation to support the energy mix conversion and reform of the energy supply-demand structure.

### **(c) Package to ensure stable supply of natural resources**

On December 20, 2011, the Ministry of Economy, Trade and Industry announced a package of measures aimed at ensuring stable supply of natural resources and fuel that should be given top priority in the current situation in the aftermath of the Great East Japan Earthquake.

METI identified priority measures "to ensure the stable supply of natural resources and fuel" in consideration of the situation after the Great East Japan Earthquake and the "Action Plan to Stabilize Energy Supply-Demand" (decided by the Energy and Environment Council on November 1, 2011).

In accordance with this measure, METI will make steady progress in the development of relevant budgetary measures, legislation and strategies in order to ensure that a stable supply structure for natural resources and fuel is established.

#### **Summary of the Priority Measures**

Development of a natural resource acquisition strategy jointly by the public and private sectors- The government and the private sector, including resource-consuming industries and related agencies, should jointly identify the types and the amounts of mineral resources that Japan needs, along with the countries producing such resources, and establish a natural resource acquisition strategy by around next spring. The government will implement well-organized resource diplomacy in accordance with this strategy.

Establishment of a support structure for strategy implementation- To facilitate the acquisition of resource-related interests by Japanese companies, the government will enhance JOGMEC's capacity to supply risk money and will concentrate coal and geothermal resource development operations in JOGMEC.

Increased preparedness for demand in isolated disaster areas- Assuming the situation where external distribution to the affected area is disrupted after a disaster, with the supply facilities there also shut down, the government will improve the regional capacity to respond to a disaster and manage until the restoration of the distribution network.<sup>48</sup>

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<sup>48</sup>Announcement of "Priority Measures to Ensure Stable Supply of Natural Resources and Fuel, METI, (Dec. 20, 2011), [http://www.meti.go.jp/english/press/2011/1220\\_02.html](http://www.meti.go.jp/english/press/2011/1220_02.html)